SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

☒ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

LLOYDS TSB GROUP plc
(Exact name of Registrant as Specified in Its Charter)

Scotland
(Jurisdiction of Incorporation or Organization)

71 Lombard Street
London EC3P 3BS
United Kingdom
(Address of Principal Executive Offices)

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

Title of each class	Name of each exchange on which registered
Ordinary shares of nominal value 25 pence each, represented by American Depositary Shares.*	The New York Stock Exchange.

*The issuance of American Depositary Shares, to be evidenced by American Depositary Receipts issuable by a depositary upon deposit of ordinary shares, is being registered under a Registration Statement on Form F-6. Each American Depositary Share represents four ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Form 20-F.

Ordinary shares, nominal value 25 pence each, as of 31 December 2000 5,507,430,719

Limited voting shares, nominal value 25 pence each, as of 31 December 2000 78,947,368

Preference shares, nominal value 25 pence each, as of 31 December 2000 0

Preference shares, nominal value $.25 cents each, as of 31 December 2000 0

Preference shares, nominal value €.25 cents each, as of 31 December 2000 0

Preference shares, nominal value Japanese ¥25 each, as of 31 December 2000 0

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 ☐ No ☒

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☒

TABLE OF CONTENTS

PRESENTATION OF INFORMATION

In this registration statement, references to the “Lloyds TSB Group” are to Lloyds TSB Group plc and its subsidiary and associated undertakings; references to the “Lloyds TSB Bank” are to Lloyds TSB Bank plc; and references to the “Consolidated Financial Statements” are to Lloyds TSB Group’s consolidated financial statements included in this registration statement. References to the “Financial Services Authority” are to the United Kingdom (the “UK”) Financial Services Authority.

Lloyds TSB Group publishes its consolidated financial statements expressed in British pounds (“pounds sterling”, “sterling” or “£”), the lawful currency of the UK. In this registration statement, references to “pence” and “p” are to one-hundredth of one pound sterling; references to “US dollars”, “US$” or “$” are to the lawful currency of the United States (the “US”); references to “cent” are to one-hundredth of one US dollar; and references to “euro” or “€” are to the lawful currency of the member states of the European Union that adopt a single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty or European Union. Solely for the convenience of the reader, this registration statement contains translations of certain pounds sterling amounts into US dollars at specified rates. These translations should not be construed as representations by Lloyds TSB Group plc that the pounds sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated or any other rate. Unless otherwise stated, the translations of pounds sterling into US dollars have been made at the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) in effect on 31 December 2000, which was $1.4613 = £1.00. The Noon Buying Rate on 31 December 2000 differs from certain of the actual rates used in the preparation of the Consolidated Financial Statements, which are expressed in pounds sterling, and therefore US dollar amounts appearing in this registration statement may differ significantly from actual US dollar amounts which were translated into pounds sterling in the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the UK.

BUSINESS OVERVIEW

Lloyds TSB Group plc is a leading UK-based financial services group, whose businesses provide a comprehensive range of banking and financial services in the UK and overseas. At 31 December 2000 total Lloyds TSB Group assets were £218,393 million and Lloyds TSB Group had over 77,000 employees. Lloyds TSB Group plc's market capitalisation at that date was some £39,000 million and at 31 August 2001 was some £39,091 million. The profit on ordinary activities before tax for the 12 months to 31 December 2000 was £3,860 million and the risk asset ratios as at that date were 9.4 per cent for total capital and 8.5 per cent for tier 1 capital.

The operations of Lloyds TSB Group in the UK were conducted through approximately 2,400 branches of Lloyds TSB Bank plc, Lloyds TSB Scotland plc and Cheltenham & Gloucester plc at the end of 2000. International business is conducted mainly in the Americas, New Zealand and Europe. Lloyds TSB Group's services in these countries are offered through a combination of branches of Lloyds TSB Bank and subsidiary companies, principally The National Bank of New Zealand Limited, New Zealand's third largest bank measured by profitability during 2000, and Losango in Brazil. Lloyds TSB Group also offers offshore banking facilities in a number of countries.

The following table shows the profit before tax of Lloyds TSB Group's UK Operations and its International Operations in each of the last three years.

	2000 £m	1999 £m	1998 £m
UK Operations	3,427	3,201	2,736
International Operations	433	455	317

Lloyds TSB Group's activities are organised into three segments: UK Retail Banking and Mortgages, Insurance and Investments and Wholesale Markets and International Banking. Services provided by UK Retail Banking and Mortgages encompass the provision of banking and other financial services to personal and small business customers, private banking, stockbroking and mortgages. Insurance and Investments offers life assurance, pensions and investment products, general insurance and fund management services. Wholesale Markets and International Banking provides banking and related services for major UK and multinational companies, banks and financial institutions, and medium-sized UK businesses, including venture capital finance. It also provides asset finance and share registration services to personal and corporate customers, manages Lloyds TSB Group's activities in financial markets through its Treasury function and provides banking and financial services overseas. Lloyds TSB Group measures the profitability of its segments using the concept of contribution, this concept is explained under "Operating and Financial Review and Prospects—Line of business information—Summary".

The following table shows the contribution of Lloyds TSB Group's UK Retail Banking and Mortgages, Insurance and Investments and Wholesale Markets and International Banking segments in each of the last three fiscal years.

	2000 £m	1999 £m	1998 £m
UK Retail Banking and Mortgages	1,682	1,657	1,472
Insurance and Investments	1,447	873	847
Wholesale Markets and International Banking	1,224	1,207	1,073

Lloyds TSB Group plc was incorporated as a public limited company and registered in Scotland under the UK Companies Act 1985 on 21 October 1985 with the registered number 95000. Lloyds TSB Group plc's registered office is Henry Duncan House, 120 George Street, Edinburgh EH2 4LH, Scotland, and its principal executive offices in the UK are located at 71 Lombard Street, London EC3P 3BS, United Kingdom, telephone number 011 44 (0) 20 7626 1500.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial information set out in the table below has been derived from the annual reports and accounts of Lloyds TSB Group plc for each of the past five years adjusted for subsequent changes in accounting policy and presentation.

Following the merger in the UK of Price Waterhouse and Coopers & Lybrand, which was completed on 1 July 1998, the resulting partnership has been conducting business under the name of PricewaterhouseCoopers. The consolidated financial statements for the years ended 31 December 2000, 1999 and 1998 have been audited by PricewaterhouseCoopers, independent accountants. The consolidated financial statements for the years ended 31 December 1997 and 1996 have been audited by Price Waterhouse, independent accountants.

The Consolidated Financial Statements have been prepared in accordance with UK GAAP, which differ in certain significant respects from US GAAP. A discussion of such differences and a reconciliation of certain UK GAAP amounts to US GAAP is included in Note 50 to the Consolidated Financial Statements.

	2000	1999	1998	1997	1996
Profit and loss account data for the year ended 31 December (£m) [(1)]					
Net interest income	4,587	4,783	4,398	4,144	3,795
Other income	3,937	3,195	2,777	3,247	3,023
Trading surplus	4,572	4,561	3,671	3,272	2,871
Provisions for bad and doubtful debts	(541)	(615)	(555)	(511)	(442)
Profit on ordinary activities before tax	3,860	3,656	3,053	2,790	2,353
Profit on ordinary activities after tax	2,755	2,545	2,159	2,044	1,603
Profit for the year attributable to shareholders	2,706	2,539	2,146	2,030	1,459
Dividends	1,683	1,451	1,204	925	692
Balance sheet data at 31 December (£m)					
Called-up share capital	1,396	1,389	1,379	1,369	1,358
Shareholders' funds (equity)	10,024	8,829	7,563	6,326	5,244
Customer accounts	100,738	92,851	89,734	85,404	81,643
Undated subordinated loan capital	3,391	3,294	1,518	1,515	1,384
Dated subordinated loan capital	4,119	3,199	2,503	2,694	2,535
Loans and advances to customers	114,143	101,804	94,899	87,367	85,500
Assets[(2)]	167,308	149,792	144,483	138,216	129,190
Total assets	218,393	176,334	168,175	158,262	147,329
Share information					
Basic earnings per ordinary share	49.3p	46.6p	39.7p	38.0p	28.9p
Diluted earnings per ordinary share	48.8p	45.8p	39.0p	37.2p	28.3p
Net asset value per ordinary share	180p	159p	137p	116p	97p
Dividends per ordinary share[(3)]	30.6p	26.6p	22.2p	17.2p	13.2p
Equivalent cents per share[(3), (4)]	44.2c	42.3c	36.7c	28.4c	21.2c
Market price (year-end)	708p	774p	855p	789p	430p
Number of shareholders (thousands)	1,026	1,024	1,028	1,047	1,099
Number of ordinary shares in issue (millions)	5,507	5,475	5,435	5,396	5,355
Financial ratios[(5)]	**%**	**%**	**%**	**%**	**%**
Dividend payout ratio	62.2	57.1	56.1	45.6	47.4
Post-tax return on average shareholders' equity	28.1	30.0	29.7	34.5	29.5
Post-tax return on average assets	1.74	1.72	1.55	1.51	1.19
Post-tax return on average risk-weighted assets	3.10	3.04	2.70	2.52	1.99
Average shareholders' equity to average assets	6.1	5.7	5.2	4.3	3.7
Efficiency ratio[(6)]	46.4	42.8	48.8	55.7	57.9
Capital ratios					
Total capital	9.4	15.2	11.4	10.9	9.9
Tier 1 capital	8.5	10.2	8.8	8.0	6.7

(1) Figures for 1999 and earlier years have been restated to reflect the implementation of FRS 12, "Provisions, Contingent Liabilities and Contingent Assets", FRS 15, "Tangible Fixed Assets", FRS 18, "Accounting Policies", and other minor adjustments.

(2) Assets exclude long-term assurance assets attributable to policyholders.

(3) Annual dividends are comprised of both interim and final dividend payments. Final dividends (which are always paid in the following year) are included in the year to which they relate rather than in the year in which they are paid.

(4) Translated into US dollars at the Noon Buying Rate on the date each payment is made. For additional information, see "Dividends".

(5) Averages are calculated on a monthly basis from the consolidated financial data of Lloyds TSB Group.

(6) The efficiency ratio is calculated as total operating expenses as a percentage of total income.

(7) Lloyds TSB Group acquired the business of Scottish Widows Fund and Life Assurance Society on 3 March 2000 and this has affected significantly the results for the year.

SELECTED US GAAP FINANCIAL DATA	2000	1999
Income statement data for the year ended 31 December (£m)		
Total revenues, net of interest expense	10,298	9,715
Policyholder benefits and claims expense	(1,418)	(939)
Provision for bad and doubtful debts	(541)	(615)
Income before tax	2,670	3,574
Net income	1,929	2,148
Dividends	1,522	1,285
Balance sheet data at 31 December (£m)		
Shareholders' equity	13,708	13,162
Deposits	117,473	110,545
Loans, net of provisions	110,788	99,120
Total assets	225,872	180,889
Share information, per ordinary share		
Basic earnings	35.2p	39.4p
Diluted earnings	34.8p	38.7p
Net asset value	246p	237p
Dividends	27.8p	23.6p
Financial ratios(1)		
Dividend payout ratio	78.9%	59.8%
Post-tax return on average shareholders' equity	14.4%	16.9%
Post-tax return on average assets	0.95%	1.21%
Average shareholders' equity to average assets	6.6%	7.2%

(1) Lloyds TSB Group does not have sufficient information to calculate US GAAP average balances on a monthly basis. Where applicable, these financial ratios have been based upon simple averages of the opening and closing balances.

The selected consolidated financial information set out in the table below has been derived from the interim results of Lloyds TSB Group plc for each of the six months ended 30 June 2001 and 2000 adjusted for subsequent changes in accounting policy and presentation.

	2001	2000
Profit and loss account data for the six months ended 30 June (£m)[1]		
Net interest income	2,382	2,311
Other income	2,000	1,984
Trading surplus	2,249	2,419
Provisions for bad and doubtful debts	(323)	(265)
Profit on ordinary activities before tax	1,838	2,064
Profit on ordinary activities after tax	1,325	1,488
Profit for the year attributable to shareholders	1,292	1,466
Dividends	566	511
Balance sheet data at 30 June (£m)		
Called-up share capital	1,409	1,395
Shareholders' funds (equity)	10,885	9,943
Customer accounts	104,557	97,001
Undated subordinated loan capital	3,432	3,389
Dated subordinated loan capital	4,113	3,456
Loans and advances to customers	119,696	106,573
Assets[2]	182,040	160,545
Total assets	229,576	210,455
Share information		
Basic earnings per share	23.4p	26.8p
Diluted earnings per share	23.2p	26.5p
Net asset value per ordinary share	194p	178p
Dividends per ordinary share	10.2p	9.3p
Equivalent cents per share[3]	n/a	13.6c
Market price (year-end)	711p	624p
Number of shareholders (thousands)	1,010	1,041
Number of ordinary shares in issue (millions)	5,556	5,499
Financial ratios[4]	**%**	**%**
Dividend payout ratio	43.8	34.9
Post-tax return on average shareholders' equity	25.0	31.7
Post-tax return on average assets	1.56	1.91
Post-tax return on average risk-weighted assets	2.71	3.47
Average shareholders' equity to average assets	6.1	5.9
Efficiency ratio[5]	48.7	43.7
Capital ratios		
Total capital	9.8	9.8
Tier 1 capital	9.0	9.6

(1) Figures for 2000 have been restated for the implementation of FRS 18 "Accounting Policies" and other minor adjustments.

(2) Assets exclude long-term assurance assets attributable to policyholders.

(3) Translated into US dollars at the Noon Buying Rate on the date the payment is made. The 2001 interim dividend will be paid in October 2001.

(4) Averages are calculated on a monthly basis from the consolidated financial data of Lloyds TSB Group.

(5) The efficiency ratio is calculated as total operating expenses as a percentage of total income.

EXCHANGE RATES

In this registration statement, unless otherwise indicated, all amounts are expressed in pounds sterling. For the months shown the US dollar high and low Noon Buying Rates per pound sterling were:

	2001					
	August	**July**	**June**	**May**	**April**	**March**
	(US dollars per pound sterling)					
High	1.46	1.43	1.42	1.44	1.45	1.47
Low	1.41	1.40	1.37	1.41	1.42	1.42

For the years shown the average of the US dollar Noon Buying Rates per pound sterling on the last day of each month were:

	2000	**1999**	**1998**	**1997**	**1996**
	(US dollars per pound sterling)				
Average	1.52	1.61	1.66	1.64	1.57

On 20 September 2001, the latest practicable date, the US dollar Noon Buying Rate was $1.4642 = £1.00. Lloyds TSB Group plc makes no representation that amounts in pounds sterling have been, could have been or could be converted into US dollars at that rate or at any of the above rates.

CAPITALISATION

The following table presents on a consolidated basis, as at the date indicated, the share capital and reserves, minority interests, undated and dated loan capital of Lloyds TSB Group. Undated loan capital is subordinated debt that has no mandatory repayment date. Dated loan capital is subordinated debt that is repayable on an agreed date that, at the time of issue of the loan capital, is at least five years and one day in the future.

	30 June 2001
Share capital and reserves	
Authorised:	
Sterling	
	(£ millions)
6,911,052,632 ordinary shares of 25p each	1,728
78,947,368 limited voting ordinary shares of 25p each	20
175,000,000 preference shares of 25p each	44
	1,792
US dollars	
	(US$ millions)
160,000,000 preference shares of US$.25 cents each	40
Euro	
	(€ millions)
160,000,000 preference shares of €.25 cents each	40
Japanese yen	
	(¥ millions)
50,000,000 preference shares of ¥25 each	1,250
Issued and fully paid:	
Sterling	
	(£ millions)
5,556,436,969 ordinary shares of 25p each	1,389
78,947,368 limited voting ordinary shares of 25p each	20
	1,409
Reserves	9,476
Total	10,885
Minority Interests (Notes a and b)	
Equity	33
Non-equity:	
7.375% Step-up Non-voting Non-cumulative Preferred Securities callable 2012 (€430 million) (Notes c and d)	257
7.834% Step-up Non-voting Non-cumulative Preferred Securities callable 2015 (£250 million) (Notes c and d)	248
6.625% Perpetual Capital Securities (€750 million) (Note e)	443
	981

	30 June 2001
Undated Loan Capital (Notes a, b, d and f)	
	(£ millions)
Primary Capital Undated Floating Rate Notes (Series 1) (US$750 million) (Note g)	533
Primary Capital Undated Floating Rate Notes (Series 2) (US$500 million) (Note g)	355
Primary Capital Undated Floating Rate Notes (Series 3) (US$600 million) (Note g)	427
11¾% Perpetual Subordinated Bonds	100
$5^5/_8$% Undated Subordinated Step-up Notes callable 2009 (€1,250 million) (Note c)	745
Undated Step-up Floating Rate Notes callable 2009 (€150 million) (Notes c and g)	90
$6^5/_8$% Undated Subordinated Step-up Notes callable 2010 (Note c)	405
5.57% Undated Subordinated Step-up Coupon Notes callable 2015 (¥20,000 million) (Note c)	114
6½% Undated Subordinated Step-up Notes callable 2019 (Note c)	266
8% Undated Subordinated Step-up Notes callable 2023 (Note c)	199
6½% Undated Subordinated Step-up Notes callable 2029 (Note c)	198
Total	3,432
Dated Loan Capital (Notes a, b, d and h)	
Eurocurrency Zero Coupon Bonds 2003 (¥3,000 million)	15
Subordinated Fixed Rate Bonds 2003 (NZ$151 million) (Note i)	43
Subordinated Floating Rate Notes 2004 (Note g)	20
$7^3/_8$% Subordinated Bonds 2004	399
Subordinated Floating Rate Notes 2004 (Notes g and j)	100
Subordinated Fixed Rate Bonds 2006 (NZ$ 100 million) (Note i)	29
Subordinated Floating Rate Notes 2006 (Note g)	100
8½% Subordinated Bonds 2006	249
7¾% Subordinated Bonds 2007	298
Subordinated Fixed Rate Bonds 2007 (NZ$150 million) (Note i)	42
5¼% Subordinated Notes 2008 (DM750 million)	230
$10^5/_8$% Guaranteed Subordinated Loan Stock 2008	100
9½% Subordinated Bonds 2009	99
Subordinated Step-up Floating Rate Notes 2009 callable 2004 (US$500 million) (Notes c and g)	355
Subordinated Fixed Rate Bonds 2010 (NZ$100 million) (Note i)	29
6¼% Subordinated Notes 2010 (€400 million)	240
Subordinated Floating Rate Notes 2010 (US$400 million) (Note g)	284
12% Guaranteed Subordinated Bonds 2011	100
$9^1/_8$% Subordinated Bonds 2011	148
4¾% Subordinated Notes 2011 (€850 million)	488
$6^5/_8$% Subordinated Notes 2015	344
Subordinated Floating Rate Notes 2020 (€100 million) (Note g)	60
$9^5/_8$% Subordinated Bonds 2023	341
Total	4,113
Total Capitalisation	19,411

(a) Preferred securities, capital securities and loan capital denominated in currencies other than sterling have been translated at rates prevailing on 30 June 2001.

(b) In certain circumstances the amounts of preferred securities, capital securities and loan capital reflect issue expenses which are amortised over the shorter of the life of the issue and the period to the callable date.

(c) These preferred securities, bonds and notes will bear interest at an increased margin over the relevant reference benchmark if they are not called on the relevant callable date.

(d) In certain circumstances the preferred securities are subject to mandatory conversion into preference shares issued by Lloyds TSB Group plc. If they are not called at the relevant callable date, investors have the right to seek redemption from the proceeds of issues of new ordinary shares in Lloyds TSB Group plc.

(e) Lloyds TSB Bank may elect at any time to satisfy its obligation to make payment in respect of the Perpetual Capital Securities by the issue of ordinary shares to the trustee for the holders of the Perpetual Capital Securities. In that event Lloyds TSB Group plc will issue ordinary shares to the trustee in exchange for the ordinary shares issued by Lloyds TSB Bank, and Lloyds TSB Group plc's shares will be sold to provide the cash to make the relevant payment.

(f) The undated loan capital notes were issued on a subordinated basis and, in certain circumstances, the notes would acquire the characteristics of preference share capital.

(g) These notes bear interest at rates fixed periodically in advance based on interbank rates.

(h) Much of the dated loan capital is prepayable at the option of Lloyds TSB Group, subject to prior consent of the Financial Services Authority.

(i) These bonds bear interest, to be reset 5 years before redemption date, at a fixed margin over New Zealand Government stocks.

(j) These notes are exchangeable at the election of Lloyds TSB Group for further subordinated floating rate notes.

(k) None of the preferred securities, capital securities or loan capital is secured, or, except where otherwise stated, guaranteed.

(l) Since 30 June 2001, Lloyds TSB Group has issued £250 million 6½ per cent Undated Subordinated Step-up Notes callable in 2029. The proceeds from the issue amounted to £257 million. There have been no other material changes to Lloyds TSB Group's capitalisation or indebtedness since that date.

DIVIDENDS

Lloyds TSB Group plc has paid an interim and final dividend each year since the merger of TSB Group plc and Lloyds Bank Plc in 1995. Dividends are paid in May and October and the record date for purposes of determining the shareholders who will be entitled to a dividend is approximately 10 weeks before the dividend payment date. TSB Group plc, which was re-named Lloyds TSB Group plc after the merger, has paid an interim and final dividend every year after its flotation on the London Stock Exchange in September 1986, with the exception of 1986 when no final dividend was paid. Lloyds TSB Bank has paid a dividend every year since its incorporation as Lloyds Banking Company Limited in 1865. Our governing objective is to maximise value for Lloyds TSB Group's shareholders over time by increases in the dividend and share price appreciation. However, the Lloyds TSB Group also needs to maintain sufficient reserves to finance the Lloyds TSB Group's own growth and to meet capital ratio requirements.

Lloyds TSB Group plc's ability to pay dividends is restricted under UK company law. Dividends may only be paid if distributable profits are available for that purpose. In the case of a public limited company, a dividend may only be paid if the amount of net assets is not less than the aggregate of the called-up share capital and undistributable reserves and if the payment of the dividend will not reduce the amount of the net assets to less than that aggregate. In addition, a company cannot pay a dividend if any of its UK insurance subsidiaries is insolvent on a regulatory valuation basis. Furthermore, in the case of Lloyds TSB Group plc, dividends may only be paid if sufficient distributable profits are available for distributions due in the financial year on certain preferred securities. See "Description of Share Capital and Memorandum and Articles of Association". Lloyds TSB Group plc has historically paid an interim and a final dividend. The board of directors has the discretion to decide whether to pay a dividend and the amount of any dividend. Dividends will be paid through The Bank of New York which acts as paying and transfer agent for the ADR facility. See "Description of American Depositary Shares".

The table below sets out the interim and final dividends which were declared in respect of the ordinary shares for fiscal years 1996 through 2001. The sterling amounts have been converted into US dollars at the Noon Buying Rate in effect on each payment date.

	Interim dividend per share £	Interim dividend per share $	Final dividend per share £	Final dividend per share $
1996	0.042	0.066	0.090	0.146
1997	0.053	0.086	0.119	0.198
1998	0.067	0.114	0.155	0.253
1999	0.081	0.134	0.185	0.289
2000	0.093	0.136	0.213	0.306
2001	0.102	n/a	n/a	n/a

There are no UK governmental laws, decrees or regulations that affect the remittance of dividends or other shareholder payments to non-residents of the UK who hold shares of Lloyds TSB Group plc.

BUSINESS

History and development of Lloyds TSB Group

The history of Lloyds TSB Bank can be traced back to the 18th century when the banking partnership of Taylor and Lloyds was established in the UK. The early years of the 20th century were marked by many acquisitions and mergers, significantly expanding the number of banking offices.

Historically, whilst the main focus of Lloyds TSB Bank's activities has been in the UK market, for much of the last 30 years it has also had significant international exposure as a result of its ownership of The National Bank of New Zealand Limited and Lloyds Bank International Limited. Although Lloyds TSB Bank's activities overseas are now less significant, with the percentage of international assets as a proportion of total assets falling from over 50 per cent in 1981 to 14 per cent in 2000, it still has important operations in both New Zealand and Latin America.

In 1988, five of Lloyds TSB Bank's businesses were merged with Abbey Life Group plc, a UK life assurance company, to create a new insurance-led group, Lloyds Abbey Life (57.6 per cent owned by Lloyds TSB Bank), marketing life assurance, unit trusts, insurance broking, estate agency and the finance house services of Lloyds Bowmaker. Between 1988 and 1995, Lloyds TSB Bank increased its shareholding to 62 per cent and in 1996 Lloyds TSB Group plc acquired the remaining minority interest.

In August 1995, the business of Cheltenham & Gloucester Building Society was transferred to Cheltenham & Gloucester plc, a wholly owned subsidiary of Lloyds Bank. A building society is a mutual institution set up to lend money to its members for house purchases. Building societies are "mutual" because they are owned by their members and their members are entitled to their profits. At the time of the transfer, Cheltenham & Gloucester Building Society was the sixth largest building society by asset size in the UK and offered residential mortgages and savings products through its network of branches, largely located in the south and west of England. This was the last major acquisition of Lloyds Bank before its merger with TSB Group plc in December 1995.

TSB Group plc became operational in July 1986 when, following UK government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking company subsidiaries. In September 1986, shares in TSB Group plc were offered for sale to the public and dealings in the shares on the London Stock Exchange commenced in October 1986.

Before the flotation four regional charitable foundations were established to recognise the TSB Group plc's involvement in local communities and promote the continuation of its strong links with the UK regions. These foundations were allotted a special class of shares in TSB Group plc in September 1986. Through the foundations, TSB Group plc donated annually (and, as Lloyds TSB Group plc, continues to donate), 1 per cent of pre-tax profits, averaged over three years, to charitable causes.

After its flotation, TSB Group plc's range of business interests expanded considerably, in line with its strategy of developing as a major financial services group. By 1995, the TSB Group plc had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, a motor vehicle hire purchase and leasing operation, and an estate agency business to supplement its retail banking activities.

In December 1995, TSB Group plc merged with Lloyds TSB Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was re-named Lloyds TSB Group plc.

During the first half of 1999 the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of the TSB group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in Lloyds TSB Bank Plc, which was re-named Lloyds TSB Bank plc. This brought together over 2,300 former Lloyds and TSB branches under the Lloyds TSB name, facilitating the national rollout of the Lloyds TSB brand.

In March 2000, Lloyds TSB Group acquired Scottish Widows, a transaction which positioned Lloyds TSB Group as one of the top three suppliers of long-term savings and protection products in the UK. The acquisition is anticipated to significantly change the mix of Lloyds TSB Group's business. It is likely that it will increase the proportion of group profit coming from insurance and investments and that Lloyds TSB Group's other non-interest income will rise, reducing its dependence on net interest income. The proportion of Lloyds TSB Group's contribution attributable to insurance and investments increased from 23 per cent in 1999 to 34 per cent in 2000.

In September 2000, Lloyds UDT, a subsidiary of Lloyds TSB Bank plc, acquired Chartered Trust Group plc and ACL Autolease Holdings Limited ("Chartered Trust"), a UK consumer finance and contract hire business. Lloyds TSB Group believes that this acquisition consolidates its position as a market leader in the independent provision of motor finance and anticipates significant cost synergies which Lloyds TSB Group expects will allow the enlarged business to become one of the lowest cost providers in the market. In the first quarter of 2001, Chartered Trust's costs were 1.75 per cent of average assets compared with a Finance and Leasing Association peer group figure of 2.45 per cent. During the same period Chartered Trust had a market share in the provision of new car finance in the UK of over 14 per cent.

In December 2000, Lloyds TSB Group contacted Abbey National plc ("Abbey National") concerning a possible combination between the two companies: after discussions between the two parties, Abbey National rejected this proposal. On 31 January 2001, Lloyds TSB Group issued a statement setting out the terms of an offer for Abbey National, which was conditional upon, amongst other things, the proposed transaction being recommended to its shareholders by the board of Abbey National and not being referred to the Competition Commission. However, on 23 February, the Secretary of State for Trade and Industry ("the Secretary of State") requested that the Competition Commission review the transaction. There was concern that the attempted acquisition would lead to the elimination from the market of one of the most significant branch-based competitors to the UK's four largest banks and that this might result in a substantial lessening of competition, particularly in the market for current accounts. Furthermore, the merger would remove a potential competitor in the provision of banking services to small and medium-sized companies. In July 2001, the Secretary of State acting upon the advice of the Competition Commission, announced that the transaction would not be permitted to proceed because of the adverse effects that it would have upon competition in these markets.

Management and resources

Lloyds TSB Group recognises that it will create value for its shareholders if it creates value for its customers. Its constant aim is to meet the rapidly changing needs and expectations of its customers. Lloyds TSB Group believes that success depends upon service, consistency and commitment. Nothing is more important to Lloyds TSB Group's business than maintaining the trust and confidence of its customers and Lloyds TSB Group aims, wherever possible, to maintain long-term relationships with its customers. Lloyds TSB Group has an established code of business conduct which is published and available, on request, to the public. The policy defines the standards and values which are used to operate the business and covers Lloyds TSB Group's relationship with customers, suppliers, employees, the community, shareholders and competitors. The code is incorporated within procedures for each area of the business and has been communicated to all employees.

Lloyds TSB Group operates in a marketplace which is continually changing. No organisation can successfully manage change without the support and commitment of its staff. The pace and scope of change will not diminish as competition in the financial services market continues to increase. Lloyds TSB Group recognises that it is the staff of the organisation who have delivered, and will continue to deliver, its success and considers that one of its greatest competitive advantages is the ability of its people to adapt to rapid and far reaching change.

Lloyds TSB Group recognises that long-term success depends on the quality of its management. It is therefore committed to developing the potential of all managers, in particular ensuring that it has the succession management capability to meet future needs for top management. It also believes that the knowledge and skills of its employees is a key element of its organisational success and therefore invests in training, ensuring that it is accessible by everyone in the organisation.

Strategy of Lloyds TSB Group

The governing objective of Lloyds TSB Group is to maximise shareholder value over time. Lloyds TSB Group believe that this objective can only be achieved by having clear strategic aims, plans capable of translating strategy into shareholder value, and the determination and ability to implement those plans. Lloyds TSB Group plan to accomplish this by a combination of organic growth and acquisitions.

Lloyds TSB Group's three strategic aims are to be a leader in our chosen markets, to be the first choice for our customers and to reduce day-to-day operating costs to allow greater scope for investment in better products, enhanced service and multi-channel distribution.

- ***To be a leader in our chosen markets*.**

  Lloyds TSB Group has pursued its aim to be a leader in its chosen markets by continuing to seek opportunities to consolidate its position in businesses where it is already strong by a combination of organic growth and acquisitions and by divesting businesses in markets where it is not a leader and cannot aspire reasonably to leadership. The acquisition of Scottish Widows in March 2000 has greatly enhanced Lloyds TSB Group's market position in the life assurance market. Based on figures provided by the Association of British Insurers, Lloyds TSB Group's share of the UK life and pensions market in 1999 was 1.5 per cent, excluding Abbey Life. In 2000, following the acquisition of Scottish Widows, this rose to 5.2 per cent. The acquisition of Chartered Trust, a consumer finance and contract hire business, in September 2000 has consolidated Lloyds TSB Group's position as a market leader in the independent provision of motor finance. In 1998, the acquisition of Countrywide Banking Corporation further strengthened Lloyds TSB Group's position in New Zealand. Lloyds TSB Group has also divested businesses such as Mortgage Express, International Factors, Black Horse Agencies and Schröder Münchmeyer Hengst & Co which were either duplicated or were businesses in which Lloyds TSB Group did not wish to become a leader.

- ***To be first choice for our customers*.**

  Lloyds TSB Group aims to be first choice for its customers by better understanding and meeting their needs. Central to this objective is Lloyds TSB Group's Customer Relationship Management programme, which brings together all the customer information that Lloyds TSB Group holds so that it can build on its relationship with individual customers by providing them with products, services and access suited to their individual requirements. Lloyds TSB Group has continued to broaden its product range, which is supported by multiple distribution channels. Lloyds TSB Group continues to extend its telephone banking and internet banking operations offering its customers an extensive choice of when, where and how they want to transact their financial business, be it at a branch, over the telephone or through the internet.

- ***To reduce day-to-day operating costs*.**

  Reducing day-to-day operating costs allows Lloyds TSB Group greater scope for investment in products, enhanced service and multi-channel distribution. 1999 saw the attainment of the £400 million per annum cost saving target (compared to the 1995 base) which was promised at the time of the merger of Lloyds TSB Bank Plc and TSB Group plc and the integration of Lloyds Abbey Life plc. Building on this achievement, Lloyds TSB Group has identified further opportunities to enable it to continue its focus on tightly controlling costs. The principal vehicle for this is the major new efficiency programme which Lloyds TSB Group commenced in 2000, which is primarily focussed on non-customer facing activities. Lloyds TSB Group expects this programme to result in the centralisation of large scale processing activities and the further consolidation and centralisation of support functions, and facilitate additional investment in lower cost delivery channels, such as telephone banking and internet operations. The programme is expected to be largely completed by 2003.

To achieve these strategic aims, Lloyds TSB Group has identified an implementation plan that incorporates three separate but interrelated elements.

- ***Repositioning of our existing business*.**

  Lloyds TSB Group is further developing and implementing a targeted, relationship driven, approach to customers. During 2000, Lloyds TSB Group introduced an enhanced model of Customer Relationship Management, involving the real time delivery of detailed information to customer facing staff and allowing Lloyds TSB Group to manage customer relationships in a manner that is consistent with an individual customer's needs. In an extensive pilot conducted in early 2000, the new model delivered a 12 per cent increase in product sales as well as an improvement in customer satisfaction. Lloyds TSB Group expects the full roll out throughout the UK branch network during 2001.

- ***Developing new growth businesses*.**

  Targeting also features strongly in Lloyds TSB Group's new wealth management strategy which is based on providing a new set of products and services for more affluent customers, and is expected to be launched in the autumn of 2001 under a new brand, 'Create'. For these customers Lloyds TSB Group will provide tailored independent advice, enhanced service and a choice of investment options from a variety of providers. Key elements will be online share dealing, a service offered primarily through the internet which enables users to buy and sell equities and other securities, and a funds hypermarket, a service offered primarily through the internet which enables users to buy and sell a broad range of funds from a variety of fund providers. Customers will also be able to have access to a new Wealth Management Account that will allow consolidation of financial products into a single account.

  Lloyds TSB Group believes that within three to four years it will see more customer contact via the internet than via branches, even if only a minority of Lloyds TSB Group's customers are banking on the internet by then. Lloyds TSB Group is committed to being a leader in this market through LloydsTSB.com.

  Lloyds TSB Group has entered into a joint venture agreement with Centrica plc (formerly British Gas) for the provision of a broad range of integrated financial services products (banking, savings, credit cards, loans, mortgages, insurance and investments), via non-branch channels including telephony and the Internet, principally aimed at the personal market within the United Kingdom and to be marketed under the brand name "Goldfish". Lloyds TSB Group will provide technology via a development of its stand-alone internet banking system called "evolvebank.com" and banking, insurance and regulatory expertise; Centrica will provide the "Goldfish" brand, access to 9 million customers. The launch date is expected to be before the end of the year.

- ***Improving productivity and efficiency*.**

  Through internet and intranet technology, Lloyds TSB Group is improving its productivity and efficiency with the aim of being one of the lowest cost producers in all of its core markets. Lloyds TSB Group is accelerating the expansion of lower cost delivery channels, which involves greater use of telephony, with more telephone calls taken out of the branches into dedicated call centres, allowing the branches to concentrate on face-to-face contact.

  In December 2000, Lloyds TSB Group launched a new payments processing company – Intelligent Processing Solutions Limited (iPSL) – in conjunction with Unisys and Barclays. iPSL handles all of Lloyds TSB Group's cheque processing activities. With increased levels of electronic banking leading to a decline in the volume of cheques being processed, iPSL provides the economies of scale needed to offset the increasing unit cost of processing cheques.

Lloyds TSB Group continues to develop new strategies which will leverage the strength of its brands and its multi-channel distribution capability, its enhanced understanding of what its customers want, and its cost advantage to deliver greater value to customers.

Whilst the decision of the Secretary of State to prohibit the attempted acquisition of Abbey National was disappointing, Lloyds TSB Group remains alert for opportunities to participate in the further consolidation of the financial services industry, both in the UK and overseas. Management believes that domestic consolidation in many overseas markets, particularly in Europe, is entering its final phase and that, therefore, significant cross border mergers and acquisitions may happen in the coming years. Lloyds TSB Group believes it will be well placed to participate in such cross border consolidation.

Businesses and activities of Lloyds TSB Group

The main businesses and activities of Lloyds TSB Group's three segments are described below.

UK Retail Banking and Mortgages

UK Retail Banking and Mortgages provided banking and financial services to over 15 million customers during 2000. With approximately 2,400 branches of Lloyds TSB Bank, Lloyds TSB Scotland and Cheltenham & Gloucester at the end of 2000, Lloyds TSB Group had the most comprehensive geographic branch coverage of any financial services group in England, Scotland and Wales. The contribution, calculated as explained under "Operating and Financial Review and Prospects—Line of business information—Summary", from UK Retail Banking and Mortgages in 2000 was £1,682 million. Lloyds TSB Group has continued to develop a number of alternative distribution channels, through the telephone (PhoneBank and PhoneBank Express, an interactive voice recognition service), the internet (LloydsTSB.com) and TV Banking, via Telewest Digital, a cable TV provider. This enables Lloyds TSB Group to offer the broadest possible range of access points for customers in order to improve service and to enhance revenue growth. Lloyds TSB Group believes that its distribution capability will also be much improved within the next six months as it completes its information technology integration as planned, combining the systems of Lloyds Bank and TSB Group plc giving online real time banking for personal banking customers. This will enable customers to get up-to-the minute information of their account balances and will allow immediate clearance of Lloyds TSB cheques and immediate transfer of funds between Lloyds TSB accounts. The introduction of on-line banking creates a real competitive advantage for Lloyds TSB Group as none of Lloyds TSB Group's major competitors in the UK offers this service.

UK Retail Banking

The contribution, calculated as explained under "Operating and Financial Review and Prospects—Line of business information—Summary", from UK Retail Banking in 2000 was £817 million.

Current accounts, savings and investment accounts, and consumer lending. The retail branches of Lloyds TSB Bank offer a broad range of branded products, and Cheltenham & Gloucester provides retail investments through its branch network and a postal investment centre. Lloyds TSB Group's supermarket banking operation, branded 'easibank', continues to expand and there were 22 branches in ASDA supermarkets or large shopping centres at the end of 2000. Lloyds TSB Group has extended its relationship with the Post Office to allow Lloyds TSB Group personal customers to undertake banking transactions in post offices in Scotland, in addition to Lloyds TSB Group existing arrangements in England and Wales.

Business banking. Small businesses were served by dedicated business managers based in over 450 locations throughout the UK at the end of 2000. Customers have access to a wide range of tailored business services including money transmission, lending and deposits, asset finance, factoring, mortgages and insurance and investments. Asset finance provides a range of finance solutions to companies to enable them to acquire the assets needed to run their businesses through the provision of leasing, hire purchase and contract hire packages. Factoring involves the purchase of companies' trade debts, assuming the task of debt collection and accepting the credit risk, for up to 90 per cent of their value to provide the companies with working capital, with the remaining balance paid, less a small service fee, when the debts are settled.

Card services provides a range of card-based products and services, including credit and debit cards and card processing services for retailers. Lloyds TSB Group is a member of both the VISA and MasterCard payment systems and is the second largest credit card issuer in the UK with a 10 per cent share of cards in issue at 30 June 2001.

Cash machines. Lloyds TSB Group has one of the largest cash machine networks of any leading banking group in the UK and personal customers of Lloyds TSB Bank are able to withdraw cash, check balances and obtain mini statements through 4,400 cashpoints at branches and external locations around the country. In addition, they have access to a further 27,000 cash machines via LINK in the UK and to cash machines worldwide through the VISA and MasterCard networks.

Telephone banking. Telephone Banking continues to grow and Lloyds TSB Group provides one of the largest telephony services in Europe, in terms of customer numbers. At the end of 2000 over 2 million customers had registered to use the services of PhoneBank and the automated voice response service PhoneBank Express. PhoneBank and PhoneBank Express handled 23.5 million calls during the year.

Internet banking. Internet Banking provides online banking facilities for personal and business customers and enables them to conduct their financial affairs without the need to use the branch network. Lloyds TSB Group had over 1 million online customers of *LloydsTSB.com* at the end of 2000. This was increased subsequently to over 1.5 million registered users by May 2001 and *LloydsTSB.com* was rated one of the most visited financial websites in Europe by Jupiter MMXI.

Private banking and stockbroking. Private Banking provided a range of tailor-made wealth management services and products to individuals from 40 offices throughout the UK in 2000. In addition to asset management, these include tax and estate planning, executor and trustee services, deposit taking and lending, insurance and personal equity plan and individual savings account (ISA) products. At 31 December 2000, total funds managed and administered totalled some £12,000 million. A new wealth management strategy, based on providing a new set of products and services for more affluent customers, is expected to be developed in the autumn of 2001 under a new brand, 'Create'. For these customers Lloyds TSB Group will provide tailored independent advice, enhanced service and a choice of investment options from a variety of providers. Key elements will be Lloyds TSB Group's online share dealing and funds hypermarket, and a new Wealth Management Account that will allow consolidation of all financial products into a single account. The Create offer will be underpinned by access to the comprehensive broking services of Goldman Sachs PrimeAccess™. Lloyds TSB Stockbrokers undertakes retail stockbroking through its Sharedeal Direct telephone service.

Mortgages

Cheltenham & Gloucester is Lloyds TSB Group's specialist residential mortgage provider, providing a range of mortgage products to personal customers through its own branches and those of the Bank in England and Wales, as well as through the telephone, internet and postal service, C&G TeleDirect. Lloyds TSB Group also provides mortgages through Lloyds TSB Scotland and Scottish Widows Bank. During 2000, the contribution from Mortgages was £865 million. Lloyds TSB Group is the third largest residential mortgage lender in the UK on the basis of outstanding balances, with mortgages outstanding at 31 December 2000 of £52,659 million, representing a market share of 9.8 per cent. Lloyds TSB Group believes that it is one of the most efficient mortgage providers in the UK; since Cheltenham & Gloucester's acquisition by Lloyds TSB Group in 1995, it has consistently had one of the lowest efficiency ratios (total operating expenses expressed as a percentage of total income) compared to its comparable competitors.

Insurance and Investments

The contribution, calculated as explained under "Operating and Financial Review and Prospects—Line of business information—Summary", from Insurance and Investments in 2000 was £1,447 million. This represented an increase of 66 per cent against 1999, which largely reflected the acquisition of Scottish Widows.

Life assurance, pensions and investment. Scottish Widows is Lloyds TSB Group's specialist provider of life assurance, pensions and investment products, which are distributed through Lloyds TSB Bank's branch network, through independent financial advisers and directly via the telephone and the internet. Before its acquisition, Scottish Widows was a leading provider of life assurance, pensions and long-term savings products mainly distributed through independent financial advisers. Following the acquisition, the Scottish Widows brand became the sole brand for Lloyds

TSB Group's life, pensions, unit trust and other long-term savings products, and Lloyds TSB Group extended the brand's product range to Lloyds TSB Group's retail banking branch network.

In common with other life assurance companies in the UK, the life and pensions business of each of the life assurance companies in the Lloyds TSB Group is written in a long-term business fund. The long-term business fund is divided into a With-Profits and a "Non-Participating" sub-fund. The vast majority of with-profit business is in Scottish Widows plc.

The with-profits benefits provided under some life and pensions products are provided from the With-Profits Fund, and are designed to provide a smoothed return to policyholders who hold their policies to maturity through a mix of annual and final (or terminal) bonuses added to guaranteed basic benefits. The guarantees generally only apply on death or maturity. The actual bonuses declared will reflect the experience of the With-Profits Fund.

Other benefits under life and pensions products are generally provided from the "Non-Participating" sub-fund. Examples include unit-linked benefits, annuities, term assurances and health insurance (under which a pre-determined amount of benefit is payable in the event of an insured event such as death). Unit-linked benefits are wholly or partly determined by reference to a specific portfolio of assets known as unit-linked funds.

General Insurance. Lloyds TSB General Insurance provides general insurance through the retail branches of Lloyds TSB Bank and Cheltenham & Gloucester, and through a direct telephone operation and the internet. Based on internal management estimates Lloyds TSB General Insurance had a new business market share of 10 per cent of the new household insurance market, selling more policies in the twelve months to December 2000 than any of the top 10 leading distributors who together have an estimated aggregate market share of 34 per cent. The remainder of the market is served by a large number of insurance operations each with an estimated market share of less than 1 per cent. The new household insurance market is defined as those customers switching suppliers, taking out first ever policies and customers re-entering the household insurance market.

Scottish Widows Investment Partnership manages funds for Lloyds TSB Group's retail life, pensions and investment products. Clients also include corporate pension schemes, local authorities and other institutions in the UK and overseas. At 31 December 2000 funds under management amounted to some £87,000 million, making Lloyds TSB Group a significant player in the asset management business.

Wholesale Markets and International Banking

Wholesale Markets

The contribution, calculated as explained under "Operating and Financial Review and Prospects—Line of business information—Summary", from Wholesale Markets in 2000 was £749 million.

Lloyds TSB Group's relationships with major UK and multinational companies, banks and institutions, and medium-sized UK businesses, together with its activities in financial markets, are managed through dedicated offices in the UK and a number of locations overseas, including New York and Tokyo.

Treasury is a leading participant in the money and foreign exchange markets and is also active in certain derivatives markets to meet the needs of customers, and as part of Lloyds TSB Group's trading activities. It plays a central role in funding, cash and liquidity management of Lloyds TSB Group.

Corporate and Commercial provides a wide range of banking and related services, including electronic banking, large value lease finance, share registration, venture capital, correspondent banking and capital markets services to major UK and multinational companies and financial institutions, and, through a network of dedicated offices, to medium-sized businesses in the UK. The Agricultural Mortgage Corporation provides long-term finance for the agricultural sector.

Asset finance provides leasing, hire purchase and loan products to the corporate and personal sectors through the Lloyds UDT, Chartered Trust and Lloyds TSB Autolease (a subsidiary of Lloyds UDT) brands. Hire purchase, or instalment credit, is a form of consumer financing where a customer takes possession of goods on payment of an initial deposit but the legal title to the goods does not pass to them until the agreed number of instalments have been paid and the option to purchase has been exercised. Based on information maintained by the Factors and Discounters Association, Lloyds TSB Commercial Finance (which is a subsidiary of Lloyds TSB Bank) and Alex Lawrie Factors (which is a subsidiary of Lloyds TSB Commercial Finance) are the second largest invoice discounting and factoring companies in the UK, with a combined market share of 21 per cent as of 31 December 2000. The invoice discounting and factoring market provides working capital finance for companies by releasing to the company up to 90 per cent of the value of their unpaid invoices, with the balance payable, after deduction of a small service fee, once the invoices have been settled. Invoice discounting differs to factoring in that the company retains control of the debt collection and credit control process.

International Banking

The contribution, calculated as explained under "Operating and Financial Review and Prospects—Line of business information—Summary", from International Banking in 2000 was £475 million.

New Zealand. The National Bank of New Zealand Limited ("NBNZ") was New Zealand's second largest bank measured by profitability during 2000 and provides a wide range of banking services through some 160 retail branch outlets. NBNZ serves retail customers' needs for current and savings accounts, credit cards, consumer lending and home loans. NBNZ also has a substantial non-personal business providing working capital, term lending, trade finance and treasury services to the business and agricultural sector.

International Private Banking provides services to wealthy individuals outside their country of residence. The business is conducted through branches of Lloyds TSB Bank located in Switzerland, Dubai, Luxembourg, Monaco and Gibraltar. There are also private and corporate banking operations in Spain and France.

Offshore banking comprises Lloyds TSB Group's offices in the Channel Islands and Isle of Man, as well as its operations in Hong Kong, Singapore and Malaysia and representation in Belgium and the US. It provides a wide range of retail banking, private banking and financial services to overseas residents and islanders, together with deposit services offshore for UK residents.

The Americas. Lloyds TSB Group has operated in the Americas for over 130 years and has offices in Brazil, Argentina, Colombia, Ecuador, Guatemala, Honduras, Panama, Paraguay and Uruguay. In addition Lloyds TSB Group has private banking and investment operations in the US and the Bahamas. In Brazil where Lloyds TSB Bank has 11 offices Lloyds TSB Group's most substantial business is Losango, a consumer lending operation providing three retail products: borrowing at the point of sale in stores, unsecured personal lending and borrowing to fund new and second-hand car purchases. The Losango business is conducted through Banco Lloyds TSB SA a locally incorporated subsidiary of Lloyds TSB Bank. Through its network of branches, Lloyds TSB Bank also provides specialist banking and treasury products to corporate clients in Brazil. In Argentina where Lloyds TSB Bank has 41 branches and Colombia where Lloyds TSB Bank's subsidiary Lloyds TSB Bank SA has 20 branches, Lloyds TSB Group provides corporate banking services, including trade finance, working capital loans, import finance, term deposits and money transmission. It also provides retail banking services through a network of branches, including current and savings accounts, credit cards, personal loans and mortgages.

Properties

As at 31 December 2000, Lloyds TSB Group occupied 3,899 properties in the UK. Of these, 1,149 were held as freeholds, 141 as long-term leaseholds and 2,609 as short-term leaseholds. The majority of these properties (2,403) are branches and are widely distributed throughout England, Scotland and Wales. The most significant of these properties are Lloyds TSB Group's head office in London, together with administrative buildings in Bristol, Gloucester and Edinburgh.

In addition, Lloyds TSB Group owns, leases or uses under licence properties for business operations elsewhere in the world, principally in Argentina, Brazil, New Zealand, Spain and Switzerland.

Legal actions

Lloyds TSB Group and its properties are periodically subject to threatened or filed legal actions in the ordinary course of business. Lloyds TSB Group does not expect the final outcome of any legal proceedings currently known to it to have a material adverse effect, individually or in the aggregate, on its consolidated results of operation or financial condition.

Provisions for redress to past purchasers of pension policies

During the late 1980s, the UK government became concerned about the burden on the state benefit system that will result from the increasing size of the retired population. As a measure to reduce this impact the government introduced, as part of the UK Income and Corporation Taxes Act 1988, legislation aimed at encouraging the working population to make their own private pension arrangements. For several years following the introduction of this legislation, insurance companies and intermediaries advised a large number of private customers to set up their own private pension plans, often by transferring out of, or choosing not to join, occupational pension schemes offered by their employers. As a further way of relieving the possible pensions burden on the state, individuals had been given the option, by the government, to forego their entitlement to the earnings related element of state pension benefits - the State Earnings Related Pension Scheme ("SERPS") - in return for having part of their National Insurance contributions diverted into personal pension plans.

During the early 1990s, there was increasing concern in the UK that many of these customers had been given poor advice and that they would, in fact, have been in a better position if they had remained in, or joined, employer sponsored pension schemes. The regulator of the UK pension industry, then The Securities and Investments Board, carried out an industry-wide investigation into the conduct of business involving the transfer of pensions. The conclusion of this investigation was that a large number of customers had been poorly advised by insurance companies and intermediaries across the industry, such advice resulting in pension misselling: the sale of personal pensions where insufficient consideration was given to the full value of an employer provided occupational pension scheme.

As a result of its investigation, the regulator established an action plan for the UK pensions industry to follow in reviewing all cases of possible misselling as described in the preceding paragraph and determining necessary compensation. For the purposes of this review, all relevant cases were segregated into two classes:

- Phase 1 cases ("priority cases") – these were mainly cases where the customer had retired since taking out the private pension plan, was approaching retirement or had since died.

- Phase 2 cases ("non-priority cases") – these cases primarily relate to younger customers who were not yet approaching their expected retirement dates.

In January 1997, Lloyds TSB Bank was fined £325,000 by the Investment Management Regulatory Organisation for regulatory breaches and failings in connection with the sale of personal pensions between April 1988 and July 1993. In connection with sale of personal pensions Lloyds TSB Group does not expect any further fines or regulatory investigations.

Lloyds TSB Group anticipates that the most significant potential costs would be to compensate past purchasers of pensions. As the review of pension cases in Lloyds TSB Group has progressed, provisions have been established for the cost of compensation to past purchasers of pensions.

Movements in the provisions established by the Lloyds TSB bancassurance business and Abbey Life over the last three years have been as follows:

	2000 £m	1999 £m	1998 £m
Provision at 1 January	397	472	198
Accrual of interest on the provision	26	22	23
Additional amounts provided	100	102	400
Compensation paid	(173)	(161)	(149)
Phase 1 guarantees[(1)]	3	(38)	-
Phase 2 guarantees[(1)]	(1)	-	-
Provision at 31 December[(2)]	352	397	472

(1) In some cases, rather than pay cash compensation directly into the customer's private pension plan, Lloyds TSB Group has guaranteed to 'top-up' the customer's pension income, on retirement, to the level that they would have received under the relevant occupational scheme. A separate provision for these amounts is carried in Lloyds TSB Group's balance sheet.

(2) This provision is included within the figure for the long-term assurance business attributable to shareholders ("embedded value") in Lloyds TSB Group's balance sheet.

Provisions recorded in the years up to 1998 (totalling £198 million) had all been in respect of the Phase 1 cases.

When The Securities and Investments Board issued its original guidance on the review of cases of possible misselling of pensions, it indicated that it would not be necessary to actively review cases in the non-priority category (Phase 2). However, during 1998 the Financial Services Authority, which by then had taken over as regulator of the industry, announced that, following the results of new research that it had commissioned, it would now require a full review of Phase 2 cases. This meant that, Lloyds TSB Group needed to contact directly all Phase 2 customers to ascertain whether they may have been missold their pensions. At the same time, the Financial Services Authority initiated a public advertising campaign urging the public to respond to such circularisations. As a consequence of this significant widening of the scope of the review, Lloyds TSB Group made a further provision, in the results for the year ended 31 December 1998, of £400 million to cover the anticipated liability in respect of Phase 2 cases.

During the second half of 1999, the Financial Services Authority published revised assumptions to be incorporated into the calculations of the continuing cost of redress reflecting the fact that the average life expectancy of pensioners had increased and interest and inflation rates were lower. Applying these guidelines, the cost of redress was forecast to increase by a further £102 million and an additional provision of this amount was raised in the accounts for the year ended 31 December 1999.

Towards the end of 1999, the Financial Services Authority published further revisions to the guidelines, particularly to the way that compensation should be calculated for customers who had opted out of SERPS. At this stage, Lloyds TSB Group had insufficient experience of such cases to be able to establish the need for any additional provisioning. During 2000, the Financial Services Authority required that these revised SERPS guidelines be applied retrospectively to cases settled since the beginning of 1999. By this time Lloyds TSB Group had also gained further experience and improved knowledge as to the number and size of compensation claims to be paid, both standard Phase 2 cases and those affected by the SERPS adjustment. Taking into account all of these factors, the cost of redress was forecast to increase by a further £100 million and a provision of this amount was raised in the year ended 31 December 2000.

Following normal actuarial practice, each year the provisions have been increased to recognise the interest accruing upon the assets held to match the liability. The increase in the provision amounted to £26 million in 2000, £22 million in 1999 and £23 million in 1998, although there was no net effect on Lloyds TSB Group's profit and loss account.

The calculation of the provision is based upon a series of assumptions relating to the number and size of cases requiring compensation, and on guidelines issued by the Financial Services Authority. Although Lloyds TSB Group was satisfied that no additional provision was required to be made as at 31 December 2000, as further experience is gained from settling cases, revisions to the assumptions may be necessary in the future resulting in changes being made to the provision. Changes to the guidelines issued by the Financial Services Authority, for example regarding Free Standing Additional Voluntary Contribution pension contracts, or new information becoming available may also result in adjustments to the provision being necessary.

Lloyds TSB Group is required to complete the review by the end of June 2002.

Before its acquisition in 2000, Scottish Widows mainly distributed its products through independent financial advisers and for this reason the liability of the business to pay redress to past purchasers of pension policies is less significant. At 31 December 2000 a provision of £39 million was held within the With Profits Fund. Although Lloyds TSB Group was satisfied that no further provision was required to be made at that date, if in the future it should prove necessary to increase this provision for any reason, the cost will be met from assets held in the With Profits Fund.

Guaranteed Annuity Options

A Guaranteed Annuity Option policy is a pension policy that provides a cash benefit at retirement age, which can be converted into an annuity at a specified minimum rate. Under UK GAAP a provision is required when market rates fall below the specified minimum and policyholder funds are not expected to be sufficient to meet the excess cost of the annuity at retirement. In 1998, a provision was made within Abbey Life for liabilities under certain unit-linked products with guaranteed annuity options written from the mid 1960s to the mid 1980s. Unit-linked insurance policies are insurance policies where the policyholder's premiums are used to buy units in a fund run by the insurer. The policyholder can usually choose from a range of investment funds covering a variety of investments. At 31 December 2000 this provision was £152 million.

There continues to be considerable interest in guaranteed annuity option contracts and the implications for distribution of profits in the form of bonuses to with-profits policyholders, especially following the House of Lords ruling on the Equitable Life case, which decided that a company could not use its discretion to undermine or negate a contractual entitlement, such as an option at a guaranteed annuity rate, and that the cost of such an option could not be met by guaranteed annuity option policyholders alone. This ruling raised the issue of how terminal bonuses declared by the directors of the life company can reflect the cost of the guaranteed annuity option. Like the other life assurance companies which have issued such policies, Scottish Widows is continuing to review its practices in the light of the ruling.

Under the terms of the transfer of Scottish Widows' business, as set out in the Policyholder Circular dated 19 November 1999, a separate memorandum account was created within the With Profits Fund on 3 March 2000 called the Additional Account with a balance of approximately £1,700 million. This account included approximately £1,300 million which is available to meet any additional costs of meeting guaranteed benefits on transferred policies allocated to the With Profits Fund and any unexpected liabilities which arise in the future but relate (with certain exceptions) to the operations of Scottish Widows and its subsidiaries before 3 March 2000. The assets allocated to the Additional Account include certain hedge assets which are intended to provide substantial protection for the With Profits Fund against the consequences of a future fall in interest rates including increases in the costs of meeting annuity guarantees.

Lloyds TSB Group continually reviews the position and remains satisfied that no further provision is necessary at this stage.

Competitive environment

General

Lloyds TSB Group operates in a financial services world that is experiencing consolidation at both national and international levels. The last few years have seen the establishment of global players in the industry together with the beginnings of pan-European consolidation and considerable consolidation within the US. Product manufacture and support in markets such as credit cards, mortgages, savings and funds management will increasingly be driven on a global scale.

Developments in technology are significantly expanding Lloyds TSB Group's range of competitors as the internet is effectively removing many barriers to entry, allowing low cost entrants to the market to offer their services online without the need for a physical high street presence. These new entrants are expected to put Lloyds TSB Group's margins under increasing pressure with products becoming increasingly simplified and standardised. Nonetheless, Lloyds TSB Group expects competition within the industry to continue to be partially based on service and relationships as well as price, particularly for the core banking services. Furthermore, complex products such as pensions are expected to be more resistant to standardisation and selling across the Internet. In addition, Lloyds TSB Group has significant strengths with which to counter the pressure on margins in its portfolio of powerful brands, its existing customer base, its distribution capability and its purchasing power.

The UK

Lloyds TSB Group's key markets are in the UK, predominately in the retail sector, where market growth opportunities for basic financial and banking services are limited. The market for life, pensions and investment products is, however, experiencing strong rates of growth with further growth potential. The general insurance market has also exhibited growth in a number of key sectors.

The removal of regulatory and financial barriers in recent years has blurred the traditional financial service industry lines and allowed new competitors into the market. Lloyds TSB Group's competitors include all the major stock and mutual retail financial services and fund management companies operating in the UK. De-mutualised building societies which have become banks and life assurers which have entered the banking market have become direct competitors in the provision of banking products, whilst several UK banks have announced the launch of stand-alone internet banks to complement their existing services. In the mortgage market competitors include the traditional banks and building societies and new entrants to the market, with the market becoming increasingly competitive as both new entrants and incumbents endeavour to gain market share. Lloyds TSB Group's competitors in the credit card market again include both the traditional banks and new entrants, including overseas companies. In the last few years a large share of new business has been acquired by US and new UK competitors. In the provision of life, pensions and investments products Lloyds TSB Group has seen increased competition from new market entrants, such as traditional retailers, primarily in specialist areas. The fragmented nature of the life, pensions and investments market in the UK has resulted in some consolidation within the sector; government regulations on product charges and competitive pressures are likely to drive further consolidation as providers seek to achieve the benefits of economies of scale. In the general insurance sector, the market has seen significant consolidation amongst underwriters but continued fragmentation in distribution and an increasing number of new market entrants including both overseas insurers and direct operators.

In 1998, the UK government commissioned an investigation into competition in the banking industry whose findings were published in March 2000. The investigation specifically examined the levels of innovation, competition and efficiency in various sub-markets within the industry. The investigation found that the small and medium-sized business market was not sufficiently competitive, with barriers to entry existing for new players. The provision of banking services to this sector has been referred to the UK Competition Commission under the Fair Trading Act 1973 for a full competition inquiry. Under the Fair Trading Act, a "monopoly situation" is regarded as arising (among other cases) where one firm accounts for the supply of at least one quarter of the reference services, known as a scale monopoly, or where several firms together account for at least one quarter of the reference services and, whether voluntarily or not, and whether by agreement or not, they so conduct their affairs as in any way to prevent , restrict or distort competition in connection with the supply of the reference services, known as a complex monopoly. Since the announcement of the inquiry, there have been several statements by large-scale institutions of their intention to enter this market.

In March 2001, the UK Competition Commission published a statement of its provisional conclusions on some of the questions referred to it. In pursuing its investigation, the UK Competition Commission has provisionally decided to regard the small and medium-sized business market to be comprised of sole traders, firms and companies generating an annual turnover of up to £25 million. The statement provisionally identifies a scale monopoly in favour of The Royal

Bank of Scotland Group plc. The statement provisionally identifies a complex monopoly situation in favour of a number of banks; principally Lloyds TSB Group, Abbey National plc, Bank of Scotland plc, Barclays plc, HSBC Bank plc and The Royal Bank of Scotland Group plc. There are a number of operating units within Lloyds TSB Group engaged in the small and medium-sized business market, the largest of which is Business banking. Business banking provides services to those businesses with an annual turnover of less than £1 million. Research carried out by City Research Associates in September 2000 showed that Business banking had a 20 per cent share of this market.

The UK Competition Commission has published a statement setting out a list of hypothetical remedies which it might recommend be adopted if it concludes that there is a relevant monopoly situation and that there are relevant facts which operate or may be expected to operate against the public interest. In particular, the UK Competition Commission is considering the following hypothetical remedies:

- the imposition of a requirement on relevant banks that they take specific steps to promote competition in the provision of banking services to small and medium-sized business customers;

- the imposition of a requirement to take specific steps to facilitate market entry by other prospective providers of services;

- the imposition of rules regulating the terms and prices on which banks provide such services;

- the divestment of business activities and/or the imposition of a cap on permitted local market shares; and

- the imposition on banks of a special tax or an obligation to contribute to a fund which would be used to promote competition in the relevant sector.

It is envisaged that, if any of these remedies were to be adopted, they would generally only apply to the identified monopolists, and not apply to non-clearing banks and smaller banks.

Lloyds TSB Group has commented to the UK Competition Commission on its provisional conclusions and on the hypothetical remedies. Lloyds TSB Group has contended that it is not a party to any complex monopoly and that, in any event, there is no need for such remedies as the UK Competition Commission has suggested. Lloyds TSB Group has suggested that, if the UK Competition Commission were ultimately to conclude that one or more monopoly situations are in operation, and that relevant facts operate or may be expected to operate against the public interest, then the UK Competition Commission should consider first recommending remedies calculated to facilitate switching by customers from one bank to another and to reduce any barriers to entry to the small and medium-sized business banking market. Lloyds TSB Group has suggested that the UK Competition Commission should resort to remedies such as price controls and other controls over firms' conduct only if it is impracticable, by using other remedies, to stimulate effective competition. The UK Competition Commission is due to complete its report by 19 October 2001, its earlier deadline having been extended. The report will be published at a later date.

The original March 2000 review also proposed the establishment of a new licensing regime for money transmission services to regulate competition in payment markets, with a dedicated statutory regulator. After consideration of this proposal, the government rejected a licensing regime as not being compatible with a free and open market in payment services. It gave responsibility for regulating the payments system to an existing regulator, the Office of Fair Trading.

Other markets

Lloyds TSB Group also operates in other countries, principally in New Zealand and Latin America, where it is exposed to different competitive pressures.

Lloyds TSB Group operates in New Zealand through its wholly-owned subsidiary The National Bank of New Zealand Limited ("NBNZ"). NBNZ's competitors principally comprise the major Australian banks each of which offer retail and wholesale products through branch networks and, more recently, over the telephone and internet. Consolidation in the Australian banking industry would, therefore, have a direct effect upon the competitive environment in New Zealand. The New Zealand economic environment, whilst enjoying a long period of growth and low inflation, has suffered from a volatile currency leading to increasing interest rates. This has depressed business confidence in the country, somewhat balanced by exporters and the agricultural sector enjoying greater prosperity.

In Latin America, Lloyds TSB Group's principal operations are in Brazil, Argentina and Columbia. The competitive environment in each country varies significantly where the number of players, both local and international, is substantially different. In Brazil there are over 200 banks, a third of which are either partially or wholly owned by foreign interests; in addition, there are a number of specialist consumer finance businesses. In Argentina and Columbia the competition is limited to a small number of domestic and foreign banks.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The results discussed below are not necessarily indicative of Lloyds TSB Group's results in future periods. The following information contains certain forward-looking statements. For a discussion of certain cautionary statements relating to forward-looking statements, see "Forward-Looking Statements".

The following discussion is based on and should be read in conjunction with the Consolidated Financial Statements and the related notes thereto included elsewhere in this registration statement. For a discussion of the accounting policies used in the preparation of the Consolidated Financial Statements, see "Accounting policies" in Note 1 to the Consolidated Financial Statements. The Consolidated Financial Statements are prepared in accordance with UK GAAP, which varies in certain significant respects from US GAAP. A discussion of such differences and a reconciliation of certain UK GAAP amounts to US GAAP is included in Note 50 to the Consolidated Financial Statements.

TABLE OF CONTENTS

Overview

Lloyds TSB Group has operations in both the UK and overseas, however, its earnings are heavily dependent upon its domestic activities. In 2000, 89 per cent of Lloyds TSB Group's profit before tax was derived from its UK operations. The economic outlook in the UK, therefore, has significant implications for the way in which Lloyds TSB Group runs its business. By historical standards, the UK economic outlook is currently one of relatively low growth, low inflation and low interest rates. These conditions have been experienced over the last few years having significant implications for the development of Lloyds TSB Group.

Economic stability, low inflation and low interest rates are conditions that usually result in lower net interest margins. During 2000 and the first six months of 2001 the effect of these conditions and the increasingly competitive operating environment led to some erosion in the net interest margin of Lloyds TSB Group, although it is anticipated that future reductions in the margin in the UK will not be as large. The competitive environment is also affecting Lloyds TSB Group's ability to sustain the level of growth achieved in the past in fee income from its core banking activities. For a number of years, Lloyds TSB Group has been anticipating these developments and this has been one of the factors that has led to Lloyds TSB Group's evolution from a banking group to a more diversified financial services group.

An important part of Lloyds TSB Group's evolution into a more diversified financial services group was the acquisition of the business of Scottish Widows, completed on 3 March, 2000. Lloyds TSB Group accounts for its life assurance business using the embedded value basis of accounting, which is UK GAAP for banking groups owning life assurance operations. An embedded value is an actuarially determined estimate of the economic value of a life assurance company, excluding any value which may be attributed to new business. The embedded value is the sum of the net assets of the life assurance company and the value of the in-force business. The value of the in-force business is calculated by projecting future net cash flows using appropriate economic and actuarial assumptions and the result discounted at a rate which reflects the shareholders' overall risk premium. See Note 32 to the Consolidated Financial Statements.

The change in the embedded value over a year, adjusted for any dividends declared or capital injected, represents the income earned from the long-term assurance business. Embedded value is calculated on a post-tax basis; for the purposes of presentation the change in embedded value is grossed up using the underlying rate of corporation tax. The gross-up is included in tax on profit on ordinary activities in the consolidated profit and loss account. The income earned from the long-term assurance business is included within other income in Lloyds TSB Group's profit and loss account. Following the acquisition of Scottish Widows, other income as a proportion of total income increased from 40 per cent in 1999 to 46 per cent in 2000.

Results of operations—2000 compared with 1999 and 1999 compared with 1998

Summary

	2000 £m	1999 £m	1998 £m
Net interest income	4,587	4,783	4,398
Other income	3,937	3,195	2,777
Total income	8,524	7,978	7,175
Operating expenses	(3,952)	(3,417)	(3,504)
Trading surplus	4,572	4,561	3,671
General insurance claims	(142)	(169)	(146)
Provisions for bad and doubtful debts	(541)	(615)	(555)
Amounts written off fixed asset investments	(32)	(7)	(15)
Operating profit	3,857	3,770	2,955
Income from associated undertakings and joint ventures	3	12	14
(Loss)/profit on sale and closure of businesses	-	(126)	84
Profit on ordinary activities before tax	3,860	3,656	3,053
Tax on profit on ordinary activities	(1,105)	(1,111)	(894)
Profit on ordinary activities after tax	2,755	2,545	2,159
Minority interests - equity	(13)	(6)	(13)
- non-equity	(36)	-	-
Profit attributable to shareholders	2,706	2,539	2,146
Economic profit[1]	1,839	1,777	1,424

(1) Lloyds TSB Group defines economic profit as the earnings on the equity invested in the business less a notional charge for the cost of the equity invested in that business. See "—Economic Profit".

2000 compared with 1999

Profit on ordinary activities before tax rose by £204 million, or 6 per cent, to £3,860 million from £3,656 million in 1999. Earnings per share increased by 6 per cent to 49.3p, shareholders' equity increased by 14 per cent and the post-tax return on average shareholders' equity was 28.1 per cent.

Total income grew by £546 million, or 7 per cent, from £7,978 million in 1999 to £8,524 million in 2000. Net interest income fell by £196 million, or 4 per cent, to £4,587 million reflecting the inclusion of the funding cost of £258 million relating to the acquisition of Scottish Widows; adjusting for this, net interest income increased by £62 million. Average interest earning assets grew by £7,413 million, or 6 per cent, to £131,022 million, adding £276 million to net interest income with growth primarily in UK personal lending and mortgage balances, which increased by £4,186 million. However, this growth was largely offset by an underlying reduction of 17 basis points in the net interest margin, reducing net interest income by £200 million reflecting the competitive market conditions in which Lloyds TSB Group's businesses are operating. Adverse exchange rate movements reduced net interest income by £14 million.

Other income in 2000 grew by £742 million, or 23 per cent, to £3,937 million, with Scottish Widows contributing £317 million of this increase. Net fees and commissions receivable, after deducting fees payable, increased by £218 million or 11 per cent. Insurance broking commission income increased by £71 million in line with sales volumes and there was also growth in retail banking fee income; net income from credit and debit cards increased by £18 million, fees earned from Lloyds TSB Group's Added Value current accounts grew by £17 million after package charges, and arrangement fees increased by £13 million. Private banking and stockbroking income increased by £14 million as a result of higher transaction volumes and fees from large corporate activity grew by £15 million. Income from the long-term assurance businesses increased by £388 million, principally due to the acquisition of Scottish Widows, and other operating income grew by £144 million as a result of a £89 million increase in operating lease rental income, mainly due to the acquisition of Chartered Trust, and a higher level of gains arising on the disposal of fixed asset investments.

Operating expenses in 2000 increased by £535 million, or 16 per cent, to £3,952 million from £3,417 million in 1999. The efficiency ratio increased from 42.8 per cent to 46.4 per cent. Included within operating expenses in 2000 were £188 million of restructuring costs, of which £108 million related to severance and consultancy costs incurred in connection with Lloyds TSB Group's new efficiency programme described in "Business—Business and activities of Lloyds TSB Group—UK Retail Banking and Mortgages—UK Retail Banking". A further £59 million related to the integration of Scottish Widows and a further £21 million to the integration of Chartered Trust. Excluding restructuring costs, expenses grew by £347 million. The acquisitions of Scottish Widows and Chartered Trust resulted in additional costs of £117 million and the investment made by Lloyds TSB Group during the year in its e-commerce, wealth management and customer relationship management programmes added a further £180 million to the cost base. There was also an increase of £60 million in the depreciation charge, excluding the effect of the acquisition of Chartered Trust, largely due to increased volumes of operating lease assets within Lloyds UDT and Lloyds TSB Leasing and the effect of significant capital expenditure incurred in the second half of 1999 on new computer equipment.

The total Lloyds TSB Group charge for bad and doubtful debts in 2000 was 12 per cent lower at £541 million, compared with £615 million in 1999. The charge for bad and doubtful debts attributable to UK operations decreased to £426 million from £500 million, as a result of a £93 million reduction in the charge in retail banking and mortgages which was partially offset by a higher charge in the motor finance businesses following the acquisition of Chartered Trust. Provisions overseas were unchanged at £115 million: provisions in Colombia were £14 million lower which, together with a £14 million increase in recoveries from the provisions held against the emerging market medium-term debt portfolio, offset a £25 million increase in the charge in Argentina. Lloyds TSB Group's charge for bad and doubtful debts, expressed as a percentage of average lending, was 0.50 per cent in 2000 compared to 0.61 per cent in 1999. During 1999, losses of £126 million were incurred upon the sale of the Abbey Life new business capability and the closure of Lloyds TSB Securities Services. These losses were not repeated in 2000.

At year-end 2000, the total capital ratio was reduced to 9.4 per cent and the tier 1 capital ratio was reduced to 8.5 per cent largely as a result of the acquisition of Scottish Widows. Balance sheet assets increased by £42,059 million, or 24 per cent, to £218,393 million from £176,334 million at the end of 1999. Of this increase, £24,543 million was attributable to an increase in long-term assurance assets attributable to policyholders following the acquisition of Scottish Widows. Loans and advances to customers increased by £12,339 million, or 12 per cent, mainly as a result of growth in UK mortgage and personal lending, which increased by £6,022 million, and the acquisition of Chartered Trust, which added a further £2,490 million. Risk-weighted assets increased by 11 per cent to £93,979 million from £84,415 million at the end of 1999.

1999 compared with 1998

Profit before tax in 1999 rose by £603 million, or 20 per cent, to £3,656 million from £3,053 million in 1998. Earnings per share increased by 17 per cent to 46.6p and the post-tax return on average shareholders' equity was 30.0 per cent.

Total income in 1999 rose by £803 million, or 11 per cent, from £7,175 million in 1998 to £7,978 million in 1999. Net interest income increased by £385 million, or 9 per cent, to £4,783 million, although the figure in 1998 was affected by the inclusion of a £32 million charge in respect of the write-down of Lloyds TSB Group's finance lease receivables following a change in the UK corporation tax rate. See Note 7 to the Consolidated Financial Statements. The underlying increase in net interest income was, therefore, £353 million. Average interest earning assets increased by £6,792 million, or 6 per cent, to £123,609 million resulting in an increase in net interest income of £382 million. There was growth in UK personal and mortgage lending which increased by £3,199 million, lending to large corporate customers, which increased by £1,786 million, and leasing balances, which increased by £1,979 million and more than offset a £1,693 million fall in Treasury balances. The inclusion for a full year of Countrywide Banking Corporation acquired in New Zealand in September 1998 also contributed to the increase. The net interest margin, excluding the effect of the write-down of finance leases in 1998, increased by 8 basis points resulting in an increase in net interest income of £82 million, largely reflecting a 19 basis point improvement in the UK Retail Banking and Mortgages net interest margin. Adverse exchange rate movements reduced net interest income by £111 million.

Other income increased by £418 million, or 15 per cent, from £2,777 million to £3,195 million. Net fees and commissions receivable increased by £112 million. UK current account fees increased by £40 million as a result of the growth in the number of Added Value fee-based current accounts and there was a £44 million increase in unit trust fees following a 28 per cent increase in weighted sales. Income from Lloyds TSB Group's general insurance businesses increased 14 per cent with both the broking and underwriting businesses benefiting from increased sales of loan protection products. Income from long-term assurance business was £227 million, after a provision of £102 million for redress to past purchasers of pension policies, compared to a loss of £21 million in 1998, which included a provision for redress to past purchasers of pension policies of £400 million. See "Business—Provisions for redress to past purchasers of pension policies".

Operating expenses fell by £87 million, or 2 per cent, from £3,504 million in 1998 to £3,417 million in 1999. The efficiency ratio improved to 42.8 per cent from 48.8 per cent in 1998. Included within operating expenses in 1998 were £38 million of exceptional restructuring costs relating to the integration of Countrywide Banking Corporation in New Zealand. Adjusting for this item operating expenses fell by £49 million mainly reflecting a £19 million reduction in staff costs reflecting the benefit of headcount reductions and lower severance costs, a £20 million reduction in premises and equipment costs and a £15 million reduction in advertising and promotional expenditure. This was partially offset by a £34 million increase in data processing costs.

The total charge for bad and doubtful debts in 1999 was 11 per cent higher at £615 million, compared with £555 million in 1998. The charge for bad and doubtful debts attributable to UK operations, increased to £500 million from £363 million in 1998. Some deterioration at the beginning of 1999 in the level of arrears in the personal lending and credit card portfolios resulted in a £116 million increase in the provisions charge in UK Retail Banking and provisions in Lloyds TSB Group's asset finance business, Lloyds UDT, increased by £23 million due to a higher level of delinquencies and the decline in the residual value of second-hand cars. Provisions overseas decreased to £115 million from £192 million mainly as a result of a £110 million reduction in the provisions charge from the Losango consumer finance business in Brazil due to improvements in credit processes, which more than offset increased charges in Colombia and Argentina following the deterioration of economic conditions in these countries. Lloyds TSB Group's charge for bad and doubtful debts, expressed as a percentage of average lending, was 0.61 per cent compared to 0.60 per cent in 1998.

In July 1999 Lloyds TSB Group announced its intention to withdraw from the global custody and unit trust trusteeship business. A provision of £28 million was made in the 1999 accounts for the expected operating losses to be incurred over the period that the business was to be run-down and closed. In addition, on 1 February 2000, Lloyds TSB Group sold the new business capability of Abbey Life to Allied Dunbar for £100 million, of which £20 million is contingent upon the sales force achieving agreed sales targets over the two year period immediately following the sale. A provision of £98 million was made in the 1999 accounts for asset impairment, including £80 million in respect of goodwill previously written off to reserves, and other asset write-offs.

In 1998 a profit of £84 million was made following the disposal of a number of businesses, principally International Factors Limited and Lloyds TSB Group's estate agency chain, Black Horse Agencies.

The total capital ratio increased to 15.2 per cent and the tier 1 capital ratio increased to 10.2 per cent. This reflected both the strong internal generation of capital and the raising of some £2,400 million of loan capital in anticipation of the completion of the Scottish Widows acquisition. Balance sheet assets increased by £8,159 million, or 5 per cent, to £176,334 million, largely as a result of further growth in mortgages and other customer lending which increased by £6,821 million. Risk-weighted assets increased to £84,415 million from £83,491 million at the end of 1998.

Net interest income

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

	2000	1999	1998
Lloyds TSB Group:			
Net interest income £m	4,587	4,783	4,398
Average interest-earning assets £m	131,022	123,609	116,817
Average rates			
Gross yield on interest-earning assets %[1]	8.44	8.46	9.66
Interest spread %[2], [4]	2.98	3.19	2.95
Net interest margin %[3], [4]	3.50	3.87	3.79
Domestic:[5]			
Net interest income £m	3,956	4,154	3,763
Average interest-earning assets £m	110,574	104,242	99,959
Average rates			
Gross yield on interest-earning assets %[1]	8.07	7.69	8.90
Interest spread %[2], [4]	3.06	3.38	2.98
Net interest margin %[3], [4]	3.58	3.98	3.80
International:[5]			
Net interest income £m	631	629	635
Average interest-earning assets £m	20,448	19,367	16,858
Average rates			
Gross yield on interest-earning assets %[1]	10.40	12.58	14.17
Interest spread %[2]	2.58	2.60	3.18
Net interest margin %[3]	3.09	3.25	3.77

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

(2) Lloyds TSB Group interest spread is the difference between the rate of interest earned on total average interest-earning assets and the rate of interest paid on total average interest-bearing liabilities. The domestic interest spread is the difference between the rate of interest earned on domestic average interest-earning assets and the rate of interest paid on domestic average interest-bearing liabilities. The international interest spread is the difference between the rate of interest earned on international average interest-earning assets and the rate of interest paid on international average interest-bearing liabilities.

(3) Net interest margin is net interest income as a percentage of average interest-earning assets.

(4) Lloyds TSB Group and domestic interest spread and net interest margin exclude the effect of the write-down of finance leases in 1998 of £32 million.

(5) The analysis of net interest income by domestic and international operations shown above is based on the location of the office recording the transaction, except for lending by the international business booked in London.

2000 compared with 1999

Lloyds TSB Group net interest income in 2000 fell by £196 million, or 4 per cent, to £4,587 million, reflecting the impact of the funding cost of Scottish Widows following its acquisition in March 2000. Net interest income represented 54 per cent of total income compared to 60 per cent in 1999.

Scottish Widows was acquired on 3 March 2000. The consideration for the acquisition, which was funded through a combination of cash raised on the money market and loan notes issued to those policyholders who elected to receive them, was paid during August 2000. However, for the period from the date of acquisition to the payment date Lloyds TSB Group compensated the policyholders for the delay in paying the consideration. This compensation, together with the funding cost of the consideration from the date of payment, totalled £258 million in 2000. Excluding the £258 million funding cost of Scottish Widows in 2000, Lloyds TSB Group net interest income increased by £62 million, or 1 per cent, to £4,845 million, notwithstanding a reduction of £200 million caused by a 17 basis point reduction in the underlying net interest margin. This £200 million reduction in net interest income was more than offset by higher volumes of both customer lending and deposits which resulted in an increase of £276 million. Average interest-earning assets increased by 6 per cent to £131,022 million as a result of further growth in mortgages and other personal lending in the UK, which increased by £4,186 million. The net interest margin decreased to 3.50 per cent, a reduction of 37 basis points. The impact of the funding cost of Scottish Widows represented 20 basis points of this 37 basis point reduction, with the residual 17 basis point decrease in the margin reflecting the increasingly competitive operating environment in the UK and a 16 basis point reduction in the international net interest margin. Adverse exchange rate movements reduced net interest income by £14 million.

Domestic net interest income in 2000 decreased by £198 million, or 5 per cent, to £3,956 million, reflecting the £258 million funding cost of Scottish Widows, and this represents 86 per cent of total group net interest income. Underlying net interest income, therefore, increased by £60 million. Average interest-earning assets from Lloyds TSB Group's domestic operations increased by 6 per cent to £110,574 million resulting in an additional £229 million of net interest income. There was further growth in mortgages and other customer lending. The net interest margin decreased by 40 basis points to 3.58 per cent, again partly reflecting the funding cost of Scottish Widows, which caused a reduction of 23 basis points. The increasingly competitive operating environment, particularly for retail lending, and the higher cost of deposit products in a higher average interest rate environment caused an underlying reduction of 17 basis points in the net interest margin. During the year Lloyds TSB Group had strong growth in a number of lower margin products, particularly mortgages and preferentially priced savings accounts. The reduction in the margin caused a £169 million fall in net interest income.

Net interest income from international operations increased by £2 million to £631 million, representing 14 per cent of total group net interest income. Underlying growth on a local currency basis was largely offset by a £14 million reduction caused by exchange rate movements. Average interest-earning assets on a local currency basis increased by 7 per cent, helped by growth in the New Zealand mortgage portfolio, but this increase was partly offset by the effect of exchange rate movements. Although there was a reduction of 218 basis points in the gross yield as a result of lower interest rates in Latin America, the international net interest margin decreased by only 16 basis points to 3.09 per cent.

1999 compared with 1998

Lloyds TSB Group net interest income increased by £385 million, or 9 per cent, to £4,783 million in 1999 although after adjusting for the finance lease write-down of £32 million in 1998, there was an underlying increase of £353 million. Net interest income was 60 per cent of total income, compared with 61 per cent in 1998. Average interest-earning assets increased by 6 per cent in 1999 adding £382 million to net interest income. The overall net interest margin improved by 8 basis points, to 3.87 per cent in 1999, as an 18 basis point increase in the domestic net interest margin to 3.98 per cent was partly offset by a reduction in the international net interest margin. The improvement in the net interest margin added £82 million to net interest income although adverse exchange rate movements cost £111 million.

Domestic net interest income, representing 87 per cent of total net interest income, increased by £391 million, or 10 per cent, to £4,154 million in 1999. Average interest-earning assets from Lloyds TSB Group's domestic operations increased by 4 per cent to £104,242 million, mainly as a result of growth in mortgages and other personal lending which increased by £3,199 million. The net interest margin increased by 18 basis points to 3.98 per cent. Despite the continuing competitive pressure on many products, customer lending and deposits continued to grow and there was an improvement in the mix of assets as Lloyds TSB Group focussed on the retail and corporate sides of its business; fine margin Treasury balances fell by £1,693 million.

Net interest income from international operations, representing 13 per cent of total net interest income, decreased by 1 per cent. The difficult economic conditions in Latin America and consequent fall in the level of new business resulted in a reduction in customer receivables outstanding, to £1,761 million at the end of December 1999, compared with £2,120 million at the end of December 1998. Average interest-earning assets increased by 15 per cent, or £2,509 million, to £19,367 million. This mainly reflects the full-year impact of the mortgage portfolio acquired in September 1998 on the purchase of Countrywide Bank together with organic growth in New Zealand, which increased average interest earning assets by £2,079 million and more than offset the reduced lending volumes in Latin America. As a result of the narrower margins earned by Countrywide, where the lending portfolio is predominantly mortgages, and lower margins on the higher quality business being written in the Losango consumer finance business in Brazil, the international net interest margin decreased by 52 basis points to 3.25 per cent.

Other income

	2000 £m	1999 £m	1998 £m
Fees and commissions receivable:			
UK current account fees	629	663	623
Other UK fees and commissions	1,171	978	924
Insurance broking	398	327	296
Card services	304	279	256
International fees and commissions	266	250	248
	2,768	2,497	2,347
Fees and commissions payable	(479)	(426)	(388)
Dealing profits (before expenses):			
Foreign exchange trading income	141	133	112
Securities and other gains	57	82	85
	198	215	197
Income from long-term assurance business:			
Income before pension provisions	715	329	379
Pension provisions	(100)	(102)	(400)
	615	227	(21)
General insurance premium income	399	390	335
Other operating income	436	292	307
Total other income	3,937	3,195	2,777

2000 compared with 1999

Other income in 2000 increased by £742 million, or 23 per cent, to £3,937 million representing 46 per cent of total income. Scottish Widows contributed £317 million of this increase.

Fees and commissions receivable in 2000 increased by £271 million, or 11 per cent; Scottish Widows contributed £62 million of this increase. UK current account fees fell by £34 million largely as a result of a £14 million reduction in service charges and returned cheque fees and a £31 million reduction in unauthorised overdraft fees following their partial withdrawal as part of a marketing initiative. Unauthorised overdraft fees are charged to those customers who allow their current account to become overdrawn without having organised an agreed overdraft facility in advance. These reductions more than offset a £22 million increase in fees from Lloyds TSB Group's Added Value current accounts reflecting the increased popularity of this product. Depending on the balance in the account, the holder of an Added Value current account pays a monthly fee which allows them access to a range of discounted products and services.

Excluding Scottish Widows, other UK fees and commissions increased by £131 million or 13 per cent, Interbank agency and ATM fees increased by £36 million and there was a £13 million increase in loan arrangement fees. Fees from large corporate activity in the UK increased by £15 million and there was a £14 million increase in private banking and stockbroking income as a result of higher transaction volumes and a £9 million increase in income from Lloyds TSB Group's factoring operations. The acquisition of Chartered Trust accounted for a further £17 million of the increase.

Insurance broking commission income increased by £71 million or 22% reflecting a £50 million improvement in income from card and loan protection products, as a result of increased sales volumes, and a £23 million increase in the level of retrospective commissions, which are dependent upon the profitability of policies sold in previous years.

Income from credit and debit cards improved by £25 million as a result of increased late payment charges and merchant commissions. International fees and commissions increased by £16 million or 6 per cent largely due to a £10 million increase in income generated from structured finance transactions entered into in the United States.

Fees and commissions payable in 2000 increased by £53 million against 1999 of which £18 million was attributable to Scottish Widows. The remaining increase of £35 million was largely as a result of a £14 million increase in interchange fees reflecting higher volumes, a £20 million increase in interbank agency fees payable, which more than offset a £15 million reduction in fees paid by Lloyds UDT as a result of lower transaction volumes. The acquisition of Chartered Trust accounted for a further £23 million of the increase.

Dealing profits in 2000 fell by £17 million; a £20 million improvement in the performance of Lloyds TSB Group's Treasury operations was more than offset by a £41 million reduction in the return from the general insurance equities portfolio reflecting the decline in UK stock market values.

Income from long-term assurance business in 2000 increased by £388 million to £615 million, largely as a result of the acquisition of Scottish Widows. Excluding Scottish Widows there was an underlying increase of £118 million reflecting the benefit of changes in the economic assumptions of £127 million and a number of other non-recurring items which more than offset a charge of £80 million in respect of stakeholder pensions. Stakeholder pensions were introduced in the UK in April 2001. Stakeholder pensions aim to provide a low-cost and flexible way for people to save for their retirement. Stakeholder pensions are open only to persons earning less than £30,000 per year. Contribution to a stakeholder pension is capped at £3,600 per year (including tax) and can be cumulated with contributions to an occupational pension scheme. Employers with five or more employees who do not offer any kind of pensions scheme must provide access to a stakeholder pension scheme. Money invested in stakeholder pensions will be managed privately (i.e., outside the state pension system) and will be invested in the stock market. Upon retirement a quarter of the accumulated capital can be taken out as a tax-free cash sum and the remainder must be used to buy an annuity which pays the retirement pension. See "—Results of operations—Unusual items". General insurance premium income on underwritten business in 2000 increased by £9 million, or 2 per cent, against 1999.

Other operating income in 2000 increased by £144 million, largely reflecting the acquisition of Chartered Trust and increased operating lease rentals within Lloyds TSB Leasing and Lloyds UDT which together resulted in an increase in income of £89 million. Gains on the sale of investments increased by £53 million.

1999 compared with 1998

Other income increased by £418 million, or 15 per cent, to £3,195 million in 1999. Excluding the impact of a lower provision for redress to past purchasers of pension policies, other income increased by £120 million, or 4 per cent, to £3,297 million in 1999. See "Business—Provisions for redress to past purchasers of pension policies".

Fees and commissions receivable increased by £150 million or 6 per cent in 1999 to £2,497 million. UK current account fees increased by £40 million or 6 per cent helped by growth in the number of fee-based Added Value current accounts which resulted in a £14 million increase in income and increased charges introduced in the second half of 1998, which, overall resulted in a £19 million increase in charges made to personal customers.

Other UK fees and commissions increased by £54 million or 6 per cent. This was mainly due to a £44 million increase in unit trust commissions following a 28 per cent increase in weighted sales. There was a £20 million increase in private banking and stockbroking fee income, as a result of the effect of favourable equity markets movements, and an £18 million increase in mortgage related fees following the introduction of application fees on variable rate mortgages. These factors more than offset the effect of the disposal of Black Horse Agencies, which contributed £24 million of income in 1998 prior to its sale. International fees and commissions increased in local currency terms, but this increase was largely offset by the effect of exchange rate movements.

Fees and commissions payable increased by £38 million in 1999 to £426 million, largely as a result of a £34 million increase in fees for card services partly reflecting increased transaction volumes.

Dealing profits increased by £18 million in 1999 reflecting an improvement of £21 million in foreign exchange trading income; this principally related to New Zealand which benefited from increased customer and corporate volumes. The increase in foreign exchange trading income was offset by a fall of £3 million in securities gains and losses.

Excluding the impact of a lower provision made for redress to past purchasers of pension policies, income from long-term assurance business fell by £50 million in 1999. This was largely as a result of the net benefit of £9 million in 1998 from the change in the embedded value discount rate from 12.5 per cent to 10 per cent, after taking into account the provision for guaranteed annuity options, and the consequent reduction in profits in 1999 of £19 million, together with the £12 million benefit in 1998 from the harmonisation of actuarial bases following the merger of the Hill Samuel and Abbey Life long-term assurance funds. The continuing switch within single premium business from life products to unit trusts and Individual Savings Accounts (ISAs) the income from which is shown in fees and commissions receivable, also had an effect. See "—Unusual items".

Higher sales volumes produced a £55 million increase in general insurance premium income. Other operating income was reduced by £15 million as gains on the disposal of contract hire vehicles by Lloyds TSB Group's asset finance business in 1998 were not repeated.

Operating expenses

	2000 £m	1999 £m	1998 £m
Administrative expenses			
Staff:			
Salaries and profit sharing	1,626	1,500	1,495
National Insurance	131	125	126
Pensions	(105)	(108)	(105)
Restructuring	47	20	36
Other staff costs	189	180	184
	1,888	1,717	1,736
Premises and equipment:			
Rent and rates	247	250	267
Hire of equipment	26	33	36
Repairs and maintenance	115	107	98
Other	109	100	109
	497	490	510
Other expenses:			
Communications and external data processing	394	406	372
Advertising and promotion	167	113	128
Professional fees	126	90	105
Other	306	324	361
	993	933	966
Administrative expenses	3,378	3,140	3,212
Exceptional restructuring costs	188	-	38
Total administrative expenses	3,566	3,140	3,250
Depreciation	364	265	250
Amortisation of goodwill	22	12	4
Total operating expenses	3,952	3,417	3,504
Efficiency ratio (in %)	46.4	42.8	48.8
Efficiency ratio (adjusted) (in %)[1]	43.3	42.4	45.8

(1) Excluding short-term fluctuations in investment returns, changes in economic assumptions, exceptional restructuring costs, provisions for redress to past purchasers of pension policies, stakeholder pension related charge and guaranteed annuity provision. See "—Unusual items".

2000 compared with 1999

Total operating expenses in 2000 increased by £535 million, or 16 per cent, to £3,952 million from £3,417 million in 1999. Expenses in 2000 included exceptional restructuring costs of £188 million, comprising mainly severance and consultancy costs relating to Lloyds TSB Group's efficiency programme and a £21 million provision in respect of the integration of Chartered Trust. See "Unusual items—Exceptional restructuring costs". Administrative expenses in 2000 increased by £238 million, or 8 per cent, to £3,378 million of which £69 million was attributable to the post-acquisition costs of Scottish Widows and Chartered Trust. The remaining increase was due to the investment that Lloyds TSB Group has made in e-commerce, wealth management and customer relationship management programmes which added £180 million to the cost base. This was reflected in increased staff costs, advertising and promotional expenditure and consultancy fees. Depreciation in 2000 increased by £99 million, of which £37 million related to the depreciation in Chartered Trust following its acquisition. The remainder of the increase was due to the growth during the year in operating lease assets which accounted for £21 million of the increase and significant capital expenditure incurred in the second half of 1999 on new computer equipment.

Goodwill amortisation increased by £10 million following the acquisition of Chartered Trust. The goodwill arising upon the acquisition of Scottish Widows amounting to £1,870 million is not being amortised because, in the opinion of the directors, it has an indefinite useful life.

The efficiency ratio in 2000 was 46.4 per cent compared to 42.8 per cent in 1999.

1999 compared with 1998

Operating expenses in 1999 fell by £87 million, or 2 per cent, compared with 1998, which included an exceptional restructuring charge of £38 million relating to the integration of Countrywide Banking Corporation in New Zealand. Administrative expenses fell by £72 million. Premises costs decreased by £20 million mainly reflecting a reduction in the number of branch properties and revisions to business and property tax rates. Staff costs fell by £19 million reflecting the benefit of headcount reductions and lower severance costs within the UK businesses and advertising expenditure was reduced by £15 million. Lloyds TSB Group's estate agency chain, Black Horse Agencies, contributed £27 million of costs in 1998 prior to its disposal. These factors more than compensated for a £34 million increase in data processing costs following the transfer of Lloyds TSB Group's ATMs to the LINK network and the upgrading of personal computer equipment used within the branch network.

Depreciation in 1999 increased by £15 million mainly due to increased levels of operating lease assets and goodwill amortisation increased by £8 million, reflecting the inclusion of a full year's charge in respect of the goodwill arising on the acquisition of Countrywide Banking Corporation.

The efficiency ratio improved to 42.8 per cent from 48.8 per cent in 1998.

Charge for bad and doubtful debts

	2000 £m	**1999 £m**	**1998 £m**
Domestic	426	500	363
International	115	115	192
Total charge	541	615	555
Specific provisions	547	615	562
General provisions	(6)	-	(7)
Total charge	541	615	555
Charge as % of average lending:	%	%	%
Domestic	0.45	0.57	0.45
International	0.80	0.84	1.71
Total charge	0.50	0.61	0.60

2000 compared with 1999

The total charge for bad and doubtful debts in 2000 decreased by 12 per cent to £541 million. The charge attributable to Lloyds TSB Group's UK operations decreased to £426 million in 2000 from £500 million in 1999 largely due to the continuing benign economic conditions which led to a revision to expected loss rates within the personal lending and card portfolios and a one-off benefit of £42 million arising from a change in methodology in 2000 for retail provisioning to recognise more accurately the amount that Lloyds TSB Group expects to recover. Previously, personal loans transferred to recovery departments were provided against in full and recoveries credited to the profit and loss account when made. Under the revised methodology, provisions are made to write the debt down to its estimated ultimate recoverable value. Recoveries are initially credited against the balance sheet carrying value of the debt and thereafter, to the profit and loss account. This one-off benefit will not be repeated in 2001.

Provisions overseas were unchanged at £115 million. A £14 million reduction in provisions in Colombia as the economy started to recover from the recessionary conditions of the previous year, together with a £14 million increase in recoveries from the provisions held against the emerging markets medium-term debt portfolio, offset a £25 million increase in provisions in Argentina following a further deterioration in the economic environment.

1999 compared with 1998

The total charge for bad and doubtful debts in 1999 increased to £615 million from £555 million in 1998. The charge for bad and doubtful debts attributable to Lloyds TSB Group's UK operations increased to £500 million in 1999 from £363 million in 1998, largely due to a deterioration at the beginning of 1999 in the levels of arrears in the personal lending and credit card portfolios which resulted in an increase of £118 million in the charge. There was also a £23 million increase in the provisions made by Lloyds TSB Group's asset finance business, Lloyds UDT, due to a higher level of delinquencies and the decline in the residual value of second-hand cars and a £25 million charge in respect of one large corporate customer. These factors more than offset a £27 million reduction in the provisions made in the Mortgages business as favourable movements in the house price index improved the value of the security held.

Provisions overseas decreased from £192 million to £115 million in 1999, mainly as a result of a £110 million reduction in the provisions charge from the Losango consumer finance business in Brazil due to improvements in credit processes which more than offset a £16 million increase in provisions in Colombia and a £9 million increase in provisions in Argentina as the economies of both these countries experienced recessionary conditions. Lloyds TSB Group's charge for bad and doubtful debts, expressed as a percentage of average lending, was 0.61 per cent in 1999 compared to 0.60 per cent in 1998.

Taxation

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

	2000 £m	**1999 £m**	**1998 £m**
UK corporation tax			
Current tax on profits for the year	941	767	692
Adjustments in respect of prior years	3	21	9
	944	788	701
Double taxation relief	(72)	(45)	(39)
	872	743	662
Foreign tax			
Current tax on profits for the year	137	110	81
Adjustments in respect of prior years	(5)	8	29
	132	118	110
Current tax charge	1,004	861	772
Deferred tax	100	245	116
Associated undertakings and joint ventures	1	5	6
Total charge	1,105	1,111	894

2000 compared with 1999

The effective rate of tax in 2000 was 28.6 per cent, compared with 30.4 per cent in 1999. These rates compare with an average UK corporation tax rate for 2000 of 30 per cent and 30.25 per cent in 1999. The lower effective rate of tax in 2000 is largely due to tax relief on payments to the Lloyds TSB qualifying employee share ownership trust to satisfy Save As You Earn options which reduced the effective rate by 1.0 per cent, and gains on disposals of investments sheltered by capital losses which reduced the effective rate by 0.4 per cent. See Note 10 to the Consolidated Financial Statements.

1999 compared with 1998

The effective rate of tax in 1999 was 30.4 per cent compared with 29.3 per cent in 1998. These rates compare with an average UK corporation tax rate for 1999 of 30.25 per cent and 31.0 per cent in 1998. The higher effective rate of tax in 1999 reflects a combination of factors, which reduced the effective rate of tax in 1998, including the absence of a tax charge on the profit on the sale of businesses as a result of the utilisation of tax losses brought forward which reduced the effective rate of tax in 1998 by 1.1 per cent and a reduction in the deferred tax liability associated with the write-down of finance leases as a result of the reduction in the corporation tax rate, which reduced the effective rate of tax in 1998 by 0.7 per cent. See Note 10 to the Consolidated Financial Statements.

Economic profit

In pursuit of our aim to maximise shareholder value over time, management has for the last ten years used a system of value based management as a framework to identify and measure value creation. Management uses economic profit as a measure of performance because it captures both growth in investment and return. Lloyds TSB Group defines economic profit as the earnings on the equity invested in the business less a notional charge for the cost of the equity invested in that business.

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

Management only changes its estimates of the cost of equity to reflect significant changes in long-term interest rates and other external market factors which are considered sustainable. The principal factor in estimating the cost of equity is sustainable long-term interest rates. If long-term interest rates increase, management will consider raising its estimate of the cost of equity; if long-term interest rates fall, management will consider reducing its estimate of the cost of equity. The principal other external market factors considered are equity risk premium and Lloyds TSB Group's share price volatility relative to the UK stock market as a whole. Any change to the cost of equity will be disclosed. For 2000, management used a cost of equity of 9 per cent (1999: 9 per cent, 1998: 10 per cent) to reflect the shareholders' minimum required rate of return on equity invested.

The table below summarises our calculation of economic profit for the periods indicated.

	2000 £m	1999 £m	1998 £m
Average shareholders' equity	9,638	8,468	7,222
Profit attributable to shareholders	2,706	2,539	2,146
Less: notional charge	(867)	(762)	(722)
Economic profit	1,839	1,777	1,424

The notional charge has been calculated by multiplying average shareholders' equity by the cost of equity.

2000 compared with 1999

Economic profit rose by £62 million, or 3 per cent, to £1,839 million from £1,777 million in 1999. Profit attributable to shareholders increased by 7 per cent to £2,706 million but this was partly offset by a higher notional charge on equity resulting from a 14 per cent increase in average equity to £9,638 million.

1999 compared with 1998

Economic profit rose by £353 million, or 25 per cent, to £1,777 million from £1,424 million in 1998. Profit attributable to shareholders increased by 18 per cent to £2,539 million whilst the notional charge on equity increased by only 6 per cent partly as a result of a reduction, reflecting lower long-term interest rates, in the cost of equity from 10 per cent in 1998 to 9 per cent in 1999.

Line of business information

Management analyses the contribution of each line of business to Lloyds TSB Group's overall profit attributable to shareholders and economic profit after adjusting for certain items which either are not expected to recur or which are unusual in nature, thereby hindering management's analysis of trends. Those items, which had a significant impact on Lloyds TSB Group's 2000 results, were:

- short-term fluctuations in investment returns;
- changes in the economic assumptions applied to our long-term assurance business;
- restructuring costs;
- the provision for redress to past purchasers of pension policies; and
- a charge relating to stakeholder pensions.

In 1999 and 1998, the profits and losses arising on the sale and closure of businesses were also significant items. In addition, in 1998 a provision was made for liabilities under certain products with guaranteed annuity options.

Each of these items is discussed later under "—Unusual items" and is set out separately in the following table:

Summary

	2000 £m	1999 £m	1998 £m
UK Retail Banking and Mortgages	1,682	1,657	1,472
Insurance and Investments	1,447	873	847
Wholesale Markets and International Banking	1,224	1,207	1,073
Central group items	(133)	119	-
Contribution	4,220	3,856	3,392
Unusual items:			
Short-term fluctuations in investment returns	(119)	28	6
Changes in economic assumptions	127	-	123
Exceptional restructuring costs	(188)	-	(38)
Provisions for redress to past purchasers of pension policies	(100)	(102)	(400)
Stakeholder pension related charge	(80)	-	-
Guaranteed annuity provisions	-	-	(114)
(Loss)/profit on sale and closure of businesses	-	(126)	84
Profit before tax	3,860	3,656	3,053

Figures for 1999 and 1998 have been restated to take account of a number of organisational changes and changes in internal cost allocation made in 2000.

In the analysis that follows, contribution is defined as profit before tax before taking into account the unusual items set out under "—Unusual items".

UK Retail Banking and Mortgages

The UK retail businesses of Lloyds TSB Group provide banking and financial services to personal and small business customers, private banking and stockbroking. Lloyds TSB Group's UK mortgage business is conducted through Cheltenham & Gloucester, Lloyds TSB Bank, Lloyds TSB Scotland and Scottish Widows Bank.

	2000 £m	1999 £m	1998 £m
Net interest income	2,962	2,943	2,711
Other income	1,141	1,087	1,031
Total income	4,103	4,030	3,742
Operating expenses	(2,091)	(1,951)	(1,937)
Trading surplus	2,012	2,079	1,805
Provisions for bad and doubtful debts	(332)	(425)	(336)
Income from associated undertakings and joint ventures	2	3	3
Contribution	1,682	1,657	1,472
Unusual items:			
Exceptional restructuring costs	(99)	-	-
Profit before tax	1,583	1,657	1,472
Efficiency ratio	51.0%	48.4%	51.8%
Total assets (year-end)	£71,292m	£64,346m	£60,643m
Total risk-weighted assets (year-end)	£44,009m	£39,703m	£38,006m

2000 compared to 1999

The contribution, calculated as explained under "—Line of business information—Summary", from UK Retail Banking and Mortgages in 2000 rose by £25 million, or 2 per cent, to £1,682 million.

Total income in 2000 increased by £73 million, or 2 per cent, to £4,103 million. Net interest income increased by £19 million, or 1 per cent, to £2,962 million due to a combination of two factors.

Growth in lending and deposit balances increased net interest income by £208 million. Personal lending and credit card balances increased by 9 per cent since the end of 1999 and savings and investment products grew by 10 per cent over the same period; lending to small and medium-sized businesses increased by 13 per cent during 2000 and there was a 14 per cent increase in customer deposits. Despite competitive market conditions, Lloyds TSB Group increased its market share of residential mortgages. Gross new lending increased by 7 per cent to £11,518 million compared with £10,710 million in 1999, and net new lending was £4,627 million compared to £2,791 million in 1999, representing a market share of 11.4 per cent. Mortgages outstanding at the end of 2000 amounted to £52,659 million compared to £47,451 million at the end of 1999, an estimated market share of 9.8 per cent.

The benefit of this balance sheet growth was largely offset by significant erosion in the net interest margin. The net interest margin fell by 32 basis points with reductions in most areas; the mortgage margin fell 23 basis points and the margin for retail lending products was 74 basis points lower largely reflecting the competitive market conditions. Retail deposit margins also fell as there was a continuing switch to higher rate products. The effect of the lower margins has been to reduce net interest income by £189 million.

Other income in 2000 increased by £54 million, or 5 per cent, to £1,141 million. There was a £13 million increase in loan arrangement fees, reflecting lending growth and a revised charging structure introduced in the second half of the year and income from credit and debit cards increased by £18 million principally due to increases in late payment charges and merchant commissions. Fees from Lloyds TSB Group's Added Value current accounts improved by £17 million, net of package costs, as a result of volume growth. ATM charges grew by £16 million following their introduction in late 1999, although these have subsequently been withdrawn. Private banking and stockbroking income increased by £14 million as a result of higher transaction volumes. However, unauthorised overdraft fees fell by £31 million following their withdrawal for certain customers and the benefit of a £6 million increase in mortgage application fees, reflecting the growth in volumes in this business, was offset by a £1 million increase in legal fees incurred setting up the mortgage and not recharged to customers as part of a marketing initiative and the introduction of payments to intermediaries to encourage them to introduce new business to Lloyds TSB Group, which resulted in additional costs of £2 million.

Operating expenses in 2000 increased by £140 million, or 7 per cent. The efficiency ratio increased from 48.4 per cent in 1999 to 51.0 per cent in 2000. The increase in expenses was largely attributable to revenue investment in developing e-commerce, wealth management and customer relationship management programmes, resulting in additional costs of approximately £100 million. Outside of these growth businesses there was an increase in staff costs; although there was a reduction in headcount, this was mainly due to the outsourcing of Lloyds TSB Group's clearing operations in December 2000 and therefore the benefit has yet to appear in the profit and loss account. There was also an increase in depreciation of approximately £30 million as a result of significant capital expenditure on new computer equipment for the branch network in the second half of 1999.

Provisions for bad and doubtful debts in 2000 fell by £93 million, or 22 per cent, to £332 million. This was principally a result of a reduction of £83 million in the charge against the personal lending and credit card portfolios reflecting the continuing benign economic conditions which led to a revision to anticipated loss rates and a one-off benefit of £42 million arising from a change in methodology in 2000, not to be repeated in 2001, for retail provisioning to recognise more accurately the amount that Lloyds TSB Group expects to recover. There was a net release of provisions held against the mortgage portfolio totalling £13 million reflecting growth in residential house prices which has led to an increase in the value of the security held.

1999 compared to 1998

The contribution from UK Retail Banking and Mortgages rose by £185 million, or 13 per cent, to £1,657 million in 1999.

Total income in 1999 increased by £288 million, or 8 per cent, to £4,030 million. Net interest income increased by £232 million or 9 per cent benefiting from both increases in volumes, which added £165 million to net interest income, and improvements in the margin, which added £67 million to net interest income. Personal lending and credit card balances increased by 10 per cent and balances on current accounts and savings and investment accounts also grew by 10 per cent, supported by the launch of a number of new products.

In the mortgage market competition for business increased significantly as traditional lenders and new entrants competed aggressively for market share. In the face of this aggressive competition, Cheltenham & Gloucester was able to achieve an estimated market share of net new lending of 7.5 per cent whilst improving the margin earned. Gross new lending was £10,710 million compared to £9,325 million in 1998, and net new lending was £2,791 million compared to £2,912 million in 1998. Mortgages outstanding at the end of 1999 amounted to £47,451 million, compared to £44,660 million at the end of 1998, an estimated market share of 9.5 per cent.

The net interest margin increased by 12 basis points with improvements across most lending products. The mortgage margin increased by 19 basis points as changes in the mortgage rate lagged UK base rate changes in the early part of 1999 and the margin on credit card balances improved by 52 basis points. The margin on personal loans fell by 8 basis points. Retail deposit margins were little changed as benefits derived from the fall in base rates were offset by continued switching to higher rate products.

Other income in 1999 increased by £56 million, or 5 per cent, to £1,087 million. Current account income grew by £40 million, as a result of an increase in the number of fee-based Added Value current accounts, which resulted in a £14 million increase in income, and a revised tariff structure introduced in the second half of 1998 which overall resulted in a £19 million increase in charges made to personal customers. There was a £20 million increase in private banking and stockbroking income as a result of favourable equity markets movements and there was also an £18 million increase in mortgage related fees following the introduction of application fees on variable rate mortgages. These factors have more than offset the impact of the sale of Lloyds TSB Group's estate agencies in 1998, which contributed £24 million of income before their sale.

Operating expenses increased by £14 million, or 1 per cent, to £1,951 million. A £34 million increase in data processing expenditure following the transfer of Lloyds TSB Group's ATMs to the LINK network and the cost of upgrading personal computer equipment used within the branch network more than offset the impact of the sale of the estate agency business, which accounted for £27 million of costs in 1998. The benefit of headcount reductions was largely offset by the effects of the annual pay review.

Provisions for bad and doubtful debts increased by £89 million, or 26 per cent. Provisions against the personal lending and card portfolios increased by £118 million following a deterioration in the level of arrears at the beginning of 1999; this more than offset a reduction of £27 million in the provisions charge against the mortgages portfolio as favourable movements in the house price index improved the value of the security held.

Insurance and Investments

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

	2000 £m	1999 £m	1998 £m
Contribution by area of business			
Life and pensions (including unit trusts)			
Scottish Widows	393	-	-
Lloyds TSB bancassurance	259	234	214
Abbey Life	164	156	198
	816	390	412
General Insurance	591	461	418
	1,407	851	830
Scottish Widows Investment Partnership			
Scottish Widows	10	-	-
Hill Samuel Asset Management	30	22	17
	40	22	17
Contribution	1,447	873	847
Unusual items:			
Short-term fluctuations in investment returns	(119)	28	6
Changes in economic assumptions	127	-	123
Exceptional restructuring costs	(59)	-	-
Provisions for redress to past purchasers of pension policies	(100)	(102)	(400)
Stakeholder pension related charge	(80)	-	-
Guaranteed annuity provisions	-	-	(114)
Profit before tax	1,216	799	462

In the analysis set out above, the contribution, calculated as explained under "—Line of business information—Summary", from the Scottish Widows business acquired during 2000 is shown separately to facilitate comparison of the results with earlier years, although the Lloyds TSB bancassurance and the Hill Samuel Asset Management businesses have now been integrated into Scottish Widows' operations.

2000 compared to 1999

The contribution from Insurance and Investments in 2000 increased by 66 per cent to £1,447 million from £873 million in 1999, largely as a result of the inclusion, since 3 March 2000, of Scottish Widows. Since that date, Scottish Widows contributed pre-tax profits of £403 million, before funding costs of £258 million.

The contribution from the life and pensions business in 2000 increased by £426 million to £816 million with Scottish Widows contributing £393 million of this increase. Weighted sales (regular premiums plus one-tenth of single premiums) of life, pensions and unit trusts increased by 40 per cent as the sale, on 1 February 2000, of the new business capability of Abbey Life was more than offset by the inclusion, from 3 March 2000, of Scottish Widows. See "—Line of business information—Life and pensions (including unit trusts)".

The contribution from general insurance operations in 2000 rose by £130 million, or 28 per cent, to £591 million. Increased sales volumes, particularly of creditor insurance products following the outsourcing of the portfolio and higher retrospective commissions led to a £71 million increase in profits from broking activities. Retrospective commissions are a form of profit sharing arrangement between the broking operation and an external underwriter. The profits earned by the underwriter are shared with the broker on the basis of a pre-determined formula. Underwriting profits were

£59 million higher, helped by a £27 million reduction in claims costs. See "—Line of business information—General insurance".

The merger of Scottish Widows Investment Management and Hill Samuel Asset Management was completed on 30 June 2000, and the enlarged asset management operation was launched under a new brand, Scottish Widows Investment Partnership. The acquisition of Scottish Widows and the subsequent creation of Scottish Widows Investment Partnership, with approximately £87,000 million of funds under management, has enabled Lloyds TSB Group to become a leading player in the UK asset management business. The contribution from Lloyds TSB Group's investment management activities in 2000 was £40 million, up 82 per cent from £22 million in 1999, largely as a result of the inclusion of the Scottish Widows investment management business, which contributed £10 million in 2000.

1999 compared to 1998

The contribution from Insurance and Investments increased by 3 per cent in 1999 to £873 million from £847 million.

The contribution from the life and pensions business in 1999 fell by £22 million to £390 million. Weighted sales increased by 11 per cent with particular growth in sales of unit trusts and single premium pension products, however this was not reflected in an increased contribution. The contribution in 1999 was adversely affected by the reduction in the risk discount rate used in the calculation of the embedded value result at the end of 1998, which had the effect of reducing the earnings from existing business in 1999 by £19 million. In addition, the 1998 results benefited from a one-off credit of £12 million due to the harmonisation of actuarial bases following the merger of the Hill Samuel and Abbey Life long-term assurance funds. See "—Line of business information—Life and pensions (including unit trusts)".

The contribution from the general insurance business in 1999 increased by £43 million to £461 million. There were increased contributions from both the broking and the underwriting businesses reflecting increased income from creditor insurance as a result of higher personal sector loan values and higher sales of business loan protection. See "—Line of business information—General insurance".

Hill Samuel Asset Management experienced good income growth, with profits increasing to £22 million in 1999 from £17 million in 1998, largely as a result of a buoyant equity market but also from a number of new external business mandates gained. Hill Samuel Asset Management also took over from Abbey Life Investment Services the responsibility for the investment management of Abbey Life's 70 funds and unit trusts with funds under management of approximately £12,000 million, previously managed by Abbey Life Investment Services. Funds under management in Hill Samuel Asset Management were approximately £57,000 million at 31 December 1999, up 16 per cent from approximately £49,000 million for the combined business at the end of 1998.

Life and pensions (including unit trusts)

The results of the life, pensions and unit trust businesses are analysed in the following table. The basis of this analysis is as follows:

The life and pensions results are split into four elements:

- New business (the profit generated by new policies written in the year. This is shown before the significant costs of acquiring that new business, which are shown separately as 'Distribution costs').

- Existing business (the profit generated by policies in force at the start of the year from the unwinding of the risk discount rate applied in the embedded value calculation. This will also take into account premium inflows, claims experience, ongoing maintenance costs and the impact of changes in the expected future cash flows arising from this business on the embedded value calculation).

- Investment earnings (earnings on investments backing the reserves of the life companies).

- Distribution costs (the significant costs of acquiring the new business generated in the year are shown separately. These comprise the cost of selling products through Lloyds TSB Bank's branch network, the commissions paid to independent financial advisers and the costs of other direct sales channels).

Unit trust income is shown before the acquisition costs of new business which are separately disclosed.

	2000 £m	1999 £m	1998 £m
New business	281	134	123
Existing business	500	260	299
Investment earnings	212	38	35
Life and pensions distribution costs	(225)	(99)	(87)
	768	333	370
Unit trusts	157	138	105
Unit trust distribution costs	(109)	(81)	(63)
	48	57	42
Contribution of life and pensions (including unit trusts)	816	390	412
Contribution of asset management	40	22	17
Unusual items:			
Short-term fluctuations in investment returns	(92)	6	3
Changes in economic assumptions	127	-	123
Exceptional restructuring costs	(59)	-	-
Provisions for redress to past purchasers of pension policies	(100)	(102)	(400)
Stakeholder pension related charge	(80)	-	-
Guaranteed annuity provision	-	-	(114)
Profit before tax	652	316	41

The table below shows the level of new business premium income and unit trust sales. Management monitor these figures because they provide an indication of both the rate of growth and the profitability of the business.

	2000 £m	1999 £m	1998 £m
New business premium income and unit trust sales:			
Regular premiums	156.9	129.4	143.5
Single premiums	2,376.1	796.7	730.3
Unit trusts	1,993.3	1,770.2	1,278.3

Weighted sales is a U.K. insurance industry standard which measures the new business volumes; the weighting is made towards regular premium policies to reflect the long-term nature of these contracts. There are three main distribution channels for the sale of Lloyds TSB Group's life, pension and unit trust products and the table below shows the relative importance of each.

	2000 £m	1999 £m	1998 £m
Weighted sales (regular + 1/10 single) by distribution channel:			
Branch network	353.3	355.2	307.8
Independent financial advisers	253.0	92.8	94.6
Direct	69.5	9.3	7.8
	675.8	457.3	410.2

2000 compared to 1999

The contribution, calculated as explained under "—Line of business information—Summary", of Lloyds TSB Group's life, pensions and unit trusts businesses in 2000 was £426 million higher at £816 million, compared to £390 million in 1999; these results were significantly affected by Lloyds TSB Group's acquisition of Scottish Widows, which was effective 3 March 2000.

In 2000, new business profits increased by £147 million of which £154 million was due to the acquisition of Scottish Widows. Excluding the impact of Scottish Widows new business profits were down £7 million as a result of the sale of the new business capability of Abbey Life at the beginning of 2000; Abbey Life contributed £11 million of new business profits in 1999. New business profits of the existing Lloyds TSB bancassurance business were £4 million higher at £127 million. Weighted sales through the branch network were little changed from 1999, as considerable time was spent training sales staff on the newly introduced Scottish Widows product line. However, wider product margins produced a 3 per cent increase in new business profits.

Profits from existing business were £240 million higher at £500 million in 2000, and Scottish Widows contributed £182 million of this increase. Excluding the impact of Scottish Widows, existing business profits were up £58 million. Existing business profits at Abbey Life were little changed from 1999 but those in the Lloyds TSB bancassurance business rose by £56 million as a result of the growth in the size of the business and following changes in the underlying actuarial assumptions, and some tax related adjustments.

Regular premium sales in 2000 increased by £27.5 million largely reflecting two factors. The acquisition of Scottish Widows resulted in an increase of £89.0 million which more than offset the effect of a decrease in sales of £51.8 million caused by the sale of the new business capability of Abbey Life at the beginning of 2000. Sales in the Lloyds TSB bancassurance business were down £9.7 million at £64.6 million principally as a result of the withdrawal of the endowment mortgage product.

Single premium sales rose £1,579.4 million in 2000, with Scottish Widows contributing £1,572.8 million which more than offset a reduction in sales of £264.4 million at Abbey Life following the sale of the new business capability. Sales in the Lloyds TSB bancassurance single premium business grew following the introduction of a new with-profits bond. With-profits bonds comprise a lump-sum investment into a with-profits fund of a life insurance company. With-profit bonds are designed to be low risk investments which produce growth and allow the investor to take out money when needed. The overall return on the investment varies based on the annual bonuses declared by the life insurance company each year, which in turn will depend upon the performance of its investments.

Investment earnings in 2000, before taking into account short-term fluctuations in investment returns (see "—Short-term fluctuations in investment returns"), increased by £174 million, although excluding Scottish Widows the increase was £17 million. Investment earnings in the Lloyds TSB bancassurance business were £2 million lower than in 1999, but those at Abbey Life rose £19 million reflecting the benefit of the additional funds retained to match annuity liabilities and the higher surplus released following the cessation of new business.

Distribution costs in 2000 were £126 million higher at £225 million, although excluding Scottish Widows the increase was £19 million, reflecting the increased cost of branch network sales.

Unit trust profits were down £9 million at £48 million; down £16 million excluding Scottish Widows. Profits at Abbey Life were unchanged from 1999, but those in the Lloyds TSB bancassurance business were down £16 million reflecting a 7 per cent reduction in sales volumes and the increased costs of branch network sales.

Excluding the impact of the acquisition of Scottish Widows, unit trust sales fell by £276.5 million. Sales in the Lloyds TSB bancassurance business fell as a result of the focus of customers' interest on the new with-profits bond product and the fact that sales in 1999 had been high due to the impact of changes to government tax legislation which withdrew Personal Equity Plans (PEPs) and introduced Individual Savings Accounts (ISAs) with effect from 6 April 1999. These are both tax efficient savings schemes however the maximum unit trust investment was reduced from

£9,000 to £7,000. The impact of these tax changes resulted in an increase in unit trust sales in 1999, prior to the reduction in the investment limits.

1999 compared to 1998

The contribution of Lloyds TSB Group's life, pensions and unit trusts businesses in 1999 was £22 million lower at £390 million, compared to £412 million in 1998.

The long-term assurance business attributable to shareholders is calculated using a series of economic assumptions which are reviewed periodically, and changed where necessary, to ensure that they remain appropriate in the context of forecast long-term economic trends and changes in the nature of the business being entered into. A reduction in the discount rate in any one year results in an increase in the profits recognised on new business in that year but a reduction in the profits recognised on those policies in subsequent years. The change in the discount rate in 1998 therefore impacted the pattern of profit emergence in 1999.

New business profits in 1999 increased by £11 million; the use of a lower discount rate in 1999 had a favourable impact on new business earnings and there was an improvement in product margins, but this was partly offset by the impact of reduced regular premium sales at Abbey Life. Existing business profits in 1999 fell £39 million to £260 million partly as a result of the reduction in discount rate at the end of 1998 which reduced profits by £19 million. Existing business profits in 1998 included a £12 million benefit from the harmonisation of actuarial bases following the merger of the Hill Samuel and Abbey Life long-term assurance funds.

Regular premium sales in 1999 were £14.1 million lower at £129.4 million, largely as a result of uncertainty in the market about government proposals for stakeholder pensions coupled with market sentiment turning against endowment mortgages. Single premium sales in 1999 rose £66.4 million to £796.7 million, with single premium life sales increasing at Abbey Life following the relaunch of their bond product and pension sales benefiting from the receipt of delayed rebates from the UK government in respect of those policyholders opting out of a UK government pension scheme.

Investment earnings in 1999, before taking into account short-term fluctuations in investment returns (see "—Short-term fluctuations in investment returns"), were £3 million higher and distribution costs rose £12 million.

Unit trusts profits in 1999 rose £33 million, as a result of the increased level of sales in 1999, although this was partly offset by a corresponding increase of £18 million in distribution costs. Weighted unit trust sales, grew by £54.6 million or 28 per cent as a result of increased publicity relating to Personal Equity Plans (PEPs) before their abolition in April 1999 and the successful launch of the new Individual Savings Account (ISA) product replacing PEPs.

General Insurance

The following table shows premium income from underwriting and commission income from insurance broking.

	2000 £m	1999 £m	1998 £m
Premium income from underwriting			
Creditor	126	136	110
Home	228	203	178
Health	50	55	49
Other	-	1	2
Reinsurance premiums	(5)	(5)	(4)
	399	390	335
Commissions from insurance broking			
Creditor	225	175	137
Home	34	35	38
Health	19	21	24
Other	120	96	97
	398	327	296
Contribution	591	461	418
Unusual items:			
Short-term fluctuations in investment returns	(27)	22	3
Profit before tax	564	483	421

2000 compared to 1999

The contribution, calculated as explained under "—Line of business information—Summary", from general insurance operations, comprising underwriting and broking, rose by £130 million, or 28 per cent, to £591 million in 2000.

The contribution from the underwriting business in 2000 increased by £59 million to £234 million. Premium income increased by £9 million, or 2 per cent, as a £25 million growth in income from home insurance policies more than offset a £10 million fall in creditor protection premiums as a result of the transfer of the card protection book to Norwich Union in the second half of 2000. Sales of home insurance policies increased by 10 per cent, with strong growth in both branch network and direct sales. Overall new business sales in 2000 were over 2.4 million, 14 per cent higher than in 1999, of which over 900,000 were home insurance policies.

Investment income in 2000, before taking into account short-term fluctuations in investment returns (see "Short-term fluctuations in investment returns"), increased by £12 million reflecting the growth in the size of the portfolio and expenses were largely unchanged. General insurance claims were £27 million lower benefiting from lower levels of unemployment, resulting in a lower level of claims on loan protection policies, and a reduction in general household perils, particularly theft. The overall claims ratio, calculated as being claims as a proportion of premium income, was 35.1 per cent compared to 42.8 per cent in 1999.

Profit from the broking business increased by £71 million to £357 million. Broking commission income increased by £71 million. There was a £19 million increase in card protection income following the transfer of the book to Norwich Union. Card protection insurance is a product which insures the repayment of an outstanding balance on the insured credit card where payments are unable to be met due to sickness or unemployment. The underwriting margins on card protection business are small and as a result, in the first half of 2000, the Lloyds TSB Group took the decision that in future it would only act as broker and no longer underwrite this business. Responsibility for managing the in-force portfolio was transferred to Norwich Union, a major UK provider of similar protection products. All premiums earned and claims recognised up until the date of transfer were accounted for by the Lloyds TSB Group; following the transfer all premiums and claims were accounted for by Norwich Union. No profit or loss was recognised in the Lloyds TSB Group's accounts as a result of this transfer. Loan protection income increased by £18 million reflecting increased sales volumes and retrospective commissions which are based on the performance of the policies sold grew by £23 million. Operating expenses were largely unchanged.

1999 compared to 1998

The contribution from general insurance operations rose by £43 million, or 10 per cent, to £461 million in 1999.

The contribution from the underwriting business in 1999 was largely unchanged at £175 million. Premium income increased by £55 million or 16 per cent reflecting the success of Lloyds TSB Group's new loan protection product launched in 1998, which resulted in a £23 million increase in premium income, and buildings and contents insurance products, which resulted in a £25 million increase in premium income. Sales of regular premium household insurance policies by branches increased by 53 per cent and direct sales increased by 34 per cent.

Investment income in 1999, before taking into account short-term fluctuations in investment returns (see "—Short-term fluctuations in investment returns"), was largely unchanged although administrative expenses increased by £11 million, reflecting both the increase in business volumes and a one-off charge to write-off deferred expenses no longer considered recoverable. General insurance claims were £23 million higher reflecting both the increase in business volumes and the fact that the charge in 1998 included the release of £11 million of provisions that were no longer required.

The contribution from the broking business in 1999 increased by £44 million to £286 million. Broking commission income increased by £31 million. Income from creditor insurance increased by £38 million, reflecting the success of the new loan protection product launched in 1998 more than offsetting a reduction of £3 million in income received in respect of home insurance, following a change in pricing policy, and a reduction of £3 million in income from health insurance as a result of lower volumes.

Wholesale Markets and International Banking

Lloyds TSB Group's Wholesale Markets and International Banking business comprises banking, treasury, large value lease finance, long-term agricultural finance, share registration, venture capital, factoring and invoice discounting, and other related services for major UK and multinational companies, banks and financial institutions, and medium-sized UK businesses, and Lloyds TSB Asset Finance. It also includes banking and financial services overseas in four main areas (the Americas, New Zealand, Europe, and Offshore Banking) and emerging markets debt.

	2000 £m	1999 £m	1998 £m
Net interest income	1,653	1,664	1,609
Other income	1,066	884	900
Total income	2,719	2,548	2,509
Operating expenses	(1,254)	(1,144)	(1,202)
Trading surplus	1,465	1,404	1,307
Provisions for bad and doubtful debts	(209)	(190)	(223)
Amounts written off fixed asset investments	(32)	(7)	(15)
Income from associated undertakings and joint ventures	-	-	4
Contribution	1,224	1,207	1,073
Unusual items:			
Exceptional restructuring costs	(30)	-	(38)
Profit before tax	1,194	1,207	1,035
Efficiency ratio	46.1%	44.9%	47.9%
Total assets (period-end)	£85,310m	£81,206m	£79,958m
Total risk-weighted assets (period-end)	£48,858m	£43,522m	£44,304m

2000 compared to 1999

The contribution, calculated as explained under "—Line of business information—Summary", from Wholesale Markets and International Banking in 2000 increased by £17 million, or 1 per cent, to £1,224 million from £1,207 million in 1999.

Total income increased by £171 million, or 7 per cent, to £2,719 million. Net interest income fell by £11 million to £1,653 million; the acquisition of Chartered Trust resulted in an additional £31 million of income, after funding costs, and therefore the underlying decrease was £42 million, or 3 per cent. Within the UK, net interest income from Lloyds TSB Group's Treasury operations fell by £31 million; the results in 1999 benefited from sterling and US dollar interest rate reductions whilst in 2000 a more stable interest rate environment and higher short dated funding costs resulted in a 16 basis point reduction in the margin. In Lloyds TSB Group's asset finance business, Lloyds UDT, lower new business volumes and significant margin erosion resulted in a £57 million fall in net interest income. However, in the Corporate and Commercial businesses higher volumes of both lending and deposits combined to produce a £30 million increase in net interest income.

Overseas, a 15 per cent increase in lending volumes by Lloyds TSB Group's consumer finance business in Brazil and a change in product mix resulting in an improvement in the net interest margin, led to a £27 million increase in net interest income. Net interest income grew by £13 million in New Zealand in local currency terms, largely due to a change in business mix resulting in an improvement in the margin, and by £17 million in the European and offshore banking operations. However, these factors were largely offset by adverse exchange rate movements of £15 million, principally in New Zealand, and lower income from Lloyds TSB Group's other activities in Brazil as volumes and margins have contracted resulting in a £16 million fall in revenues.

Other income increased by £182 million; the acquisition of Chartered Trust resulted in the inclusion of an additional £53 million and therefore the underlying increase was £129 million, or 15 per cent. Venture capital gains were

£21 million higher and increased volumes of operating leases resulted in a £36 million increase in rental income. Fee income from large corporate activity in the UK and overseas increased by £15 million as a result of higher transaction volumes and there was a £9 million increase in factoring income. Within Lloyds TSB Group's Treasury operations, dealing profits increased by £20 million largely as a result of increased levels of activity but also reflecting more favourable market conditions for foreign exchange operations following the introduction of the euro at the beginning of 1999. There was also a £15 million reduction in fees paid by Lloyds UDT because of lower transaction volumes. Fee income from Lloyds TSB Group's offshore and European private banking operations increased by £24 million, mainly due to higher transaction volumes in the strong equity markets, however this was offset by reductions in the Latin American operations, reflecting more competitive market conditions in Brazil and the contraction of the businesses in Argentina and Colombia.

Operating expenses increased by £110 million; the acquisition of Chartered Trust added £71 million and therefore the underlying increase was £39 million, or 3 per cent. In the UK, higher volumes of operating lease assets resulted in a £21 million increase in the depreciation charge and there was also a £10 million investment in a number of e-commerce initiatives. Overseas, costs were £12 million higher in the European and offshore banking operations as transaction volumes increased and £7 million higher in Brazil, mainly as a result of increased staff, data processing and telecommunications costs. However, costs in New Zealand were £14 million lower benefiting from the continuing synergies arising from the integration of Countrywide Banking Corporation.

The charge for provisions for bad and doubtful debts increased by £19 million; provisions made by Chartered Trust post-acquisition added £12 million and therefore the underlying increase was £7 million, or 4 per cent. Provisions were £14 million lower in Colombia as the economy started to recover from the recessionary conditions of the previous year and there were increased recoveries of £14 million from the provisions held against the emerging markets medium-term debt portfolio. However, the charge in Argentina increased by £25 million with the continuing effects of the recession impacting the level of both retail and corporate provisions and in the UK there was a £4 million increase in the provisions held against corporate and commercial exposures.

Amounts written off fixed asset investments increased to £32 million from £7 million as Lloyds TSB Group has expanded its venture capital investment portfolio in the UK and a provision of £18 million was required against part of the emerging market investment portfolio.

1999 compared to 1998

The contribution from Wholesale Markets and International Banking increased by £134 million, or 12 per cent, to £1,207 million.

Total income in 1999 increased by £39 million, or 2 per cent, to £2,548 million. Net interest income in 1999 increased by £55 million compared with 1998, although 1998 included a one-off charge of £32 million in respect of the write-down of finance lease receivables. The underlying increase in net interest income was therefore £23 million. Net interest income from Lloyds TSB Group's treasury operations increased by £39 million, mainly due to positioning within the sterling money market book to take advantage of interest rate reductions in the first half of the year. There was significant growth in term and money market lending to large corporates and although there was some reduction in the margin this resulted in a £10 million increase in net interest income. This was partially offset by a reduction of £8 million in the income from commercial banking, mainly due to the run-down of the recoveries portfolio, and a £7 million reduction in income from Lloyds TSB Group's asset finance business as a result of the increasingly difficult operating conditions. Overseas net interest income was £7 million lower. The effect of lower margins and volumes in the Losango consumer finance business in Brazil reduced net interest income by £42 million and adverse exchange rate movements, principally in Brazil, reduced net interest income by a further £111 million. These factors more than offset an increase of £50 million in New Zealand, as a result of the inclusion of Countrywide Banking Corporation for a full year, and an increase of £80 million from the corporate and treasury operations, in Brazil, where advantage was taken of widening credit spreads in the difficult economic conditions.

Other income fell by £16 million, or 2 per cent, to £884 million. Venture capital gains were £19 million lower and there was a reduction of £8 million in service charges earned from commercial customers reflecting increased price competition; this was partially offset by an increase of £14 million in income from corporate lending activity in the UK. Overseas, the adverse effect of exchange rate movements reduced income by £21 million and largely offset an improvement of £11million in New Zealand, following the acquisition of Countrywide Banking Corporation, and an improvement of £9 million in the offshore businesses reflecting higher transaction volumes.

Operating expenses in 1999 fell by £58 million, or 5 per cent, to £1,144 million although expenses in 1998 included £17 million of one-off severance and consultancy costs. In the UK, headcount reductions in Lloyds TSB Group's treasury and asset finance operations resulted in staff costs falling by £16 million; there were also savings of £17 million on money transmission costs and consultancy fees. Overseas, operating expenses were largely unchanged. The effect of movements in exchange rates which reduced costs by £52 million offset underlying cost increases in most areas. In New Zealand costs were £19 million higher reflecting the acquisition of Countrywide Banking Corporation in 1998. Expenses in Latin America were £18 million higher mainly due to increased salary and processing costs.

The charge for provisions for bad and doubtful debts in 1999 fell by £33 million, or 15 per cent, to £190 million. Provisions made against the Losango consumer finance lending portfolio reduced by £110 million due to a reduction in the size of the portfolio and improved credit processes. This reduction more than offset the effect of a £25 million increase in provisions in Argentina and Colombia as the economic conditions in those countries deteriorated. There was also a £23 million increase in the provisions made by Lloyds TSB Group's asset finance business in the UK due to a higher level of delinquencies and a decline in the residual value of second-hand cars. Provisions in the Corporate and Commercial businesses were also increased following a £25 million charge against one corporate customer.

Amounts written off fixed asset investments fell by £8 million to £7 million, largely because a £6 million provision made in New Zealand in 1998 against one investment was not repeated.

Central group items

Included within Central group items are the costs of Lloyds TSB Group support functions, the accrual for the annual payment to Lloyds TSB Foundations, the net earnings on that part of Lloyds TSB Group's capital base which is not required to support the operations of the business units and other items of income and expenditure managed centrally.

	2000 £m	**1999 £m**	**1998 £m**
Accrual for payment to Lloyds TSB Foundations	(34)	(31)	(27)
Earnings on excess capital, central costs and other unallocated items	(99)	150	27
Contribution	(133)	119	-
Unusual items:			
(Loss)/profit on sale and closure of businesses	-	(126)	84
Profit/(loss) before tax	(133)	(7)	84

2000 compared to 1999

The four independent Lloyds TSB Foundations support registered charities throughout the UK that enable people, particularly disabled and disadvantaged people, to play a fuller role in society. The Foundations receive one per cent of Lloyds TSB Group's pre-tax profit averaged over three years instead of the dividend on their shareholdings. The increased charge in 2000 is a reflection of the growth in Lloyds TSB Group's profit before tax. See "Description of Share Capital and Memorandum and Articles of Association—share capital" and Note 43 to the Consolidated Financial Statements.

The significant fall in the level of earnings on excess capital, central costs and other unallocated items in 2000 reflects the incorporation, for the first time, of the funding cost of the purchase of Scottish Widows. At the end of 2000 Lloyds TSB Group had little excess capital.

1999 compared to 1998

The increase in the accrual for payment to the Lloyds TSB Foundations reflects the growth in Lloyds TSB Group's pre-tax profits. The significant increase in the level of earnings on surplus capital, central costs and other unallocated items was due to the income that Lloyds TSB Group has been able to generate on the capital built up to fund the acquisition of Scottish Widows.

Unusual items

In this section of the Operating and Financial Review and Prospectus, Lloyds TSB Group discuss in detail certain items that had a significant impact on Lloyds TSB Group's results and which either are not expected to recur or which are unusual in nature, thereby hindering management's analysis of trends. In 2000, these unusual items were:

- short-term fluctuations in investment returns;
- changes in the economic assumptions applied to our long-term assurance business;
- restructuring costs;
- the provision for redress to past purchasers of pension policies; and
- a charge relating to stakeholder pensions.

In 1999 and 1998, the profits and losses arising on the sale and closure of businesses were also significant items. In addition, in 1998 a provision was made for liabilities under certain products with guaranteed annuity options.

	2000 £m	1999 £m	1998 £m
Short-term fluctuations in investment returns	(119)	28	6
Changes in economic assumptions	127	-	123
Exceptional restructuring costs	(188)	-	(38)
Provisions for redress to past purchasers of pension policies	(100)	(102)	(400)
Stakeholder pension related charge	(80)	-	-
Guaranteed annuity provision	-	-	(114)
(Loss)/profit on sale and closure of businesses	-	(126)	84

Short-term fluctuations in investment returns

In accordance with generally accepted accounting practice in the UK, it is Lloyds TSB Group's accounting policy to carry the investments backing the reserves held by its life companies at market value. These investments are substantial and changes in the market value result in significant volatility of Lloyds TSB Group's embedded value earnings. In order to facilitate management's analysis of the underlying performance of the life and pensions business the short-term fluctuations in investment returns have been separately identified by comparing actual investment performance with results calculated using longer-term rates of return. The longer-term rates of return are consistent with those used by Lloyds TSB Group in the calculation of embedded value at the beginning of the period. A similar approach has been adopted for Lloyds TSB Group's general insurance business. For more information concerning the longer-term rates of return used in Lloyds TSB Group's calculation of embedded value, see Note 32 to the Consolidated Financial Statements.

The acquisition of Scottish Widows in March 2000 resulted in a significant increase in the level of assets held by the life companies and as a consequence the short-term fluctuations in investment returns in 2000 were much larger than in either 1999 or 1998. In 2000, there were negative short-term fluctuations in investment returns of £119 million reflecting in particular the poor performance of the UK stock market, where the FTSE 100 index of shares fell by more than 10 per cent.

Changes in economic assumptions

The shareholders' interest in the long-term assurance business is calculated using a series of economic assumptions, which are reviewed periodically and changed when necessary to ensure that they remain appropriate in the context of forecast long-term economic trends and changes in the nature of the business being entered into. In 1998 the assumptions were changed to reflect the revised long-term economic outlook. The principal changes that were made were to reduce the risk-adjusted discount rate from 12.50 per cent to 10.00 per cent, reduce the assumed gross return on equities from 10.50 per cent to 8.50 per cent and reduce the assumed gross return on fixed interest securities from 7.50 per cent to 5.25 per cent. The assumed rate of inflation was also reduced from 5.00 per cent to 3.00 per cent. As a result of these changes a credit of £123 million was recognised in the profit and loss account.

Following the acquisition of Scottish Widows in March 2000, the economic assumptions were again reviewed to ensure that they remained appropriate for the enlarged life and pensions business. As a result of this review further changes were made to the assumptions used by Abbey Life and the bancassurance business of Lloyds TSB in order to make the assumptions used by these businesses consistent with those used by Scottish Widows. The risk adjusted discount rate was reduced from 10.00 per cent to 8.50 per cent and the assumed gross return on equities was reduced from 8.50 per cent to 8.00 per cent leading to a credit of £127 million being recognised in the profit and loss account.

Exceptional restructuring costs

In early 2000, Lloyds TSB Group announced that after a detailed review, additional opportunities had been identified to reduce the overall cost base. A centralised team was established to co-ordinate the efficiency programme and ensure that the cost savings identified during the planning phase are realised. The principal features of the efficiency programme, which is focussed on non customer-facing activities are:

- the centralisation of computer operations;
- the further consolidation of all Lloyds TSB Group's large scale processing operations and support functions including the complete removal of all back office processing from branches;
- the further streamlining of the branch network, combined with the expansion of lower cost delivery channels such as telephone banking and internet operations;
- the further reduction of Lloyds TSB Group's purchasing costs; and
- the rationalisation of non-personal banking activities, through the progressive sharing and consolidation of operational functions.

In 2000, Lloyds TSB Group incurred restructuring costs of £108 million in connection with the start of the efficiency programme, principally comprising severance and consultancy costs. During 2001, Lloyds TSB Group expect restructuring costs relating to the efficiency programme to be approximately £200 million, reducing to approximately £130 million in 2002 and £60 million in 2003. Annualised cost benefits resulting from these investments are expected to total £75 million in 2001 rising to £410 million in 2004.

Following the acquisition of Scottish Widows in March 2000, Lloyds TSB Group has been integrating Scottish Widows businesses with its existing insurance and investments activities. During 2000, costs of £59 million were incurred on this integration, principally relating to the launch of the Scottish Widows brand across the Lloyds TSB Group branch network and the related retraining of staff, the integration of Information Technology systems, consultancy costs and the costs of relocating Hill Samuel Asset Management from London to Edinburgh. During 2001, it is planned to relocate the majority of the existing Lloyds TSB Group life and pensions operations from Andover and Chatham to Edinburgh, to integrate and streamline investment administration operations and centralise all support services in Edinburgh.

Following the acquisition of Chartered Trust in September 2000, a provision of £21 million was established to cover the cost of integrating Chartered Trust Group plc and ACL Autolease Holdings Limited with the Lloyds UDT Group, the Lloyds TSB Group's existing consumer finance operations. As part of the integration it is proposed to relocate the finance function and certain other back office activities from Edinburgh to Cardiff and relocate the vehicle administration function from Harrogate to Birmingham. It is also proposed to rebrand the contract hire operations, Lloyds TSB Autolease, and the motor, caravan, motorcycle and personal lending operations, Black Horse Finance. It is anticipated that the integration will be completed in 2002.

Provisions for redress to past purchasers of pension policies

See "Business—Provisions for redress to past purchasers of pension policies".

Stakeholder pension related charge

During 1999, the UK government announced changes intended to encourage more of the population to provide retirement income for themselves through increased rates of private savings. One of these initiatives was the introduction of stakeholder pensions with effect from April 2001.

Stakeholder pensions are intended to provide a source of low cost retirement savings for individuals earning enough to be able to afford to make contributions towards a pension but not currently doing so. A key feature of these products is that charges are transparent and limited to 1 per cent per annum, which is significantly lower than historic charging rates on other personal pension products. In common with other pension providers in the UK, Scottish Widows introduced a stakeholder pension product in April 2001. In anticipation of this, in order not to disadvantage existing pensions customers, Lloyds TSB Group decided during 2000 to reduce charges made on certain existing policies. This had the effect of reducing the projected cash flows in Lloyds TSB Group's embedded value calculation, resulting in a charge of £80 million in the profit and loss account.

Guaranteed annuity provision

In 1998, a sharp drop in bond yields led to the need for a provision of £114 million within Abbey Life for liabilities under certain unit-linked products with guaranteed annuity options written between the mid-1960s and mid-1980s. See "Business—Guaranteed Annuity Options".

(Loss)/profit on sale and closure of businesses

In July 1999 Lloyds TSB Group announced its intention to withdraw from the global custody and unit trust trusteeship business. A provision of £28 million was made in the 1999 accounts for the expected operating losses to be incurred over the period that the business was to be run down and closed. In addition, in February 2000, Lloyds TSB Group sold the new business capability of Abbey Life for £100 million, of which £20 million is contingent upon the sales force achieving agreed sales targets over the two year period immediately following the sale. A provision of £98 million was made in the 1999 accounts for the expected loss on sale, including £80 million in respect of goodwill previously written off to reserves, and other asset write-offs.

In 1998 a profit of £84 million was made following the disposal of a number of businesses, principally International Factors Limited and Lloyds TSB Group's estate agency chain, Black Horse Agencies.

Results of operations—six months ended 30 June 2001 compared with six months ended 30 June 2000

Summary

	Half year to 30 June	
	2001 £m	**2000 £m**
Net interest income	2,382	2,311
Other income	2,000	1,984
Total income	4,382	4,295
Operating expenses	(2,133)	(1,876)
Trading surplus	2,249	2,419
General insurance claims	(77)	(71)
Provisions for bad and doubtful debts	(323)	(265)
Amounts written off fixed asset investments	(6)	(22)
Operating profit	1,843	2,061
Income from associated undertakings and joint ventures	(5)	3
Profit on ordinary activities before tax	1,838	2,064
Tax on profit on ordinary activities	(513)	(576)
Profit on ordinary activities after tax	1,325	1,488
Minority interests - equity	(7)	(6)
- non-equity	(26)	(16)
Profit attributable to shareholders	1,292	1,466
Economic profit	826	1,049

30 June 2001 compared with 30 June 2000

Profit on ordinary activities before tax fell by £226 million, or 11 per cent, to £1,838 million from £2,064 million in the first half of 2000. This was mainly as a result of an increase of £291 million in adverse short-term fluctuations in investment returns from the investments held to support Lloyds TSB Group’s insurance businesses caused by the overall fall in stockmarket values. Earnings per share decreased by 13 per cent to 23.4p, shareholders’ equity increased by 9 per cent and the post-tax return on average shareholders’ equity was 25.0 per cent.

Total income grew by £87 million, or 2 per cent, from £4,295 million in the first half of 2000 to £4,382 million in the first half of 2001. Net interest income rose by £71 million, or 3 per cent, to £2,382 million. The Scottish Widows acquisition was completed on 3 March 2000; excluding the effect of the incremental funding cost of this acquisition amounting to £102 million, underlying net interest income increased by £173 million. Two factors contributed to this increase.

Average interest earning assets grew by £11,192 million, or 9 per cent, to £140,686 million mainly due to an increase of £5,098 million in UK personal loan and mortgage balances, and growth in corporate banking and asset finance balances of £3,960 million, helped by the acquisition of Chartered Trust in September 2000. There was also an increase of £1,938 million overseas, principally in Brazil and the United States as these businesses have developed their corporate lending portfolios. Asset growth has added £214 million to net interest income in the first half of 2001.

Excluding the impact of the funding cost of Scottish Widows, the underlying net interest margin has reduced by 3 basis points. Margins deteriorated by 25 basis points in the UK Retail Banking and Mortgages business, reflecting the highly competitive conditions in these markets during the first half of 2001. This was largely offset by a 15 basis point increase in the margin earned by Lloyds TSB Group’s wholesale businesses as a result of an improved product mix. The small reduction in the underlying net interest margin reduced net interest income by £14 million and the effect of exchange rate movements caused a further reduction of £27 million.

Other income in the first half of 2001 rose by £16 million, or 1 per cent, to £2,000 million. Net fees and commissions receivable increased by £73 million, or 6 per cent, principally due to increased business volumes which resulted in a £69 million growth in income from insurance broking. Income from the long-term assurance business fell by £273 million, reflecting adverse short-term fluctuations in investment earnings, caused by the overall fall in stock market values, which increased from £24 million in the first half of 2000 to £304 million in the first half of 2001. This was partly offset by the inclusion of Scottish Widows for the full half-year, compared with only four months in 2000, and a one-off benefit of £22 million following the planned harmonisation of actuarial models between Scottish Widows and other Group life companies. Income from long-term assurance business in 2000, included a one-off benefit of £127 million arising from changes in the economic assumptions used in the embedded value calculation. Other operating income increased by £204 million mainly due to increased operating lease rental income of £112 million, partly as a result of the acquisition of Chartered Trust, and increased gains of £63 million on disposal of emerging market and venture capital investments.

Operating expenses in the first half of 2001 increased by £257 million, or 14 per cent, to £2,133 million from £1,876 million in the first half of 2000. The efficiency ratio increased from 43.7 per cent to 48.7 per cent. The acquisitions of Scottish Widows and Chartered Trust accounted for £125 million of this increase and there was £155 million of investment expenditure in Lloyds TSB Group's growth businesses, information technology integration and e-commerce in the first half of 2001 compared to £79 million in the first half of 2000. Other expenses in the first half of 2001 also include one-off costs of £16 million incurred in connection with the attempted acquisition of Abbey National.

The total charge for bad and doubtful debts in the first half of 2001 was 22 per cent higher at £323 million, compared with £265 million in the first half of 2000. The charge attributable to Lloyds TSB Group's UK operations increased to £266 million from £231 million largely as a result of the acquisition of Chartered Trust which increased the charge in the first half of the year by £20 million. Provisions overseas increased to £57 million from £34 million mainly due to a £15 million reduction to £3 million in the level of recoveries from the provisions held against the emerging market debt portfolio. There was also a £12 million increase in the provisions charge in Argentina as a result of the continuing difficult economic conditions in that country. Lloyds TSB Group's charge for bad and doubtful debts, expressed as a percentage of average lending, was 0.55 per cent in the first half of 2001 compared to 0.50 per cent in the first half of 2000.

At 30 June 2001, the total capital ratio increased to 9.8 per cent and the tier 1 capital ratio increased to 9.0 per cent. Balance sheet assets increased by £19,121 million, or 9 per cent, to £229,576 million from £210,455 million at 30 June 2000. Risk weighted assets increased by 9 per cent to £102,343 million at 30 June 2001 from £93,979 million at 31 December 2000.

Net interest income

	Half year to 30 June	
	2001 **£m**	**2000** **£m**
Lloyds TSB Group:		
Net interest income £m	2,382	2,311
Average interest earning assets £m	140,686	129,494
Average rates		
Gross yield on interest earning assets %	8.38	8.32
Interest spread %	2.94	3.04
Net interest margin	3.41	3.59
Domestic:		
Net interest income £m	2,031	1,990
Average interest earning assets £m	118,104	108,850
Average rates		
Gross yield on interest earning assets %	7.86	8.02
Interest spread %	3.04	3.12
Net interest margin	3.47	3.68
International:		
Net interest income £m	351	321
Average interest earning assets £m	22,582	20,644
Average rates		
Gross yield on interest earning assets %	11.10	9.88
Interest spread %	2.50	2.66
Net interest margin	3.13	3.13

Lloyds TSB Group net interest income in the first half of 2001 rose by £71 million, or 3 per cent, to £2,382 million. Excluding the funding cost of Scottish Widows, which was £182 million in the first half of 2001, compared to £80 million in the first half of 2000, there was an underlying increase in net interest income of £173 million; two factors contributed to this increase.

Average interest earning assets grew by £11,192 million, or 9 per cent, to £140,686 million mainly due to an increase of £5,098 million in UK personal loan and mortgage balances, and growth in corporate banking and asset finance balances of £3,960 million, helped by the acquisition of Chartered Trust in September 2000. There was also an increase of £1,938 million overseas, principally in Brazil and the United States as these businesses have developed their corporate lending portfolios. Growth in business volumes has added £214 million to net interest income.

The net interest margin decreased by 18 basis points to 3.41 per cent from 3.59 per cent in the first half of 2000. The incremental cost of funding the acquisition of Scottish Widows represented 15 basis points of this 18 basis point reduction, with the residual 3 basis point decrease in the margin reflecting the increasingly competitive environment in the UK. Margins deteriorated by 25 basis points in the UK Retail Banking and Mortgages business, reflecting the highly competitive conditions in these markets at present, although this was largely offset by a 15 basis point increase in the margin earned by Lloyds TSB Group's wholesale businesses as a result of an improved product mix. This small reduction in the underlying net interest margin reduced net interest income by £14 million and the effect of exchange rate movements caused a further reduction of £27 million.

Domestic net interest income in the first half of 2001 increased by £41 million, or 2 per cent, to £2,031 million. This represented 85 per cent of consolidated net interest income compared to 86 per cent in the six months ended 30 June 2000. Excluding the effect of the incremental funding cost of the acquisition of Scottish Widows there was an underlying growth of £143 million. Average interest earning assets increased by £9,254 million, or 9 per cent, to £118,104 million. Personal lending and mortgage balances grew by £5,098 million and wholesale balances increased by £2,999 million as growth in the corporate and commercial businesses, helped by the acquisition of Chartered Trust, more than offset a reduction of £1,819 million in Treasury balances. Growth in business volumes added £154 million to net interest income.

The domestic net interest margin decreased by 21 basis points from 3.68 per cent to 3.47 per cent, again largely reflecting the funding cost of Scottish Widows, which caused a reduction of 16 basis points. The increasingly competitive environment, particularly for retail lending, caused an underlying reduction of 5 basis points in the net interest margin. The net interest margin on personal lending products fell by 34 basis points and on mortgages the margin fell by 17 basis points. This was largely offset by an improvement in the margin earned in the UK wholesale businesses of 15 basis points, principally because of a change in product mix away from finer margin Treasury assets. The fall in the underlying margin reduced net interest income by £11 million.

Net interest income from international operations increased by £30 million, or 9 per cent, to £351 million. This represented 15 per cent of consolidated net interest income compared to 14 per cent in the six months ended 30 June 2000. Average interest earning assets increased by £1,938 million with growth in the wholesale operations in Brazil and the United States, contributing an additional £57 million of net interest income. The net interest margin was unchanged, however adverse exchange rate movements reduced net interest income by £27 million.

Other income

	Half year to 30 June	
	2001 £m	**2000 £m**
Fees and commissions receivable:		
UK current account fees	300	319
Other UK fees and commissions	613	565
Insurance broking	260	191
Card services	166	140
International fees and commissions	130	133
	1,469	1,348
Fees and commissions payable	(271)	(223)
Dealing profits (before expenses):		
Foreign exchange trading income	73	71
Securities and other gains	33	29
	106	100
Income from long-term assurance business	98	371
General insurance premium income	206	200
Other operating income	392	188
Total other income	2,000	1,984

Other income increased by £16 million, or 1 per cent, from £1,984 million to £2,000 million.

Fees and commissions receivable increased by £121 million or 9 per cent from £1,348 million to £1,469 million. Other UK fees and commissions increased by £48 million or 8 per cent from £565 million to £613 million mainly due to the inclusion in 2001 of £29 million of fees earned by Chartered Trust. Unit trust and asset management fees increased by £25 million reflecting both the impact of the acquisition of Scottish Widows in March 2000 and the success of the new Dublin ISA product, and there was a £7 million increase in the fees earned from share registration activities, largely as a result of one large corporate transaction. There was also a £9 million increase in fees from large corporate activity reflecting increased transaction volumes. These factors more than offset the effect of the withdrawal of ATM fees which reduced income by £13 million and lower transaction volumes within the stockbroking business which reduced income by £5 million.

Insurance broking commission income increased by £69 million compared to the first half of 2000 with continued growth in creditor insurance products. Income from credit and debit cards increased by £26 million, mainly as a result of higher card related insurance commission income and fees. However, UK current account fee income fell by £19 million; a £14 million increase in fee income from Added Value current accounts, before package costs, was more than offset by a £27 million fall in unauthorised borrowing fees following their partial withdrawal in the second half of 2000 and a £6 million reduction in service charges.

Fees and commissions payable increased by £48 million against the first half of 2000, largely as a result of the acquisition of Chartered Trust.

Dealing profits in the first half of 2001 increased by £6 million against the first half of 2000 largely reflecting an improved performance at London Treasury, which benefited from opportunities created from managing certain exposures arising from within Lloyds TSB Group's insurance businesses.

Income from the long-term assurance business fell by £273 million, reflecting adverse short-term fluctuations in investment earnings, caused by the overall fall in stock market values, which increased from £24 million in the first half of 2000 to £304 million in the first half of 2001. This was partly offset by the inclusion of Scottish Widows for the full half-year, compared with only four months in 2000, and the planned harmonisation of actuarial models between Scottish Widows and other Group life companies. Actuarial models are used to project the value of the future surpluses and other net cash flows attributable to the shareholder, based upon a series of economic and actuarial assumptions, which are discounted in order to arrive at the value of inforce business included in the embedded value in the balance sheet. As a result of the progressive integration of the Scottish Widows business acquired in March 2000 and the Lloyds TSB Group's other life assurance businesses, in the first half of 2001 the detailed actuarial assumptions have been harmonised. The resulting changes in the cash flow projections have resulted in a one-off increase in the embedded value included in the balance sheet of £22 million with a corresponding credit to the profit and loss account. Income from long-term assurance business in 2000 included a one-off benefit of £127 million arising from changes in the economic assumptions used in the embedded value calculation.

Other operating income increased by £204 million mainly due to increased operating lease rental income of £112 million, partly as a result of the acquisition of Chartered Trust, and increased gains of £63 million on the sale of venture capital and emerging market investments.

Operating expenses

	Half year to 30 June	
	2001 **£m**	**2000** **£m**
Administrative expenses		
Staff:		
Salaries and profit sharing	858	803
National Insurance	71	65
Pensions	(55)	(51)
Restructuring	7	13
Other staff costs	92	86
	973	916
Premises and equipment:		
Rent and rates	129	122
Hire of equipment	9	13
Repairs and maintenance	58	53
Other	55	48
	251	236
Other expenses:		
Communications and external data processing	231	202
Advertising and promotion	89	87
Professional fees	67	50
Other	190	151
	577	490
Administrative expenses	1,801	1,642
Exceptional restructuring costs	54	74
Total administrative expenses	1,855	1,716
Depreciation	259	154
Amortisation of goodwill	19	6
Total operating expenses	2,133	1,876
Efficiency ratio (in %)	48.7	43.7

Total operating expenses in the first half of 2001 increased by £257 million, or 14 per cent, to £2,133 million from £1,876 million. The acquisitions of Scottish Widows and Chartered Trust resulted in additional costs of £125 million in the first half of 2001 and Lloyds TSB Group also made additional investments in its revenue growth businesses, e-commerce and real-time banking of £155 million compared to £79 million in the first-half of 2000. Excluding these items, underlying cost growth was £52 million or 3 per cent.

The management of day-to-day operating costs continues to have a strong emphasis in Lloyds TSB Group, whilst at the same time the Lloyds TSB Group is investing heavily in many key future growth areas of the business. Lloyds TSB Group believe that its investments in e-commerce, wealth management and customer relationship management programmes will improve the quality of Lloyds TSB Group's sales and service and improve Lloyds TSB Group's revenue growth prospects in 2001 and beyond. In the first half of 2001, this incremental new revenue investment totalled £155 million and Lloyds TSB Group expects this to increase to be approximately £300 million in the full year. In 2002 and beyond Lloyds TSB Group expects the level of this new revenue investment expenditure to reduce.

Administrative expenses increased by £159 million, or 10 per cent, to £1,801 million. Staff costs increased by £57 million or 6 per cent, although excluding the effect of the inclusion of Chartered Trust, the increase is £36 million, or 4 per cent. Underlying staff numbers are little changed from the first half of last year and the increase in costs reflects both the full impact of the 2000 pay review which was effective from April and the 2001 pay review and incremental investment in revenue growth businesses. Excluding the impact of Chartered Trust, premises and equipment costs increased by £11 million or 5 per cent largely due to increased property rentals. However, other expenses increased by £87 million, mainly due to an increase of £28 million in Information Technology costs reflecting Lloyds TSB Group's on-going investment in information technology integration and e-commerce, one-off costs of £16 million incurred in connection with the attempted acquisition of Abbey National and charges of £14 million in respect of the new clearings joint venture, iPSL.

The exceptional restructuring costs of £54 million in support of the Lloyds TSB Group efficiency programme comprise mainly severance, software and consultancy costs and the write-down of equipment. Lloyds TSB Group expects that the exceptional restructuring costs will total approximately £200 million in the full year.

Depreciation has increased by £105 million, mainly due to a £76 million increase in the charge in respect of operating lease assets, of which £58 million is due to the acquisition of Chartered Trust.

Goodwill amortisation increased by £13 million due the amortisation of the goodwill arising on the acquisition of Chartered Trust.

The efficiency ratio for the first half of 2001 was 48.7 per cent compared to 43.7 per cent for the first half of 2000.

Charge for bad and doubtful debts

	Half year to 30 June	
	2001 £m	**2000 £m**
Domestic	266	231
International	57	34
Total charge	323	265
Specific provisions	327	264
General provisions	(4)	1
Total charge	323	265
Charge as % of average lending (annualised):	%	%
Domestic	0.53	0.51
International	0.73	0.48
Total charge	0.55	0.50

The total charge for bad and doubtful debts in the first half of 2001 was 22 per cent higher at £323 million, compared with £265 million in the first half of 2000. The domestic charge increased to £266 million from £231 million largely as a result of the acquisition of Chartered Trust, which increased the charge in the first half of the year by £20 million. Provisions in the UK Retail Banking and Mortgages business were little changed compared to the first-half of last year reflecting a stable arrears position. However, the charge against the corporate and commercial lending portfolios increased by £26 million largely as a result of provisions being required against a small number of large exposures, although there was a £13 million reduction in the provisions made against the consumer finance portfolio of Lloyds UDT reflecting improved credit procedures.

Provisions overseas increased to £57 million from £34 million mainly due to a £15 million reduction in the level of recoveries from the provisions held against the emerging market medium-term debt portfolio. There was a £12 million increase in the provisions charge in Argentina as a result of the continuing difficult economic conditions in that country, although there was a £5 million reduction in Colombia as a result of improved credit control.

Taxation

	Half year to 30 June	
	2001 **£m**	**2000** **£m**
UK corporation tax		
Current tax on profits for the period	422	460
Adjustments in respect of prior years	21	(8)
	443	452
Double taxation relief	(40)	(19)
	403	433
Foreign tax		
Current tax on profits for the period	78	74
Adjustments in respect of prior years	1	(4)
	79	70
Current tax charge	482	503
Deferred tax	31	72
Associated undertakings and joint ventures	-	1
Total charge	513	576

The effective rate of tax for the first half of 2001 was 27.9 per cent, unchanged from the first half of 2000. This compares with an average rate of corporation tax of 30 per cent for both periods. The lower effective rate of tax is due to tax relief on further payments to the Lloyds TSB qualifying employee share ownership trust to satisfy Save-As-You-Earn Options.

Line of business information - interim results

Summary

	Half year to 30 June	
	2001 **£m**	**2000** **£m**
UK Retail Banking and Mortgages	753	813
Insurance and Investments	792	591
Wholesale Markets and International Banking	721	638
Central group items	(29)	7
Contribution	2,237	2,049
Unusual items:		
Short-term fluctuations in investment returns	(329)	(38)
Exceptional restructuring costs	(54)	(74)
Abbey National offer costs	(16)	-
Changes in economic assumptions	-	127
Profit before tax	1,838	2,064

Comparative figures have been restated to take into account changes in internal transfer pricing arrangements and the way in which short-term fluctuations in investment returns are calculated. The effect of these changes in 2000 was to reduce the contribution of UK Retail Banking and Mortgages by £7 million, reduce the contribution of Insurance and Investments by £21 million, reduce the contribution of Wholesale Markets and International Banking by £1 million and increase the contribution of Central Group Items by £8 million. Adverse short-term fluctuations in investment returns were reduced by £21 million.

UK Retail Banking and Mortgages

	Half year to 30 June	
	2001 **£m**	**2000** **£m**
Net interest income	1,505	1,467
Other income	571	557
Total income	2,076	2,024
Operating expenses	(1,120)	(1,015)
Trading surplus	956	1,009
Provisions for bad and doubtful debts	(198)	(197)
Income from associated undertakings and joint ventures	(5)	1
Contribution	753	813
Unusual items:		
Exceptional restructuring costs	(30)	(46)
Profit before tax	723	767
Efficiency ratio	53.9%	50.1%
Total assets	£74,089m	£68,408m
Total risk-weighted assets	£45,657m	£42,069m

The contribution from UK Retail Banking and Mortgages fell by £60 million, or 7 per cent, to £753 million.

Total income in the first half of 2001 increased by £52 million, or 3 per cent, to £2,076 million. Net interest income increased by £38 million, or 3 per cent, to £1,505 million due to a combination of two factors. Growth in lending and deposit balances increased net interest income by £116 million. Personal loans and credit card lending increased by 15 per cent since the end of June 2000 and balances on current accounts and savings and investment accounts grew by 11 per cent over the same period; lending to small and medium-sized businesses increased by 3 per cent compared to the first half of 2000 and there was a 9 per cent increase in customer deposits. Gross new mortgage lending increased by 13 per cent to £6,055 million, compared with £5,437 million at the end of June 2000, and net new lending was £1,818 million resulting in an estimated market share of net new lending of 8.0 per cent. Mortgages outstanding at the end of June 2001 amounted to £54,477 million, compared to £50,153 million at the end of June 2000, an estimated market share of 9.7 per cent.

The benefit of this balance sheet growth was largely offset by a 25 basis point reduction in net interest margin, causing a £78 million decrease in net interest income. Increased competitive pressures resulted in the net interest margin on personal lending products reducing by 34 basis points; the net interest margin earned on mortgages fell by 17 basis points. There was also a continuing switch into finer margin deposits, which resulted in a 32 basis point reduction in the net interest margin on savings products.

Other income in the first half of 2001 increased by £14 million, or 3 per cent, to £571 million. There was a £21 million improvement in the net fee income earned from credit and debit cards, which partly offset a £13 million reduction in ATM fees following their partial withdrawal in 2000.

Operating expenses increased by £105 million, or 10 per cent, to £1,120 million in the first half of 2001 compared to £1,015 million in the first half of 2000. The efficiency ratio increased from 50.1 per cent in the first six months of 2000 to 53.9 per cent in the first half of 2001. Operating expenses include £132 million of investment expenditure in Lloyds TSB Group's revenue growth businesses, information technology integration and e-commerce in the first half of 2001 compared to £77 million in the first half of 2000. If this is excluded, the underlying increase in costs was £50 million and was mainly due to increased costs of £20 million as a result of the recruitment of additional sales staff into the branch network and an increase of £19 million relating to staff pay awards.

Provisions for bad and doubtful debts increased by £1 million, or 1 per cent, to £198 million.

Insurance and Investments

	Half year to 30 June	
	2001 £m	**2000 £m**
Contribution by area of business		
Life and pensions (including unit trusts)		
Scottish Widows	335	211
Abbey Life	100	73
	435	284
General Insurance	341	287
Operating profit from insurance	776	571
Scottish Widows Investment Partnership	16	20
Contribution	792	591
Unusual items:		
Short-term fluctuations in investment returns	(329)	(38)
Exceptional restructuring costs	(24)	(28)
Changes in economic assumptions	-	127
Profit before tax	439	652

The contribution from Insurance and Investments in the first half of 2000 increased by £201 million, or 34 per cent, from £591 million for the first half of 2000 to £792 million for the first half of 2001.

The contribution from the life and pensions business in the first half of 2001 increased by £151 million, or 53 per cent, to £435 million principally reflecting a significant improvement in sales volumes; in the first half of 2001 weighted sales increased by 36 per cent. This was partly the result of the inclusion of Scottish Widows for the full half-year, compared with only four months in the first half of 2000, however even after allowing for this on a proforma basis weighted sales increased by 20 per cent. The increase in weighted sales resulted in a £21 million improvement in new business profits, after distribution costs and a £20 million improvement in unit trust profits. During 2001 there was a one-off benefit of £22 million largely as a result of the planned harmonisation of actuarial models between Scottish Widows and other Group life companies. Profits at Abbey Life increased by £27 million to £100 million. See "—Line of business information—Life and pensions (including unit trusts)".

The contribution from general insurance operations, comprising underwriting and broking, increased by £54 million, or 19 per cent, to £341 million in the first half of 2001. The contribution from the broking business increased by £37 million, or 20 per cent, reflecting increased business volumes, which resulted in a £69 million increase in commission income. The contribution from the underwriting business increased by £17 million, or 16 per cent. See "—Line of business information—General insurance".

Over the last twelve months the integration of Scottish Widows Investment Management and Hill Samuel Asset Management has been completed. The principal aim of Scottish Widows Investment Partnership ('SWIP') is the delivery of improved performance. The contribution from SWIP, in the first half of 2001 was £16 million compared with £20 million in the first half of 2000, the reduction in profitability being driven by lower stock market levels and the loss of a number of mandates during the early period of business integration, however in recent months there has been a gain of twenty five new mandates covering a range of market sectors. At the end of June 2001 SWIP had £84,000 million of funds under management.

Life and pensions (including unit trusts)

	Half year to 30 June	
	2001 £m	2000 £m
New business	149	100
Existing business	245	168
Investment earnings	123	90
Life and pensions distribution costs	(116)	(88)
	401	270
Unit trusts	96	73
Unit trust distribution costs	(62)	(59)
	34	14
Contribution of life and pensions (including unit trusts)	435	284
Contribution of asset management	16	20
Unusual items:		
Short-term fluctuations in investment returns	(304)	(24)
Exceptional restructuring costs	(24)	(28)
Changes in economic assumptions	-	127
Profit before tax	123	379

Details of Lloyds TSB Group's sales of life, pensions and unit trust products are shown in the tables below:

	Half year to 30 June	
	2001 £m	2000 £m
New business premiums income and unit trust sales:		
Regular premiums	126.5	68.7
Single premiums	1,244.6	704.2
Unit trusts	1,130.0	1,054.4

	Half year to 30 June	
	2001 £m	2000(1) £m
Weighted sales (regular + 1/10 single) by distribution channel:		
Branch network	206.0	177.1
Independent financial advisers	140.2	85.8
Direct	49.6	27.2
	395.8	290.1

(1) Lloyds TSB Group disposed of the new business capability of Abbey Life on 1 February 2000. Weighted sales totalling £5.9 million are excluded from the comparative figures.

The contribution of Lloyds TSB Group's life, pensions and unit trust businesses in the first half of 2001 was £151 million higher at £435 million compared to £284 million in the first half of 2000.

In the first half of 2001, new business profits increased by £49 million reflecting a 36 per cent increase in weighted sales. The introduction of the Scottish Widows product range to the branch network and the inclusion of the Scottish Widows business acquired in 2000 for the full six months, resulted in a 84 per cent increase in regular premium sales and a 77 per cent increase in single premium sales. Sales of regular premium pension products more than doubled following the introduction of stakeholder pensions in April 2001 see "—Unusual items—Stakeholder pension related charge". Scottish Widows has been designated stakeholder pensions provider for a number of associations and employers giving access to more than 37,000 employers and 1,230,000 employees. Sales of single premium life products more than doubled reflecting the popularity of the With Profits investment bond.

The increase in the level of sales was reflected in an increase in distribution costs, which in the first half of 2001 were £28 million higher than in the first half of 2000.

Profits from existing business rose by £77 million, or 46 per cent, to £245 million. This was partly due to the inclusion of Scottish Widows for the full six months compared with only four months in the first half of 2000. Existing business profits also included a one-off benefit of £22 million following the planned harmonisation of actuarial models between Scottish Widows and other Group life companies.

Investment earnings in the first half of 2001, before taking into account short-term fluctuations in investment returns, increased by £33 million, as a result of the inclusion of Scottish Widows for the full six months.

Despite a general decline in the unit trusts and Individual Savings Account ('ISA') market, sales increased by 2 per cent. Nevertheless, unit trust profits more than doubled in the first half of 2001 to £34 million, reflecting the introduction of a new product, the Dublin ISA, a high yielding unit trust. Scottish Widows was recently confirmed by the Association of Unit Trust and Investment Funds providers as the leading ISA provider in the UK.

General insurance

	Half year to 30 June	
	2001 **£m**	**2000** **£m**
Premium income from underwriting		
Creditor	56	69
Home	132	108
Health	22	26
Re-insurance premiums	(4)	(3)
	206	200
Commissions from insurance broking		
Creditor	149	105
Home	18	17
Health	9	10
Other	84	59
	260	191
Contribution	341	287
Unusual items:		
Short-term fluctuations in investment returns	(25)	(14)
Profit before tax	316	273

The contribution from general insurance operations rose by £54 million, or 19 per cent, from £287 million for the first half of 2000 to £341 million for the first half of 2001.

The contribution from the underwriting business increased by £17 million to £122 million. Premium income has risen 3 per cent or £6 million with continued strong growth in home insurance policies, which rose 22 per cent and more than offset a fall in creditor insurance, reflecting the transfer of the card protection book in June 2000. See "—Line of business information—General insurance".

Investment income, before taking into account short-term fluctuations in investment returns, increased by £5 million to £19 million, reflecting the growth in the size of the portfolio.

General insurance claims were £6 million, or 8 per cent, higher as a result of increased property claims in line with rising volumes of new business partly offset by lower unemployment claims. The overall claims ratio, calculated as being claims as a proportion of premium income, was 37 per cent compared to 35 per cent in the first half of 2000.

Profit from the broking business has risen by £37 million, or 20 per cent, to £219 million. There was a £69 million increase in commission income principally as a result of continued growth in card and loan protection product sales which increased by £44 million as lending volumes within Lloyds TSB Bank increased.

Wholesale Markets and International Banking

	Half year to 30 June	
	2001 £m	**2000 £m**
Net interest income	887	805
Other income	681	503
Total income	1,568	1,308
Operating expenses	(716)	(580)
Trading surplus	852	728
Provisions for bad and doubtful debts	(125)	(68)
Amounts written off fixed asset investments	(6)	(22)
Contribution and profit before tax	721	638
Efficiency ratio	45.7%	44.3%
Total assets	£97,269m	£81,284m
Total risk-weighted assets	£55,299m	£44,173m

The contribution from Wholesale Markets and International Banking in the first half of 2001 increased by £83 million, or 13 per cent, to £721 million from £638 million in the first half of 2000.

Total income increased by £260 million, or 20 per cent, to £1,568 million from £1,308 million. Net interest income increased by £82 million; the acquisition of Chartered Trust contributed £53 million, after funding costs of £13 million. The underlying increase was therefore £29 million. Income from Lloyds TSB Group's Treasury operations was £23 million higher as a result of strategic positioning in advance of interest rate changes and the impact of higher short-dated funding costs in the first half of 2000. In the Corporate and Commercial businesses increased deposits, term lending and money market balances combined to produce a £7m increase in net interest income. Overseas, net interest income increased by £4 million. There were improved margins in the European private and offshore banking businesses.

Other income increased by £178 million; the acquisition of Chartered Trust accounted for £89 million of this increase. The underlying growth was therefore £89 million. Operating lease rental income within Lloyds UDT and Lloyds TSB Leasing was £18 million higher as a result of the increase in the size of the portfolio. Profits from the dealing operations of Lloyds TSB Group's Treasury improved by £7 million benefiting from opportunities created from managing exposures arising within Lloyds TSB Group's insurance business. There was a £9 million increase in fees from large corporate activity and factoring income improved by £4 million reflecting increased transaction volumes. Share registration income also increased by £7 million largely as a result of one large corporate transaction and venture capital gains were £20 million higher.

Overseas, higher earnings on EMD asset sales of £16 million and a £4 million increase in fee income from New Zealand were partly offset by adverse exchange rate movements of £7 million.

Operating expenses increased by £136 million; the acquisition of Chartered Trust accounted for £116 million of this increase. The underlying increase was therefore £20 million. In the UK, higher volumes of operating lease assets resulted in a £18 million increase in operating lease depreciation and there was also a £8 million increase in investment into e-commerce initiatives. Overseas, efficiency savings of £6 million in Argentina and Colombia and the effect of exchange rate movements, which reduced costs by £14 million, were partly offset by additional investment of £13 million in the non-UK revenue growth businesses.

The charge for provisions for bad and doubtful debts in the first half of 2001 increased by £57 million to £125 million from £68 million in the first half of 2000. The acquisition of Chartered Trust accounted for £20 million of this increase; the underlying increase was therefore £37 million. The charge relating to the corporate and commercial lending portfolios increased by £26 million largely as a result of provisions being required against a small number of large exposures, although this was partly offset by a £13 million reduction in the charge against the consumer finance portfolio of Lloyds UDT due to improved credit procedures.

Overseas the provisions charge increased by £23 million mainly due to a £15 million reduction in the level of recoveries from the provisions held against the emerging market debt portfolio. There was a £12 million increase in the charge in Argentina as a result of the continuing difficult economic conditions in that country, partly offset by lower provisions of £5 million in Colombia as a result of improved credit control.

Amounts written off fixed asset investments fell by £16 million to £6 million; a provision of £18 million required against part of the emerging market investment portfolio in the first half of 2000 was not repeated.

Central group items

	Half year to 30 June	
	2001 **£m**	**2000** **£m**
Accrual of payment to Lloyds TSB Foundations	(19)	(18)
Earnings on surplus capital, central costs and other unallocated items	(10)	25
Contribution	(29)	7
Unusual items:		
Abbey National offer costs	(16)	-
(Loss)/profit before tax	(45)	7

The four independent Lloyds TSB Foundations receive one per cent of Lloyds TSB Group's pre-tax profit, averaged over three years, instead of the dividend on their shareholdings. In the first half of 2001, Lloyds TSB Group accrued £19 million for payment to the Lloyds TSB Foundations, compared with an accrual of £18 million in the first half of 2000.

Earnings on surplus capital, central costs and other unallocated items, were £35 million lower than the first half of 2000, which benefited from the high levels of surplus capital built up ahead of the Scottish Widows acquisition and a lower funding cost relating to its acquisition midway through the first half of 2000.

Unusual items - interim results

	Half year to 30 June	
	2001 **£m**	**2000** **£m**
Short-term fluctuations in investment returns	(329)	(38)
Exceptional restructuring costs	(54)	(74)
Abbey National offer costs	(16)	-
Changes in economic assumptions	-	127

Short-term fluctuations in investment returns

See "—Unusual items—Short-term fluctuations in investment returns" for a description of this item.

In the first half of 2001 the FTSE All-Share index fell by 8.6 per cent and this created adverse short-term fluctuations in investment returns totalling £329 million. These adverse short-term fluctuations should not represent a permanent impairment to the value of Lloyds TSB Group's investments, which fluctuate as stockmarket values fluctuate.

Exceptional restructuring costs

During the first half of 2001 exceptional restructuring costs totalling £54 million were charged to Lloyds TSB Group's profit and loss account. The majority of these costs related to Lloyds TSB Group's efficiency programme referred to in "—Unusual items—Exceptional restructuring costs". These costs principally comprise severance, consultancy costs and the write-down of equipment.

Abbey National offer costs

Lloyds TSB Group incurred costs of £16 million in connection with the attempted acquisition of Abbey National prior to the announcement by the Secretary of State for Trade and Industry that Lloyds TSB Group would not be permitted to proceed with an offer.

Changes in economic assumptions

See "—Unusual items—Changes in economic assumptions" for a description of this item.

Future accounting developments

UK

FRS 17—Retirement Benefits

FRS 17 was issued in December 2000 and becomes fully effective no later than for Lloyds TSB Group's 2003 consolidated financial statements. The main requirement of FRS 17 is that it will be necessary to recognise on the balance sheet an asset or liability with respect to the surplus or deficit in Lloyds TSB Group's defined benefit schemes and to recognise immediately actuarial gains and losses in the statement of total recognised gains and losses. The FRS will require transitional disclosures in Lloyds TSB Group's 2001 and 2002 consolidated financial statements, before becoming fully effective in 2003.

FRS 18—Accounting Policies

FRS 18 was issued in December 2000 and is effective for accounting periods ending on or after 22 June 2001. The FRS requires that an entity adopts the most appropriate accounting policies, which are reviewed regularly and explained in sufficient detail, for all material items in Lloyds TSB Group's consolidated financial statements. On implementation of the new standard, Lloyds TSB Group took the opportunity to review the appropriateness of accounting policies in a number of areas and the following change was made as a result. Debt securities acquired in exchange for advances to countries experiencing payment difficulties which are not (nor due to be) collateralised by US Treasury securities ("uncollateralised bonds") were, like the original debt, previously included in loans and advances, at their written down value at date of exchange as adjusted for any subsequent movements in bad debt provisions. This treatment was no longer considered to be the most appropriate and the uncollateralised bonds have been reclassified as debt securities where they are carried at a higher amount based on the market value at the date of the original exchange as adjusted for the amortisation of the discount on acquisition. The Consolidated Financial Statements reflect this new treatment which has resulted in a prior year adjustment increasing reserves by £184 million.

FRS 19—Deferred Tax

FRS 19 was issued in December 2000 and will be effective for Lloyds TSB Group's 2002 consolidated financial statements. The FRS requires deferred tax to be provided on most types of timing differences. Currently, Lloyds TSB Group recognises deferred tax assets and liabilities only to the extent where it is considered probable that an asset or liability will crystallise. Lloyds TSB Group is currently assessing the likely impact on Lloyds TSB Group's consolidated financial statements.

US

SFAS No. 133—Accounting for Derivative Instruments and for Hedging Activities

SFAS No. 133 was issued in June 1998 and amended by SFAS Nos. 137 and 138, and is required to be adopted in financial years beginning after 15 June 2000. Lloyds TSB Group has adopted the new Statement from 1 January 2001. The Statement requires Lloyds TSB Group to recognise all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognised in other comprehensive income until the hedged item is recognised in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognised in earnings.

Based on Lloyds TSB Group's derivative positions at 31 December 2000, the cumulative impact on Lloyds TSB Group upon adoption will not be significant.

Lloyds TSB Group will continue to hold a significant portfolio of derivatives designed to mitigate financial risk in its non-trading portfolio. These will be managed to meet the UK GAAP, rather than US GAAP, requirements for hedge accounting.

SFAS No. 140—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, replacing FASB Statement No. 125.

SFAS No. 140 was issued in September 2000 and revises the accounting for securitisations and other transfers of financial assets and collateral. The Statement is required to be adopted for transfers and servicing of financial assets and extinguishments of liabilities occurring after 31 March 2001. The Statement is currently effective for the recognition and reclassification of collateral and related disclosures, which has been reflected in this registration statement. The Statement is to be applied prospectively with certain exceptions. The impact of the provisions applicable from 1 April 2001 will not have a material effect on Lloyds TSB Group's US GAAP financial statements.

SFAS No. 141—Business Combinations

SFAS No. 141 was issued in July 2001 and requires that the purchase method be used for all business combinations initiated after 30 June 2001. Use of the pooling-of-interests method is no longer permitted. Adoption is not expected to have a material impact on Lloyds TSB Group's US GAAP financial statements.

SFAS No. 142—Goodwill and Other Intangible Assets

SFAS No. 142 was issued in July 2001 and is effective for Lloyds TSB Group from 1 January 2002. Certain provisions are applicable to transactions completed after 30 June 2001. The Statement requires that goodwill should no longer be amortised to earnings, but instead reviewed for impairment and that any losses arising from such a review be charged to income as they arise. Retrospective application is not permitted and certain disclosures will be provided until all reported periods reflect the change in accounting treatment. The impact on Lloyds TSB Group will be to increase US GAAP net income in the periods from 1 January 2002 by the amount of amortisation previously charged to net income on goodwill capitalised under US GAAP. For the year to 31 December 2000, this amounted to £210 million.

UK GAAP compared with US GAAP

Under US GAAP, Lloyds TSB Group’s net income in 2000 was £1,986 million and £2,165 million in 1999 compared with £2,724 million in 2000 and £2,514 million in 1999 under UK GAAP. See Note 50 to the Consolidated Financial Statements.

There are two areas where differences between UK GAAP and US GAAP have a significant effect on the results of Lloyds TSB Group’s operations. Firstly, under UK GAAP applicable to banking groups, life assurance activities are accounted for using the embedded value basis of accounting which requires the recognition of the discounted value of the projected future net cash flows attributable to the shareholder at the point of sale. UK GAAP therefore results in a substantial proportion of the net profit accruing on a portfolio of life assurance policies being recognised at their inception.

Embedded value accounting is not permitted under US GAAP. Under US GAAP income is recognised in the profit and loss account in the period in which it is earned and expenses in the period in which they are incurred. This results in a more even recognition of profit over the life of the related policies.

The second area concerns the treatment of business combinations and the related goodwill. When Lloyds Bank Plc and TSB Group plc combined in 1995 to form Lloyds TSB Group plc, the transaction was accounted for as a merger, as permitted under UK GAAP at that time, although legally TSB Group plc was deemed to have acquired Lloyds Bank Plc. Under US GAAP the transaction would have been accounted for as a reverse acquisition of TSB Group plc by Lloyds Bank Plc and the resulting goodwill capitalised and amortised through the profit and loss account.

Prior to 1998, in accordance with UK GAAP, goodwill arising on acquisitions by Lloyds TSB Group plc was written off directly against profit and loss account reserves. As permitted by the transitional provisions of Financial Reporting Standard 10, this goodwill was not reinstated in the balance sheet when Lloyds TSB Group changed its accounting policy in 1998 to capitalise goodwill.

Under US GAAP all goodwill is capitalised and amortised through the profit and loss account over periods of up to 40 years. In calculating the goodwill relating to the acquisition of an entity with retail deposit accounts, an asset representing the value of the depositor relationships, termed the core deposit intangible, is capitalised separately and amortised through the profit and loss account over the estimated average life of the retail customer relationships.

Average balance sheet and net interest income

The following average balance sheet excludes the long-term assurance business assets and liabilities attributable to policyholders. The interest yields and costs for foreign office assets and liabilities are affected by the Lloyds TSB Group's operations in Latin America. The countries in which the Lloyds TSB Group operates are periodically subject to comparatively high rates of interest, which in certain instances in the tables below, has had the effect of producing unusually high yields and costs.

	2000			1999			1998		
	Average balance £m	Interest income £m	Yield %	Average balance £m	Interest income £m	Yield %	Average balance £m	Interest income £m	Yield %
Assets									
Treasury bills and other eligible bills									
Domestic offices	836	48	5.74	985	52	5.28	1,199	92	7.67
Foreign offices	1,224	265	21.65	1,000	122	12.20	1,239	279	22.52
Loans and advances to banks									
Domestic offices	13,384	828	6.19	13,606	758	5.57	15,264	1,049	6.87
Foreign offices	2,332	180	7.72	2,476	221	8.93	2,361	167	7.07
Loans and advances to customers									
Domestic offices	80,231	6,815	8.49	74,482	6,081	8.16	70,099	6,527	9.31
Foreign offices	14,009	1,393	9.94	13,387	1,780	13.30	11,096	1,637	14.75
Debt securities									
Domestic offices	3,882	252	6.49	3,272	200	6.11	3,533	310	8.77
Foreign offices	2,827	271	9.59	2,450	300	12.24	2,114	297	14.05
Lease and hire purchase receivables									
Domestic offices	12,241	984	8.04	11,897	924	7.77	9,864	923	9.36
Foreign offices	56	18	32.14	54	14	25.93	48	9	18.75
Total interest earning assets of banking book	131,022	11,054	8.44	123,609	10,452	8.46	116,817	11,290	9.66
Total interest earning assets of trading book	10,189	511	5.02	10,496	500	4.76	8,554	490	5.73
Total interest earning assets	141,211	11,565	8.19	134,105	10,952	8.17	125,371	11,780	9.40
Provisions for bad and doubtful debts	(1,531)			(1,456)			(1,686)		
Non-interest earning assets:									
Domestic offices	16,769			13,140			14,149		
Foreign offices	2,121			2,463			2,111		
Total average assets and interest income	158,570	11,565	7.29	148,252	10,952	7.39	139,945	11,780	8.42
Percentage of assets applicable to foreign activities (in %)	14.4			15.2			13.9		

	2000			1999			1998		
	Average interest earning assets £m	Net interest income £m	Net interest margin %	Average interest earning assets £m	Net interest income £m	Net interest margin %	Average interest earning assets £m	Net interest income £m	Net interest margin %
Average interest earning assets and net interest income:									
Banking business	131,022	4,587	3.50	123,609	4,783	3.87	116,817	4,430	3.79
Trading business	10,189	-	-	10,496	4	0.4	8,554	45	0.53
Write-down of finance leases	-	-	-	-	-	-	-	(32)	-
Net yield on interest earning assets	141,211	4,587	3.25	134,105	4,787	3.57	125,371	4,443	3.54

	2000			1999			1998		
	Average balance £m	Interest expense £m	Cost %	Average balance £m	Interest expense £m	Cost %	Average balance £m	Interest expense £m	Cost %
Liabilities and shareholders equity									
Deposits by banks									
Domestic offices	9,057	490	5.41	7,294	320	4.39	6,853	391	5.71
Foreign offices	3,506	247	7.05	3,482	305	8.76	4,350	317	7.29
Liabilities to banks under sale and repurchase agreements									
Domestic offices	2,022	113	5.59	2,544	134	5.27	2,385	176	7.38
Foreign offices	300	68	22.67	199	57	28.64	658	160	24.32
Customer accounts									
Domestic offices	72,071	3,232	4.48	67,047	2,534	3.78	66,768	3,660	5.48
Foreign offices	10,326	801	7.76	10,811	963	8.91	8,904	964	10.83
Liabilities to customers under sale and repurchase agreements									
Domestic offices	551	35	6.35	643	35	5.44	721	51	7.07
Foreign offices	127	4	3.15	128	4	3.13	154	10	6.49
Debt securities in issue									
Domestic offices	8,136	620	7.62	6,373	483	7.58	4,876	514	10.54
Foreign offices	4,707	366	7.78	3,327	472	14.19	1,748	294	16.82
Subordinated liabilities									
Domestic offices	7,383	481	6.51	5,614	355	6.32	4,607	314	6.82
Foreign offices	162	10	6.17	169	7	4.14	145	9	6.21
Total interest-bearing liabilities of banking book	118,348	6,467	5.46	107,631	5,669	5.27	102,169	6,860	6.71
Total interest-bearing liabilities of trading book	10,189	511	5.02	10,496	496	4.73	8,554	445	5.20
Total interest-bearing liabilities	128,537	6,978	5.43	118,127	6,165	5.22	110,723	7,305	6.60
Interest-free liabilities									
Minority interests and shareholders' funds									
Domestic offices	8,202			6,718			5,712		
Foreign offices	1,930			1,778			1,549		
Non-interest bearing customer accounts									
Domestic offices	6,058			6,134			5,200		
Foreign offices	635			578			463		
Other interest-free liabilities									
Domestic offices	12,723			13,964			15,789		
Foreign offices	485			953			509		
Total liabilities	158,570	6,978	4.40	148,252	6,165	4.16	139,945	7,305	5.22
Percentage of liabilities applicable to foreign activities (in %)	14.1			14.9			13.5		

Net interest margin for the banking book	2000 %	1999 %	1998 %
Domestic offices	3.58	3.98	3.80
Foreign offices	3.09	3.25	3.77
Group margin	3.50	3.87	3.79

Loans and advances to banks and customers include non-performing loans. Interest receivable on such loans has been included to the extent to which either cash payments have been received or interest has been accrued in accordance with Lloyds TSB Group's policy on income recognition.

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

Changes in net interest income - volume and rate analysis

The following table allocates changes in net interest income between volume and rate for 2000 compared with 1999 and for 1999 compared with 1998. Where variances have arisen from both changes in volume and rate these are allocated to volume.

	2000 compared with 1999 Increase / (decrease)			1999 compared with 1998 Increase / (decrease)		
	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m
Interest receivable and similar income						
Treasury bills and other eligible bills						
Domestic offices	(4)	(9)	5	(40)	(11)	(29)
Foreign offices	143	48	95	(157)	(29)	(128)
Loans and advances to banks						
Domestic offices	70	(14)	84	(291)	(92)	(199)
Foreign offices	(41)	(11)	(30)	54	10	44
Loans and advances to customers						
Domestic offices	734	488	246	(446)	358	(804)
Foreign offices	(387)	62	(449)	143	305	(162)
Debt securities						
Domestic offices	52	40	12	(110)	(16)	(94)
Foreign offices	(29)	36	(65)	3	41	(38)
Lease and hire purchase receivables						
Domestic offices	60	28	32	1	158	(157)
Foreign offices	4	1	3	5	2	3
Total banking book interest receivable and similar income	602	669	(67)	(838)	726	(1,564)
Total trading book interest receivable and similar income	11	(15)	26	10	93	(83)
Total interest receivable and similar income	613	654	(41)	(828)	819	(1,647)
Interest payable						
Deposits by banks						
Domestic offices	170	95	75	(71)	19	(90)
Foreign offices	(58)	2	(60)	(12)	(76)	64
Liabilities to banks under sale and repurchase agreements						
Domestic offices	(21)	(29)	8	(42)	8	(50)
Foreign offices	11	23	(12)	(103)	(131)	28
Customer accounts						
Domestic offices	698	225	473	(1,126)	11	(1,137)
Foreign offices	(162)	(38)	(124)	(1)	170	(171)
Liabilities to customers under sale and repurchase agreements						
Domestic offices	-	(6)	6	(16)	(4)	(12)
Foreign offices	-	-	-	(6)	(1)	(5)
Debt securities in issue						
Domestic offices	137	134	3	(31)	113	(144)
Foreign offices	(106)	107	(213)	178	224	(46)
Subordinated liabilities						
Domestic offices	126	115	11	41	64	(23)
Foreign offices	3	-	3	(2)	1	(3)
Total banking book interest payable	798	628	170	(1,191)	398	(1,589)
Total trading book interest payable	15	(15)	30	51	92	(41)
Total interest payable	813	613	200	(1,140)	490	(1,630)

Risk management

Management of risk

The board is responsible for determining the long-term strategy of the business, the markets in which Lloyds TSB Group will operate and the level of risk acceptable to Lloyds TSB Group in each area of its business.

Responsibility for the implementation of risk policy and for ensuring that there is an effective top level control framework is delegated to the Director of Lloyds TSB Group Risk Management, who reports to the group chief executive. The board in turn receives regular reports on risk issues prepared by Lloyds TSB Group Risk Management.

The Director of Lloyds TSB Group Risk Management implements the policies established by the board through four principal departments: Lloyds TSB Group Audit, Lloyds TSB Group Risk, Lloyds TSB Group Compliance and Sanctioning & Sovereign Risk. Lloyds TSB Group Risk's responsibilities cover credit risk, market risk, operational risk, insurance risk and environmental risk; the department also sets risk policy and methodology and undertakes risk evaluation, monitoring and reporting.

At an operating level, Lloyds TSB Group promotes sound internal risk management practices through the directors of its separate business units, who are primarily responsible for measuring, monitoring and controlling the range of portfolio and operating risks within their specific area of accountability. The directors and management of the business units, as the primary risk managers, are responsible for establishing proper control frameworks within their businesses to ensure that Lloyds TSB Group's activities are conducted effectively but prudently, and within the parameters defined by Lloyds TSB Group Risk Management. They are responsible for ensuring that the risks within their business are identified, assessed, controlled and monitored, and that the controls and procedures implemented comply with Lloyds TSB Group policies and standards, which are extensively documented in rule books and procedures manuals.

Credit risk

Credit risk arises from extending credit in all forms in Lloyds TSB Group's banking and trading activities, where there is a possibility that a counterparty may default. Lloyds TSB Group has standards, policies and procedures to control and monitor all such risks.

The Director of Lloyds TSB Group Risk Management heads Lloyds TSB Group Risk and reports to the group chief executive. Lloyds TSB Group Risk's responsibilities in respect of credit risk include the following:

- Formulation of high-level credit policies designed to ensure a balanced and managed approach to the identification and mitigation of credit risk. These policies provide a standard framework within which Lloyds TSB Group businesses structure their individual policies and rules. Lloyds TSB Group Risk reviews, approves and monitors credit policy documents established for individual Lloyds TSB Group businesses.

- Provision of lending guidelines. These define the responsibilities for lending officers and provide a disciplined and focussed benchmark for sound credit decisions. Clear guidance is provided on Lloyds TSB Group's attitude towards and appetite for credit exposure on different market sectors, industries and products.

- Provision of a Lloyds TSB Group rating system. All business units are required to operate an authorised rating system that complies with Lloyds TSB Group's standard methodology. Lloyds TSB Group uses a 'Master Scale' rating structure with nine ratings, each corresponding to a probability of future default.

- Establishment and maintenance of Lloyds TSB Group's large exposure policy. Exposure to individual counterparties or groups of counterparties is controlled through a tiered hierarchy of delegated sanctioning authorities. Approval requirements for each decision are based on the transaction amount, the customer's aggregate facilities, credit risk ratings and the nature of the risk. Regular reports on significant credit exposures are provided to the executive directors and board.

- Control of bank exposures. In-house proprietary rating systems are used to approve bank facilities on a Lloyds TSB Group basis.

- Monitoring of scorecards. Lloyds TSB Group utilises statistically-based decisioning techniques (primarily credit scoring and performance scoring) for its main consumer lending portfolios. Authorisations are determined by scorecards tailored to meet the needs of the particular business. Lloyds TSB Group Risk reviews and monitors new and material changes to existing scorecards.

- Control of cross-border exposures. Country limits are authorised and managed by a dedicated unit, using an in-house rating system which takes into account economic and political factors.

- Maintenance of a centralised facilities database. Lloyds TSB Group Risk operates a centralised database of large corporate, sovereign and bank facilities designed to ensure a consistent aggregation policy is maintained throughout Lloyds TSB Group.

- Formulation of concentration limits on certain industries and sectors. Lloyds TSB Group Risk sets limits and monitors exposures to prevent over-concentration of risk.

- Portfolio analysis. In conjunction with Lloyds TSB Group Risk, Lloyds TSB Group businesses identify and define portfolios of credit and related risk exposures and the key benchmarks, behaviours and characteristics by which those portfolios are managed in terms of credit risk exposure. This entails the production and analysis of regular portfolio monitoring reports for review by Lloyds TSB Group Risk.

- Communication and provision of general guidance on all credit-related risk issues, including regulatory changes and environmental risk policy, to promote consistent and best practice throughout Lloyds TSB Group.

Day-to-day credit management and asset quality within each business unit is the primary responsibility of the business unit directors. Each business unit has credit processes in place involving credit policies, procedures and lending guidelines. Authority to delegate lending discretions within operating divisions rests with officers holding divisional lending delegated authority. All senior management authorities are advised to Lloyds TSB Group Risk.

Specialist units are established within Lloyds TSB Group business units to provide intensive management and control in order to maximise recoveries of doubtful debts.

Regular independent audits of credit processes are undertaken by Lloyds TSB Group Audit. Such audits include consideration of the completeness and adequacy of credit manuals and lending guidelines, together with an in-depth analysis of a representative sample of accounts in the portfolio to assess the quality of the loan book and other exposures. Individual accounts are reviewed to ensure that the facility grade is appropriate, that credit procedures have been properly followed and that where an account is non-performing, provisions raised are adequate.

Loan portfolio

Analysis of loans and advances to customers and banks

The following table analyses loans to banks and customers by geographical area and type of loan at 31 December for each of the five years listed.

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Domestic:					
Loans and advances to banks	13,165	14,341	15,905	18,650	13,176
Loans and advances to customers:					
Mortgages	52,659	47,451	44,660	41,785	40,550
Other personal lending	11,138	10,092	9,570	8,735	8,130
Agriculture, forestry and fishing	2,026	2,183	2,052	2,009	1,884
Manufacturing	3,357	3,262	2,987	2,973	3,194
Construction	1,016	754	671	749	862
Transport, distribution and hotels	3,836	3,540	3,308	3,838	3,800
Financial, business and other services	9,295	6,614	5,029	5,952	6,994
Property companies	2,470	2,303	2,304	2,297	1,959
Lease financing	8,070	8,369	8,165	5,527	5,003
Hire purchase	5,172	3,674	3,701	3,523	3,203
Other	2,237	1,698	1,577	1,294	1,090
Total domestic loans	114,441	104,281	99,929	97,332	89,845
Foreign:					
Loans and advances to banks	2,131	2,628	2,606	2,056	1,806
Loans and advances to customers:					
Mortgages	3,490	3,558	3,187	2,028	2,260
Other personal lending	1,602	1,784	1,832	1,636	1,015
Agriculture, forestry and fishing	1,528	1,606	1,703	1,906	1,935
Manufacturing	1,730	945	976	1,047	1,245
Construction	190	158	155	171	230
Transport, distribution and hotels	2,166	1,638	1,082	1,081	1,142
Financial, business and other services	2,174	2,553	2,542	1,978	2,024
Property companies	637	470	428	360	259
Lease financing	53	79	136	56	37
Hire purchase	-	-	19	7	11
Other	807	581	374	380	801
Total foreign loans	16,508	16,000	15,040	12,706	12,765
Total loans	130,949	120,281	114,969	110,038	102,610
Less provision for loan losses	(1,426)	(1,414)	(1,462)	(1,771)	(1,594)
Less interest held in suspense	(90)	(100)	(145)	(243)	(410)
Total loans and advances net of provisions and interest held in suspense	129,433	118,767	113,362	108,024	100,606

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Analysis of foreign loans by region:					
Loans and advances to customers:					
New Zealand	7,368	7,659	7,310	5,430	5,793
Latin America	2,222	1,761	2,120	2,437	2,008
Rest of the world	4,787	3,952	3,004	2,783	3,158
	14,377	13,372	12,434	10,650	10,959
Loans and advances to banks:					
New Zealand	357	467	375	283	59
Latin America	105	190	148	116	66
Rest of the world	1,669	1,971	2,083	1,657	1,681
	2,131	2,628	2,606	2,056	1,806
Total foreign loans	16,508	16,000	15,040	12,706	12,765

The classification of lending as domestic or foreign is based on the location of the office recording the transaction, except for certain lending of the international business booked in London.

Summary of loan loss experience

The following table analyses the movements in the allowance for loan losses for each of the five years listed.

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Balance at beginning of period					
Domestic	1,134	1,126	1,252	1,444	1,791
Foreign	280	336	519	332	421
Total balance at beginning of period	1,414	1,462	1,771	1,776	2,212
Exchange and other adjustments	51	(49)	(30)	22	(101)
Advances written off:					
Domestic:					
Loans and advances to customers:					
Mortgages	(35)	(30)	(38)	(41)	(93)
Other personal lending	(399)	(364)	(279)	(232)	(194)
Agriculture, forestry and fishing	(12)	(14)	(9)	(18)	(24)
Manufacturing	(13)	(33)	(33)	(42)	(50)
Construction	(9)	(10)	(6)	(13)	(19)
Transport, distribution and hotels	(27)	(46)	(108)	(93)	(120)
Financial, business and other services	(28)	(40)	(34)	(49)	(67)
Property companies	(17)	(24)	(45)	(68)	(159)
Lease financing	(12)	(14)	(30)	(32)	(26)
Hire purchase	(69)	(29)	(5)	(14)	(10)
Other	-	(6)	-	(1)	(18)
Total domestic	(621)	(610)	(587)	(603)	(780)
Foreign	(124)	(134)	(372)	(60)	(66)
Total advances written off	(745)	(744)	(959)	(663)	(846)
Recoveries of advances written off:					
Domestic:					
Loans and advances to customers:					
Mortgages	12	11	9	11	10
Other personal lending	63	60	27	17	13
Agriculture, forestry and fishing	2	2	4	3	1
Manufacturing	6	11	14	9	8
Construction	2	1	2	2	1
Transport, distribution and hotels	11	7	15	16	7
Financial, business and other services	10	6	10	16	11
Property companies	5	7	20	35	5
Lease financing	5	5	3	4	3
Hire purchase	24	10	7	6	5
Other	-	1	-	1	1
Total domestic	140	121	111	120	65
Foreign	25	9	14	5	4
Total recoveries of advances written off	165	130	125	125	69

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Net advances written off:					
Domestic	(481)	(489)	(476)	(483)	(715)
Foreign	(99)	(125)	(358)	(55)	(62)
Total net advances written off	(580)	(614)	(834)	(538)	(777)
Provision for loan losses – charged against income for the year					
Domestic:					
Loans and advances to customers:					
Mortgages	(4)	9	34	15	21
Other personal lending	323	379	201	212	212
Agriculture, forestry and fishing	(6)	(4)	31	11	12
Manufacturing	21	28	20	21	23
Construction	1	5	8	6	16
Transport, distribution and hotels	3	23	7	63	52
Financial, business and other services	12	16	40	10	16
Property companies	8	4	(19)	(24)	17
Lease financing	8	14	8	20	20
Hire purchase	52	31	26	3	-
Other specific provisions	15	(5)	14	-	(1)
General provisions	(7)	-	(7)	3	(30)
Total domestic	426	500	363	340	358
Foreign	115	115	192	171	84
Total provision for loan losses charged against income for the year	541	615	555	511	442
Balance at end of period					
Domestic	1,129	1,134	1,126	1,252	1,444
Foreign	297	280	336	519	332
Total balance at end of period	1,426	1,414	1,462	1,771	1,776
Ratio of net write-offs during the period to average loans outstanding during the period	0.5%	0.6%	0.9%	0.6%	0.9%

The following table analyses the coverage of the allowance for loan losses by category of loans.

	2000		1999		1998		1997		1996	
	Allowance £m	Percentage of loans in each category to total loans %	Allowance £m	Percentage of loans in each category to total loans %	Allowance £m	Percentage of loans in each category to total loans %	Allowance £m	Percentage of loans in each category to total loans %	Allowance £m	Percentage of loans in each category to total loans %
Balance at period end applicable to:										
Domestic:										
Loans and advances to banks	-	10.1	-	11.9	-	13.8	-	17.0	-	12.9
Loans and advances to customers:										
Mortgages	48	40.2	75	39.5	85	38.8	80	38.0	118	39.5
Other personal lending	362	8.5	358	8.4	283	8.3	346	7.9	264	7.9
Agriculture, forestry and fishing	11	1.5	27	1.8	43	1.8	17	1.8	21	1.9
Manufacturing	71	2.6	57	2.7	51	2.6	53	2.7	65	3.1
Construction	15	0.8	21	0.6	25	0.6	21	0.7	26	0.8
Transport, distribution and hotels	50	2.9	63	2.9	79	2.9	167	3.5	180	3.7
Financial, business and other services	59	7.1	65	5.5	83	4.4	65	5.4	87	6.8
Property companies	29	1.9	33	1.9	46	2.0	90	2.1	147	1.9
Lease financing	20	6.2	16	7.0	11	7.1	30	5.0	38	4.9
Hire purchase	94	3.9	49	3.1	37	3.2	9	3.2	14	3.1
Other	15	1.7	9	1.4	18	1.4	4	1.2	4	1.1
Total domestic	774	87.4	773	86.7	761	86.9	882	88.5	964	87.6
Foreign	295	12.6	280	13.3	336	13.1	519	11.5	332	12.4
General provision	357	-	361	-	365	-	370	-	480	-
Total balance at period end	1,426	100.0	1,414	100.0	1,462	100.0	1,771	100.0	1,776	100.0

Risk elements in the loan portfolio

Non-accrual, past due and restructured loans

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

Suspended interest and non-performing lending

In accordance with the UK British Bankers Association Statement of Recommended Practice on Advances, Lloyds TSB Group continues to accrue interest, where appropriate, on doubtful debts when there is a realistic prospect of recovery ("category 1 non-performing lending"). This accrued interest is charged to the customer's account but it is not applied to income; it is placed on a suspense account and only taken to income if there ceases to be significant doubt about its being paid. Loans are transferred to non-accrual status where the operation of the customer's account has ceased ("category 2 non-performing lending"). The lending is managed by specialist recovery departments and is written down to its estimated realisable value. Interest is not added to the lending or placed on a suspense account as its recovery is considered unlikely; it is only taken to income if it is received.

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

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

Troubled debt restructurings

In the US, loans whose terms have been modified due to problems with the borrower are required to be separately disclosed. If the new terms were in line with market conditions at the time of the restructuring and the restructured loan remains current as to repayment of principal and interest then the disclosure can be discontinued at the end of the first year.

There are no similar disclosure requirements in the UK.

Potential problem loans

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

Assets acquired in exchange for advances

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

In the UK, although a bank is entitled to enforce a first charge on a property held as security, it typically does so only to the extent of enforcing its power of sale. In accordance with UK GAAP and industry practice, Lloyds TSB Group takes control of a property held as collateral on a loan at repossession but title does not transfer to it. Loans subject to repossession continue to be reported as loans in the balance sheet although the accrual of interest is suspended.

Any gains or losses on sale of the acquired property are recorded within the provision for loan losses during the reporting period.

The difference in practices has no effect on net income reported in the UK compared to that reported in the US but it does result in a difference in classification of losses and recoveries in the income statement. It also has the effect of causing UK banks to report an increased level of non-performing loans compared with US banks.

The following table analyses risk elements in the loan portfolio as at 31 December for the last five years:

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Loans accounted for on a non-accrual basis:					
Domestic offices	223	209	287	443	592
Foreign offices	181	139	130	108	117
Total non-accrual loans	404	348	417	551	709
Accruing loans on which:-					
- interest is being placed in suspense:					
Domestic offices	617	502	479	966	1,457
Foreign offices	238	217	292	441	345
Total suspended interest loans	855	719	771	1,407	1,802
- interest is still being accrued and taken to profit, and against which specific provisions have been made:					
Domestic offices	1,713	1,924	2,056	1,633	716
Foreign offices	101	74	75	115	158
Total accruing loans against which specific provisions have been made	1,814	1,998	2,131	1,748	874
- 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	520	506	313	389	475
Foreign offices	33	15	-	-	-
Total accruing loans against which no provisions have been made	553	521	313	389	475
Troubled debt restructurings:					
Domestic offices	2	10	1	2	3
Foreign offices	12	10	1	2	-
Total troubled debt restructurings	14	20	2	4	3
Total non performing lending:					
Domestic offices	3,075	3,151	3,136	3,433	3,243
Foreign offices	565	455	498	666	620
Total non performing lending	3,640	3,606	3,634	4,099	3,863

Interest foregone on non-performing lending

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

	2000 £m
Domestic lending:	
Interest income that would have been recognised under original contract terms	31
Interest income included in profit	4
Interest foregone	27
Foreign lending:	
Interest income that would have been recognised under original contract terms	23
Interest income included in profit	7
Interest foregone	16

Potential problem loans

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

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Potential problem lending	1,142	936	958	1,078	1,090

Cross border outstandings

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

	% of assets	Total £m	Governments and official institutions £m	Banks and other financial institutions £m	Commercial, industrial and other £m
As at 31 December 2000					
Germany	1.6	2,659	171	2,222	266
United States of America	1.4	2,290	90	907	1,293
As at 31 December 1999					
Belgium	1.7	2,602	-	2,574	28
Germany	1.5	2,156	217	1,794	145
Japan	1.3	1,974	201	1,363	410
France	1.1	1,636	6	1,401	229
As at 31 December 1998					
Japan	1.8	2,534	190	1,534	810
Germany	1.5	2,203	379	1,805	19

As at 31 December 2000, Germany had commitments of £295 million and the US had commitments of £521 million.

As at 31 December 2000, the countries with cross border outstandings of between 0.75 per cent and 1 per cent of assets, amounting to £4,529 million in total were France, Italy and Japan. As at 31 December 1999 the countries with cross border outstandings of between 0.75 per cent and 1 per cent of assets, amounting to £2,500 million in total were the US and the Netherlands. As at 31 December 1998 the countries with cross border outstandings of between 0.75 per cent and 1 per cent of assets, amounting to £3,640 million in total, were the US, the Netherlands and France.

Market risk in banking operations

Market risk is the risk of losses being incurred as a result of adverse movements in interest or exchange rates or other market variables. Market risk arises in all areas of Lloyds TSB Group's activities and is managed by a variety of different techniques.

Lloyds TSB Group's activities expose it to the risk of adverse movements in interest rates or exchange rates, with little or no exposure to equity or commodity risks. Trading activities are restricted to a few highly specialist trading centres, authorised by Lloyds TSB Group Risk, the principal one being Lloyds TSB Group's Treasury department in London. The level of exposure is strictly controlled and monitored within approved limits locally and centrally by Lloyds TSB Group Risk. Most of Lloyds TSB Group's trading activity is to meet the requirements of customers for foreign exchange and interest rate products, from which Lloyds TSB Group is able to earn a spread on the rates charged. However, interest rate and exchange rate positions are taken out using derivatives (forward foreign exchange contracts, interest rate swaps and forward rate agreements) and on-balance sheet instruments (mainly debt securities). The objective of these positions is to earn a profit from favourable movements in market rates. Accordingly, these transactions are reflected in the accounts at their fair value and gains and losses shown in the profit and loss account as dealing profits. Further details on trading derivatives can be found in Note 47 to the Consolidated Financial Statements.

Trading Value at Risk ("VaR")

Trading limits are set by Lloyds TSB Group Risk, up to a total authorised by the board, using a combination of risk measurement techniques, including position limits and sensitivity limits. These are supplemented by a range of value at risk techniques in use in individual businesses, where suitable methodologies have been developed in consultation with Lloyds TSB Group Risk to meet the specific requirements of each centre. At Lloyds TSB Group level, global positions are incorporated into a central VaR model, taking into account natural offset positions between different trading centres, and stress tests are carried out to simulate extreme conditions.

VaR can be calculated using a number of different methodologies and at different confidence intervals. Lloyds TSB Group utilises more than one methodology for comparative purposes, thus avoiding undue reliance on a single measure.

The predominant measure within Lloyds TSB Group is the variance/covariance ('VcV') methodology. Based on the commonly used 95 per cent confidence level, assuming positions are held overnight and using observation periods of the preceding three years, the value at risk based on Lloyds TSB Group's global trading was as detailed in the table below.

The following table shows total, average, maximum and minimum VaR for the years ended 31 December 2000 and 1999.

	31 December 2000				31 December 1999		
	Total £m	Average £m	Maximum £m	Minimum £m	Average £m	Maximum £m	Minimum £m
Interest Rate Risk	0.5	0.7	1.2	0.5	0.7	1.0	0.5
Foreign Exchange Risk	0.6	0.5	0.9	0.3	0.4	0.9	0.2
Equity Risk	0.0	0.1	0.2	0.0	0.1	0.3	0.0
Total VaR	1.2	1.3	1.7	1.0	1.2	1.8	0.8

The following table shows total, average, maximum and minimum VaR for the period 31 December 2000 to 30 June 2001.

	30 June 2001			
	Total £m	**Average £m**	**Maximum £m**	**Minimum £m**
Interest Rate Risk	0.8	0.6	0.9	0.4
Foreign Exchange Risk	0.4	0.6	0.8	0.3
Equity Risk	0.0	0.0	0.0	0.0
Total VaR	1.2	1.2	1.4	0.9

The risk of loss measured by the VaR model is the potential loss in earnings. The total and average trading VaR does not assume any diversification benefit across the three risk types. The maximum and minimum VaR reported for each risk category did not necessarily occur on the same day as the maximum and minimum VaR reported as a whole.

There are some limitations to the VcV methodology which are covered below:

- The model assumes that changes in the underlying asset returns can be modelled by a normal distribution. This assumption is 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 confidence limit is exceeded. In times of extreme market movements actual losses may be several times greater than the VaR number. Stress 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 generated the data will remain true in the future. Stress testing and using more than one VaR methodology for some local markets form part of the wider market risk framework.
- Periods of severe market illiquidity would mean that it may 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 trading.
- The variance/covariance approach to VaR is not well suited to options positions. As a result these positions are controlled by additional sensitivity limits.

In summary, although VaR is an important component of Lloyds TSB Group's approach to managing trading market risk, it is supplemented by position and sensitivity limits and stress testing.

Interest rate exposure

Interest rate exposures comprise those originating in treasury trading activities and structural interest rate exposures, which arise from the commercial and retail banking activities of Lloyds TSB Group.

Trading interest rate risk

The VaR relating to interest rate trading positions is set out in "—Market risk in banking operations—Trading Value at Risk (VaR)".

Structural interest rate risk

Structural interest rate risk in Lloyds TSB Group's retail portfolios, including mortgages, and in Lloyds TSB Group's capital funds, arises from the different repricing characteristics of Lloyds TSB Group's banking assets and liabilities and is managed by Lloyds TSB Group's Balance Sheet Management department.

Liabilities arising in the course of business from Lloyds TSB Group's retail banking business fall into two broad categories:

- those which are insensitive to interest rate movements – non-interest bearing liabilities such as shareholders' funds and 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 are varied at Lloyds TSB Group's discretion ("managed rate liabilities") but which for competitive reasons generally reflect changes in the Bank of England's base rate.

There is a relatively small volume of naturally arising banking liabilities whose interest rate is contractually fixed typically for periods of up to two years.

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

Interest rate risk arises from the mismatch between interest rate insensitive liabilities and interest rate sensitive assets, and between the differing contractual periods for which interest rates are fixed on interest rate sensitive assets and liabilities. Lloyds TSB Group Balance Sheet Management department manages this risk centrally by:

- offsetting against each other any matching interest rate sensitive assets and liabilities;

- acquiring new financial assets and liabilities as matching hedges against net balances of mismatched interest rate sensitive banking liabilities and assets, respectively; and

- acquiring new financial assets with interest rates contractually fixed for a range of periods up to five years as hedges for net balances of interest rate insensitive liabilities.

The financial assets and liabilities referred to above are acquired by way of internal transactions between Lloyds TSB Group Balance Sheet Management and Lloyds TSB Group Treasury, typically in the form of interest rate swaps and loans or deposits.

Lloyds TSB Group Balance Sheet Management reports to an Assets and Liability Committee under the chairmanship of Lloyds TSB Group Finance Director; other members include the Director of Lloyds TSB Group Risk Management, Lloyds TSB Group executive director responsible for treasury and the managing directors of the main UK business units. Lloyds TSB Group's policy is to optimise the stability of future net interest income. The risks are monitored using simulation models and other quantitative techniques.

Structural interest rate risk can also arise from the wholesale banking books in the UK, where it is managed by Lloyds TSB Group Treasury, and internationally, where it is managed by an authorised local treasury operation in each overseas centre. The levels of exposure within these books are controlled and monitored within approved limits locally and centrally by Lloyds TSB Group Risk. Lloyds TSB Group Risk issues the limits to the international business units on interest rate gaps or, where more appropriate, VaR. Active management of the book is necessary to meet customer requirements and changing market circumstances.

Lloyds TSB Group's non-trading exposure is summarised in the form of an interest rate repricing table, as set out in Note 46 to the Consolidated Financial Statements. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. However, the table does not take into account the effect of interest rate options used by Lloyds TSB Group to hedge its exposure.

The simulation models used by Lloyds TSB Group include assumptions about the relationships between customer behaviour and the level of interest rates; the anticipated level of future business is also taken into account. The accuracy of these assumptions will impact the efficiency of hedging transactions. The assumptions are regularly updated and the projected exposure is actively managed in accordance with Lloyds TSB Group's Assets and Liability Committee policy.

It is estimated that a hypothetical immediate and sustained 100 basis point increase in interest rates on 1 July 2001 would decrease net interest income by £114.2 million for the 12 months to 30 June 2002, while a hypothetical immediate and sustained 100 basis point decrease in interest rates would increase net interest income by £99.8 million.

	UK £m	North America £m	Asia & Australasia £m	Latin America £m	Europe & Mid. East £m	Total £m
Change in net interest income from a +100 basis point shift in yield curves	(89.8)	(1.4)	(2.5)	(1.8)	(18.7)	(114.2)
Change in net interest income from a -100 basis point shift in yield curves	75.4	1.4	2.5	1.8	18.7	99.8

The analysis above is subject to certain simplifying assumptions, including, but not limited to the following:

- all rates of all maturities worldwide move simultaneously by the same amount;
- all positions in the wholesale books run to maturity; and
- there is no management action in response to movements in interest rates.

In practice, positions in both the retail and wholesale books are actively managed and actual impact on net interest income may be different than the model.

Foreign exchange exposure

Trading foreign exchange risk

The corporate and retail businesses incur foreign exchange risk in the course of providing services to their customers. These risks reside in the authorised trading centres who are allocated exposure limits by Lloyds TSB Group Risk. The limits are monitored daily by the local centres and reported to Lloyds TSB Group Risk. Lloyds TSB Group Risk calculates the associated VaR as shown in the table in "—Market risk in banking operations—Trading Value at Risk (VaR)".

Structural foreign exchange risk

Structural foreign exchange risk arises from Lloyds TSB Group's investments in its overseas operations. Lloyds TSB Group's structural foreign currency exposure is represented by the net asset value of the holding company's foreign currency exchange equity and subordinated debt investments in its subsidiaries and branches. Gains or losses on structural foreign currency exposures are taken to retained earnings.

The structural position is managed by Lloyds TSB Group Capital Funds having regard to the currency composition of Lloyds TSB Group's risk-weighted assets and reported to Lloyds TSB Group Assets and Liability Committee on a monthly basis. The objective is to limit the effect of the exchange rate movements on the published risk asset ratio.

Lloyds TSB Group's structural position at 31 December 2000 is set out in Note 46 to the Consolidated Financial Statements. The position implies that at 31 December 2000 a hypothetical increase of 10 per cent in the value of sterling against all other currencies would have led to a £170 million reduction in reserves, and vice versa. On this basis, there would have been no material impact on Lloyds TSB Group's risk asset ratios.

Equity exposure

A small number of Lloyds TSB Group's authorised centres can incur equity risk in dealings with their retail and commercial customers. Limits on these equity exposures are controlled and monitored by Lloyds TSB Group Risk. Lloyds TSB Group Risk calculates VaR on these equities positions as set out in the trading VaR table in "—Market risk in banking operations—Trading Value at Risk (VaR)".

Market risk in insurance operations

Lloyds TSB Group's insurance activities also result in market risk. The market risk within the insurance businesses can be categorised into two broad types: investment market risk, and potential interest rate risk on mismatch between assets held to support future liabilities in the life business and the actual future liabilities.

Investment market risk is derived from two portfolios: the surplus in the Scottish Widows non-participating fund and an investment portfolio within the General Insurance business.

Surplus in the long-term non-participating fund of Scottish Widows plc exists to provide the long-term funds with liquidity and working capital. The surplus also forms a capital reserve to support the investments managed on behalf of the with-profits policies which were transferred from Scottish Widows Fund and Life Assurance Society. As a consequence it is appropriate to invest this fund in a mixture of equities, investment properties, and fixed interest investments that is closely related to the With Profits Fund. This investment policy maintains the value of the reserve as a proportion of the underlying With Profits Fund. The existence and investment mix of the surplus in the non-participating fund can therefore be considered as structural rather than as a traded portfolio. Under UK GAAP the portfolio is shown at market value and gains and losses are recognised in the profit and loss account.

The General Insurance portfolio comprises funds that form the reserves for that business. These reserves are invested in a mixture of assets: cash, bonds and equities. The size of the equity component allowed and the investment policy are approved by Lloyds TSB Group Risk.

The composition, and value, of both the non-participating fund and the General Insurance portfolio are reported to Lloyds TSB Group Risk on a monthly basis and a VaR is calculated. Stress testing is also used to supplement the VaR models.

The risk of loss measured by the VaR model is the potential loss in earnings. The VaR methodology used is a variance/covariance ('VcV') approach which is the same in all respects to that used for the traded risk in the banking book, except that in the case of equity risk, the model maps the portfolio composition onto a series of appropriate indexes by region and sector. The figures quoted below are the sum of the two portfolios with no allowance for diversification between portfolios or asset classes and represents the potential loss in earnings.

The following table shows total VaR at 31 December 2000.

	31 December 2000 £m
Interest Rate Risk	3.8
Foreign Exchange Risk	2.6
Equity Risk	28.1
Total VaR	34.5

The following table shows total VaR at 30 June 2001.

	30 June 2001 £m
Interest Rate Risk	3.7
Foreign Exchange Risk	2.3
Equity Risk	23.5
Total VaR	29.5

The other sources of market risk within the insurance businesses are the matched portfolios (e.g. annuities) that contain long-term liabilities. The aim is to invest in assets such that the cash flows on the investments will match those on the projected future liabilities. Actuarial tools are used to project and match the cash flows.

It is not possible to eliminate risk completely as the timing of mortality is uncertain, and bonds are not available at all of the required maturities. As a result the cash flows cannot be precisely matched and so sensitivity tests are used to test the extent of the mismatch.

Other risks

Liquidity risk

To ensure that each business unit can meet its financial obligations as they fall due, Lloyds TSB Group complies with the Financial Services Authority's liquidity requirements, with similar liquidity policies in place across all trading centres worldwide. Compliance is monitored by regular liquidity returns to Lloyds TSB Group Risk.

The sources and maturities of assets and liabilities are closely monitored and diversified to avoid any undue concentration. A substantial proportion of customer deposits is made up of current and savings accounts which, although repayable on demand, have traditionally formed a stable deposit base.

Lloyds TSB Group's significant involvement in the London money market and other financial centres, together with the strength of Lloyds TSB Group's earnings and balance sheet, are important factors in assuring the continued availability of wholesale funds at competitive rates.

Operational risk

Operational risk is the exposure to financial or other damage arising through unforeseen events or failure in Lloyds TSB Group's operational processes/systems. Examples include inadequate internal controls and procedures, human error, deliberate malicious acts including fraud, and business interruptions.

Business units within Lloyds TSB Group are responsible for identifying and managing risks, and Lloyds TSB Group Risk has developed a standard methodology, which is being implemented by business units throughout Lloyds TSB Group. Lloyds TSB Group Audit provides independent verification of the effectiveness of risk control within business units.

Internal control techniques include segregation of duties, exception and exposure reporting, business continuity planning, reconciliations, and delegation of authority, and are based on the submission of timely and reliable management reporting. Where appropriate risk is mitigated by way of insurance with third parties.

The activities of Lloyds TSB Group Risk include the approval from a risk perspective of all new products launched throughout Lloyds TSB Group, with an objective of ensuring that the risks associated with new products are understood and managed by the business accordingly.

Insurance risk

Lloyds TSB Group offers insurance products to its customers, and actively reviews the extent to which the associated risk is underwritten internally or reinsured with external underwriters.

The Financial Services Authority sets down minimum requirements for solvency and reserving for all classes of insurance, which are carefully monitored by the relevant business units within Lloyds TSB Group. The retained risk level is carefully controlled and monitored, with close attention being paid to the analysis of underwriting experience, product design, policy wordings, adequacy of reserves, solvency management and regulatory requirements.

Investment strategy is determined by the term and nature of the underwriting liabilities and asset/liability matching positions are actively monitored. General insurance exposure to accumulations of risk and potential catastrophes is reviewed and, where appropriate, mitigated by reinsurance arrangements which are broadly spread over different reinsurers. Appropriate reinsurance arrangements also apply within the life and pensions businesses.

Compliance risk

Lloyds TSB Group conducts business in a range of regulated industries. Primary responsibility for ensuring that regulatory requirements are observed lies with a nominated compliance officer within each business unit, who reports directly to the head of the business unit. Additionally, all compliance officers have a reporting line to Lloyds TSB Group Compliance, which has responsibility for monitoring compliance standards and resources across Lloyds TSB Group, and provides independent reporting and assessment to the group directors and the board.

Lloyds TSB Group Compliance Director retains full day-to-day responsibility for Lloyds TSB Group Compliance, including routine contact with the regulators. He also has access to the chairman, Lloyds TSB Group chief executive and other members of senior management.

Liquidity and capital resources

Lloyds TSB Group plc

Lloyds TSB Group plc's main sources of cash are dividends from its sole direct subsidiary company, Lloyds TSB Bank, and loans from this and other Lloyds TSB Group companies. Lloyds TSB Bank receives dividends from its subsidiary companies and loans from other Lloyds TSB Group companies in addition to the cash generated from to its substantial operating activities.

The ability of subsidiaries to pay dividends to their respective parent companies or to make loans to other Lloyds TSB Group companies depends on a number of factors, including their own regulatory capital requirements, statutory reserves and their financial performance. For additional information, see "Dividends".

Lloyds TSB Group is also able to raise cash by issuing loan capital and equity although in practice the majority of Lloyds TSB Group's loan capital is issued by Lloyds TSB Bank. As at 30 June 2001, Lloyds TSB Group plc had £512 million of subordinated debt in issuance, unchanged from the position at 31 December 2000, compared with £7,545 million for Lloyds TSB Group.

Banking businesses

A significant part of Lloyds TSB Group's overall funding comes from the customer deposit base within the banking businesses. A substantial proportion of deposits is made up of current and savings accounts which, although repayable on demand, have traditionally formed a stable deposit base.

During 2000, amounts deposited by customers increased by £7,887 million to £100,738 million at 31 December 2000 from £92,851 million at 31 December 1999. Over the same period, loans and advances to customers increased by £12,339 million to £114,143 million at 31 December 2000 from £101,804 million at 31 December 1999. In the six months ended 30 June 2001, amounts deposited by customers increased by a further £3,819 million, to £104,557 million and loans and advances to customers increased by £5,553 million to £119,696 million. At 30 June 2001, loans and advances to customers were 114 per cent of amounts deposited by customers, compared with 113 per cent at 31 December 2000 and 110 per cent at 31 December 1999.

Lloyds TSB Group earns interest on the net daily surplus funds available within the retail businesses by placing the surplus with Lloyds TSB Group's Treasury to manage within the inter-bank marketplace. Similarly, if Lloyds TSB Group has a deficit of funds on any particular day, Lloyds TSB Group's Treasury will borrow from the inter-bank market to fund this deficit.

Insurance and investments businesses

The key sources of liquidity within Lloyds TSB Group's insurance and investments businesses are premiums, charges levied upon policyholders, investment income and proceeds from sales and maturity of investments. External borrowing and capital contributions from the parent company could also provide liquidity.

Liquidity is required to pay policy benefits, claims and surrenders, operating expenses, purchase of investments, interest on any debt and dividends to the parent company.

The investment policies followed by Lloyds TSB Group's life assurance companies take specific account of anticipated cash flow requirements by matching the cash flows of the assets and predicted liabilities.

Any liquidity requirements in excess of that anticipated are met from additional funds held to provide solvency margin cover. These include significant short-term cash deposits. At 30 June 2001, within the life businesses it is estimated that these amounted to approximately £3,000 million in the long-term business fund and shareholders fund. In total, this represented an excess of approximately £1,800 million over the required minimum solvency margin.

Scottish Widows' life fund is divided into a with-profits fund and a non-participating fund. A with-profits fund provides life and pensions policyholders with an entitlement to participate in a share of the earnings or surplus arising from the fund in the form of bonuses. Bonuses are recommended by the Appointed Actuary and approved by the board of directors and are paid in two types: regular bonuses, which are generally paid annually and represent a permanent addition to the guaranteed benefits; and terminal bonuses, which are paid at the policy termination date. At least 90 per cent of with-profits business surplus is allocated to policyholders as bonuses; the remainder is allocated to shareholders. The purpose of the with-profits sub-fund is to provide benefits on with-profits policies, including business transferred from Scottish Widows Fund & Life Assurance Society upon its demutualisation. Under the terms of the transfer, that sub-fund included a further £1,700 million of assets the majority of which is available to meet any further contingencies and liquidity requirements that may arise in respect of transferred business (over and above the amount accumulated in the sub-fund to meet policy benefits). The non-participating fund and shareholder fund also include assets in excess of policy liabilities. There is a requirement for some of this excess to be retained as further support for the with-profits fund, but the primary call on the excess assets is to meet the solvency requirements of Scottish Widows.

Acquisitions

Because the principal business of the Lloyds TSB Group is banking, it is able to raise substantial amounts of cash in the wholesale money markets to provide funds for acquisitions should the need arise. In deciding whether Lloyds TSB Group has sufficient resources to be able to make an acquisition the key factor is not the availability of cash, but the ability of the Lloyds TSB Group, and the authorised institutions within the Lloyds TSB Group, to continue to meet the capital adequacy requirements of the regulatory authorities.

In order to ensure that the Lloyds TSB Group had sufficient regulatory capital to meet the capital adequacy requirements, prior to the acquisitions of Scottish Widows and Chartered Trust in 2000, it was necessary to raise approximately £3,500 million of subordinated debt and preferred securities. There are strict limits imposed by the regulatory authorities as to the proportion of the Lloyds TSB Group's regulatory capital base that can be made up of subordinated debt and preferred securities. See "—Liquidity and capital resources—Capital ratios". Following the acquisitions of Scottish Widows and Chartered Trust, Lloyds TSB Group was close to these limits, however the Lloyds TSB Group's capacity to raise new debt capital for regulatory purposes increases as Lloyds TSB Group retains profits. At 30 June 2001 the Lloyds TSB Group had capacity to raise approximately £1,500 million of debt capital.

Capital resources

The total capital resources of Lloyds TSB Group are set out below:

	30 June 2001 £m	31 December 2000 £m	31 December 1999 £m	31 December 1998 £m
Minority interests (equity and non-equity)	981	552	33	42
Called-up share capital	1,409	1,396	1,389	1,379
Share premium account	906	595	404	101
Merger reserve	343	343	343	343
Profit and loss account	8,227	7,690	6,693	5,740
Shareholders' funds (equity)	10,885	10,024	8,829	7,563
	11,866	10,576	8,862	7,605
Undated loan capital	3,432	3,391	3,294	1,518
Dated loan capital	4,113	4,119	3,199	2,503
Total capital resources	19,411	18,086	15,355	11,626

Lloyds TSB Group's total capital resources increased by £2,731 million during 2000.

Shareholders' funds increased by £1,195 million, as a result of profit retentions and loan capital increased by £1,017 million, largely due to the issue of additional subordinated loan capital to fund the general activities of Lloyds TSB Group.

The significant increase in minority interests during 2000 reflects the issue of £509 million non-cumulative preferred securities by two special purpose limited partnerships in which a wholly-owned subsidiary of Lloyds TSB Group is the general partner. The issues, which were made under the subordinated guarantee of Lloyds TSB Bank, provided capital for the acquisition of the Scottish Widows insurance business.

During the first half of 2001, Lloyds TSB Group's total capital resources increased by a further £1,325 million. Shareholders' funds increased by £861 million, largely as a result of profit retentions and minority interests increased by £429 million, following the issue of £456 million of Perpetual Capital Securities by Lloyds TSB Bank.

Capital ratios

The international standard for measuring capital adequacy is the risk asset ratio, which relates regulatory capital to balance sheet assets and off-balance sheet exposures weighted according to broad categories of risk.

Lloyds TSB Group's regulatory capital is divided into tiers defined by the European Community Own Funds Directive. Tier 1 comprises shareholders' funds and minority interests, after deducting goodwill and intangible assets. Tier 2 comprises general loan loss provisions, and qualifying subordinated loan capital, with restrictions on the amount of general provisions and loan capital which may be included. The amount of qualifying tier 2 capital cannot exceed that of tier 1 capital. Total capital is reduced by deducting investments in subsidiaries and associates which are not consolidated for regulatory purposes and investments in the capital of other credit/financial institutions. In the case of Lloyds TSB Group, this means that the net assets of its life assurance and general insurance businesses are deducted from Lloyds TSB Group's regulatory capital.

Banking operations are categorised as either banking book or trading book (broadly, marked-to-market activities). Risk-weighted assets are determined according to a broad categorisation of the nature of each asset or exposure and counterparty and, for the trading book, by taking into account market-related risks.

	30 June 2001 £m	31 December 2000 £m	31 December 1999 £m	31 December 1998 £m
Capital: tier 1	9,243	7,949	8,596	7,368
tier 2	7,704	7,722	6,838	4,386
	16,947	15,671	15,434	11,754
Supervisory deductions	(6,928)	(6,862)	(2,588)	(2,213)
Total regulatory capital	10,019	8,809	12,846	9,541
Total risk-weighted assets	102,343	93,979	84,415	83,491
Post-tax return on average risk weighted assets	2.71%	3.10%	3.04%	2.70%
Risk asset ratios: total capital	9.8%	9.4%	15.2%	11.4%
tier 1	9.0%	8.5%	10.2%	8.8%

At 31 December 2000, the risk asset ratios were 9.4 per cent for total capital and 8.5 per cent for tier 1 capital. The 8.5 per cent tier 1 capital ratio appears higher than would perhaps be expected for Lloyds TSB Group. This reflects the higher level of supervisory deductions resulting from Lloyds TSB Group's significantly increased investment in its life assurance operations as a result of the acquisition of Scottish Widows.

During 2000, following the acquisitions of Scottish Widows and Chartered Trust, total capital for regulatory purposes fell by £4,037 million to £8,809 million. Tier 1 capital was reduced by £647 million, as retained profits and the raising of the necessary capital required to complete the purchases of Scottish Widows and Chartered Trust was more than offset by the £2,405 million goodwill arising on the acquisitions. Tier 2 capital increased by £884 million and supervisory deductions increased by £4,274 million, largely resulting from the acquisition of the Scottish Widows insurance business.

Risk-weighted assets increased to £93,979 million at 31 December 2000 and the post-tax return on average risk-weighted assets which Lloyds TSB Group considers a key measure of efficient use of capital, improved to 3.10 per cent, from 3.04 per cent in 1999.

At 30 June 2001, the risk asset ratios had improved to 9.8 per cent for total capital and 9.0 per cent for tier 1 capital. Total regulatory capital increased by £1,210 million, mainly due to retained profits and the issue of £456 million Perpetual Capital Securities by Lloyds TSB Bank. The levels of tier 2 capital and supervisory deductions were little changed. Risk-weighted assets increased by £8,364 million, mainly reflecting the growth in customer and bank lending in the first half of 2001; the post-tax return on average risk weighted assets was 2.71 per cent.

Investment portfolio

Investment securities and other securities

The following table sets out the book value and valuation of Lloyds TSB Group's investment securities and other securities at 31 December for each of the three years indicated.

	2000 Book value £m	2000 Valuation £m	1999 Book value £m	1999 Valuation £m	1998 Book value £m	1998 Valuation £m
Investment securities[(1)]						
Bank and building society certificates of deposit .	3,034	3,034	4,153	4,145	2,474	2,479
Other debt securities	1,631	1,631	679	678	580	580
Securities of the US Treasury and US Government agencies	12	12	10	10	26	27
Other Government securities	1,484	1,816	1,675	1,972	1,457	1,792
Other public sector securities	234	321	215	277	200	209
Equity shares	41	102	43	79	61	96
	6,436	6,916	6,775	7,161	4,798	5,183
Other securities						
UK Government securities	893	893	1,917	1,917	2,538	2,538
Securities of the US Treasury and US Government agencies	16	16	14	14	218	218
Other Government securities	2,151	2,151	1,930	1,930	1,894	1,894
Other public sector securities	131	131	65	65	5	5
Bank and building society certificates of deposit .	105	105	286	286	619	619
Other debt securities	4,914	4,914	3,940	3,940	3,084	3,084
Equity shares	206	206	170	170	143	143
	8,416	8,416	8,322	8,322	8,501	8,501

(1) Investment securities are those intended for use on a continuing basis in the activities of Lloyds TSB Group and not for dealing purposes. Investment securities held by Lloyds TSB Group's insurance business are not included.

Maturities and weighted average yields of debt securities

The weighted average yield for each range of maturities is calculated by dividing the annualised interest income prevailing at 31 December 2000 by the book value of securities held at that date.

	Maturing within one year		Maturing after one but within five years		Maturing after five but within ten years		Maturing after ten years	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Investment securities								
Securities of the US Treasury and US Government agencies	-	-	5	6.1	4	7.7	3	7.7
Other Government securities	322	4.7	248	6.8	50	7.3	864	9.1
Other public sector securities	5	7.4	88	7.4	87	7.4	54	6.3
Bank and building society certificates of deposit	2,962	6.1	72	5.9	-	-	-	-
Other debt securities	73	4.9	785	4.4	717	3.7	56	6.1
Total book value	3,362	5.9	1,198	5.2	858	4.3	977	8.8

	Maturing within one year		Maturing after one but within five years		Maturing after five but within ten years		Maturing after ten years	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Other securities								
UK Government securities	893	5.3	-	-	-	-	-	-
Securities of the US Treasury and US Government agencies	16	5.8	-	-	-	-	-	-
Other Government securities	463	5.7	1,484	4.7	183	5.2	21	6.1
Other public sector securities	10	5.8	82	5.2	39	5.8	-	-
Bank and building society certificates of deposit	105	7.0	-	-	-	-	-	-
Other debt securities	550	5.5	3,643	5.3	577	5.3	144	5.4
Total book value	2,037	5.5	5,209	5.1	799	5.3	165	5.5

Maturity analysis and interest rate sensitivity of loans and advances to customers and banks as at 31 December 2000

The following table analyses the maturity profile and interest rate sensitivity of loans by type on a contractual repayment basis as at 31 December 2000. All amounts are before deduction of provisions and interest in suspense. Demand loans are included in the "maturing in one year or less" category.

	Maturing in one year or less £m	Maturing after one year but not more than five years £m	Maturing after five years £m	Total £m
Domestic:				
Loans and advances to banks	12,660	165	340	13,165
Loans and advances to customers:				
Mortgages	1,348	5,480	45,831	52,659
Other personal lending	4,681	5,448	1,009	11,138
Financial, business and other services . . .	6,425	1,807	1,063	9,295
Lease financing	656	1,801	5,613	8,070
Hire purchase	2,199	2,902	71	5,172
Other	7,886	3,579	3,477	14,942
Total domestic loans	35,855	21,182	57,404	114,441
Total foreign loans	7,840	3,320	5,348	16,508
Total loans	43,695	24,502	62,752	130,949
Of which:				
Fixed interest rate	30,008	10,980	17,894	58,882
Variable interest rate	13,687	13,522	44,858	72,067

Deposits

The following table shows the details of Lloyds TSB Group's average deposits in each of the past three years.

	2000		1999		1998	
	Average balance £m	Average rate %	Average balance £m	Average rate %	Average balance £m	Average rate %
Deposits in domestic bank offices						
Non interest bearing demand deposits	6,058	-	6,134	-	5,200	-
Interest bearing demand deposits	17,836	1.36	17,050	1.42	15,707	3.10
Savings deposits	34,468	5.26	34,602	4.06	35,369	5.50
Time deposits	19,767	5.95	15,395	6.05	15,692	8.02
Total domestic office deposits	78,129	4.14	73,181	3.52	71,968	5.13
Deposits in foreign banking offices						
Non interest bearing demand deposits	635	-	578	-	463	-
Interest bearing demand deposits	793	4.04	874	3.09	706	3.54
Savings deposits	1,901	4.58	2,069	3.72	1,443	5.55
Time deposits	7,632	8.94	7,868	10.92	6,755	12.72
Total foreign office deposits	10,961	7.31	11,389	8.46	9,367	10.29
Total average deposits	89,090	4.53	84,570	4.19	81,335	5.72

Certificates of deposit and other time deposits

The following table gives details of Lloyds TSB Group's certificates of deposit issued and other time deposits as at 31 December 2000 individually in excess of $100,000 (or equivalent in another currency) by time remaining to maturity.

	3 months or less £m	Over 3 months but within 6 months £m	Over 6 months but within 12 months £m	Over 12 months £m	Total £m
Domestic					
Certificates of deposit	4,714	2,231	1,532	172	8,649
Time deposits	21,489	1,896	1,078	1,123	25,586
	26,203	4,127	2,610	1,295	34,235
Foreign					
Certificates of deposit and other time deposits	7,364	1,537	386	502	9,789
Total	33,567	5,664	2,996	1,797	44,024

Short-term borrowings

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

The following table gives details of the significant short-term borrowings of Lloyds TSB Group for each of the past three years.

	2000 £m	1999 £m	1998 £m
Liabilities in respect of securities sold under repurchase agreements			
Balance at the period end	4,030	3,933	3,459
Average balance for the period	3,000	3,514	3,918
Maximum balance during the period	6,158	5,718	4,804
Average interest rate during the period	7.3%	6.6%	10.1%
Interest rate at the period end	6.4%	6.3%	6.9%
Certificates of deposit issued			
Balance at the period end	12,052	8,428	8,001
Average balance for the period	11,910	9,471	7,014
Maximum balance during the period	13,645	10,853	8,001
Average interest rate during the period	6.3%	8.1%	8.7%
Interest rate at the period end	6.3%	5.4%	7.6%

MANAGEMENT AND EMPLOYEES

Directors and senior management

Lloyds TSB Group plc recognises that good governance is central to achieving the governing objective of maximising shareholder value. Lloyds TSB Group plc is led and controlled by a board comprising executive and non-executive directors. The appointment of executive directors is considered by the board and, following the provisions in our articles of association, at each annual general meeting one-third of the directors must retire by rotation, and may stand for re-election by the shareholders. Each director must retire by rotation at least every three years. Executive directors retire at age 60 as required by their service contracts. Non-executive directors are appointed for a specified term, not exceeding five years, which may be renewed. For more information on their retirement by rotation, subject to re-election, see “Description of Share Capital and Memorandum and Articles of Association—Memorandum and articles of association—Directors—Retirement”.

The board meets 11 times a year and a programme is prepared and agreed each year which ensures that the directors are able regularly to review corporate strategy and the operations and results of the business units in Lloyds TSB Group and to discharge their other duties. The roles of the chairman, the group chief executive and the board and its governance arrangements are reviewed annually.

Additionally, the directors meet, informally, four or five times a year, to enable them to spend more time than would normally be available at board meetings to explore aspects of Lloyds TSB Group’s business and to hear from senior executives below board level.

The board has a chairman’s committee, comprising the chairman, the deputy chairman, the group chief executive and his deputy. The chairman’s committee meets to discuss current issues and strategy, examine and test proposals and prepare for board meetings. It also has power to deal with routine matters between board meetings. The board also has audit, nomination and remuneration committees; the chairman and members of these committees are all non-executive directors.

The chairman, the group chief executive and the group finance director have meetings with representatives of institutional shareholders and all shareholders are encouraged to participate in Lloyds TSB Group plc’s annual general meeting.

Board of directors

Biographical details of the board of directors are given below.

Maarten A van den Bergh ♦

Chairman

Joined Lloyds TSB Group plc in 2000 becoming chairman in April 2001. Joined the Royal Dutch/Shell Group of companies in 1968. After a number of senior and general management appointments in that group, became group managing director in July 1992. Appointed president of Royal Dutch Petroleum Company and vice-chairman of the committee of managing directors of the Royal Dutch/Shell Group in July 1998 and continued in these roles until June 2000. A non-executive director of the Royal Dutch Petroleum Company and British Telecommunications. Elected by the shareholders to the board in April 2001. Aged 59.

Alan E Moore CBE *§

Deputy Chairman

Joined Lloyds Bank International in 1980. Held a number of senior and general management appointments in that company and in Lloyds Bank before becoming a director of Lloyds Bank in 1989 and deputy chief executive and treasurer in 1994. Following the merger with TSB Group in 1995, became deputy group chief executive of Lloyds TSB Group plc and then deputy chairman in August 1998. Joined Glyn Mills & Co in 1953, holding senior appointments there until his secondment, as director general, to the Bahrain Monetary Agency from 1974 to 1979. Most recently re-elected by the shareholders to the board in April 2000. Aged 65.

Executive directors

Peter B Ellwood CBE

Group Chief Executive

Joined TSB Bank in 1989 as chief executive, retail banking. Appointed a director of TSB Group in 1990 and became group chief executive in 1992. Following the merger with Lloyds Bank in 1995, became deputy group chief executive of Lloyds TSB Group plc and then group chief executive in February 1997. Joined Barclays Bank in 1961 and after a number of senior and general management appointments, became chief executive of Barclaycard in 1985. Former chairman of Visa International. Most recently re-elected by the shareholders to the board in April 2001. Aged 58.

Michael E Fairey

Deputy Group Chief Executive

Joined TSB Group in 1991 and held a number of senior and general management appointments in Lloyds TSB Group before being appointed to the board in 1997 and deputy group chief executive in March 1998. Joined Barclays Bank in 1967 and held a number of senior and general management appointments before becoming managing director of Barclays Direct Lending Services in 1990. Most recently re-elected by the shareholders to the board in April 1999. Aged 53.

Michael D Ross CBE

Deputy Group Chief Executive

Joined the board in 2000. Joined Scottish Widows in 1964 and following a number of senior and general management appointments became group chief executive of that company in 1991. Elected by the shareholders to the board in April 2000. Aged 55.

M Kent Atkinson

Group Finance Director

Joined Bank of London & South America in 1964, which became a Lloyds subsidiary in 1971, and held a number of senior and general management appointments in Lloyds TSB Group, including positions in Latin America and the Middle East, before being appointed to the board in 1997. A non-executive director of Coca-Cola HBC SA. Most recently re-elected by the shareholders to the board in April 2001. Aged 56.

Archie G Kane

Group Executive Director, IT and Operations

Joined TSB Commercial Holdings in 1986 and held a number of senior and general management appointments in Lloyds TSB Group before being appointed to the board in 2000. After some 10 years in the accountancy profession, joined General Telephone & Electronics Corporation in 1980, serving as finance director from 1983 to 1985. Elected by the shareholders to the board in April 2000. Aged 49.

David P Pritchard

Group Executive Director, Wholesale and International Banking

Joined TSB Group in 1995 as group treasurer. Seconded to the Securities and Investments Board as head of supervision & standards, markets & exchanges, from 1996 to 1998. Appointed to the board in 1998. Held senior and general management appointments with Citicorp from 1978 to 1986 and Royal Bank of Canada from 1986 to 1995. Most recently re-elected by the shareholders to the board in April 2001. Aged 57.

Ewan Brown CBE FRSE **

Chairman of Lloyds TSB Scotland

A director since 1999. A non-executive director of Lloyds TSB Scotland since 1997. Executive director of Noble Grossart Limited since 1971. Appointed an honorary professor of finance at Heriot-Watt University in 1988. Non-executive director of Stagecoach Holdings. Most recently re-elected by the shareholders to the board in April 2001. Aged 59.

A Clive Butler‡§▲

A director of TSB Group since 1993. Joined Unilever in 1970 and, following a number of senior and general management appointments was appointed an executive director of Unilever in 1992. Most recently re-elected by the shareholders to the board in April 2000. Aged 55.

Sheila M Forbes†

A director of TSB Group since 1994. Chairs the board of governors of Thames Valley University and is a civil service commissioner. Head of personnel for Unigate from 1980 to 1988 and personnel director for Storehouse from 1988 to 1992. Director of human resources at Reed Elsevier (UK) from 1992 to 1996. Most recently re-elected by the shareholders to the board in April 2000. Aged 54.

Christopher S Gibson-Smith†

A director since 1999. Chairman of National Air Traffic Services and a non-executive director of PowerGen. Joined the British Petroleum Company in 1970 and held senior and general management appointments in the UK, US, Canada and Europe. Became a managing director of BP in 1997 and continued as managing director and executive vice president of BP Amoco until 2001. Elected by the shareholders to the board in April 1999. Aged 55.

Thomas F W McKillop*†

A director since 1999. Joined ICI in 1969 and held a number of senior and general management appointments there before the demerger in 1993, when Zeneca was created. Chief executive of Zeneca Pharmaceuticals from 1994 to 1999 and chief executive of AstraZeneca from 1999. Pro-chancellor of Leicester University. Elected by the shareholders to the board in April 1999. Aged 58.

The Earl of Selborne KBE FRS§

Chairman of The Agricultural Mortgage Corporation

A director since 1995, having been a director of Lloyds Bank since 1994. Managing director of The Blackmoor Estate, his family business. Chancellor of Southampton University since 1996. President of the Royal Geographical Society from 1997 to 2000. Most recently re-elected by the shareholders to the board in April 1999. Aged 61.

Lawrence M Urquhart*

Chairman of Scottish Widows

Joined the board in 2000. Chairman of BAA and a non-executive director of Imerys SA. Joined Burmah Castrol in 1977 and held a number of senior and general management appointments in that company before becoming chief executive in 1985 until 1993 and chairman in 1990 until 1998. Former chairman of English China Clays. Elected by the shareholders to the board in April 2000. Aged 66.

* Member of the audit committee

** Chairman of the audit committee

† Member of the remuneration committee

‡ Chairman of the remuneration committee

§ Member of the nomination committee

♦ Chairman of the nomination committee

▲ Senior independent director

Compensation

Directors' remuneration

The remuneration committee makes recommendations to the board of directors on the executive directors' remuneration and determines, on the board's behalf, specific remuneration packages for the chairman, the deputy chairman and the executive directors. The non-executive directors receive the minutes of remuneration committee meetings and have the opportunity to comment and have their views taken into account before the committee's decisions are implemented. See also "—Board practices—Remuneration committee".

Executive directors' remuneration policy

Lloyds TSB Group plc aims to ensure that the executive directors' remuneration arrangements, in line with our overall practice on pay and benefits, are competitive and designed to attract, retain and motivate executive directors of the highest calibre, who are expected to perform to the highest standards. Account is taken of information, from internal and independent sources, on the remuneration for comparable positions in a wide range of FTSE 100 companies.

Reward package. Each year, with the help of external management consultants, the total remuneration package for executive directors is reviewed by the remuneration committee, and in 2000 Hay Management Consultants were commissioned by the remuneration committee to conduct the review. In 2000, the package for executive directors comprised the following elements:

Basic salary. The aim is to ensure that the responsibilities of the role are reflected in the salary and that salaries are competitively set in relation to other comparable companies.

Annual bonus. The annual bonus scheme was designed to reflect specific goals linked to the performance of the business. In 2000, each executive director was eligible to earn an incentive award equal to 50 per cent of salary. The awards for the group chief executive and group finance director were entirely based on Lloyds TSB Group performance. Other executive directors had part of their award based on Lloyds TSB Group performance and the rest linked to the performance of the sector of the business for which they had responsibility. The awards were based on the attainment of predetermined targets, including economic profit and total expenses. The remuneration committee reviewed the attainment of targets and agreed the bonus payments.

The remuneration committee also considered the bonus opportunities available to executive directors, and has increased these to 75 per cent of basic salary for executive directors and 100 per cent of basic salary for the group chief executive, with effect from the performance year 2001. These higher bonus payments will only be payable for superior performance as measured by the achievement of stretching predetermined targets.

Medium-term incentive plan

In April 2000, shareholders approved the introduction of a medium-term incentive plan which gives executive directors (who do not include the chairman or the deputy chairmen) the opportunity of an award, deferred until the end of 2002 and which is the subject of two performance targets, based on the efficiency ratio and return on equity. For the group chief executive the maximum award will be equal to 50 per cent of aggregate basic salary for the years 2000 - 2002 and for other executive directors, the maximum award will be equal to 25 per cent of aggregate basic salary for these three years.

The two minimum performance targets are a reduction in Lloyds TSB Group's efficiency ratio to 37 per cent by the end of 2002 and a return on equity of 28 per cent by the end of 2002. No payment will be made under the plan unless both these minimum targets are met.

If by the end of 2002 the efficiency ratio is between 37 per cent and 35 per cent or lower and the return on equity is between 28 per cent and 30 per cent or higher, the sum payable increases on a straight line sliding scale to the maximum award. For the year 2000, the efficiency ratio was 46.7 per cent and return on equity was 29.1 per cent.

Long-term rewards

Share option schemes. Lloyds TSB Group plc is committed to the governing objective of maximising shareholder value over time. The board believes that the executive share option scheme for senior executives, provide an effective method of giving executives the incentive to achieve that objective.

Options were granted to executive directors and senior executives within limits set by the rules of the schemes. These limits relate to the number of shares under option and the price payable on the exercise of options. Normally, the limit for the grant of options to an executive in any one year would be equal to one year's remuneration.

Performance conditions are set when the grant of options is made. To meet the performance conditions under which the options were granted, the ranking of Lloyds TSB Group plc, based on total shareholder return (calculated by reference to both dividends and growth in share price) over the relevant period, should be in the top 50 companies in the FTSE 100. There must also have been growth in earnings per share that is at least equal to the aggregate percentage change in the retail price index, plus three percentage points for each complete year of the relevant period.

Under a resolution adopted at the annual general meeting held on 18 April 2001 the rules of the UK Inland Revenue, the United Kingdom government department responsible for assessing and collecting United Kingdom tax revenues, unapproved executive share option scheme were amended so that, in future, the maximum total price of shares over which options may be granted to an executive in any one year will be one and a half times his or her annual base salary (although, in exceptional circumstances, for example on the recruitment of a new executive, this could be increased to four times annual base salary) with a performance multiplier. The maximum performance multiplier will be 3.5.

The performance condition will be set by the non-executive directors at the time of grant. It is intended that the performance condition will be linked to the performance of Lloyds TSB Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) relative to a group of seventeen UK and international companies in the banking and insurance sectors, including Lloyds TSB Group plc. The performance condition will be measured over a three year period commencing at the end of the financial year preceding the grant of the option and continuing until the end of the third subsequent year. If the performance condition is not then met, it will be measured at the end of the fourth financial year. If the condition has not then been met, the options will lapse. It is intended that the performance multiplier will be applied to calculate the number of shares in respect of which options granted to executive directors will become exercisable, which will be calculated on a sliding scale. If Lloyds TSB Group plc is ranked below median the options will not become exercisable. It is intended that options granted to the most senior executives other than executive directors will not be so highly leveraged and as a result, different performance multipliers may be applied to their options. For the majority of executives, options will be granted with the performance condition but no performance multiplier.

No amendments were made to the UK Inland Revenue approved executive share option scheme under which the total price of shares over which options may be granted in any year is limited to £30,000.

In addition to the executive share option scheme, the chairman, deputy chairman and executive directors are entitled to participate in the staff profit sharing scheme which is open to all UK employees who meet the scheme's eligibility criteria. In 2000 the profit sharing amount was 10 per cent of basic salary.

Pensions. Executive directors are, like most other employees, entitled to pensions based on salary and length of service with Lloyds TSB Group plc, with a maximum pension of two-thirds of final salary, unless otherwise disclosed.

Other benefits. Other benefits include the use of a car and medical insurance.

Directors' emoluments for 2000

	Salaries/fees £000	Other benefits[1] £000	Performance-related payments £000	Profit sharing £000	2000 Total £000	1999 £000
Directors who served during 2000:						
M K Atkinson	325	16	135	33	509	482
Ewan Brown	45				45	32
A C Butler	33				33	32
P B Ellwood	550	22	229	55	856	807
M E Fairey	380	24(*)	154	38	596	529
S M Forbes	34				34	45
C S Gibson-Smith	30				30	30
Dennis Holt[2]	275	13	113	27	428	-
A G Kane	300	14	130	30	474	-
L E Linaker[3]	36				36	46
T F W McKillop	33				33	30
A E Moore	185	11		20	216	204
Sir Brian Pitman[3]	400	48(*)		40	488	440
D P Pritchard	325	14(*)	124	33	496	450
M D Ross	302	12	124	30	468	-
Lord Selborne	42				42	54
L M Urquhart	70				70	-
M A van den Bergh	63	5(*)			68	-
Former directors who served during 2000:						
Sir Nicholas Goodison	73	3		7	83	329
P C Nicholson	10				10	35
Dame Bridget Ogilvie	8				8	30
G F Pell	24	1			25	453
Former directors who served during 1999						557
	3,543	183	1,009	313	5,048	4,585

(1) 'Other benefits' include the use of a car, medical cover, relocation payment and in some cases (*) the annual cost of life insurance cover similar to that provided for employees by Lloyds TSB Group plc pension scheme.

The total for the highest paid director (Mr Ellwood) was £856,000. The total for the highest paid director in 1999 (Sir Brian Pitman), including the gain of £3,025,000 on the exercise of share options, was £3,465,000. The gains on the exercise of share options arise from increases in the share price since the options were granted. Shareholders who held shares for the same periods would have gained similarly from these increases.

(2) This director left Lloyds TSB Group on 31 August 2001.

(3) These directors retired at the annual general meeting on 18 April 2001.

Directors' pensions in 2000

Pension benefits earned by the directors:

	(a) Additional pension earned (excluding inflation) during the year ended 31 December 2000 £	(b) Increase in transfer value (excluding inflation) £	(c) Accrued pension entitlement at 31 December 2000 £
M K Atkinson	20,619	332,217	196,527
P B Ellwood	31,320	570,367	291,914
M E Fairey(1)	16,867	272,396	105,501
Dennis Holt(2)	79,056	1,150,733	166,981
A G Kane	16,888	241,065	98,319
D P Pritchard(3)	2,768	49,190	18,042
M D Ross	37,979	574,521	213,976

The table above shows the pension earned by the directors during the year and their total entitlement as at 31 December 2000.

The directors are all members of one of Lloyds TSB Group's defined benefit schemes. This means that at retirement each director is entitled to receive an annual pension based on salary and service completed at date of leaving.

Column (a) in the table shows the additional pension earned by each director during the year. This is calculated as one year's service at the Scheme's accrual rate multiplied by salary. The calculation is adjusted to take account of inflation and shows the 'real' increase in the entitlement over the year. The figure shown is an annual pension payable from normal retirement date.

Column (b) shows the capital value of the additional pension earned and is intended to illustrate the cost of providing the pension that has accrued over the year. The figure shown is the amount that would be available to transfer to another pension scheme in respect of the one year of accrual if the director left service.

Column (c) shows the total pension that the director has accrued during his membership of the pension scheme. This is the pension to which he would be entitled if he left service at the year-end. This figure is calculated using the relevant Scheme's accrual rate, service to the year-end and pensionable salary at that date.

The benefits disclosed in the table are those provided in accordance with the rules of each Scheme and for which the employer is responsible for funding. They do not take into account any voluntary provision that the individual director may be making.

(1) Includes additional benefits from the separate fund established to cover pension obligations of those who joined Lloyds TSB Group after 1 June 1989 and who are subject to the UK Inland Revenue earnings cap relating to pensions, introduced by the Finance Act 1989.

(2) Mr. Holt left Lloyds TSB Group on 31 August 2001.

(3) Mr Pritchard is entitled to additional benefits from the defined contribution section of the separate fund for those who joined Lloyds TSB Group after 1 June 1989. Lloyds TSB Group pays an annual contribution to the fund in respect of Mr Pritchard of 27 per cent of salary in excess of the earnings cap, which for the year 2000 equated to £63,045 and for 1999, to £54,041.

Board practices

Audit committee

The audit committee, comprising Professor Brown (chairman), Dr. McKillop, Mr. Moore and Mr. Urquhart, is responsible for ensuring that the annual accounts, interim statements and other major financial statements published in the name of the board of directors follow approved accounting principles and give an accurate account of Lloyds TSB Group's business. The audit committee reviews the adequacy of the accounting, financing and operating controls in co-ordination with the auditors and the Group Risk Management Division. The audit committee also recommends Lloyds TSB Group's auditors to the board for their appointment and their remuneration and monitors the auditors' independence. The audit committee meets four or more times per year.

Nomination committee

The nomination committee, comprising Mr van den Bergh (chairman), Mr Moore, Mr Butler and the Earl of Selborne, considers potential candidates for appointment as directors and makes recommendations to the board. The group chief executive is invited to attend all meetings of the committee. The committee also makes recommendations to the board concerning the following:

- the re-appointment of any non-executive director by the board at the conclusion of his or her specified term;
- the re-election of any director by the shareholders under the retirement by rotation provisions of the articles of association;
- any matters relating to the continuation in office as a director of any director at any time; and
- the appointment of any director to executive or other office, although other arrangements apply in the case of the positions of chairman and chief executive.

Remuneration committee

The remuneration committee, comprising Mr Butler (chairman), Miss Forbes, Dr Gibson-Smith, and Dr McKillop, makes recommendations to the board on the framework of executive directors' remuneration and its cost, and determines, on the board's behalf, specific remuneration packages for each of the chairman, the deputy chairman and any director of Lloyds TSB Group plc or Lloyds TSB Bank who is also a salaried employee of these companies or a subsidiary, and any employee of Lloyds TSB Group plc or any subsidiary whose salary exceeds £300,000 per annum.

Additionally, all the non-executive directors receive the minutes of remuneration committee meetings and have the opportunity to comment and have their views taken into account before that committee's decisions are implemented.

Following the provision in the Articles of Association the shareholders agree an amount of remuneration that may be paid to the non-executive directors in any one year. The chairman's committee makes recommendations to the board on the non-executive directors' remuneration and the board approves the amount within the limit agreed by the shareholders.

Directors' service contracts

Mr Atkinson, Mr Ellwood, Mr Fairey, Mr Kane and Mr Pritchard each has a service agreement which Lloyds TSB Group plc may terminate by giving one year's notice. Mr Ross's service agreement provides for two years' notice for the first two years of employment with Lloyds TSB Group plc. After that, the notice period will decrease by one month for each month of service. In the fourth year, Mr Ross's contract will provide for one year's notice, like the other executive directors' contracts. None of the other directors has a service agreement with a notice period of one year or more.

The remuneration committee has considered the provisions of the UK listing authority's corporate governance code relating to compensation in the event of early termination of directors' service contracts and a departing director's duty to mitigate loss. The committee reviewed the wording of the executive directors' contracts and felt that, as the notice period did not exceed one year except in the case of Mr Ross as mentioned above, there was no need to provide explicitly for compensation payments on early termination. Therefore, none of the directors' service contracts contain provisions for predetermined compensation in the event of the termination of employment in excess of an amount equivalent to the basic salary and value of any benefits in kind payable over the notice period, although certain options will vest immediately upon termination without it being necessary to satisfy the related performance conditions. The service contracts provide each director with a pension upon retirement.

Employees

As at 31 December 2000, Lloyds TSB Group employed 77,540 people (full-time equivalent), compared with 76,056 at 31 December 1999. At 31 December 2000, 66,144 employees were located in the UK, 5,813 in the Americas, 4,154 in New Zealand, and 1,429 in the Rest of the World. At the same date, 49,028 people were employed in UK Retail Banking and Mortgages, 6,420 in Insurance and Investments, 20,902 in Wholesale Markets and International Banking, and 1,190 in other functions.

Lloyds TSB Group is committed to employment policies which follow best practice, based on equal opportunities for all employees irrespective of sex, race, national origin, religion, colour, disability, sexual orientation, age or marital status.

In the UK, Lloyds TSB Group supports Opportunity Now and Race for Opportunity, campaigns to improve opportunities for women and ethnic minorities in the workplace. Lloyds TSB Group is a member of the Employers' Forum on Disability in support of employment of people with disabilities. This recognises the need for ensuring fair employment practices in recruitment and selection, and the retention and career development of disabled staff.

Employees are kept closely involved in major changes affecting them through a variety of means. In the UK, Lloyds TSB Group has long standing arrangements with finance sector unions covering both collective and individual representation of staff. Lloyds TSB Group has gone through substantial changes in recent years; adjusting for the effect of acquisitions and disposals underlying staff numbers have reduced by 14,669 since 1995. However, during this time no material strikes or work stoppages have occurred. Additionally staff are kept closely involved in major changes affecting them through such measures as regular briefings, internal communications and opinion surveys as a way of ensuring the views of employees are taken into account in reaching decisions.

Profit sharing and share option schemes are available for most staff, to encourage their financial involvement in Lloyds TSB Group. Further details are given in "—Compensation—Long-term rewards—Share option schemes".

Share ownership

Directors' interests

The interests, all beneficial, of those who were directors at the end of 2000 in ordinary shares in Lloyds TSB Group plc were:

	At 31 December 2000	At 1 January 2000 (or date of appointment if later)
M K Atkinson	31,077	29,597
Ewan Brown	3,274	2,187
A C Butler	2,000	2,000
P B Ellwood	177,501	176,162
M E Fairey	72,218	70,876
S M Forbes	2,000	2,000
C S Gibson-Smith	3,151	3,065
Dennis Holt	19,264	18,035
A G Kane	78,865	73,458
L E Linaker	5,000	5,000
T F W McKillop	1,000	1,000
A E Moore	1,043,196	1,041,911
Sir Brian Pitman	2,578,688	2,576,438
D P Pritchard	2,151	866
M D Ross	2,500	-
Lord Selborne	3,372	3,372
L M Urquhart	2,124	-
M A van den Bergh . .	4,000	4,000

Options to acquire ordinary shares of Lloyds TSB Group plc:

	At 1 January 2000 (or date of appointment if later)	Granted during 2000	Exercised/ lapsed during 2000	At 31 December 2000	Weighted average exercise price at 31 December 2000	Exercise price of options granted, exercised or lapsed during 2000	Market price at date of exercise	Amount of gain on exercise[2] 2000 £000	1999 £000
M K Atkinson	350,875	59,144		436,433	441p	549.5p			
		26,136				615.5p			
		916				442p			
			282[3]			718p			
			356[3]			580p			8
P B Ellwood[1]	490,486	80,364		632,564	533p	549.5p			
		61,714				615.5p			
M E Fairey[1]	330,982	85,896		427,809	501p	549.5p			
		10,931				615.5p			43
Dennis Holt	53,237	42,038		102,830	626p	549.5p			
		10,889				615.5p			
			419			164.57p	642p	2	
			682			253p	642p	3	
			352			288p	642p	1	
			206			416p	642p	1	
			237[3]			580p			
			269[3]			768p			
			218[3]			632p			
			187[3]			719p			
			376[3]			718p			
			136[3]			253p			
			127[3]			288p			
			125[3]			416p			
A G Kane[1]	253,806	64,786		329,331	505p	549.5p			
		11,841				615.5p			
		4,157				442p			
			3,682			178p	640.5p	20	
			1,015[3]			768p			
			562[3]			719p			
A E Moore	62,984			62,984	251p				8
Sir Brian Pitman . . .	4,374			4,374	309p				3,025
D P Pritchard	94,687	71,519		176,591	689p	549.5p			
		10,385				615.5p			
M D Ross	-	265,696		268,941	549p	549.5p			
		3,245				520p			
Gain made by Sir Nicholas Goodison, who retired on 11 April 2000									172
Gains made by S A Maran, who served during 1999									27
Gain made by G E Pell, who left the board on 7 January 2000									815
								27	4,098

The options outstanding are exercisable between 2001 and 2010.

(1) These directors will receive additional shares on exercising share options held on 28 December 1995. These shares will compensate them for the special dividend of 68.3p per share which was paid to former TSB Group shareholders following the merger with Lloyds TSB Bank, but which was not paid to option holders. In that regard Mr Kane received 402 additional shares when he exercised the share options shown above.

(2) This is the difference between the market price of the shares on the day on which the share option was exercised and the price paid for the shares, and includes the value of shares issued to compensate directors for the special dividend mentioned above.

(3) During the year these share options lapsed following termination of savings contracts linked to the staff share save option scheme, in accordance with the rules of the scheme.

The market price for a share in Lloyds TSB Group plc at 31 December 2000 was 708p. The range of prices between 1 January 2000 and 31 December 2000 was 517p to 742.5p.

None of the other directors at 31 December 2000 had options to acquire shares in Lloyds TSB Group plc or its subsidiaries.

Scottish Widows loan capital

At the end of the year, Mr Ross had an interest in £57,394 of Scottish Widows Group Limited floating rate unsecured loan notes 2008, issued during the year.

Directors' non-beneficial interests

Directors had non-beneficial interests as follows:

1. Mr Atkinson, Mr Ellwood, Mr Fairey, Mr Holt, Mr Kane, Mr Moore, Sir Brian Pitman, Mr Pritchard, Mr Ross and Mr van den Bergh, together with some 70,000 other employees, were potential beneficiaries in the 749,896, 66,536 and 3,100,000 shares held at the end of the year by the Lloyds TSB qualifying employee share ownership trust, the TSB Group employee trust and Lloyds TSB Group employee share ownership trust, respectively. 1,888,211, 2,574,721 and 3,100,000 shares, respectively, were held by these trusts at the beginning of the year.

2. At the end of the year, Mr Ellwood also had a non-beneficial interest in 7,000 shares held in another trust created during the year.

None of those who were directors at the end of the year had any other interest in the capital of Lloyds TSB Group plc or its subsidiaries.

MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major shareholders

Lloyds TSB Group plc does not know of any shareholder owning beneficially, directly or indirectly, five per cent or more of the shares of Lloyds TSB Group plc, or of any shareholder having more than five per cent of the voting rights.

At 31 December 2000, those who were directors of Lloyds TSB Group plc on that day beneficially owned the following ordinary shares, not including options:

Title of Class	Identity of Person or Group	Amount Owned	Per cent of Class
Ordinary shares, nominal value 25 pence each	Directors (18 persons)	4,031,381	0.07%

In addition, those directors held, as at 31 December 2000, options to acquire 2,441,857 shares, all of which were issued pursuant to the executive share option schemes and sharesave share option schemes of Lloyds TSB Group plc.

Lloyds TSB Group plc is not owned or controlled directly or indirectly by another corporation or by any government and Lloyds TSB Group plc is unaware of any arrangements which might result in a change in control.

Related party transactions

Lloyds TSB Group, as at 31 December 2000, had related party transactions with ten directors and thirty six officers. See Note 45 to the Consolidated Financial Statements. The transactions in question were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectibility or present other unfavourable features.

REGULATION

European Union directives

European Union ("EU") Directives, which are required to be implemented in member states through national legislation, have a strong influence over the framework for supervision and regulation of banking and financial services in the UK. The banking Directives aim to harmonise banking regulation and supervision throughout member states by setting out minimum standards in key areas such as capital adequacy and deposit and investor compensation schemes. The UK has now largely implemented these minimum requirements. The Directives also require member states to give "mutual recognition" to each other's standards of regulation. Under the Second Banking Co-ordination Directive the concept of mutual recognition has also been extended to create the "passport" concept: this gives a bank which has been authorised in its "home" state the freedom to establish branches in, and to provide cross-border services into, other member states without the need for additional local authorisation.

Whilst credit institutions such as those in Lloyds TSB Group are primarily regulated in their home state by a local regulator, the EU Directives prescribe minimum criteria for the authorisation of credit institutions and the prudential supervision applicable to them. Investment firms are subject to a similar regulatory environment and can obtain a "passport" under the Investment Services Directive. Despite the application of the "passports" a member state can impose certain requirements on the conduct of banking and investment activities in its boundaries (including conduct of business rules).

Credit institutions and investment firms are required to make adequate capital provisions for risks entered into: the Directives set out the deemed quality and acceptable relative proportions of various types of capital. The Directives also regulate permissible counterparty exposures, provide for the supervision of consolidated financial groups' capital adequacy requirements and define permissible exposures to individual or linked counterparties.

During 1999 and 2000 both the Basel Committee on Banking Supervision and the European Commission issued consultation documents with the purpose of replacing the Capital Accord of 1988 with a new capital adequacy framework. The outcome of these proposals and consultations is likely to result in comprehensive changes to the capital adequacy regulations applicable to Lloyds TSB Group. The proposals for the new framework cover three main areas:

- Minimum capital requirements and methodologies for allocation of regulatory capital for credit and other risks.
- A supervisory review process, including the setting of capital ratios by bank supervisors.
- Improvement in the stability of the financial system by reliable and timely disclosure of risk information.

UK regulations

In the UK, the fundamental concepts of constitutional issues, company registration and the format and production of company annual reports and accounts are controlled by the UK Companies Act 1985. In addition, as a company listed on the London Stock Exchange Limited, Lloyds TSB Group is obliged to comply with a code of practice known as the Combined Code regarding corporate governance. As part of the continuing obligations of Lloyds TSB Group under the rules of that Exchange it must disclose, through the Exchange, major developments in its sphere of activity which may lead to substantial movement in the price of its securities listed on that Exchange.

The undertaking of certain financial activities in the UK subjects the relevant entity to further regulatory regimes. The UK government is currently in the process of implementing major changes to the supervisory regimes affecting financial services businesses. Ultimately there will be a single statutory regulator, the Financial Services Authority, covering the full range of financial services. Specific changes which have already taken effect and which affect Lloyds TSB Group are discussed further below.

The most significant regulatory regimes relevant to Lloyds TSB Group are discussed below.

Banking

As part of the first stage of the reform process, primary responsibility for the prudential supervision of UK banks was transferred from the Bank of England to the Financial Services Authority under the Bank of England Act 1998. The Bank of England retained its monetary policy role and responsibility for the overall stability of the financial system. The next stage in the reform process is the implementation of the Financial Services and Markets Act, which received Royal Assent in 2000. The Financial Services and Markets Act will replace the existing legislation including the Financial Services Act 1986 and the Banking Act 1987, and its provisions are expected to come into force in the second half of 2001. From then on the Financial Services Authority will become the single regulator of the UK financial services industry. The framework for the supervision of banks is set out in the Banking Act 1987 (the "Banking Act"). The Banking Act prohibits any person from accepting a deposit in the UK in the course of a deposit-taking business unless authorised under the Banking Act or specifically exempted from such provision. Lloyds TSB Bank and certain other Lloyds TSB Group companies are authorised institutions under the Banking Act and Lloyds TSB Group is subject to supervision by the Financial Services Authority on a consolidated basis.

The Financial Services Authority carries out its supervision of the UK banking sector through the collection of information from a series of periodic statistical and prudential returns covering both sterling and non-sterling operations, meetings with the senior management of the banks and reports obtained from the banks' reporting accountants. The regular reports include operating statements and returns covering (amongst other things) capital adequacy, liquidity, large single exposures and large exposures to related borrowers, lendings by industry sector and geographical area, maturity analyses and foreign exchange activities. A new risk-based approach for the supervision of all banks was introduced in 1998. Under this new approach, the starting point for the Financial Services Authority's supervision of a bank is based on a systematic analysis of that bank's risk profile.

UK banks are required to maintain, in interest-free accounts at the Bank of England, a non-operational cash balance of a percentage of eligible liabilities, which are, broadly, a measure of the sterling resources available to the banks for lending purposes.

Depositors in the UK are provided with a protection for their deposits with authorised institutions. Depositors with a failed institution are entitled to receive 90 per cent of their protected deposits from the UK deposit protection fund, subject to a maximum amount of £20,000 (or the sterling equivalent of €22,222, whichever is the higher), including both principal and accrued interest. All authorised institutions are required to be members of the deposit protection scheme and are subject to a levy in proportion to their deposit base, which includes deposits in sterling, other European Economic Area currencies and euro, to finance the deposit protection fund.

The Banking Code (the "Code") is a voluntary code agreed by UK banks and building societies which became effective in 1992, with subsequent revisions in 1994, 1997 and 2000, and which has been adopted by Lloyds TSB Group. The Code defines the responsibilities of the banks and building societies to their personal customers in connection with the operation of their accounts and sets out minimum standards of service that these customers can expect from institutions which subscribe to the Code. Compliance with the Code is monitored by the Banking Code Standards Board.

Investment business

Lloyds TSB Group's securities and investment business in the UK is regulated under the Financial Services Act 1986 (the "Financial Services Act"). This was enacted to establish a comprehensive framework for the regulation of the Securities market and to strengthen investor protection. Under the Financial Services Act, any institution which carries out "investment business", broadly defined under the Act, is required to be authorised as set out in the Act.

The Financial Services Authority is the regulatory body with oversight responsibilities under the Financial Services Act under powers delegated to it by the Treasury. The Financial Services Authority recognises a number of self-regulating organisations (each, an "SRO"), membership of which confers authorisation for the conduct of investment business. Membership of an SRO requires that an entity be accepted by the relevant SRO as a "fit and proper" person (as regards, amongst other things, their financial soundness and ability to comply with the rules of the SRO) and continuing compliance with the rules of such SRO (as regards, amongst other things, compliance with specified principles in the conduct of its business and various customer protection requirements). Lloyds TSB Group's investment business in the UK is regulated accordingly. Authorised institutions are required to participate in an investors compensation scheme which provides private investors with protection against the default of a participating institution up to a maximum amount of £48,000.

"Listed Money Market institutions" are exempted from the provision of the Financial Services Act in respect of their money market activities only. Such money market activities however remain regulated by the Financial Services Authority which expects such entities to observe the "London Code of Conduct" and other regulations contained in the paper entitled "The Regulation of the Wholesale Cash and OTC Derivatives Markets" which was originally issued by the Bank of England to regulate the operation of the wholesale money markets. Lloyds TSB Bank has been granted listed money market institution status.

The Personal Investment Authority is the SRO which regulates those companies involved in marketing and selling retail investment products, while the Investment Management Regulatory Organisation regulates fund management, unit trust and similar operations.

Under the Financial Services and Markets Act, the Financial Services Authority will assume the roles of the SROs and certain other related industry regulators to become the single financial regulator for the UK. In addition to its supervisory provisions and authorisation requirements, the Act will also make various changes to certain aspects of financial services criminal and regulatory law to which Lloyds TSB Group will need to adapt and comply.

Insurance

The insurance companies within Lloyds TSB Group are subject to the provisions of the UK Insurance Companies Act 1982, which lays down the framework within which all UK insurance companies must act. In particular, rules exist to:

- Restrict the carrying out of insurance business in the UK to persons authorised by the Financial Services Authority.

- Require the separation of the long-term business assets of an insurance company from the assets attributable to shareholders.

- Require, and define the role of, an appointed actuary for each insurance company carrying out long-term business in the UK. The appointed actuary is responsible for monitoring the financial health of the company.

- Require the directors to prepare an annual report on the solvency position of the insurer for the Financial Services Authority. The valuation basis for assets is defined and there are limits on the extent to which certain categories of assets are allowable in determining the solvency position. The appointed actuary must calculate the value of long-term liabilities and details of his investigations are contained in the directors' solvency report. In determining the value of long-term liabilities the appointed actuary must use a method and valuation basis permitted by the UK Insurance Companies Act 1982.

- Require the maintenance of a prescribed solvency margin at all times. The amount of the solvency margin depends upon the amount and type of business an insurance company writes. Failure to maintain the required solvency margin gives the regulator grounds for intervention.

- Prevent an insurer, and its parent, from declaring a dividend when long-term business assets do not exceed long-term liabilities. Furthermore, surplus assets in the long-term fund can only be transferred out once the appointed actuary has completed an investigation.

- Prevent the use of the long-term business assets for purposes other than supporting long-term business.

In addition, investment business is defined to include most long-term life insurance (other than some term life insurance) and such business is accordingly regulated by the Financial Services Act and the provisions described above. In the case of insurance, the Financial Services Act is largely concerned with the marketing and sale of the business.

The Policyholders' Protection Board was established by the Policyholders' Protection Act of 1975 to provide indemnity for a percentage of policyholder claims in the case of an insurance company's default. Protection is only given to persons holding policies either issued by an authorised insurer or written in the UK by an EU insurance company operating under an insurance passport. The guarantee is funded by a levy imposed on authorised insurance companies and calculated by reference to premium income. Long-term and general business are subject to separate levies.

Other relevant legislation and regulation

The Consumer Credit Act 1974 regulates both brokerage and lending activities in the provision of personal secured and unsecured lending. The Data Protection Acts 1984 and 1998 regulate, among other things, the retention and use of data relating to individual customers. The Unfair Terms in Consumer Contracts Regulations 1994 came into force in July 1995. These Regulations together with the Unfair Contract Terms Act 1977 apply to certain contracts for goods and services entered into with customers. The main effect of the Regulations is that a contractual term covered by the Regulations which is "unfair" will not be enforceable against a consumer. These Regulations apply, among other things, to mortgages and related products and services.

The Mortgage Code is a voluntary code followed by lenders and mortgage intermediaries dealing with customers in the UK who want a loan secured on their home. It sets standards of good mortgage practice, which are followed as a minimum standard by those subscribing to it. Compliance with the Mortgage Code is monitored by the Mortgage Code Compliance Board.

Rest of the world

Lloyds TSB Group operates in many countries around the world and its overseas branches, subsidiaries and associate companies are subject to reporting and reserve requirements and controls imposed by the relevant central banks and regulatory authorities.

LISTING INFORMATION

The information in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the London Stock Exchange, and has not been prepared or independently verified by us.

The ordinary shares of Lloyds TSB Group plc are listed and traded on the London Stock Exchange under the symbol "LLOY.L". The prices for shares as quoted in the official list of the London Stock Exchange are in pounds sterling. The following table shows the reported high and low closing prices for the ordinary shares on the London Stock Exchange.

	Price per share (in pence)	
	High	**Low**
Annual prices:		
2000	774.5	517.0
1999	1,060.0	725.0
1998	1,070.5	575.5
1997	850.5	428.0
1996	435.0	294.5
Quarterly prices:		
2001:		
Third quarter (through 31 August)	742.0	646.0
Second quarter	772.0	684.5
First quarter	751.0	610.0
2000:		
Fourth quarter	725.0	614.5
Third quarter	660.0	576.5
Second quarter	742.5	598.0
First quarter	774.5	517.0
1999:		
Fourth quarter	897.0	725.0
Third quarter	907.0	727.5
Second quarter	1,060.0	825.0
First quarter	991.5	751.0
Monthly prices:		
August 2001	742.0	708.0
July 2001	720.5	646.0
June 2001	751.0	694.0
May 2001	772.0	705.0
April 2001	735.0	684.5
March 2001	699.5	610.0

On 31 August 2001, the closing price of shares on the London Stock Exchange was 710.5 pence, equivalent to $10.31 per share translated at the Noon Buying Rate of $1.4510 per £1.00 on 31 August 2001.

Lloyds TSB Group plc's ADRs have been traded on the over-the-counter market in the US under the symbol "LLDTY" since March 2000. Lloyds TSB Group plc has applied to list the ADSs on The New York Stock Exchange under the symbol "LYG" and the shares have been approved for listing. Lloyds TSB Group plc expects such listing to occur on or about 27 November 2001. The prices for Lloyds TSB Group plc's ADRs, as quoted below are in US dollars. Each ADS represents four ordinary shares. The following table shows the reported high and low closing prices for the ADRs in the over-the-counter market in the US.

	Price per ADR (in US dollars)	
	High	**Low**
Annual prices:		
2000	45.27	33.50
Quarterly prices:		
2001:		
Third quarter (through 31 August)	44.00	36.86
Second quarter	43.94	38.94
First quarter	46.00	34.75
2000:		
Fourth quarter	43.75	35.75
Third quarter	38.75	33.50
Second quarter	45.27	37.53
Monthly prices:		
August 2001	44.00	40.52
July 2001	41.07	36.86
June 2001	41.66	38.94
May 2001	43.94	39.89
April 2001	42.75	39.75
March 2001	40.44	34.75

DESCRIPTION OF SHARE CAPITAL AND MEMORANDUM AND ARTICLES OF ASSOCIATION

Share capital

The shares of Lloyds TSB Group plc are in registered form and eligible for settlement within CREST. CREST is an electronic share settlement system developed for the Bank of England and used by the London Stock Exchange. It offers investors the opportunity to hold shares in secure uncertificated form and enables the transfer of shares electronically in real-time.

Lloyds TSB Group plc's authorised and issued share capital at the close of business on 31 December 1999 was as follows:

	Authorised		Issued	
Share Description	**Number**	**Amount**	**Number**	**Amount**
Ordinary shares, nominal value 25 pence each . . .	6,911,052,632	£1,727,763,158	5,475,190,732	£1,368,797,683
Limited voting ordinary shares, nominal value 25 pence each	78,947,368	£19,736,842	78,947,368	£19,736,842
Limited voting preference shares, nominal value £1.00 each	300,000,000	£300,000,000	-	-

At the annual general meeting on 11 April 2000, shareholders voted to reorganise the £300 million authorised but unissued limited voting preference shares into preference share capital denominated in sterling, US dollars, euro and yen as detailed below.

Lloyds TSB Group plc's authorised and issued share capital at the close of business on 31 December 2000 was as follows:

	Authorised		Issued	
Share Description	**Number**	**Amount**	**Number**	**Amount**
Ordinary shares, nominal value 25 pence each	6,911,052,632	£1,727,763,158	5,507,430,719	£1,376,857,680
Limited voting ordinary shares, nominal value 25 pence each	78,947,368	£19,736,842	78,947,368	£19,736,842
Preference shares, nominal value 25 pence each	175,000,000	£43,750,000	-	-
Preference shares, nominal value $.25 cents each . . .	160,000,000	$40,000,000	-	-
Preference shares, nominal value €.25 cents each . . .	160,000,000	€40,000,000	-	-
Preference shares, nominal value Japanese ¥25 each .	50,000,000	¥1,250,000,000	-	-

The authorised share capital of Lloyds TSB Group plc as at the close of business on 31 August 2001 was the same as on 31 December 2000 as set out in the above table. Lloyds TSB Group plc's issued share capital as at the close of business on 31 August 2001 was as follows:

Share Description	**Number**	**Amount**
Ordinary shares, nominal value 25 pence each	5,556,472,987	£1,389,118,247
Limited voting ordinary shares, nominal value 25 pence each	78,947,368	£19,736,842
Preference shares, nominal value 25 pence each	-	-
Preference shares, nominal value $.25 cents each	-	-
Preference shares, nominal value €.25 cents each	-	-
Preference shares, nominal value Japanese ¥25 each	-	-

The following table shows the options granted under the Lloyds TSB Employees' Share Schemes that remained outstanding as at 31 August 2001:

Scheme name	**Options outstanding**
Lloyds TSB Group Share Save Scheme 1997	79,081,683
Lloyds TSB Group No. 1 Executive Share Option Scheme 1997	1,999,641
Lloyds TSB Group No. 2 Executive Share Option Scheme 1997	10,517,331
Lloyds TSB Group Staff Share Save Scheme	35,247,556
Lloyds TSB Group Option Rollover Scheme 1997	106,677
Lloyds TSB Group Senior Executives' Share Option Scheme 1996	1,363,000
Lloyds TSB Group plc Executive Share Option Scheme (1989)	956,951
Lloyds Bank Plc Senior Executives' UK Share Option Scheme 1987	356,879
Lloyds TSB Group plc Executive Share Option Scheme	369,785
Lloyds TSB Group Overseas Senior Executive Option Scheme 1996	50,000
Lloyds TSB Group Overseas Senior Executive Option Scheme 1997	258,510

The following alterations in the issued share capital of Lloyds TSB Group plc have occurred in the three years preceding 31 August 2001:

- During 1998, 15,379,660 ordinary shares were issued to certain shareholders pursuant to a scrip dividend scheme in lieu of cash dividends. In addition, 23,415,690 shares were allotted and issued under the Employees' Share Schemes during 1998 for an aggregate consideration of £41,116,816.

- During 1999, 39,985,077 ordinary shares were allotted and issued under the Employees' Share Schemes for an aggregate consideration of £312,880,363, including 4,709,153 issued to the staff profit sharing scheme.

- During 2000, 32,239,987 ordinary shares were allotted and issued under the Employees' Share Schemes for an aggregate consideration of £198,786,023.

- Between 1 January 2001 and 31 August 2001 49,042,268 ordinary shares were allotted and issued under the Employees' Share Schemes for an aggregate consideration of £323,966,426 including 8,891,279 ordinary shares issued to the staff profit sharing scheme.

Under a resolution adopted at the annual general meeting held on 18 April 2001, the directors are authorised for the purposes of Section 80 of the UK Companies Act 1985 to allot relevant securities (as defined in that section) up to an aggregate nominal value of £357,895,913, US$40,000,000, €40,000,000 and ¥1,250,000 for the period ending on the day of the annual general meeting of Lloyds TSB Group plc in 2002 or on 17 July 2002, whichever is earlier.

Under powers contained in Lloyds TSB Group plc's articles of association and a resolution adopted at the annual general meeting held on 18 April 2001, the directors are empowered to allot equity securities (as defined in Section 94 of the UK Companies Act 1985) wholly for cash up to a maximum nominal value of £69,831,217 or in a rights issue to shareholders in proportion to their holdings of shares or by the issue of preference shares at any time or times during the period expiring on the earlier of the date of the annual general meeting of Lloyds TSB Group plc to be held in 2002.

Under a resolution adopted at the annual general meeting held on 18 April 2001, Lloyds TSB Group plc is authorised to purchase in the market up to 558 million of its ordinary shares, representing about 10 per cent of the issued ordinary share capital as of 18 April 2001. The authority will expire at the earlier of 17 October 2002 or the conclusion of the 2002 annual general meeting unless renewed again. The minimum price which may be paid for each ordinary share is 25p, and the maximum price, inclusive of expenses, which may be paid is an amount equal to 105 per cent of the average of the middle market quotations as derived from the stock exchange daily official list for the five business days immediately preceding the day on which the ordinary share is purchased. Any shares purchased in this way would be cancelled.

Lloyds TSB Group plc is subject to the continuing obligations of the UK Listing Authority with regard to the issue of securities for cash. The provisions of section 89 of the UK Companies Act 1985 confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an Employees' Share Scheme as defined in section 743 of the UK Companies Act 1985. The provisions of section 89 of the UK Companies Act 1985 apply to the authorised but unissued share capital in respect of which the directors have authority to make allotments pursuant to section 80 of the UK Companies Act 1985 except to the extent such provisions have been disapplied as referred to above.

Preferred securities

The following is a summary of preferred securities which might in certain circumstances result in the issuance of ordinary or preference shares in Lloyds TSB Group plc. The terms of such preference shares are not specified in the memorandum and articles of association, but rather in the Limited Partnership Agreements dated 4 February 2000 relating to such securities.

On 4 February 2000, Lloyds TSB Capital 1 L.P. ("LTC1") issued 430,000 euro step-up non-voting non-cumulative preferred securities of €1,000 nominal value each ("euro preferred securities") and Lloyds TSB Capital 2 L.P. ("LTC2") issued 250,000 sterling step-up non-voting non-cumulative preferred securities of £1,000 nominal value each ("sterling preferred securities", and together with the euro preferred securities, the "preferred securities"). Lloyds TSB Group has not issued any US dollar preferred securities or yen preferred securities.

If the total capital ratio of Lloyds TSB Group or Lloyds TSB Bank as measured in accordance with Financial Services Authority requirements falls below the prevailing international minimum (at the date of issue, 8 per cent), and subsequently as prescribed by the Financial Services Authority) the preferred securities will mandatorily be exchanged for preference shares issued by Lloyds TSB Group plc. In addition, if LTC1 or LTC2 is dissolved the preferred securities issued by it will be mandatorily exchanged for preference shares of Lloyds TSB Group plc . Each preferred security will be exchanged for one preference share of Lloyds TSB Group plc which will have dividend, redemption, liquidation and voting rights equivalent to those of the preferred security and a paid-up value (par plus premium) equal to the nominal value of the preferred security.

The preferred securities are perpetual, but LTC1 and LTC2 each have the right, subject to Financial Services Authority consent, to redeem the preferred securities at par on specified optional redemption dates, the first being 7 February 2012 in respect of the euro preferred securities and 7 February 2015 in respect of the sterling preferred securities. If the preferred securities are not subject to redemption on the first optional redemption date, holders will have the right to exchange their preferred securities for a cash amount equal to the nominal value of their preferred securities, which will be raised through an issue of ordinary shares of Lloyds TSB Group plc. Lloyds TSB Group plc will seek to procure bids specifying the lowest number of shares for which the bidder would settle the preferred securities. To the extent that insufficient bids are received, the remaining preferred securities will be exchanged for ordinary shares issued at a 5 per cent discount to their market price.

If the preferred securities have been exchanged for preference shares in Lloyds TSB Group plc before the first optional redemption date, holders of the preference shares will have the right to exchange their preference shares for ordinary shares, as described above.

Perpetual capital securities

The following is a summary of perpetual capital securities issued by Lloyds TSB Bank which might in certain circumstances result in the issuance of ordinary shares of Lloyds TSB Group plc. On 25 April 2001 Lloyds TSB Bank issued 30,000,000 6.625 per cent perpetual capital securities of €25 nominal value each. The terms of the perpetual capital securities are not set out in the memorandum and articles of association, but rather in the Trust Deed dated 25 April 2001 relating to such securities. Lloyds TSB Bank may elect at any time to satisfy its obligation to make a payment in respect of the perpetual capital securities by the issue of its ordinary shares to the Trustee for the holders of the perpetual capital securities. In that event, Lloyds TSB Group plc will issue its ordinary shares to the Trustee or its agent in exchange for the ordinary shares so issued by Lloyds TSB Bank. When sold, Lloyds TSB Group plc's shares will provide a cash amount which will be paid on behalf of the Trustee to holders of the perpetual capital securities in respect of the relevant payment. The calculation agent will calculate in advance the number of ordinary shares of Lloyds TSB Bank or Lloyds TSB Group plc to be issued in order to enable the Trustee or its agent to raise the full amount of money due on the relevant payment date.

Limited voting ordinary shares and the Lloyds TSB foundations

Before the flotation of TSB Group plc on the London Stock Exchange in October 1986, four regional charitable foundations were established to recognise the involvement of TSB Group plc in local communities and promote the continuation of its strong link with the UK regions. The foundations were allotted a special class of shares, the limited voting ordinary shares, in TSB Group plc in September 1986. The limited voting ordinary shares do not entitle the foundations to dividends. Through the foundations, TSB Group plc covenanted to donate, and Lloyds TSB Group plc continues to covenant to donate, 1 per cent of pre-tax profits, averaged over three years, to charitable causes. The limited voting shares are convertible into Lloyds TSB Group plc ordinary shares as described under "—Conversion of limited voting shares".

Memorandum and articles of association of Lloyds TSB Group plc

The following is a summary of the material provisions of Lloyds TSB Group plc's memorandum and articles of association.

Lloyds TSB Group plc is incorporated in Scotland under the UK Companies Act 1985 with registered number SC95000.

Objects of Lloyds TSB Group plc

Lloyds TSB Group plc's objects are:

- to take over and hold all or such part of the property and rights, and to assume and undertake all or such part of the liabilities and obligations, of the Trustee Savings Banks Central Board ("the Central Board"), Trustee Savings Banks (Holdings) Limited ("TSB Holdings") and the trustee savings banks (meaning the banks defined as the existing banks in the Trustee Savings Banks Act 1985, the "TSBA") as shall be transferred to and vested in Lloyds TSB Group plc under the TSBA; and

- to act as the holding company for:

  (i) the companies formed or to be formed with objects including that of assuming and conducting, after the vesting day, as the same is defined in the TSBA, the respective business of the trustee savings banks and eligible to succeed them respectively within the meaning of Section 1(2) of the TSBA; and

  (ii) the companies which, immediately before the said vesting day, are subsidiaries of the trustee savings banks, the Central Board or TSB Holdings; and

- to carry on the business of banking in all its aspects, including but not limited to all businesses of a financial or monetary nature and any business which now is or at any time during the existence of Lloyds TSB Group plc may be usually or commonly carried on as part of or in connection with, or which may conduce to or be calculated to facilitate or render profitable or more profitable the transaction of, the business of banking or of dealing in money or securities or the provision of financial services of any kind, in any part of the world.

Voting rights

For the purposes of determining which persons are entitled to attend or vote at a meeting and how many votes such person may cast, Lloyds TSB Group plc may specify in the notice of the meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered on the register in order to have the right to attend or vote at the meeting.

Every holder of ordinary shares who is entitled to be and is present in person (including any corporation by its duly authorised representative) at a general meeting of Lloyds TSB Group plc and is entitled to vote will have one vote on a show of hands and, on a poll, if present in person or by proxy, will have one vote for every such share held by him, save that a member will not be entitled to exercise the right to vote carried by such shares if he or any person appearing to be interested in the shares held by him has been duly served with a notice under section 212 of the UK Companies Act 1985 (requiring disclosure of interests in shares) and is in default in supplying Lloyds TSB Group plc with information required by such notice.

The limited voting shares confer the right to receive notice of and to attend and speak at all general meetings of Lloyds TSB Group plc, but do not confer a right to vote unless the business of the meeting includes the consideration of a resolution:

- to approve an acquisition or disposal by Lloyds TSB Group plc or any of its subsidiaries in circumstances in which the approval of shareholders in general meeting is either required by virtue of securities of Lloyds TSB Group plc being listed on a recognised exchange, or is sought by the directors, due to the significance of the transaction, or

- for the winding-up of Lloyds TSB Group plc, or

- to vary the rights of the limited voting shares.

In any such case, the holder may vote the limited voting shares only in respect of such resolution and will have the same rights in regard to the number and exercise of votes as a holder of ordinary shares but in the case of a variation in the rights of limited voting shares, shall also have the protection of a requirement for approval of the variation by a separate class meeting of the holders of limited voting shares.

The preference shares, if issued, would confer such rights as may be determined by the directors on allotment, but unless the directors otherwise determine, fully paid preference shares would confer identical rights as to voting, capital dividends and otherwise, notwithstanding that they are denominated in different currencies and shall be treated as if they are one single class of shares.

There are no limitations imposed by UK law or the memorandum and articles of association of Lloyds TSB Group plc restricting the rights of non-residents of the UK or non-citizens of the UK to hold or vote shares of Lloyds TSB Group plc.

General meetings

The directors may make arrangements to control the level of attendance at any place specified for the holding of a general meeting and, in any such case, shall direct that the meeting be held at a specified place, where the chairman of the meeting shall preside, and make arrangements for simultaneous attendance and participation by members and proxies at other locations. The chairman of a general meeting has express authority to adjourn the meeting if, in his opinion, it appears impracticable to hold or continue the meeting because of crowding or unruly conduct or because an adjournment is otherwise necessary for the proper conduct of the meeting. Annual general meetings of Lloyds TSB Group plc are to be held in Edinburgh or such other place in Scotland as the directors shall appoint.

Dividends and other distributions and return of capital

The shareholders in general meeting may by ordinary resolution declare dividends to be paid to members of Lloyds TSB Group plc, but no dividends shall be declared in excess of the amount recommended by the directors. The directors may pay fixed dividends and may also from time to time pay dividends, interim or otherwise. Except in so far as the rights attaching to any shares otherwise provide, all dividends shall be apportioned and paid pro rata according to the amounts paid up thereon. Subject to the rights attaching to any shares, any dividend or other monies payable in respect of a share may be paid in such currency or currencies as the directors may determine.

The opportunity to elect to receive new shares instead of any cash dividend recommended by the directors, may be offered to shareholders provided that the directors shall have obtained in advance the shareholders' approval to do so as required by the articles of association.

The limited voting shares do not confer a right to participate in any distribution of profits by way of dividend. For any other distributions, the limited voting shares shall be deemed to confer rights and interests in the profits equally with the holders of shares according to the amounts paid up on such limited voting shares and shares respectively otherwise than in advance of calls.

On any distribution by way of capitalisation, the amount to be distributed will be appropriated amongst the holders of shares and limited voting shares in proportion to their holdings of shares and limited voting shares (pro rata to the amount paid up thereon). If the amount to be distributed is applied in paying up in full unissued shares and limited voting shares of Lloyds TSB Group plc, a shareholder will be entitled to receive bonus shares of the same class as the shares giving rise to his entitlement to participate in the capitalisation.

The preference shares, if issued in the circumstances described above under "—Preferred securities — Perpetual capital securities", would confer the right to receive a dividend, cumulative or otherwise, denominated in a currency, at a fixed or variable rate, in each case to be determined by the directors on allotment, payable at such times or intervals, in such manner and by reference to profits of such period or periods and otherwise generally in accordance with such terms as may be so determined.

Any dividend unclaimed after a period of 12 years from the date of declaration will be forfeited and revert to Lloyds TSB Group plc. No dividends or other monies payable on or in respect of a share shall bear interest against Lloyds TSB Group plc.

On a return of capital, whether in a winding-up or otherwise, the shares and the Limited Voting Shares will rank equally in all respects. The preference shares, if issued, as described above under "—Preferred securities — Perpetual capital securities", would be entitled in a winding-up or upon any other return of capital of Lloyds TSB Group plc (other than on a redemption or purchase of shares), in priority to the rights of any other holders of shares in Lloyds TSB Group plc to any payment, to receive out of the assets of Lloyds TSB Group plc available for distribution all arrears and accruals (if any) of preferential dividend (less any tax deductible) whether or not earned or due and payable (or otherwise as determined by the directors on allotment) together with the amount paid up or credited as paid up on such preference shares and any such premium, or subject to such discount, as determined by the directors on allotment.

Conversion of limited voting shares

Each limited voting share will be converted into an ordinary share:

- on the day following the last date on which an amount could become due and payable to a holder of limited voting shares under a deed of covenant in favour of the Lloyds TSB foundations. A deed of covenant is a legal document which records the obligation of one person to pay a specified sum to another for a specified number of years. The individual making the payment deducts tax at the basic rate and pays a net amount on which tax relief is obtained. If the recipient is a registered charity, the payer can obtain tax relief up to his higher tax rate and the charity can claim back the amount deducted. It is commonly considered a tax effective way to give to charity; or

- if an offer is made to shareholders (or to all such shareholders other than the offeror and/or any body corporate controlled by the offeror and/or any persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of Lloyds TSB Group plc and the right to cast more than 50 per cent of the votes which may ordinarily be cast on a poll at a general meeting of Lloyds TSB Group plc becomes or is certain to become vested in the offeror and/or any bodies corporate controlled by the offeror and/or any persons acting in concert with the offeror. The publication of a scheme of arrangement under the statutes providing for the acquisition by any person of the whole or part of the ordinary share capital of Lloyds TSB Group plc shall be deemed to be the making of an offer for this purpose.

The shares resulting from conversion will carry the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of Lloyds TSB Group plc by reference to a record date on or after the date of conversion and will rank equally in all other respects and form one class with the ordinary share capital of Lloyds TSB Group plc then in issue and fully paid.

Holders of limited voting shares will be entitled to participate in any offer made by way of rights to holders of shares as if the limited voting shares had been converted at the relevant record date.

Variation of rights and alteration of capital

Subject to the provisions of the UK Companies Act 1985, the CREST regulations and every other statute for the time being in force or any judgement or order of any court of competent jurisdiction concerning companies and affecting Lloyds TSB Group plc (the "statutes"), the rights attached to any class of shares for the time being in issue may (subject to their terms of issue) be varied, modified or abrogated with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of shares of that class. At any such separate meeting, the provisions of the articles of association relating to general meetings will apply, but the necessary quorum at any such meeting will be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of that class (except at an adjourned meeting, at which the quorum shall be any holder of shares of the class, present in person or by proxy) and any such person may demand a poll.

Lloyds TSB Group plc may, by ordinary resolution, increase its share capital, consolidate and divide all or any of its shares into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person.

However, for so long as the limited voting shares have not been converted (as described above);

- Lloyds TSB Group plc is prohibited from consolidating or subdividing any of the shares without consolidating or subdividing the limited voting shares in like manner and to a like extent; and

- Lloyds TSB Group plc will not create any new class of equity share capital, other than in connection with or pursuant to an employees' share scheme approved by Lloyds TSB Group plc in general meeting, provided that the creation of equity share capital which carries (as compared with the existing Lloyds TSB Group plc shares) only restricted voting or no voting rights and no greater rights as regards dividends or capital shall not be deemed to be the creation of a new class of equity share capital.

Subject to the provisions of the UK Companies Act 1985, Lloyds TSB Group plc may, by special resolution, reduce its share capital, any capital redemption reserve, share premium account or other undistributable reserve in any way.

Transfer of shares

All transfers of shares which are in certificated form may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors and must be executed by or on behalf of the transferor and, if the shares thereby transferred are not fully paid, by or on behalf of the transferee. The transferor will be deemed to remain the holder of the shares transferred until the name of the transferee is entered in the register of members of Lloyds TSB Group plc in respect thereof. All transfers of shares which are in uncertificated form may be effected by means of a relevant system.

The directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of a share (not being a fully paid share) to any person of whom they do not approve; provided that, where any such shares are admitted to the Official List of the London Stock Exchange, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The directors may also decline to register a transfer unless either:

- the instrument of transfer complies with the requirements of the articles of association; and
- the transfer is in respect of only one class of shares; or
- the transfer is in favour of not more than four persons as the transferee. The articles of association contain no restrictions on free transferability of fully paid shares.

The directors shall refuse to register the transfer of any share on which Lloyds TSB Group plc has a lien and shall refuse to register the transfer of any limited voting share unless the same is:

- between existing holders of limited voting shares; or
- under a scheme established or order made by the Charity Commissioners or by the court to a transferee having charitable objects; or
- in the course of a winding-up to an institution having charitable objects which prohibit distributions of income and property to members to at least the same extent as is imposed on the transferor by its memorandum of association; or
- at the direction of the crown to another charity having similar objects.

Lloyds TSB Group plc's shares are in registered form and the articles of association do not provide for bearer shares. The registration of share transfers may be suspended and the register may be closed at such times and for such periods as the directors may determine (not exceeding 30 days in any year), provided that if the shares are traded through an electronic trading system, the register may not be closed without the consent of the operator.

Subject to the statutes and the rules (as defined in the CREST regulations), the directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of an electronic trading system or that shares of any class should cease to be so held and so transferred.

Untraced members

Lloyds TSB Group plc is empowered to sell, as the agent of a member, at the best price reasonably obtainable, any share registered in the name of a member remaining untraced for 12 years who fails to communicate with Lloyds TSB Group plc following advertisement of an intention to make such a disposal; provided that during the 12 year period at least three dividends have become payable and no dividend has been claimed; and provided, further, that the London Stock Exchange has been notified of the intended sale. Until Lloyds TSB Group plc can account to the member, any proceeds or amounts in respect of which Lloyds TSB Group plc remains liable to account by virtue of this provision will be available for use in the business of Lloyds TSB Group plc or for investment, in either case at the discretion of the directors. Such monies will not carry interest.

Forfeiture and lien

If a member fails to pay in full any call or instalment of a call on or before the due date for payment, then, following notice by the directors requiring payment of the unpaid amount with any accrued interest and any expenses incurred, such share may be forfeited by a resolution of the directors to that effect (including all dividends declared in respect of the forfeited share and not actually paid before forfeiture). A member whose shares have been forfeited will cease to be a member in respect of the shares, but will, notwithstanding the forfeiture, remain liable to pay to Lloyds TSB Group plc all monies which at the date of forfeiture were presently payable together with interest. The directors may at their absolute discretion enforce payment without any allowance for the value of the shares at the time of forfeiture or for any consideration received on their disposal or waive payment in whole or part.

Lloyds TSB Group plc has a first and paramount lien on every share (not being a fully paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of such share, and the directors may waive any lien which has arisen and may resolve that any share shall for some limited period be exempt from such a lien, either wholly or partially.

A forfeited share becomes the property of Lloyds TSB Group plc, and it may be sold, re-allotted, otherwise disposed of or cancelled as the directors see fit. Lloyds TSB Group plc will have a first lien on every share not being a fully paid share, for all moneys (whether payable presently or not) called or payable at a fixed date, in respect of such share. Any share on which Lloyds TSB Group plc has a lien may be sold on the terms set out in the articles of association. The proceeds of sale shall first be applied towards payment of the amount in respect of the lien insofar as it is still payable and then on surrender of the share certificate for cancellation (in the case of shares in certificated form), to the person entitled to the shares at the time of sale.

Purchase of own shares

Subject to the provisions of the statutes, Lloyds TSB Group plc may purchase any of its own shares of any class, but if there are in issue any shares which are quoted on the London Stock Exchange and which are convertible into equity share capital of Lloyds TSB Group plc of the class proposed to be purchased, then Lloyds TSB Group plc will not purchase such equity shares unless the terms of the convertible shares include provisions permitting Lloyds TSB Group plc to purchase its own equity shares or providing for adjustment to the conversion terms upon such a purchase or the purchase has first been approved by an extraordinary resolution passed at a separate meeting of the holders of such convertible shares.

Winding-up

If Lloyds TSB Group plc is wound up, the liquidator may, with the authority of an extraordinary resolution, divide amongst the members in specie or kind the whole or any part of the assets of Lloyds TSB Group plc. The liquidator may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, and the liquidation of Lloyds TSB Group plc may be closed and dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

Directors

General

The business and affairs of Lloyds TSB Group plc shall be managed by the directors who may exercise all such powers of Lloyds TSB Group plc as are not by the statutes or by the articles of association required to be exercised by Lloyds TSB Group plc in general meeting, subject to the articles of association, to the provisions of the statutes and to such regulations as may be set by special resolution of Lloyds TSB Group plc, but no regulation so made by Lloyds TSB Group plc will invalidate any prior act of the directors which would have been valid if such regulation had not been made.

The directors may confer upon any director holding any executive office any of the powers exercisable by them on such terms and conditions, and with such restrictions, as they think fit. The directors may also delegate any of their powers to committees. Any such committee shall have power to sub-delegate to sub-committees or to any person any of the powers delegated to it. Any such committee or sub-committee shall consist of one or more directors only. The meetings and proceedings of any such committee or sub-committee consisting of two or more persons shall be governed, with such changes as are appropriate, by the provisions of the articles of association regulating the meetings and proceedings of the directors.

Material interests

Subject to any applicable laws, regulations or court orders in force at the time, a director, provided that he has disclosed to the other directors the nature and extent of his interests:

- may be a party to, or otherwise interested in, any contract, transaction or arrangement with Lloyds TSB Group plc or in which Lloyds TSB Group plc is otherwise interested;
- may be a director or other officer of, or employed by, or a party to any contract, transaction or arrangement with, or otherwise interested in, any body corporate promoted by Lloyds TSB Group plc or in which Lloyds TSB Group plc is otherwise interested;
- may (or any firm of which he is a partner, employee or member may) act in a professional capacity for Lloyds TSB Group plc (other than as auditor) and be remunerated therefor; and
- shall not, save as otherwise agreed by him, be accountable to Lloyds TSB Group plc for any benefit which he derives from any such contract, transaction or arrangement or from any such office or employment or from any interest in any such body corporate or for such remuneration, and no such contract, transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.

Except as set out in Lloyds TSB Group plc's articles of association, a director shall not vote in respect of any contract or arrangement or any other proposal in which he has any material interest otherwise than by virtue of interests in shares or debentures or other securities of Lloyds TSB Group plc. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is not entitled to vote.

Remuneration

The ordinary remuneration of the directors is determined by ordinary resolution of Lloyds TSB Group plc and is divisible among the directors as they may agree, or, failing agreement, equally. However, any director who holds office for only part of the period in respect of which remuneration is payable shall be entitled only to rank in such division for a proportion of the remuneration relating to the period during which he has held office. Any director who holds an executive office, or who serves on any committee of the directors, or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid extra remuneration by way of salary, commission or otherwise or may receive such other benefits as the directors may determine. The directors may repay to any director all such reasonable expenses as he may incur in attending and returning from meetings of the directors or of any committee of the directors or general meetings or otherwise in connection with the business of Lloyds TSB Group plc. The directors have the power to pay and agree to pay gratuities, pensions or other retirement, superannuation, death or disability benefits to, or to any person in respect of, any director or ex-director.

The quorum necessary for the transaction of business of the directors may be fixed from time to time by the directors and unless so fixed at any other number shall be four. Questions arising at any meeting of the directors shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

Borrowing powers

Under its memorandum of association, Lloyds TSB Group plc may borrow or raise money in such manner and upon such terms and on such security as may seem to the directors to be expedient and in particular by the issue or deposit of debentures or debenture stock or other securities of any description and to secure all or any of Lloyds TSB Group plc's liabilities in respect of money borrowed, raised or owing or any other debt or obligation of or binding on Lloyds TSB Group plc in such manner as may be thought expedient and in particular by mortgage, charge or lien upon all or any part of the undertaking, property and assets, present or future, and uncalled capital of Lloyds TSB Group plc.

Retirement

The articles of association provide broadly that at each annual general meeting one-third (but not more than one-third) of the directors should retire by rotation, subject to possible re-election. The individual directors to retire in a particular year shall be those who have been in post the longest since last being elected.

Share qualification

A director is not required to hold any shares of Lloyds TSB Group plc by way of qualification.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

The following is a summary of the material provisions of the deposit agreement and the material features of the ADSs. For more information, you should read the deposit agreement and the ADS. Copies of the deposit agreement and the ADS will be available for inspection at the Corporate Trust Office of The Bank of New York in New York, New York and the London, England, office of The Bank of New York, as custodian (the "Custodian").

The Bank of New York will issue the ADSs. Each ADS will represent an ownership interest in four ordinary shares. The shares or the right to receive shares will be deposited by us with the Custodian. Each ADS will also represent securities, cash or other property deposited with The Bank of New York but not distributed to ADS holders. The Bank of New York's Corporate Trust Office is located at 101 Barclay Street, New York, New York 10286; its principal executive office is located at One Wall Street, New York, New York 10286. The Custodian's office is located at One Canada Square, London E14 5AL, England.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Because The Bank of New York will actually hold the shares, you must rely on it to exercise the rights of a shareholder. The obligations of The Bank of New York are set out in a deposit agreement among us, The Bank of New York and you, as an ADS holder. The deposit agreement and the ADSs are generally governed by New York law.

Share dividends and other distributions

The Bank of New York has agreed to pay to you the cash dividends or other distributions it or the Custodian receives on shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

Cash

The Bank of New York will, as promptly as practicable, convert any cash dividend or other cash distribution we pay on the shares into US dollars, if it can do so on a reasonable basis and can transfer the US dollars to the US. If that is not possible or if any approval from any government is needed and cannot be obtained, the agreement allows The Bank of New York to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It may hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for the interest.

Before making a distribution, any withholding taxes that must be paid will be deducted. See "Taxation". Any expenses of converting foreign currency and transferring funds to the United States will also be deducted. It will distribute only whole US dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when The Bank of New York cannot convert the foreign currency, you may lose some or all of the value of the distribution.

Shares

The Bank of New York will distribute new ADSs representing any shares we may distribute as a dividend or free distribution, if we request it to make this distribution and if we furnish The Bank of New York promptly with satisfactory evidence that it is legal to do so. The Bank of New York will only distribute whole ADSs. It will sell shares which would require it to issue a fractional ADS and distribute the net proceeds in the same way as it does with cash. If The Bank of New York does not distribute additional ADSs, each ADS will also represent the new shares.

Rights to receive additional shares

If we offer holders of securities any rights to subscribe for additional shares or any other rights, The Bank of New York, after consultation with us, will have discretion as to the procedure to be followed in making these rights available to you. If The Bank of New York determines that it is not lawful or feasible to make these rights available to you, The Bank of New York may sell the rights and allocate the net proceeds. The Bank of New York may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

After consultation with us, if The Bank of New York makes rights available to you, upon instruction from you it will exercise the rights and purchase the shares on your behalf. The Bank of New York will then deposit the shares and issue ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges you are required to pay.

US securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights. For example, you may be unable to trade the ADSs freely in the US. In this case, The Bank of New York may issue the ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for the changes needed to put the restrictions in place. The Bank of New York will not offer you rights unless those rights and the securities to which the rights relate are either exempt from registration or have been registered under the Securities Act with respect to a distribution to you. We will have no obligation to register under the Securities Act those rights or the securities to which they relate.

Other distributions

The Bank of New York will, after consultation with us, send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, The Bank of New York, after consultation with us, may decide to sell what we distributed and distribute the net proceeds in the same way as it does with cash or it may decide to hold what we distributed, in which case the ADSs will also represent the newly distributed property.

The Bank of New York is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register any future issuances of ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of any future issuances of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive any distribution we may make on our shares or any value for them if it is illegal or impractical for us to make them available to you.

Deposit, withdrawal and cancellation

The Bank of New York will issue ADSs if you or your broker deposit shares or evidence of rights to receive shares with the Custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will register the appropriate number of ADSs in the names you request and will deliver the ADSs as promptly as practicable at its Corporate Trust Office to the persons you request.

You may turn in your ADSs at The Bank of New York's Corporate Trust Office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will deliver:

- the underlying shares to the office of the Custodian to or upon the order of the person designated in the instructions received by The Bank of New York, and

- any other deposited securities underlying the ADSs at The Bank of New York's Corporate Trust Office or, at your request, risk and expense, The Bank of New York will deliver the deposited securities at its Corporate Trust Office.

Voting rights

You may instruct The Bank of New York to vote the shares underlying your ADSs. Otherwise, you won't be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares.

If we ask The Bank of New York to ask for your instructions, we will ask The Bank of New York to notify you of the upcoming vote and to arrange to deliver our voting materials to you. The material will describe the matters to be voted on and explain how you, by a specified date, may instruct The Bank of New York to vote the shares or other deposited securities underlying your ADSs as you direct. For instructions to be valid, The Bank of New York must receive them on or before the date specified. The Bank of New York will try, as far as practicable, subject to Scottish law and the provisions of our Articles of Association, to vote or to have its agents vote the shares or other deposited securities as you instruct. If The Bank of New York does not receive instructions from you by the date specified, The Bank of New York will deem you to have instructed The Bank of New York to give a discretionary proxy to a person designated by us and The Bank of New York will give a discretionary proxy to a person designated by us to vote such shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct The Bank of New York to vote your shares. In addition, The Bank of New York and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may be unable to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.

Fees and expenses

ADS holders must pay:	*For:*
\$5.00 (or less) per 100 ADSs	Each issuance of an ADS, including as a result of a distribution of shares or rights or other property. Each cancellation of an ADS, including if the agreement terminates.
\$0.02 (or less) per ADS	Any cash payment.
Registration or Transfer Fees	Transfer and registration of shares on the share register of the Foreign Registrar from your name to the name of The Bank of New York or its agent when you deposit or withdraw shares.
Expenses of The Bank of New York	Conversion of foreign currency to US dollars. Cable, telex and facsimile transmission expenses.
Taxes and other governmental charges that The Bank of New York or the Custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes.	As necessary.

Payment of taxes

You will be responsible for any taxes or other governmental charges payable on your ADRs or on the deposited securities underlying your ADRs.

The Bank of New York may deduct the amount of any taxes owed from any payments to you. The Bank of New York may refuse to transfer your ADSs or allow you to withdraw the deposited securities underlying your ADSs until such taxes or other charges are paid. The Bank of New York may withhold any dividends or other distributions, or may also sell deposited securities, by public or private sale, to pay any taxes owed. You will remain liable if the proceeds of the sale are not enough to pay the taxes. If The Bank of New York sells deposited securities, it will, if appropriate reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

Reclassifications, recapitalisation and mergers

If we:	Change the nominal or par value of our shares; Reclassify, split up or consolidate any of the deposited securities; Distribute securities on the shares that are not distributed to you; or Recapitalise, reorganise, merge, liquidate, sell all or substantially all of our assets, or take any similar action,
Then:	The cash, shares or other securities received by The Bank of New York will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities. The Bank of New York may, and will if we ask it to, distribute some or all of the cash, shares or other securities it received. It may also issue new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs, identifying the new deposited securities.

Disclosure of interests

You, as an ADS holder, agree to provide the information that we request in each disclosure notice given pursuant to the UK Companies Act 1985 or our Articles of Association. You acknowledge that you understand that if you fail to provide this information on a timely basis, sanctions may be imposed against the holder of shares represented by ADSs in which you are or were or appear to be or have been interested, as provided in the UK Companies Act 1985 and our Articles of Association. These sanctions include the withdrawal of the voting rights and the imposition of restrictions on the rights to receive dividends.

You also agree to comply with the provisions of the UK Companies Act 1985 that require you to notify us if you become directly or indirectly interested, within the meaning of the UK Companies Act 1985, in 3 per cent or more of our outstanding shares which carry voting rights at our general meetings or are aware that another person for whom you hold ADRs is so interested. You must notify us of your or their interest within two business days after becoming so interested or so aware. In addition, the UK Companies Act 1985 requires that you notify us of any subsequent changes in your interests in our outstanding shares, up until and including the time of the transaction, which reduces your holding to below the above-mentioned 3 per cent threshold. You must also notify us within two business days if the percentage of your interest in our outstanding shares increases to a new whole number (e.g., 3.9 to 4 per cent).

Amendment and termination

We may agree with The Bank of New York to amend the agreement and the ADSs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or administrative expenses of The Bank of New York, or prejudices an important right of ADS holders it will only become effective 30 days after The Bank of New York notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADR, to agree to the amendment and to be bound by the ADR and the agreement as amended.

The Bank of New York will terminate the agreement if we ask it to do so. The Bank of New York may also terminate the agreement if The Bank of New York has told us that it would like to resign and we have not appointed a new depositary bank within 90 days. In both cases, The Bank of New York must notify you at least 90 days before terminations.

After termination, The Bank of New York and its agents will be required to do only the following under the agreement:

- collect dividends and distributions on the deposited securities,
- sell rights offered to you, and
- deliver shares and other deposited securities upon cancellation of ADSs.

Any time after one year after termination, The Bank of New York may sell any remaining deposited securities by public or private sale. After that, The Bank of New York will hold the proceeds of the sale, as well as any other cash it is holding under the agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and will have no liability for interest. After termination The Bank of New York's only obligations will be to account for the proceeds of the sale and other cash and its continuing indemnification obligations to us. After termination our only obligations will be with respect to indemnification and to pay fees and expenses of The Bank of New York.

Limitations on obligations and liability to ADS holders

The deposit agreement expressly limits our obligations and the obligations of The Bank of New York, and it limits our liability and the liability of The Bank of New York. We and The Bank of New York:

- are only obliged to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;
- are not liable if either exercises discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other party; and
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party.

In the deposit agreement, we and The Bank of New York agree to indemnify each other under specified circumstances.

Requirements for Depositary actions

Before The Bank of New York will issue or register transfer of an ADS, make a distribution on an ADS, or withdrawal of shares, The Bank of New York may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and

- compliance with laws or governmental regulations relating to ADSs or the withdrawal of deposited securities and any such regulations, The Bank of New York may establish, from time to time, consistent with the agreement, including presentation of transfer documents.

The Bank of New York may refuse to deliver, transfer, or register transfers of ADSs generally when our books or The Bank of New York's books are closed, or at any time if The Bank of New York or we think it advisable to do so.

You have the right to cancel your ADSs and withdraw the underlying shares at any time except:

- when temporary delays arise because we or The Bank of New York have closed our transfer books, the transfer of shares is blocked to permit voting at a shareholders' meeting or we are paying a dividend on the shares;

- when you or other ADS holders seeking to withdraw shares owe money to pay fees, taxes and similar charges; or

- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the agreement.

Pre-release of ADSs

Subject to the provisions of the deposit agreement, The Bank of New York may issue ADSs before deposit of the underlying shares. This is called a pre-release of ADSs. The Bank of New York may also deliver shares upon the receipt and cancellation of ADSs even if the ADSs are cancelled before a pre-release transaction has been closed out. A pre-release is closed out as soon as the underlying shares are delivered to The Bank of New York. The Bank of New York may receive ADSs instead of shares to close out a pre-release. The Bank of New York may pre-release ADSs only under the following conditions:

- before or at the time of the pre-release, the person to whom the pre-release is being made must represent to The Bank of New York in writing that it or its customer, as the case may be,

  (a) owns the shares or ADSs to be pre-released,

  (b) assigns all beneficial rights, title and interest in the shares or ADSs to The Bank of New York in its capacity as the depositary and for the benefit of the holders of the ADSs, and

  (c) will not take any action with respect to the shares or ADSs that is inconsistent with the assignment of beneficial ownership (including, without the consent of The Bank of New York, disposing of the shares or ADSs) other than in satisfaction of the pre-release;

- the pre-release must be fully collateralised with cash or collateral that The Bank of New York determines will provide substantially similar liquidity and security; and

- The Bank of New York must be able to close out the pre-release on not more than five business days' notice.

The pre-release will be subject to whatever indemnities and credit regulations that The Bank of New York considers appropriate. In addition, The Bank of New York will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although The Bank of New York may disregard the limit from time to time, if it thinks it is appropriate to do so.

EXCHANGE CONTROLS

There are no UK laws, decrees or regulations that restrict Lloyds TSB Group plc's export or import of capital, including the availability of cash and cash equivalents for use by Lloyds TSB Group, or that affect the remittance of dividends or other shareholder payments to non-UK holders of Lloyds TSB Group plc shares, except as otherwise set out in "Taxation".

TAXATION

UK Taxation

The following discussion is intended only as a general guide to current UK tax legislation, what is understood to be current UK Inland Revenue practice and the terms of the current UK/US income tax treaty (the "Treaty") and the New Treaty (as defined below), all of which are subject to change at any time, possibly with retroactive effect. On 24 July, 2001, the UK and the US entered into a new income tax treaty (the "New Treaty"), which has still to be ratified by both the UK Parliament and the US Senate before its provisions enter into force. It is not known when these procedures will be completed. The UK Inland Revenue is the UK government department responsible for assessing and collecting UK tax revenues. The discussion is intended as a general guide and only applies to persons who are the beneficial owners of their ordinary shares or ADSs. References below to a US Holder are to that term as defined, and subject to the exclusions described in the introduction, below under "—US Federal Income Tax Considerations". It may not apply to certain shareholders or ADS holders, such as dealers in securities. Any person who is in any doubt as to his tax position should consult his own professional adviser.

Taxation of chargeable gains

UK residents

A disposal (or deemed disposal) of ordinary shares or ADSs by a shareholder or holder of ADSs resident or (in the case of an individual) ordinarily resident for tax purposes in the UK may, depending on the shareholder's or ADS holder's particular circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation on chargeable gains.

Persons, other than US Holders, temporarily non-resident in the UK

A shareholder or ADS holder who is an individual and who has, on or after 17 March 1998, ceased to be resident and ordinarily resident for tax purposes in the UK for a period of less than five years of assessment and who disposes of ordinary shares or ADSs during that period may be liable, on return to the UK, to UK taxation on chargeable gains arising during the period of absence, subject to any available exemption or relief.

US Holders

Subject to the provisions set out in the next paragraph in relation to temporary non-residents, US Holders will not normally be liable for UK tax on chargeable gains unless they carry on a trade, profession or vocation in the UK through a branch or agency and the ordinary shares or ADSs are or have been used or held by or for the purposes of the branch or agency, in which case such US Holder might, depending on individual circumstances, be liable to UK tax on chargeable gains on any disposition of ordinary shares or ADSs. A US Holder who is only temporarily not resident in the UK may, under anti-avoidance legislation, still be liable for UK tax on chargeable gains realised, subject to any available exemption or relief.

A US Holder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years of assessment and who disposes of ordinary shares or ADSs during that period may be liable, on return to the UK, to UK taxation on chargeable gains arising during the period of absence, subject to any available exemption or relief.

Other non-UK resident persons

Subject to the provisions set out above under "—Persons, other than US Holders, temporarily non-resident in the UK", shareholders or ADS holders who are neither resident nor ordinarily resident in the UK will not normally be liable for UK tax on chargeable gains unless they carry on a trade, profession or vocation in the UK through a branch or agency and the ordinary shares or ADSs are or have been used or held by or for the purposes of the branch or agency, in which case such shareholder or ADS holder might, depending on individual circumstances, be liable to UK tax on chargeable gains on any disposition of ordinary shares or ADSs. An individual holder of ordinary shares or ADSs who is only temporarily not resident in the UK may, under anti-avoidance legislation, still be liable for UK tax on chargeable gains realised, subject to any available exemption or relief.

Taxation of dividends

UK residents

Lloyds TSB Group will not be required to withhold tax at source when paying a dividend on the ordinary shares or ADSs.

An individual shareholder or ADS holder who is resident in the UK for tax purposes will be entitled to a tax credit in respect of any dividend received from us and will be taxable on the gross dividend, which is the aggregate of the dividend received and related tax credit. The value of the tax credit will be equal to one-ninth of the dividend received (and, therefore, 10 per cent of the gross dividend). The gross dividend will be treated as an individual's marginal income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the gross dividend, unless and except to the extent that the gross dividend falls above the threshold for the higher rate of income tax. A UK resident individual shareholder or ADS holder who is liable to income tax at the higher rate will be subject to tax at the rate applicable to dividends for such shareholders or ADS holders (currently 32.5 per cent) on the gross dividend. The tax credit will be set against but will not fully discharge such shareholder's or ADS holder's tax liability on the gross dividend and he will have to pay additional tax equal to 22.5 per cent of the gross dividend, being 25 per cent of the dividend received, to the extent that such sum, when treated as marginal income, falls above the threshold for the higher rate of income tax.

There will be no payment of the tax credit or any part of it to an individual whose liability to income tax on the dividend and the related tax credit is less than the tax credit, except where the individual holds the relevant shares through a personal equity plan or individual savings account and the dividend is received into such plan or account on or before 5 April 2004.

UK resident shareholders or ADS holders which are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to reclaim the tax credits in respect of dividends although charities will be entitled to a payment by the UK Inland Revenue of a specified proportion of any dividend paid by us to the charities on or before 5 April 2004, that proportion declining on a year by year basis.

Subject to an exception for some insurance companies with overseas business, UK resident corporate shareholders or ADS holders will generally not be subject to corporation tax in respect of dividends received from us, but will not be entitled to the payment of any tax credit with respect to the dividends.

US Holders

Lloyds TSB Group will not be required to withhold tax at source when paying a dividend on the ordinary shares or ADSs to a US Holder.

A US Holder is entitled under the terms of the Treaty, in principle, to receive a payment from the UK Inland Revenue in respect of a dividend from us in an amount equal to the tax credit (the "Tax Credit Amount") to which a UK resident individual is generally entitled in respect of the dividend. This is an amount equal to one-ninth of the dividend received. However, that entitlement is subject to a deduction withheld under the Treaty. The amount of such deduction will equal the Tax Credit Amount, i.e. one-ninth of the dividend. Therefore, a US Holder will not be able to claim any payment from the UK Inland Revenue in respect of a dividend from us.

When the New Treaty comes into effect (and the Treaty ceases to apply), a US Holder will not be entitled to claim a payment from the UK Inland Revenue in respect of a dividend from us an amount equal to the Tax Credit Amount because the New Treaty does not provide for that entitlement.

Other non-UK resident persons

Lloyds TSB Group will not be required to withhold tax at source when paying a dividend on the ordinary shares or ADSs to a holder, other than a US Holder, who is not resident for tax purposes in the UK.

Holders of ordinary shares or ADSs, other than US Holders, who are not resident for tax purposes in the UK and who receive a dividend from us will not have any further UK tax to pay in respect of the dividend, but will not normally be able to claim any additional payment in respect of the dividend from the UK Inland Revenue under any applicable double tax treaty.

Stamp duty and stamp duty reserve tax

UK residents, US Holders and other non-UK resident persons

Any conveyance or transfer on sale of ordinary shares (whether effected using the CREST settlement system or not) will be subject to UK stamp duty or stamp duty reserve tax ("SDRT"). The transfer on sale of ordinary shares will be liable to ad valorem UK stamp duty or SDRT, generally at the rate of 0.5 per cent of the consideration paid (rounded up to the next multiple of £5 in the case of stamp duty). Stamp duty is usually the liability of the purchaser or transferee of the ordinary shares. An unconditional agreement to transfer such ordinary shares will be liable to SDRT, generally at the rate of 0.5 per cent of the consideration paid, but such liability will be cancelled, or, if already paid, refunded, if the agreement is completed by a duly-stamped transfer within six years of the agreement having become unconditional. SDRT is normally the liability of the purchaser or transferee of the ordinary shares.

Where Lloyds TSB Group issue ordinary shares or a holder of ordinary shares transfers such shares to the custodian or nominee for the depositary to facilitate the issue of ADSs to him representing the ordinary shares or to a person providing clearance services (or their nominee or agent), a liability to UK stamp duty or SDRT at the rate of 1.5 per cent (rounded up to the next multiple of £5 in the case of the stamp duty) of either the issue price or, in the case of transfer, the listed price of the ordinary shares, calculated in sterling, will arise. Where a holder of ordinary shares transfers such shares to the custodian or nominee for the depositary or clearance service this charge will generally be payable by the person receiving the ADSs or transferring the ordinary shares into the clearance service.

A liability to stamp duty at the fixed rate of £5 will arise as a result of the cancellation of any ADSs with the ordinary shares that they represent being transferred to the ADS holder.

No liability to UK stamp duty or SDRT will arise on a transfer of ADSs provided that any document that effects such transfer is not executed in the UK and that it remains at all subsequent times outside the UK. An agreement to transfer ADSs will not give rise to a liability to SDRT.

US Federal Income Tax Considerations

The following summary describes certain US federal income tax consequences of the acquisition, ownership and disposition of ADSs or ordinary shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to acquire such securities. The summary applies only to holders that hold ADSs or ordinary shares as capital assets and does not address special classes of holders, such as:

- certain financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- holders holding ADSs or ordinary shares as part of a hedge, straddle or other conversion transaction;
- holders whose "functional currency" is not the US dollar;

- holders liable for alternative minimum tax;
- 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 provided for in or otherwise contemplated by the Deposit Agreement or any other related document will be performed in accordance with its terms. The US Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits for US Holders of ADSs. Accordingly, the analysis of the creditability of UK taxes described below could be affected by future actions that may be taken by the US Treasury.

The summary is based upon tax laws of the US including the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, as well as upon the Treaty and the New Treaty, as appropriate, changes to any of which may affect the tax consequences described herein possibly with retroactive effect. On 24 July, 2001, the US and the UK entered into the New Treaty, which will enter into force at such time as it is ratified. Except as discussed under "— Taxation of Distributions", application of the New Treaty will not affect this summary. Prospective purchasers of the ADSs or ordinary shares should consult their own tax advisers as to the US, UK or other tax consequences of the purchase, ownership and disposition of such securities in their particular circumstances, including the effect of any state or local tax laws.

As used herein, a "US Holder" is a beneficial owner of ADSs or shares that is, for US federal income tax purposes:

- a citizen or resident of the US;
- a corporation created or organized in or under the laws of the US or of any 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 will be treated as the owners of the underlying ordinary shares.

Taxation of Distributions

To the extent paid out of current or accumulated earnings and profits of Lloyds TSB Group plc (as determined in accordance with US federal income tax principles), distributions made with respect to ADSs or ordinary shares (other than certain distributions of capital stock of Lloyds TSB Group plc or rights to subscribe for shares of capital stock of Lloyds TSB Group plc) will be includible in the income of a US Holder as ordinary dividend income. Such dividends will not be eligible for the "dividends received deduction" generally allowed to corporations under the Code. To the extent that a distribution exceeds Lloyds TSB Group plc's current and accumulated earnings and profits, it will be treated as a nontaxable return of capital to the extent of the US Holder's tax basis in the ADSs or ordinary shares, and thereafter as capital gain. The amount of the distribution will equal the US dollar value of the pounds sterling received, calculated by reference to the exchange rate in effect on the date such distribution is received (which, for holders of ADSs, will be the date such distribution is received by the Depositary), whether or not the Depositary or US Holder in fact converts any pounds sterling received into US dollars at that time. Any gains or losses resulting from the conversion of pounds sterling into US dollars will be treated as ordinary income or loss, as the case may be, of the US Holder and will be US source.

A US Holder may, under the Treaty, elect to claim a foreign tax credit in respect of the Tax Credit Amount. A US Holder who so elects must include the Tax Credit Amount in income. Under the New Treaty no such election would be available.

The limitation of foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, any dividends paid by Lloyds TSB Group plc on ADSs or ordinary shares will generally constitute “passive income” or, in the case of US financial service providers, may be “financial services income”.

Taxation of Capital Gains

Gain or loss realised by a US Holder on (i) the sale or exchange of ADSs or ordinary shares or (ii) the Depositary’s sale or exchange of ordinary shares received as distributions on the ADSs will be subject to US federal income tax as capital gain or loss in an amount equal to the difference between the US Holder’s tax basis in the ADSs or ordinary shares and the amount realised on the disposition. Gain or loss, if any, will be US source. US Holders should consult their tax advisers regarding the US federal tax treatment of capital gains, which may be taxed at lower rates than ordinary income for individuals, and losses, the deductibility of which is subject to limitations.

Deposits and withdrawals of ordinary shares in exchange for ADSs will not result in taxable gain or loss for US federal income tax purposes.

Information Reporting and Backup Withholding

Dividends paid on ADSs or ordinary shares to a US Holder may be subject to information reporting requirements of the Code. Such dividends may also be subject to backup withholding unless the US Holder:

- is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or

- provides a taxpayer identification number on a properly completed Form W-9 or a substitute form and certifies that no 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 US Holder who does not provide a correct taxpayer identification number may be subject to certain penalties.

WHERE YOU CAN FIND MORE INFORMATION

The documents concerning us which are referred to herein may be inspected at the Securities and Exchange Commission. You may read and copy any document filed or furnished by us at the Securities and Exchange Commission's public reference rooms in Washington D.C., New York and Chicago, Illinois. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the reference rooms.

VALIDITY OF SECURITIES

Certain matters under law applying in the UK, including the validity of the ordinary shares, will be passed on by Linklaters, counsel for Lloyds TSB Group. The validity of the ADSs under US law will be passed on by Davis Polk & Wardwell, US counsel for Lloyds TSB Group.

INDEPENDENT ACCOUNTANTS

Lloyds TSB Group's consolidated financial statements and the accompanying notes thereto for the years ended 31 December 2000, 1999 and 1998 included elsewhere in this registration statement have been audited by PricewaterhouseCoopers, independent accountants. The merger of Price Waterhouse and Coopers & Lybrand in the UK was completed on 1 July 1998 and the resulting partnership is conducting business under the name of PricewaterhouseCoopers.

ENFORCEABILITY OF CIVIL LIABILITIES

Lloyds TSB Group plc is a public limited company incorporated under the laws of Scotland. All of Lloyds TSB Group plc's directors and executive officers and certain of the experts named herein are residents of the United Kingdom. A substantial portion of the assets of Lloyds TSB Group plc, and a substantial portion of the assets of such persons, are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them judgements of US courts, including judgements predicated upon the civil liability provisions of the federal securities laws of the United States. Furthermore, Lloyds TSB Group plc has been advised by its English solicitors, that there is doubt as to the enforceability in the United Kingdom, in original actions or in actions for enforcement of judgements of US courts, of civil liabilities, including those predicated solely upon the federal securities laws of the United States.

RISK FACTORS

An investment in Lloyds TSB Group plc's ordinary shares involves a number of risks, including credit, market, operational, regulatory, competitive and acquisition risks, some of which could be substantial and are inherent in Lloyds TSB Group's business.

Lloyds TSB Group's businesses are subject to inherent risks concerning borrower credit quality as well as the UK unemployment rate and general UK economic conditions. Development of adverse conditions could cause profitability to decline.

Lloyds TSB Group's businesses are subject to inherent risks regarding borrower credit quality as well as the UK unemployment rate and general UK economic conditions, each of which can change the level of demand for Lloyds TSB Group's products and services. Changes in the credit quality of Lloyds TSB Group's borrowers and counterparties could reduce the value of Lloyds TSB Group's assets, and increase provisions for bad and doubtful debt. Any significant increase in the UK unemployment rate would reduce profits from the insurance business. Furthermore, a general deterioration in the UK economy would also reduce Lloyds TSB Group's profit margins for both its UK banking and financial services businesses.

Lloyds TSB Group's businesses are inherently subject to the risk of market fluctuations, which could reduce profitability.

Lloyds TSB Group's businesses are inherently subject to the risk of market fluctuations. The most significant market risks Lloyds TSB Group faces are interest rate risk and foreign exchange risk in its banking businesses and equity risk in its insurance businesses. See "Operating and Financial Review and Prospects—Risk management" for a discussion of these risks.

Lloyds TSB Group's insurance business is subject to inherent risks concerning changing demographic developments, catastrophic weather and similar contingencies outside its control. Development of adverse conditions could reduce profit margins.

Lloyds TSB Group's insurance business is subject to inherent risk regarding changing demographic developments, catastrophic weather and similar contingencies outside its control, both in the UK and overseas. Such contingencies can change the risk profile and profitability of such products and services.

Adverse experience in the operational risks inherent in Lloyds TSB Group's businesses could have a negative impact on its results of operations.

Operational risks are present in Lloyds TSB Group's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, people and systems or from external events. Lloyds TSB Group's businesses are dependent on their ability to process very efficiently a very large number of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Lloyds TSB Group's systems and processes are designed to ensure that the operational risks associated with its activities are appropriately controlled, but Lloyds TSB Group realises that any weakness in these systems could have a negative impact on its results of operations during the affected period. See "Operating and Financial Review and Prospects—Risk management—Other risks—Operational risks" and "Operating and Financial Review and Prospects—Other risks—Compliance risk".

Lloyds TSB Group operates its businesses subject to substantial regulation and regulatory oversight. Any significant adverse regulatory developments could have a negative impact on Lloyds TSB Group's results of operations.

Lloyds TSB Group conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in the UK and the other markets where it operates. Future changes in regulation are unpredictable and beyond the control of Lloyds TSB Group. For additional information, see "Regulation".

The UK Competition Commission has made a provisional finding that a complex monopoly situation exists in favour of a number of banks, including Lloyds TSB Bank, with respect to the UK market for small business banking. If the UK Competition Commission affirms its provisional conclusion, it may recommend the imposition of significant remedies.

The UK Competition Commission is conducting an enquiry concerning the UK small business banking sector and in March 2001 published a statement including a provisional conclusion that a complex monopoly situation exists in favour of a number of large UK banks, principally including Lloyds TSB Bank, Abbey National plc, Bank of Scotland plc, Barclays plc, HSBC Bank plc and the Royal Bank of Scotland Group. The March 2001 statement also sets out a list of hypothetical remedies which the UK Competition Commission might recommend be adopted if it finally concludes that there is a complex monopoly situation and that there are relevant facts which operate or may be expected to operate against the public interest. Such remedies might include:

- the imposition of a requirement on relevant banks that they take specific steps to promote competition in the provision of banking services to small and medium-sized business customers;
- the imposition of a requirement to take specific steps to facilitate market entry by other prospective providers of services;
- the imposition of rules regulating the terms and prices on which banks provide such services;
- the divestment of business activities; and
- the imposition on banks of a special tax or an obligation to contribute to a fund which would be used to promote competition in the relevant sector.

In June 2001, it was announced that the enquiry would be extended to 19 October 2001. Lloyds TSB Group and Lloyds TSB Bank cannot predict with certainty the outcome or impact of this investigation. For additional information, see "Business—Competitive environment—The UK".

The resolution of two pending issues affecting the UK financial services industry, including Lloyds TSB Group, could have a negative impact on Lloyds TSB Group's results of operations or on its relations with some of its customers and potential customers.

These two issues involve provisions for redress to past purchasers of pension policies and issues arising from guaranteed annuity options. There is a risk that further provisions may be required as a result of these issues. They are further described in "Business—Provisions for redress to past purchasers of pension policies" and "Business—Guaranteed Annuity Options".

Lloyds TSB Group's businesses are conducted in highly competitive environments and management's ability to create an appropriate return for shareholders depends upon management's ability to respond effectively to competitive pressures.

The market for UK financial services and the other markets within which Lloyds TSB Group operates are highly competitive and management expects such competition to intensify in response to consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. Lloyds TSB Group's ability to generate an appropriate return for its shareholders depends significantly upon the competitive environment and management's response to it. See "Business—Competitive environment".

Lloyds TSB Group is devoting considerable time and resources to securing new customers and developing more business from existing customers. If Lloyds TSB Group is unsuccessful, its organic growth prospects and results of operations may decline.

One of Lloyds TSB Group's most important strategies is to achieve further organic growth by securing new customers and developing more business from existing customers. Lloyds TSB Group is currently expending significant resources and effort to bring about this growth, particularly with respect to its UK retail financial services business. If these expenditures and efforts do not meet with success, its operating results could grow more slowly or decline.

Lloyds TSB Group's businesses are conducted in a business that is rapidly consolidating, significant cross-border mergers and acquisitions may happen in the coming years and Lloyds TSB Group's ability to generate an appropriate return for its shareholders over the long term will depend upon whether management is able to make value-creating acquisitions at the appropriate time and price.

In addition to its important strategy of organic growth, one of Lloyds TSB Group's aims is to remain alert for opportunities to participate in the further consolidation of the financial services industry, both in the UK and overseas. In light of the Secretary of State's decision to prohibit the attempted acquisition of Abbey National, management believes that under current conditions Lloyds TSB Group may find it difficult to be able to make a significant acquisition in the UK in any business line where it already has a significant market share. Management also believes that domestic consolidation in many overseas markets, particularly in Europe, is entering its final phase and that therefore, significant cross border mergers and acquisitions may happen in the coming years. Lloyds TSB Group's ability to generate an appropriate return for its shareholders over the long term may depend upon whether management is able to make value-creating acquisitions at the appropriate time and price. Lloyds TSB Group cannot be sure that it will ultimately be able to make any such acquisitions.

Any acquisition made by Lloyds TSB Group could strain existing resources and disrupt existing businesses.

In the event of any future acquisition, Lloyds TSB Group could:

- effect share issuances which might prove dilutive of Lloyds TSB Group's profits per ordinary share and which would dilute the percentage ownership of existing shareholders;
- incur debt;
- assume liabilities; and
- incur significant expenses relating to integration of the acquired business, including integration of information systems, employee compensation schemes and rebranding.

Any acquisitions made would also involve numerous integration risks, including:

- problems combining and integrating the acquired operations, technologies or products;
- unanticipated costs or liabilities;
- diversion of management's attention from existing business operations;
- possible adverse effects on existing business relationships with suppliers, counterparties and customers;
- risks associated with cultural issues;
- risks associated with entering markets in which Lloyds TSB Group has limited or no experience; and
- potential loss of key employees, particularly those of acquired organizations.

There is a risk that Lloyds TSB Group will not be able to integrate successfully any acquired business, products, technologies or personnel.

FORWARD-LOOKING STATEMENTS

This registration statement includes certain forward-looking statements with respect to the business, strategy, financial condition and results of operations of Lloyds TSB Group. Statements that are not historical facts, including statements about Lloyds TSB Group's or management's beliefs and expectations, are forward-looking statements. Words such as "believes", "anticipates", "estimates", "expects", "intends", "aims", "potential", "will", and variations of these words and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Examples of such forward-looking statements include, but are not limited to:

- projections or expectations of profit attributable to shareholders, provisions, economic profit, dividends, capital structure 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 and any impact on Lloyds TSB Group;
- statements concerning any future economic environment or performance, including in particular any such statements included in this registration statement in "Operating and Financial Review and Prospects";
- statements about strategic goals, competition, dispositions and consolidation or technological developments in the financial services industry; and
- statements of assumptions underlying such statements.

Lloyds TSB Group plc may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds TSB Group plc's annual report and accounts to shareholders, proxy statements, offering circulars, registration statements and prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds TSB Group plc to third parties, including financial analysts. Lloyds TSB Group undertakes no obligation to update any of its forward-looking statements.

LLOYDS TSB GROUP STRUCTURE

The following is a list of the principal subsidiaries of Lloyds TSB Group plc at 31 August 2001. The audited consolidated accounts of Lloyds TSB Group plc for the year ended 31 December 2000 include the audited accounts of each of these companies.

Name of subsidiary undertaking	Country of registration/ incorporation	Percentage of equity share capital and voting rights held	Nature of business	Registered office
Lloyds TSB Bank plc	England	100%	Banking and financial services	71 Lombard Street, London EC3P 3BS England
Cheltenham & Gloucester plc	England	*100%	Mortgage lending and retail investments	Barnett Way, Gloucester GL4 3RL England
Lloyds Bank (BLSA) Limited	England	*100%	Banking and financial services	71 Lombard Street, London EC3P 3BS England
Lloyds TSB Commercial Finance Limited	England	*100%	Credit factoring	Beaumont House, Beaumont Road, Banbury, Oxfordshire OX16 7RN England
Lloyds TSB Leasing Limited	England	*100%	Financial leasing	71 Lombard Street, London EC3P 3BS England
Lloyds TSB Private Banking Limited	England	*100%	Private banking	71 Lombard Street, London EC3P 3BS England
The Agricultural Mortgage Corporation PLC	England	*100%	Long-term agricultural finance	AMC House, Chantry Street, Andover, Hants SP10 1DD England
The National Bank of New Zealand Limited	New Zealand	*100%	Banking and financial services	National Bank House 170-186 Featherston Street, Wellington, New Zealand
Lloyds TSB Bank (Jersey) Limited	Jersey	*100%	Banking and financial services	25 New Street, St. Helier, Jersey JE4 8RG
Lloyds TSB Scotland plc	Scotland	*100%	Banking and financial services	Henry Duncan House, 120 George Street Edinburgh EH2 4LH Scotland
Lloyds TSB General Insurance Limited	England	*100%	General insurance	71 Lombard Street, London EC3P 3BS England
Scottish Widows Investment Partnership Group Limited	England	*100%	Investment management	10 Fleet Place, London EC4M 7RH England

* Indirect interest

Name of subsidiary undertaking	Country of registration/ incorporation	Percentage of equity share capital and voting rights held	Nature of business	Registered office
Abbey Life Assurance Company Limited	England	*100%	Life assurance	80 Holdenhurst Road, Bournemouth BH8 8ZQ England
Lloyds TSB Insurance Services Limited	England	*100%	Insurance broking	71 Lombard Street, London EC3P 3BS England
Lloyds TSB Life Assurance Company Limited	England	*100%	Life assurance and other financial services	71 Lombard Street, London EC3P 3BS England
Lloyds UDT Finance Limited	England	*100%	Consumer credit, leasing and related services	71 Lombard Street, London EC3P 3BS England
Black Horse Limited	England	*100%	Consumer credit, leasing and related services	71 Lombard Street London EC3P 3BS England
Scottish Widows plc	Scotland	*100%	Life assurance	69 Morrison Street, Edinburgh EH3 8YF Scotland
Scottish Widows Annuities Limited	Scotland	*100%	Life assurance	69 Morrison Street, Edinburgh EH3 8YF Scotland

* Indirect interest

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Accountants

To the Shareholders of Lloyds TSB Group plc:

We have audited the accompanying consolidated balance sheets of Lloyds TSB Group plc and its subsidiaries as of 31 December 2000 and 31 December 1999, and the related consolidated profit and loss accounts, consolidated statement of total recognised gains and losses, reconciliation of movement in shareholders' funds and consolidated cash flow statement for each of the three years in the period ended 31 December 2000 which, as described in Note 1, have been prepared on the basis of accounting principles generally accepted in United Kingdom. These financial statements are the responsibility of the directors of Lloyds TSB Group plc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lloyds TSB Group plc and its subsidiary undertakings at 31 December 2000 and 31 December 1999, and the results of their operations and their cash flows, for each of the three years in the period ended 31 December 2000 in conformity with accounting principles generally accepted in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain material respects from accounting principles in the United States. The application of the latter would have affected the determination of consolidated net income expressed in pounds sterling for each of the two years in the period ended 31 December 20000 and the determination of consolidated shareholders' equity also expressed in pounds sterling at 31 December 2000 and 1999 to the extend summarised in Note 50 to the consolidated financial statements.

PricewaterhouseCoopers
Southampton, England
24 September 2001

Consolidated profit and loss account

for the year ended 31 December 2000

	Note	Group (excluding Scottish Widows) 2000 £ million	Scottish Widows (from 3 March) (note 48) 2000 £ million	Total 2000 £ million	1999* £ million	1998* £ million
Interest receivable:						
Interest receivable and similar income arising from debt securities		**443**	**-**	**443**	430	526
Other interest receivable and similar income		**10,511**	**100**	**10,611**	10,022	10,764
Interest payable		**6,132**	**335**	**6,467**	5,669	6,860
Write-down of finance lease receivables	7	**-**	**-**	**-**	-	32
Net interest income		**4,822**	**(235)**	**4,587**	4,783	4,398
Other income						
Fees and commissions receivable		**2,706**	**62**	**2,768**	2,497	2,347
Fees and commissions payable		**(461)**	**(18)**	**(479)**	(426)	(388)
Dealing profits (before expenses)	2	**193**	**5**	**198**	215	197
Income from long-term assurance business:	32					
Income before pension provisions		**447**	**268**	**715**	329	379
Pension provisions		**(100)**	**-**	**(100)**	(102)	(400)
General insurance premium income		**399**	**-**	**399**	390	335
Other operating income		**436**	**-**	**436**	292	307
		3,620	**317**	**3,937**	3,195	2,777
Total income		**8,442**	**82**	**8,524**	7,978	7,175
Operating expenses						
Administrative expenses	3	**3,332**	**46**	**3,378**	3,140	3,212
Exceptional restructuring costs	4	**129**	**59**	**188**	-	38
Total administrative expenses		**3,461**	**105**	**3,566**	3,140	3,250
Depreciation	26	**364**	**-**	**364**	265	250
Amortisation of goodwill	25	**22**	**-**	**22**	12	4
Depreciation and amortisation		**386**	**-**	**386**	277	254
Total operating expenses		**3,847**	**105**	**3,952**	3,417	3,504
Trading surplus (deficit)		**4,595**	**(23)**	**4,572**	4,561	3,671
General insurance claims		**142**	**-**	**142**	169	146
Provisions for bad and doubtful debts	16					
Specific		**547**	**-**	**547**	615	562
General		**(6)**	**-**	**(6)**	-	(7)
		541	**-**	**541**	615	555
Amounts written off fixed asset investments	5	**32**	**-**	**32**	7	15
Operating profit (loss)		**3,880**	**(23)**	**3,857**	3,770	2,955
Income from associated undertakings and joint ventures				**3**	12	14
(Loss) profit on sale and closure of businesses	6			**-**	(126)	84
Profit on ordinary activities before tax	8			**3,860**	3,656	3,053
Tax on profit on ordinary activities	10			**1,105**	1,111	894
Profit on ordinary activities after tax				**2,755**	2,545	2,159
Minority interests : equity				**13**	6	13
: non-equity	42			**36**	-	-
Profit for the year attributable to shareholders				**2,706**	2,539	2,146
Dividends	11			**1,683**	1,451	1,204
Retained profit	44			**1,023**	1,088	942
Earnings per share	12			**49.3p**	46.6p	39.7p
Diluted earnings per share	12			**48.8p**	45.8p	39.0p

The accompanying notes are an integral part of the Consolidated Financial Statements.

* restated (note 1)

Consolidated balance sheet

at 31 December 2000

	Note	**2000 £ million**	1999* £ million
Assets			
Cash and balances at central banks		**1,027**	1,276
Items in course of collection from banks		**1,533**	1,743
Treasury bills and other eligible bills	13	**1,709**	2,065
Loans and advances to banks	14	**15,290**	16,963
Loans and advances to customers	15	**114,543**	101,804
Non-returnable finance		**(400)**	-
		114,143	101,804
Debt securities	20	**14,605**	14,884
Equity shares	21	**247**	213
Interests in associated undertakings and joint ventures	22	**9**	28
Intangible fixed assets	25	**2,599**	231
Tangible fixed assets	26	**3,037**	2,035
Own shares	29	**28**	35
Other assets	30	**3,567**	3,613
Prepayments and accrued income	31	**2,965**	2,628
Long-term assurance business attributable to shareholders	32	**6,549**	2,274
		167,308	149,792
Long-term assurance assets attributable to policyholders	32	**51,085**	26,542
Total assets		**218,393**	176,334

The accompanying notes are an integral part of the Consolidated Financial Statements.

* restated (note 1)

	Note	**2000 £ million**	1999* £ million
Liabilities			
Deposits by banks	34	**16,735**	17,694
Customer accounts	35	**100,738**	92,851
Items in course of transmission to banks		**420**	757
Debt securities in issue	36	**17,899**	12,260
Other liabilities	37	**6,980**	5,526
Accruals and deferred income	38	**4,325**	3,309
Provisions for liabilities and charges:			
Deferred tax	39	**1,683**	1,566
Other provisions for liabilities and charges	40	**442**	474
Subordinated liabilities:			
Undated loan capital	41	**3,391**	3,294
Dated loan capital	41	**4,119**	3,199
Minority interests:			
Equity		**37**	33
Non-equity	42	**515**	-
		552	33
Called-up share capital	43	**1,396**	1,389
Share premium account	44	**595**	404
Merger reserve	44	**343**	343
Profit and loss account	44	**7,690**	6,693
Shareholders' funds (equity)		**10,024**	8,829
		167,308	149,792
Long-term assurance liabilities to policyholders		**51,085**	26,542
Total liabilities		**218,393**	176,334
Memorandum items	46		
Contingent liabilities:			
Acceptances and endorsements		**357**	459
Guarantees and assets pledged as collateral security		**3,249**	2,485
Other contingent liabilities		**1,541**	1,479
		5,147	4,423
Commitments:			
Commitments arising out of sale and option to resell transactions		**3**	14
Other commitments		**42,586**	27,862
		42,589	27,876

The accompanying notes are an integral part of the Consolidated Financial Statements.

* restated (note 1)

Other statements

Statement of total recognised gains and losses
for the year ended 31 December 2000

	2000 £ million	1999 £ million	1998 £ million
Profit attributable to shareholders	**2,706**	2,539	2,146
Currency translation differences on foreign currency net investments	**(11)**	(10)	(16)
Total recognised gains and losses relating to the year	**2,695**	2,529	2,130
Prior year adjustment in respect of the adoption of FRS 15 (note 1)	**(112)**		
Total gains and losses recognised during the year	**2,583**		

Historical cost profits and losses
for the year ended 31 December 2000

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2000

	2000 £ million	1999 £ million	1998 £ million
Profit attributable to shareholders	**2,706**	2,539	2,146
Dividends	**(1,683)**	(1,451)	(1,204)
Retained profit	**1,023**	1,088	942
Currency translation differences on foreign currency net investments	**(11)**	(10)	(16)
Issue of shares	**74**	108	180
Goodwill written back on sale and closure of businesses	**109**	80	131
Net increase in shareholders' funds	**1,195**	1,266	1,237
Shareholders' funds at beginning of year	**8,829**	7,563	6,254
Prior year adjustment in respect of the adoption of FRS 15 (note 1)	**-**	-	(112)
Prior year adjustment in respect of the adoption of FRS 18 (note 1)	**-**	-	184
Shareholders' funds at end of year	**10,024**	8,829	7,563

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated cash flow statement

for the year ended 31 December 2000

	2000 **£ million**	1999* £ million	1998* £ million
Net cash inflow (outflow) from operating activities (note 49a)	**7,474**	1,213	(2,526)
Dividends received from associated undertakings	**2**	-	5
Returns on investments and servicing of finance:			
Dividends paid to equity minority interests	**(12)**	(11)	(11)
Payments made to non-equity minority interests	**(36)**	-	-
Interest paid on subordinated liabilities (loan capital)	**(442)**	(270)	(294)
Interest element of finance lease rental payments	**(1)**	-	-
Net cash outflow from returns on investments and servicing of finance	**(491)**	(281)	(305)
Taxation:			
UK corporation tax	**(723)**	(670)	(687)
Overseas tax	**(141)**	(137)	(59)
Total taxation	**(864)**	(807)	(746)
Capital expenditure and financial investment:			
Additions to fixed asset investments	**(23,564)**	(23,147)	(41,406)
Disposals of fixed asset investments	**24,850**	21,969	42,933
Additions to tangible fixed assets	**(1,006)**	(595)	(388)
Disposals of tangible fixed assets	**78**	83	129
Capital injection to long-term assurance business	**-**	(220)	(175)
Net cash inflow (outflow) from capital expenditure and financial investment	**358**	(1,910)	1,093
Acquisitions and disposals:			
Acquisition of group undertakings (note 49e)	**(5,110)**	(27)	4
Disposal of group undertakings and businesses (note 49g)	**83**	3	243
Net cash (outflow) inflow from acquisitions and disposals	**(5,027)**	(24)	247
Equity dividends paid	**(1,522)**	(1,285)	(862)
Net cash outflow before financing	**(70)**	(3,094)	(3,094)
Financing:			
Issue of subordinated liabilities (loan capital)	**952**	2,769	256
Issue of preferred securities by subsidiary undertakings	**509**	-	-
Issue of ordinary share capital net of £124 million (1999: £205 million; 1998: nil) contribution to the QUEST (note 29)	**74**	108	41
Repayments of subordinated liabilities (loan capital)	**(55)**	(228)	(501)
Capital element of finance lease rental payments	**(4)**	(3)	(5)
Net cash inflow (outflow) from financing	**1,476**	2,646	(209)
Increase (decrease) in cash (note 49c)	**1,406**	(448)	(3,303)

The accompanying notes are an integral part of the Consolidated Financial Statements.

* restated (note 1)

1 Accounting policies

In 2000 the Group has implemented the requirements of Financial Reporting Standard 15 ‘Tangible Fixed Assets’; this has resulted in two changes. The Group’s freehold and long leasehold premises were previously included in the balance sheet at the last valuation on the basis of existing use value; they will now no longer be revalued, and a prior year adjustment has been made to restate the carrying value to historical cost. This has resulted in the carrying value of tangible fixed assets as at 1 January 1998 being reduced by £112 million and an equivalent adjustment being made against reserves. The effect of this change upon the Group’s profit and loss account is not significant. In addition, the Group has 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 land, is being depreciated over 50 years. Previously it was considered that the residual values were such that depreciation was not significant. The effect of this change has been to increase the depreciation charge in 2000 by £8 million.

The Group has also implemented the requirements of Financial Reporting Standard 18 ‘Accounting Policies’. On implementation of this new standard, the Group has taken the opportunity to review the appropriateness of accounting policies in a number of areas and the following change has been made as a result. Debt securities acquired in exchange for advances to countries experiencing payment difficulties which are not (nor due to be) collateralised by US Treasury securities (‘uncollateralised bonds’) were, like the original debt, previously included in loans and advances, at their written down value at date of exchange as adjusted for any subsequent movements in bad debt provisions. This treatment is no longer considered to be the most appropriate and the uncollateralised bonds have been reclassified as debt securities where they are carried at an amount based on the market value at the date of the original exchange as adjusted for the amortisation of the discount on acquisition. A prior year adjustment, increasing reserves by £184 million, has been made to reflect the revised policy. In accordance with the requirements of Financial Reporting Standard 3 “Reporting Financial Performance” a gain of £248 million will be recognised in the Statement of Recognised Gains and Losses in the accounts for the year ending 31 December 2001.

The effect of this change on the profit and loss account for the year ended 31 December 2000 has been to increase other operating income by £58 million, increase the charge for bad and doubtful debts by £66 million, increase amounts written off fixed asset investments by £18 million and to reduce profit before tax by £26 million. Loans and advances have been reduced by £312 million, debt securities have increased by £723 million and shareholders’ funds have increased by £287 million. 1999 and 1998 comparative figures have been restated. For the year ended 31 December 1999, other operating income has been increased by £62 million (1998: £65 million), the charge for bad and doubtful debts has been increased by £27 million (1998: £27 million), and profit before tax has been increased by £35 million (1998: £38 million).

In addition, the Group has implemented the Finance & Leasing Association’s Statement of Recommended Accounting Practice ‘Accounting Issues in the Asset Finance and Leasing Industry’. As a result, the presentation of assets held for leasing to customers under operating lease agreements has been changed. These assets are now included within tangible fixed assets and depreciation charged over their estimated useful economic lives. Rental income received from customers is included within other operating income. Operating lease assets were previously included within loans and advances and the related income within net interest income. This change has no effect on profit before tax. The effect of this change on the balance sheet has been to increase tangible fixed assets by £1,280 million and reduce loans and advances to customers by an equivalent amount (1999: £479 million). Comparative figures for 1999 and 1998 have been restated.

The Group has also implemented the requirements of Financial Reporting Standard 16 ‘Current Tax’; the effect has not been significant.

a) Accounting convention

The consolidated accounts are prepared under the historical cost convention as modified by the revaluation of debt securities and equity shares held for dealing purposes (see g) and assets held in the long-term assurance business in compliance with Section 255A, Schedule 9 and other requirements of the Companies Act 1985, in accordance with applicable accounting standards, pronouncements of the Urgent Issues Task Force and with the Statements of Recommended Accounting Practice issued by the British Bankers’ Association and the Finance and Leasing Association.

The Group has taken advantage of the dispensation in the Urgent Issues Task Force’s Abstract 17 ‘Employee Share Schemes’ not to apply that Abstract to the Group’s Inland Revenue approved Save As You Earn (‘SAYE’) share option schemes.

1 Accounting policies (continued)

b) Basis of consolidation

Assets, liabilities and results of group undertakings and joint ventures are included in the consolidated accounts on the basis of accounts made up to 31 December. Details of the principal group undertakings and joint ventures can be found in note 22 and note 24. In order to reflect the different nature of the shareholders' and policyholders' interests in the long-term assurance business, the value of long-term assurance business attributable to shareholders and the assets and liabilities attributable to policyholders are classified under separate headings in the consolidated balance sheet (see n). Details of transactions entered into by the Group which are not eliminated on consolidation are given in note 45.

c) Goodwill

Goodwill arising on acquisitions of or by group undertakings is capitalised. For acquisitions prior to 1 January 1998, goodwill was taken direct to reserves in the year of acquisition. As permitted by the transitional arrangements of Financial Reporting Standard 10, this goodwill was not reinstated when the Group adopted the standard in 1998.

The useful economic life of the goodwill arising on each acquisition is determined at the time of the acquisition. The directors consider that it is appropriate to assign an indefinite life to the goodwill arising on the acquisition of Scottish Widows 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. Both of these attributes are deemed to have indefinite durability, which has been determined based on the following factors: the nature of the business; the stability of the industry; the typical lifespans of the products; the extent to which the acquisition overcomes market entry barriers; and the expected future impact of competition on the business.

The goodwill is not being amortised through the profit and loss account; however, it is subjected to annual impairment reviews in accordance with FRS 11. Impairment of the goodwill is evaluated by comparing the present value of the expected future cash flows of the business, excluding financing and tax, ('value-in-use') to the carrying value of the underlying net assets. If the value-in-use exceeds the net assets, an impairment is deemed to have occurred and the resulting write-down in the goodwill would be charged to the profit and loss account immediately.

Paragraph 28 of Schedule 9 to the Companies Act 1985 requires that all goodwill carried on the balance sheet should be amortised. In the case of the goodwill arising on the acquisition of Scottish Widows, the directors consider that it is appropriate to depart from this requirement in order to comply with the over-riding requirement for the accounts to show a true and fair view. If this goodwill was amortised over a period of 20 years, profit before tax for the year ended 31 December 2000 would be £78 million lower, with a corresponding reduction in reserves; intangible assets on the balance sheet would also be £78 million lower.

Goodwill arising on all other acquisitions is amortised over its estimated useful economic life, which does not exceed 20 years.

At the date of the disposal of group or associated undertakings, any unamortised goodwill, or goodwill taken directly to reserves prior to 1 January 1998, is included in the Group's share of the net assets of the undertaking in the calculation of the profit or loss on disposal.

d) Income recognition

Interest income is recognised in the profit and loss account as it accrues, with the exception of interest on non-performing lending which is taken to income when received (see e).

Fees and commissions receivable from customers to reimburse the Group for costs incurred are taken to income when due. Fees and commissions relating to the ongoing provision of a service or risk borne for a customer are taken to income in proportion to the service provided or risk borne in each accounting period. Fees charged in lieu of interest are taken to income on a level yield basis over the period of the loan. Other fees receivable are accounted for as they fall due.

1 Accounting policies (continued)

e) Provisions for bad and doubtful debts and non performing lending

It is the Group's policy to make provisions for bad and doubtful debts, by way of a charge to the profit and loss account, to reflect the losses inherent in the loan portfolio at the balance sheet date. There are two types of provision, specific and general, and these are discussed further below.

Specific provisions
Specific provisions relate to identified risk advances and are raised when the Group considers that recovery of the whole of the outstanding balance is in serious doubt. The amount of the provision is equivalent to the amount necessary to reduce the carrying value of the advance to its expected ultimate net realisable value.

For the Group's portfolios of smaller balance homogenous loans, such as the residential mortgage, personal lending and credit card portfolios, specific provisions are calculated using a formulae driven approach. These formulae take into account factors such as the length of time that payments from the customer are overdue, the value of any collateral held and the level of past and expected losses, in order to derive an appropriate provision.

For the Group's other lending portfolios, specific provisions are calculated on a case-by-case basis. In establishing an appropriate provision, factors such as the financial condition of the customer, the nature and value of any collateral held and the costs associated with obtaining repayment and realisation of the collateral are taken into consideration.

General provisions
General provisions are raised to cover latent bad and doubtful debts which are present in any portfolio of advances but have not been specifically identified. The Group holds general provisions against each of its principal lending portfolios, which are calculated after having regard to a number of factors; in particular, the level of watchlist or potential problem debt and the observed propensity for such debt to deteriorate and become impaired and prior period loss rates. The level of general provision held is reviewed on a regular basis to ensure that it remains appropriate in the context of the perceived risk inherent in the related portfolio and the prevailing economic climate.

Non-performing lending
An advance becomes non-performing when interest ceases to be credited to the profit and loss account. There are two types of non-performing lending:

Category 1: this comprises lending where the customer continues to operate the account, but where there is doubt about the payment of interest. Interest continues to be charged to the customer's account, but it is not applied to income; it is placed on a suspense account and only taken into income if there ceases to be significant doubt about its being paid.

Category 2: this comprises lending where the operation of the customer's account has ceased and it has been transferred to a specialist recovery department. At this stage the advance is written down to its estimated realisable value and interest is no longer charged to the customer's account as its recovery is considered unlikely. Interest is only taken to income if it is received.

f) Mortgage incentives

Payments made under cash gift and discount mortgage schemes, which are granted to customers as incentives to take out loans, are amortised as an adjustment to net interest income over the early redemption charge period. These payments are recoverable from the customer in the event of early redemption. Payments cease to be deferred and are charged to the profit and loss account in the event that the related loan is redeemed or becomes impaired.

g) Debt securities and equity shares

Debt securities, apart from those held for dealing purposes, are stated at cost as adjusted for the amortisation of any premiums and discounts arising on acquisition, which are amortised from purchase to maturity in equal annual instalments. Debt securities acquired in exchange for advances to countries experiencing payment difficulties are included in the Group's portfolio of investment securities at an amount based on the market value at the date of exchange as adjusted for the amortisation of discount on acquisition. Equity shares, apart from those held for dealing purposes, are stated at cost less amounts written off. Debt securities and equity shares held for dealing purposes are included at market value.

1 Accounting policies (continued)

h) Tangible fixed assets

Tangible fixed assets are included at cost less depreciation.

Land is not depreciated. Leasehold premises with unexpired lease terms of 50 years or less are depreciated by equal annual instalments over the remaining period of the lease. Freehold and long leasehold buildings are depreciated over 50 years. The costs of adapting premises for the use of the Group are separately identified and depreciated over 10 years, or over the term of the lease if less; such costs are included within premises in the balance sheet total of tangible fixed assets. Equipment is depreciated by equal annual instalments over the estimated useful lives of the assets, which for fixtures and furnishings are 10-20 years and for computer hardware, operating software and application software and the related development costs relating to separable new systems, motor vehicles and other equipment are 3-8 years.

Premises and equipment held for letting to customers under operating leases are depreciated on a straight-line basis over the life of the lease taking into account anticipated residual values.

i) Vacant leasehold property

When a leasehold property ceases to be used in the business or a commitment is entered into which would cause this to occur, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease.

j) Leasing and instalment credit transactions

Income from both finance and operating leases is credited to the profit and loss account in proportion to the net cash invested so as to give a constant rate of return over each period after taking account of tax.

Unguaranteed residual values in respect of both finance lease and operating lease assets are reviewed regularly and any impairments identified are charged to the profit and loss account.

Income from instalment credit transactions is calculated by the sum of the digits method.

In those cases where the Group is the lessee, operating lease costs are charged to the profit and loss account in equal annual instalments over the life of the lease.

k) Deferred tax

Deferred tax is provided at the appropriate rates of tax where there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

l) Pensions and other post-retirement benefits

Contributions to the Group’s pension schemes are charged to the profit and loss account so as to spread the expected cost of pensions, calculated in accordance with actuarial advice, on a systematic basis over employees’ working lives. Pension arrangements for most of the staff in the UK and for the majority of those overseas are operated through defined benefit schemes funded by Group companies. The pension cost relating to these schemes is assessed in accordance with the advice of qualified actuaries, using the projected unit method. Variations from the regular cost are allocated by equal annual instalments over the average remaining service lives of current employees. Pension arrangements for staff joining Lloyds TSB Group Pension Scheme No.1 (formerly the Lloyds Bank pension scheme) after 1 January 1996 and Lloyds TSB Group Pension Scheme No. 2 (formerly the TSB Group pension scheme) after 1 January 1998 are through money purchase elements of these schemes.

The cost of providing post-retirement benefits other than pensions is charged to the profit and loss account on a systematic basis over employees’ working lives. The unfunded liability is included in provisions in the balance sheet.

m) Foreign currency translation

Assets, liabilities and results in foreign currencies are expressed in sterling at the rates of exchange ruling on the dates of the respective balance sheets. Exchange adjustments on the translation of opening net assets held overseas are taken direct to reserves. All other exchange profits or losses, which arise from normal trading activities, are included in the profit and loss account.

1 Accounting policies (continued)

n) Long-term assurance business

A number of the Group's subsidiary undertakings are engaged in writing long-term assurance business, including the provision of life assurance, pensions, annuities and permanent health insurance contracts. In common with other life assurance companies in the UK, these companies are structured into one or more long-term business funds depending upon the nature of the products being written, and a shareholders fund. All premiums received, investment returns, claims and expenses, and changes in liabilities to policyholders are accounted for within the related long-term business fund. Any surplus, which is determined annually by the Appointed Actuary after taking account of these items, may either be distributed between the shareholder and the policyholders' according to a predetermined formula or retained within the long-term business fund. The shareholder will also levy investment management and administration charges upon the long-term business fund.

The Group accounts for its interest in long-term assurance business using the embedded value basis of accounting. The value of the shareholders interest in the long-term assurance business ('the embedded value') included in the Group's balance sheet is an actuarially determined estimate of the economic value of the Group's life assurance subsidiaries, excluding any value which may be attributed to future new business. The embedded value is comprised of the net tangible assets of the life assurance subsidiaries, including any surplus retained within the long-term business funds, which could be transferred to shareholders, and the present value of the in-force business. The value of the in-force business is calculated by projecting the future surpluses and other net cash flows attributable to the shareholder arising from business written by the balance sheet date, using appropriate economic and actuarial assumptions, and discounting the result at a rate which reflects the shareholder's overall risk premium.

Changes in the embedded value, which are determined on a post-tax basis, are included in the profit and loss account. For the purpose of presentation, the change in this value is grossed up at the underlying rate of corporation tax.

The assets held within the long-term business funds are legally owned by the life assurance companies, however the shareholder will only benefit from ownership of these assets to the extent that surpluses are declared or from other cashflows attributable to the shareholder. Reflecting the different nature of these assets, they are classified separately on the Group's balance sheet as 'Long-term assurance assets attributable to policyholders', with a corresponding liability to the policyholders also shown. Investments held within the long-term business funds are included on the following basis: equity shares, debt securities and unit trusts held for unit linked funds are valued in accordance with policy conditions at market prices; other equity shares and debt securities are valued at middle market price and other unit trusts at bid price; investment properties are included at valuation by independent valuers at existing use value at the balance sheet date, and mortgages and loans are at cost less amounts written off.

o) General insurance business

The underwriting result of the general insurance business is determined annually and included in profit before tax after taking into account premiums, outstanding claims and deferred acquisition costs. Premiums are included net of refunds and a provision for the proportion of premiums written in the year which relate to cover provided for future periods. The provision for claims includes the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date.

p) Derivatives

Derivatives are used in the Group's trading activities to meet the financial needs of customers, for proprietary purposes and to manage risk in the Group's trading portfolios. Such instruments include exchange rate forwards and futures, currency swaps and options together with interest rate swaps, forward rate agreements, interest rate options and futures. These derivatives are carried at fair value and all changes in fair value are reported within dealing profits in the profit and loss account. Fair values are normally determined by reference to quoted market prices; internal models are used to determine fair value in instances where no market price is available. The unrealised gains and losses on trading derivatives are included within other assets and other liabilities respectively; these items are reported gross except in instances where the Group has entered into legally binding netting agreements, where the Group has a right to insist on net settlement that would survive the insolvency of the counterparty; in these cases the positive and negative fair values of trading derivatives with the relevant counterparties are offset within the balance sheet totals.

Derivatives used in the Group's non-trading activities are taken out to reduce exposures to fluctuations in interest and exchange rates and include exchange rate forwards and futures, currency options together with interest rate swaps, forward rate agreements and options. These derivatives are accounted for on an accruals basis, in line with the treatment of the underlying items which they are hedging. Interest receipts and payments on hedging interest derivatives are included in the profit and loss account so as to match the interest payable or receivable on the hedged item.

1 Accounting policies (continued)

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.

Where a hedge transaction is superseded, ceases to be effective or is terminated early the derivative is measured at fair value. Any profit or loss arising is then amortised to the profit and loss account over the remaining life of the item which it was originally hedging. When the underlying asset, liability or position that was being hedged is terminated, the hedging derivative is measured at fair value and any profit or loss arising is recognised immediately.

2 Dealing profits (before expenses)

	2000	1999	1998
	£m	£m	£m
Foreign exchange trading income	**141**	133	112
Securities and other gains	**57**	82	85
	198	215	197

Dealing profits include the profits and losses arising both on the purchase and sale of trading instruments and from the year-end revaluation to market value, together with the interest income earned from these instruments and the related funding cost.

3 Administrative expenses

	2000	1999	1998
	£m	£m	£m
Salaries and profit sharing	**1,862**	1,700	1,715
Social security costs	**131**	125	126
Other pension costs	**(105)**	(108)	(105)
Staff costs	**1,888**	1,717	1,736
Other administrative expenses	**1,490**	1,423	1,476
	3,378	3,140	3,212

	2000	1999	1998
The average number of persons on a headcount basis employed by the Group during the year was as follows:			
UK	**67,848**	67,576	69,314
Overseas	**11,847**	12,599	12,058
	79,695	80,175	81,372

The above staff numbers exclude 6,152 (1999: 4,938; 1998: 5,114) staff employed in the long-term assurance business. Costs of £199 million (1999: £141 million; 1998: £143 million) in relation to those staff are reflected in the valuation of the shareholder's interest in the long-term assurance business.

Details of directors' emoluments, pensions and interests are given on pages 110 and 111, and 114 and 115.

During the year PricewaterhouseCoopers, the Group's independent financial accountants, earned the following fees:

	2000	1999	1998
	£m	£m	£m
Statutory audit	**4**	4	4
Due diligence and other audit-related work	**7**	4	3
Audit and similar services	**11**	8	7
Consultancy and advisory services	**25**	25	10
Total fees	**36**	33	17

3 Administrative expenses (continued)

The auditors' remuneration for the holding company was £50,000 (1999: £50,000; 1998: £50,000).

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, principally tax advice and due diligence reporting on acquisitions, or where they are awarded assignments on a competitive basis.

It is the Group's policy to seek competitive tenders for all consultancy projects.

There was a net credit in respect of pension costs for the Group in 2000 of £105 million (1999: credit of £108 million; 1998: credit of £105 million), which included a credit of £121 million (1999: credit of £121 million; 1998: credit of £121 million) relating to Lloyds TSB Group Pension Schemes No's 1 and 2.

Full actuarial valuations of the Lloyds TSB Group Pension Schemes No's l and 2 are carried out every three years with interim reviews in the intervening years. At 30 June 1999, the date of the latest full actuarial valuations, the principal actuarial assumptions adopted were that, over the long term, the annual real rate of return on new investments would be 3 per cent higher than the annual increase in pensionable remuneration, 4 per cent higher than the annual increase in present and future pensions in payment, and 3 per cent higher than the annual increase in dividends receivable. The market value of the assets of the schemes at this date was £11,748 million. The actuarial value of the assets represented 125 per cent of the accrued liabilities allowing for future increases in pensions and pensionable remuneration. For funding purposes, the surpluses in the two schemes are being eliminated by means of a contribution holiday.

Contribution rates to other schemes have been adjusted to take account of surpluses and deficiencies. The pensions prepayment of £768 million (1999: £647 million) for the Group is included in prepayments and accrued income.

The Group operates a number of schemes which provide post-retirement health care benefits to certain employees, retired employees and their dependent relatives. The total cost for the Group in 2000 was £3 million (1999: £17 million; 1998: £2 million). For the principal scheme, the latest actuarial valuation of the liability was carried out at 31 December 2000. This valuation showed the Group's liability to be £72 million, which had been fully provided for at that date. The principal actuarial assumptions adopted were that, over the long term, the valuation discount rate and the rate of increase in medical costs would be 4 per cent and 3 per cent respectively higher than annual price inflation.

4 Exceptional restructuring costs

In February 2000 the Group announced a new efficiency programme aimed at reducing its overall cost base. The main features of the efficiency programme, which is primarily focused on non-customer facing activities, will be the centralisation of computer operations; the further consolidation of large scale processing operations and support functions including the complete removal of all back office processing from branches; the further streamlining of the branch network, combined with the expansion of lower cost delivery channels such as telephone banking and internet operations; the further reduction of purchasing costs; and the rationalisation of non-personal banking activities, through the progressive sharing and consolidation of operational functions. The programme is expected to be completed by 2003. During 2000 costs of £108 million were incurred, mainly comprising severance and consultancy costs.

Following completion of the acquisition of Scottish Widows in March 2000, the Group has been integrating its businesses with the Group's existing insurance and investments activities. During 2000 costs of £59 million have been incurred on this integration. In addition, a provision of £21 million has been made to cover the cost of integrating Chartered Trust Group plc and ACL Autolease Holdings Limited following their acquisition in September 2000.

In December 1998, the National Bank of New Zealand announced to its staff and customers a reorganisation plan following its acquisition of Countrywide Banking Corporation ("Countrywide"). A restructuring provision of £38 million was made to cover the costs of integrating and reorganising Countrywide following its acquisition, which principally related to the cost of redundancies and branch closures.

5 Amounts written off fixed asset investments

	2000 £m	1999 £m	1998 £m
Debt securities	**27**	7	9
Equity shares	**5**	-	6
	32	7	15

6 (Loss) profit before tax on sale and closure of businesses	**2000 £m**	1999 £m	1998 £m
Provision for closure of Lloyds TSB Securities Services	**-**	(28)	-
Provision for sale of Abbey Life new business capability (including £80 million in respect of goodwill previously written off to reserves)	**-**	(98)	-
Profit on sale of TSB Factors Limited	**-**	-	3
Profit on sale of Universal Credit Limited	**-**	-	24
Profit on sale of International Factors Limited	**-**	-	158
Loss on sale of Black Horse Agencies Group (after charging goodwill of £131 million previously written off to reserves)	**-**	-	(101)
	-	(126)	84

During 1999 the Group announced its decision to withdraw from the global custody and unit trust trusteeship business and the consequential run-down and closure of Lloyds TSB Securities Services. A provision was raised in 1999 for the expected operating losses up to the date of closure and this provision has been released as the operating losses have been incurred over 2000; the closure of Lloyds TSB Securities Services has now been completed.

The new business capability of Abbey Life was sold on 1 February 2000. A provision of £98 million was made for the loss on sale in 1999; this loss included £80 million in respect of goodwill previously written off to reserves and other asset write-downs.

No tax liability was incurred on the sale and closure of businesses because of the availability of capital losses brought forward from prior years.

7 Write down of finance lease receivables

Following the 1998 Finance Act the corporation tax rate reduced from 31 per cent to 30 per cent from 1 April 1999; as a result the deferred tax liability in respect of the leasing business of Lloyds TSB Leasing reduced by £32 million. However, as the benefit of this reduction was passed on to customers, the value of the future rentals receivable was similarly reduced. Accordingly, both profit before tax and the tax charge were reduced by £32 million in 1998. There was, therefore, no effect on profit attributable to shareholders.

8 Profit on ordinary activities before tax	**2000 £m**	1999 £m	1998 £m
Profit on ordinary activities before tax is stated after taking account of:			
Income from:			
Aggregate amounts receivable in respect of assets leased to customers and banks under:			
Finance leases and hire purchase contracts	**3,295**	3,578	3,713
Operating leases	**151**	62	50
Profit less losses on disposal of investment securities	**127**	74	69
Charges:			
Rental of premises	**193**	195	202
Hire of equipment	**26**	33	37
Interest on subordinated liabilities (loan capital)	**490**	362	323
Finance lease depreciation	**-**	-	4

9 Segmental analysis

The Group's activities are organised into three segments: UK Retail Banking and Mortgages, Insurance and Investments and Wholesale Markets and International Banking. Services provided by UK Retail Banking and Mortgages encompass the provision of banking and other financial services to personal and small business customers, private banking, stockbroking and mortgages. Insurance and Investments offers life assurance, pensions and savings products, general insurance and fund management services. Wholesale Markets and International Banking provides banking and related services for major UK and multinational companies, banks and financial institutions, and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages the Group's activities in financial markets through its Treasury function and provides banking and financial services overseas.

	UK Retail Banking and Mortgages 2000 £m	**General insurance 2000 £m**	**Life, pensions, unit trusts and asset management 2000 £m**	**Insurance and Investments 2000 £m**	**Wholesale Markets and International Banking 2000 £m**	**Central group items 2000 £m**	**Total 2000 £m**
Net interest income	**2,962**	**57**	**31**	**88**	**1,653**	**(116)**	**4,587**
Income from long-term assurance business	**-**	**-**	**607**	**607**	**8**	**-**	**615**
Other operating income	**1,141**	**774**	**311**	**1,085**	**1,058**	**38**	**3,322**
Total income	**4,103**	**831**	**949**	**1,780**	**2,719**	**(78)**	**8,524**
Exceptional restructuring costs	**(99)**	**-**	**(59)**	**(59)**	**(30)**	**-**	**(188)**
Other operating expenses	**(2,091)**	**(125)**	**(239)**	**(364)**	**(1,254)**	**(55)**	**(3,764)**
Trading surplus	**1,913**	**706**	**651**	**1,357**	**1,435**	**(133)**	**4,572**
General insurance claims	**-**	**(142)**	**-**	**(142)**	**-**	**-**	**(142)**
Provisions for bad and doubtful debts	**(332)**	**-**	**-**	**-**	**(209)**	**-**	**(541)**
Amounts written off fixed asset investments	**-**	**-**	**-**	**-**	**(32)**	**-**	**(32)**
Income from associated undertakings and joint ventures	**2**	**-**	**1**	**1**	**-**	**-**	**3**
Profit (loss) before tax	**1,583**	**564**	**652**	**1,216**	**1,194**	**(133)**	**3,860**

	UK Retail Banking and Mortgages 1999 £m	General insurance 1999 £m	Life, pensions, unit trusts and asset management 1999 £m	Insurance and Investments 1999 £m	Wholesale Markets and International Banking 1999 £m	Central group items 1999 £m	Total 1999* £m
Net interest income	2,943	50	10	60	1,664	116	4,783
Income from long-term assurance business	-	-	219	219	8	-	227
Other operating income	1,087	702	271	973	876	32	2,968
Total income	4,030	752	500	1,252	2,548	148	7,978
Operating expenses	(1,951)	(100)	(193)	(293)	(1,144)	(29)	(3,417)
Trading surplus	2,079	652	307	959	1,404	119	4,561
General insurance claims	-	(169)	-	(169)	-	-	(169)
Provisions for bad and doubtful debts	(425)	-	-	-	(190)	-	(615)
Amounts written off fixed asset investments	-	-	-	-	(7)	-	(7)
Income from associated undertakings and joint ventures	3	-	9	9	-	-	12
Loss on sale and closure of businesses	-	-	-	-	-	(126)	(126)
Profit (loss) before tax	1,657	483	316	799	1,207	(7)	3,656

9 Segmental analysis (continued)

	UK Retail Banking and Mortgages 1998 £m	General insurance 1998 £m	Life, pensions, unit trusts and asset management 1998 £m	Insurance and Investments 1998 £m	Wholesale Markets and International Banking 1998 £m	Central group items 1998 £m	Total 1998* £m
Net interest income	2,711	45	14	59	1,609	19	4,398
Income from long-term assurance business	-	-	(33)	(33)	12	-	(21)
Other operating income	1,031	630	224	854	888	25	2,798
Total income	3,742	675	205	880	2,509	44	7,175
Exceptional restructuring costs	-	-	-	-	(38)	-	(38)
Operating expenses	(1,937)	(108)	(175)	(283)	(1,202)	(44)	(3,466)
Trading surplus	1,805	567	30	597	1,269	-	3,671
General insurance claims	-	(146)	-	(146)	-	-	(146)
Provisions for bad and doubtful debts	(336)	-	4	4	(223)	-	(555)
Amounts written off fixed asset investments	-	-	-	-	(15)	-	(15)
Income from associated undertakings and joint ventures	3	-	7	7	4	-	14
Profit on sale of businesses	-	-	-	-	-	84	84
Profit before tax	1,472	421	41	462	1,035	84	3,053

Income from long-term assurance business is further analysed as follows:

	2000 £m	1999 £m	1998 £m
Income net of claims and technical provisions	**937**	621	463
Pension provisions	**(100)**	(102)	(400)
Operating expenses	**(471)**	(291)	(388)
Tax charged to technical account	**(191)**	(159)	42
Surplus retained	**175**	69	(283)
Value of in-force business	**266**	89	271
Embedded value after tax	**441**	158	(12)
Tax gross up	**174**	69	(9)
Embedded value before tax	**615**	227	(21)

Geographical area: **	**Domestic 2000 £m**	**International 2000 £m**	**Total 2000 £m**	Domestic 1999 £m	International 1999 £m	Total 1999 £m	Domestic 1998 £m	International 1998 £m	Total 1998 £m
Interest receivable	**8,927**	**2,127**	**11,054**	8,015	2,437	10,452	8,901	2,389	11,290
Fees and commissions receivable	**2,480**	**288**	**2,768**	2,227	270	2,497	2,088	259	2,347
Dealing profits (before expenses)	**149**	**49**	**198**	154	61	215	142	55	197
Income from long-term assurance business	**607**	**8**	**615**	219	8	227	(33)	12	(21)
General insurance premium income	**399**	**-**	**399**	390	-	390	335	-	335
Other operating income	**269**	**167**	**436**	138	154	292	157	150	307
Total gross income	**12,831**	**2,639**	**15,470**	11,143	2,930	14,073	11,590	2,865	14,455
Profit on ordinary activities before tax	**3,427**	**433**	**3,860**	3,201	455	3,656	2,736	317	3,053

9 Segment analysis (continued)

	Net assets †			Assets ‡		
	2000	1999	1998	**2000**	1999	1998
	£m	£m	£m	**£m**	£m	£m
Class of business:						
UK Retail Banking and Mortgages	**2,235**	2,127	1,973	**71,292**	64,347	60,644
Insurance and Investments						
- General insurance	**361**	452	259	**755**	682	651
- Life, pensions, unit trusts and asset management	**6,147**	2,394	1,971	**8,682**	2,350	2,130
	6,508	2,846	2,230	**9,437**	3,032	2,781
UK Retail Financial Services	**8,743**	4,973	4,203	**80,729**	67,379	63,425
Wholesale Markets and International Banking	**3,377**	2,873	2,336	**85,310**	81,206	79,958
Central group items	**(2,059)**	1,016	1,066	**1,269**	1,207	1,100
	10,061	8,862	7,605	**167,308**	149,792	144,483
Geographical area: **						
Domestic	**9,129**	8,269	7,363	**144,178**	128,105	122,485
International	**932**	593	242	**23,130**	21,687	21,998
	10,061	8,862	7,605	**167,308**	149,792	144,483

* 1998 figures have been restated to take account of the reclassification, in 1999, of Lloyds UDT from UK Retail Banking to Wholesale Markets and International Banking, which already included the Group's other asset finance operations. Both 1998 and 1999 figures have also been restated to take account of changes in internal cost allocation; a number of organisational changes; and a change in treatment of certain central income items, which were previously allocated to business units but are now reported within central group items.

** The geographical distribution of gross income sources, profit on ordinary activities before tax and assets by domestic and international operations is based on the location of the office recording the transaction, except for lending by the international business booked in London.

† Net assets represent shareholders' funds plus equity minority interests. Disclosure of information on net assets is an accounting standard requirement (SSAP25); it is not appropriate to relate it directly to the segmental profits above because the business is not managed by the allocation of net assets to business units.

‡ Assets exclude long-term assurance assets attributable to policyholders.

As the business of the Group is mainly that of banking and insurance, no segment analysis of turnover is given.

10 Tax on profit on ordinary activities

	2000	1999	1998
	£m	£m	£m
UK corporation tax			
Current tax on profits for the year	**941**	767	692
Adjustments in respect of prior years	**3**	21	9
	944	788	701
Double taxation relief	**(72)**	(45)	(39)
	872	743	662
Foreign tax			
Current tax on profits for the year	**137**	110	81
Adjustments in respect of prior years	**(5)**	8	29
	132	118	110
Current tax charge	**1,004**	861	772
Deferred tax	**100**	245	116
Associated undertakings and joint ventures	**1**	5	6
	1,105	1,111	894

10 Tax on profit on ordinary activities (continued)

The charge for tax on the profit for the year is based on an average UK corporation tax rate of 30 per cent (1999: 30.25 per cent; 1998: 31 per cent).

The UK corporation tax charge includes £171 million (1999: £67 million; 1998: £2 million) in respect of notional tax on franked investment income and on the shareholders' interest in the increase in the value of the long-term assurance business.

A reconciliation of the reported tax charge attributable to operations for the year to the charge that would result from applying the standard UK corporation tax rate to profit before tax is given below:

	2000 £m	1999 £m	1998 £m
Tax charge at average UK corporation tax rate of 30% (1999: 30.25%; 1998: 31%)	**1,158**	1,106	946
Deferred tax adjustment following a change in the rate of corporation tax (note 7)	**-**	-	(22)
Change in non-allowable provisions	**3**	3	2
Losses on disposal of businesses and goodwill write-downs	**10**	37	35
Overseas tax rate differences	**14**	8	4
Non-allowable expenses	**13**	9	3
Gains covered by capital losses brought forward	**(14)**	(7)	(83)
Tier 1 capital benefits	**(12)**	-	-
Payment to employee trust	**(37)**	(64)	-
Other items	**(30)**	19	9
Tax on profit on ordinary activities	**1,105**	1,111	894
Effective rate	**28.6%**	30.4%	29.3%

11 Ordinary dividends	**2000 pence per share**	1999 pence per share	1998 pence per share	**2000 £m**	1999 £m	1998 £m
Interim: paid	**9.3**	8.1	6.7	**511**	440	359
Final: proposed	**21.3**	18.5	15.5	**1,172**	1,011	845
	30.6	26.6	22.2	**1,683**	1,451	1,204

During 1998, £139 million was transferred to reserves in respect of shares issued instead of cash, in respect of the 1997 final dividend.

12 Earnings per share	**2000**	1999	1998
Profit attributable to shareholders*	**£2,706m**	£2,539m	£2,146m
Weighted average number of ordinary shares in issue during the year**	**5,487m**	5,445m	5,400m
Dilutive effect of options outstanding	**58m**	101m	106m
Diluted weighted average number of ordinary shares in issue during the year	**5,545m**	5,546m	5,506m
Earnings per share	**49.3p**	46.6p	39.7p
Diluted earnings per share	**48.8p**	45.8p	39.0p

* 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 9 million (1999: 11 million; 1998: 20 million) ordinary shares held by TSB Group Holdings (Jersey) Limited, and the trustees of the TSB Group Employee Trust, the Lloyds TSB Group Employee Share Ownership Trust and the Lloyds TSB Qualifying Employee Share Ownership Trust, on which dividends have been waived (note 29).

13 Treasury bills and other eligible bills

	2000 Balance sheet £m	**2000 Valuation £m**	1999 Balance Sheet £m	1999 Valuation £m
Banking securities:				
Treasury bills and similar securities	**121**	**119**	515	514
Other eligible bills	**509**	**508**	683	683
	630	**627**	1,198	1,197
Trading securities:				
Treasury bills and similar securities	**1,032**		857	
Other eligible bills	**47**		10	
	1,079		867	
	1,709		2,065	
Included above:				
Unamortised discounts net of premiums on banking securities	**2**		12	

Movements in banking securities comprise:	Cost £m	Premiums and discounts £m	Total £m
At 1 January 2000	**1,189**	**9**	**1,198**
Exchange and other adjustments	**3**	**-**	**3**
Additions	**7,766**	**-**	**7,766**
Bills sold or matured	**(8,332)**	**(50)**	**(8,382)**
Amortisation of premiums and discounts	**-**	**45**	**45**
At 31 December 2000	**626**	**4**	**630**

Banking securities are those intended for use on a continuing basis in the activities of the Group and not for dealing purposes.

The difference between the cost of trading securities and market value, where the market value is higher than the cost, is not disclosed as its determination is not practicable.

14 Loans and advances to banks

	2000 £m	1999 £m
Lending to banks	**565**	671
Deposits placed with banks	**14,731**	16,298
Total loans and advances to banks	**15,296**	16,969
Provisions for bad and doubtful debts	**(6)**	(6)
	15,290	16,963
Repayable on demand	**2,794**	1,132
Other loans and advances by residual maturity repayable:		
3 months or less	**10,352**	12,266
1 year or less but over 3 months	**1,365**	2,780
5 years or less but over 1 year	**478**	490
Over 5 years	**307**	301
Provisions for bad and doubtful debts	**(6)**	(6)
	15,290	16,963

15 Loans and advances to customers

	2000 £m	1999 £m
Lending to customers	**102,359**	91,190
Hire purchase debtors	**5,172**	3,674
Equipment leased to customers	**8,122**	8,448
Total loans and advances to customers	**115,653**	103,312
Provisions for bad and doubtful debts	**(1,420)**	(1,408)
Interest held in suspense	**(90)**	(100)
	114,143	101,804
Loans and advances by residual maturity repayable:		
3 months or less	**20,968**	17,677
1 year or less but over 3 months	**8,216**	6,885
5 years or less but over 1 year	**24,024**	18,997
Over 5 years	**62,445**	59,753
Provisions for bad and doubtful debts	**(1,420)**	(1,408)
Interest held in suspense	**(90)**	(100)
	114,143	101,804
Of which repayable on demand or at short notice	**9,342**	8,549

The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts amounted to £2,754 million (1999: £3,193 million).

Equipment leased to customers, which is stated after deducting £6 million (1999: £5 million) of unearned charges and commitments, is repayable as follows:

	2000 £m	1999 £m
3 months or less	**212**	171
1 year or less but over 3 months	**493**	389
5 years or less but over 1 year	**1,803**	1,549
Over 5 years	**5,614**	6,339
	8,122	8,448

Securitisations

Certain instalment credit receivables have been securitised and are subject to non-returnable financing arrangements. Under such financing arrangements, the Group cannot be required to repay the finance obtained in exchange for the securitised assets in any circumstance or form, nor can it be required to make any other payments in respect of the securitised assets. In accordance with Financial Reporting Standard 5, these items have been shown under the linked presentation method.

As detailed in note 48b, the Group acquired Chartered Trust Group plc and ACL Autolease Holdings Limited on 1 September 2000. Prior to joining the Group, Chartered Trust plc (now renamed Black Horse Limited), a subsidiary undertaking of Chartered Trust Group plc, had entered into transactions whereby it disposed of its interest in portfolios of motor vehicle and caravan instalment credit agreements for a total of £813 million to Cardiff Automobile Receivables Securitisation (UK) No 4 plc ('CARS 4'). The arrangement relating to these disposals of agreements contained an option to offer further amounts for sale up until 10 December 2000; a further £167 million of receivables were sold between 1 September 2000 and this date.

CARS Trustee (UK) No 4 Limited is responsible for the collection and onward payment of all amounts falling due under the terms of the receivables sold to CARS 4. Principal receipts are used either to redeem floating rate notes or to purchase further receivables; all principal receipts up until 31 December 2000 were used to purchase further receivables. Income receipts are applied in the following order of priority: interest due on the floating rate notes; credit manager fees; payments under swaps; amounts due to third parties; dividends; and residual income to Black Horse Limited. Black Horse Limited has been appointed by CARS Trustee (UK) No 4 Limited as credit manager and receives a fee for fulfilling this function. It has no liability to the noteholders or any creditor of CARS 4 or CARS Trustee (UK) No 4 Limited other than through failure to meet its obligations as credit manager or for breach of warranties given. Black Horse Limited has no interest in the share capital of CARS 4 or CARS Trustee (UK) No 4 Limited.

Black Horse Limited and CARS 4 have also entered into interest rate swaps in respect of this transaction, the interest rates payable and receivable under these swaps are set by reference to market rates of interest on an arm’s length basis.

16 Provisions for bad and doubtful debts

	2000 Specific £m	2000 General £m	1999 Specific £m	1999 General £m	1998 Specific £m	1998 General £m
At 1 January – as previously reported	**1,053**	**361**	1,097	365	2,123	370
Prior year adjustment in respect of the adoption of FRS 18 (see note 1)	**-**	**-**	-	-	(722)	-
At 1 January - restated	**1,053**	**361**	1,097	365	1,401	370
Exchange and other adjustments	**4**	**(2)**	(45)	(4)	(32)	2
Adjustments on acquisition	**45**	**4**	-	-	-	-
Advances written off	**(745)**	**-**	(744)	-	(959)	-
Recoveries of advances written off in previous years	**165**	**-**	130	-	125	-
Charge (release) to profit and loss account:						
New and additional provisions	**1,093**	**7**	1,087	7	999	3
Releases and recoveries	**(546)**	**(13)**	(472)	(7)	(437)	(10)
	547	**(6)**	615	-	562	(7)
At 31 December	**1,069**	**357**	1,053	361	1,097	365

	2000	1999	1998
	1,426	1,414	1,462
In respect of:			
Loans and advances to banks	**6**	6	8
Loans and advances to customers	**1,420**	1,408	1,454
	1,426	1,414	1,462

17 Interest held in suspense and non-performing lending

	2000 £m	1999 £m
At 1 January	**100**	145
Exchange and other adjustments	**-**	(5)
Interest written off	**(20)**	(77)
Interest taken to income	**(8)**	(9)
Interest suspended during the year	**18**	46
At 31 December	**90**	100

All interest held in suspense relates to loans and advances to customers.

	2000 £m	1999 £m
Non performing lending comprises:		
Loans and advances – category 1	**855**	719
Loans and advances – category 2	**404**	348
	1,259	1,067
Provisions	**(807)**	(592)
Interest held in suspense	**(90)**	(100)
	362	375

18 Concentrations of exposure

	2000 £m	1999 £m
Loans and advances to customers		
Domestic:		
Agriculture, forestry and fishing	**2,026**	2,183
Manufacturing	**3,357**	3,262
Construction	**1,016**	754
Transport, distribution and hotels	**3,836**	3,540
Property companies	**2,470**	2,303
Financial, business and other services	**9,295**	6,614
Personal : mortgages*	**52,659**	47,451
: other	**11,138**	10,092
Lease financing	**8,070**	8,369
Hire purchase	**5,172**	3,674
Other	**2,237**	1,698
Total domestic	**101,276**	89,940
International:		
Latin America	**2,222**	1,761
New Zealand	**7,368**	7,659
Rest of the world	**4,787**	3,952
Total international	**14,377**	13,372
	115,653	103,312
Provisions for bad and doubtful debts**	**(1,420)**	(1,408)
Interest held in suspense	**(90)**	(100)
	114,143	101,804

* Includes staff mortgages.
** Figures exclude provisions 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 transaction, except for certain lending of the international business booked in London.

19 Residual value exposures on leased assets

The Group's residual value exposure in respect of operating lease assets, all of which are expected to be disposed of at the end of the lease terms, was as follows:

	2000 £m	1999 £m
On operating lease assets where the residual value is expected to be recovered in:		
1 year or less	**134**	37
2 years or less but over 1 year	**108**	31
5 years or less but over two years	**367**	45
Over 5 years	**301**	193
Total exposure	**910**	306

20 Debt securities

	2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Investment securities:				
Government securities	**1,496**	**1,828**	1,685	1,982
Other public sector securities	**234**	**321**	215	277
Bank and building society certificates of deposit	**3,034**	**3,034**	4,153	4,145
Other debt securities	**1,631**	**1,631**	679	678
	6,395	**6,814**	6,732	7,082
Other securities:				
Government securities	**3,060**	**3,060**	3,861	3,861
Other public sector securities	**131**	**131**	65	65
Bank and building society certificates of deposit	**105**	**105**	286	286
Other debt securities	**4,914**	**4,914**	3,940	3,940
	14,605	**15,024**	14,884	15,234
Due within 1 year	**5,405**		7,149	
Due 1 year and over	**9,200**		7,735	
	14,605		14,884	
Unamortised discounts net of premiums on investment securities	**904**		1,290	
Listed	**9,933**	**10,352**	9,476	9,835
Unlisted	**4,672**	**4,672**	5,408	5,399
	14,605	**15,024**	14,884	15,234

	Cost £m	Premiums and discounts £m	Provisions £m	Total £m
Movements in investment securities comprise:				
At 1 January 2000 – as previously reported	**5,829**	**220**	**17**	**6,032**
Prior year adjustment in respect of the adoption of FRS 18 (see note 1)	**407**	**293**	**-**	**700**
At 1 January 2000 - restated	**6,236**	**513**	**17**	**6,732**
Exchange and other adjustments	**142**	**18**	**3**	**157**
Additions	**15,785**	**-**	**-**	**15,785**
Securities sold or matured	**(16,282)**	**(67)**	**(18)**	**(16,331)**
Charge for the year	**-**	**-**	**27**	**(27)**
Amortisation of premiums and discounts	**-**	**79**	**-**	**79**
At 31 December 2000	**5,881**	**543**	**29**	**6,395**

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for dealing purposes.

The difference between the cost of other securities and market value, where the market value is higher than the cost, is not disclosed as its determination is not practicable.

21 Equity shares

	2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Investment securities:				
Listed	**7**	**45**	10	23
Unlisted	**34**	**57**	33	56
	41	**102**	43	79
Other securities:				
Listed	**204**		168	
Unlisted	**2**		2	
	206		170	
	247		213	

	Cost £m	Provisions £m	Total £m
Movements in investment securities comprise:			
At 1 January 2000	**55**	**12**	**43**
Exchange and other adjustments	**-**	**(1)**	**1**
Additions	**13**	**-**	**13**
Disposals	**(14)**	**(3)**	**(11)**
Charge for the year	**-**	**5**	**(5)**
At 31 December 2000	**54**	**13**	**41**

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for dealing purposes.

The difference between the cost of other securities and market value, where the market value is higher than the cost, is not disclosed as its determination is not practicable.

22 Interests in associated undertakings and joint ventures

	£m
At 1 January 2000	**28**
Exchange and other adjustments	**1**
Additions	**4**
Disposals	**(24)**
Retained profits	**-**
At 31 December 2000	**9**

All of the Group's associated undertakings and joint ventures are unlisted and none of them are banks.

During 2000 the Group was party to the creation of a new payments processing company, Intelligent Processing Solutions Limited ("iPSL"), in conjunction with Unisys and Barclays Bank. This new company began operating in December 2000 and now handles all of the Group's UK cheque processing activities, for which fees are charged by iPSL to the Group. The staff previously employed by the Group in its UK cheque processing activities have been transferred to the employment of iPSL.

The Group's investment in iPSL, which comprises 24.5 per cent of the issued ordinary share capital of the company, is being accounted for as a joint venture. The carrying value of the investment at 31 December 2000 was £4 million.

In the profit and loss account for the year ended 31 December 2000 £4 million of fees payable to iPSL have been included in the Group's administrative expenses. The Group has also prepaid £7 million in fees in respect of 2001 and this amount is included in prepayments and accrued income; in addition at 31 December 2000 iPSL owed £2 million to the Group, which is included in other assets.

23 Assets transferred under sale and repurchase transactions

Included in the Group's balance sheet are assets subject to sale and repurchase agreements as follows:

	2000 £m	1999 £m
Treasury bills and other eligible bills	**546**	429
Debt securities	**3,543**	3,496
	4,089	3,925

These investments have been sold to third parties but, since the Group is committed to reacquire them at a future date and at a predetermined price, they are shown in the balance sheet.

24 Interests in group undertakings

The principal group undertakings, all of which have prepared accounts to 31 December and whose results are included in the consolidated accounts of Lloyds TSB Group plc, are:

	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 investments
Lloyds Bank (BLSA) Limited	England	†100%	Banking and financial services
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
The National Bank of New Zealand Limited	New Zealand	†100%	Banking and financial services
Lloyds TSB Bank (Jersey) 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 Life Assurance Company Limited	England	†100%	Life assurance and other financial services
Lloyds UDT Finance Limited	England	†100%	Consumer credit, leasing and related services
Black Horse Limited	England	†100%	Consumer credit, leasing and related services
Scottish Widows plc	Scotland	†100%	Life assurance
Scottish Widows Annuities Limited	Scotland	†100%	Life assurance

† Indirect interest

The country of registration/incorporation is also the principal area of operation for each of the above group undertakings except as follows:

Lloyds TSB Bank plc operates principally in the UK but also through branches in Argentina, Belgium, Brazil, Dubai, Gibraltar, Guatemala, Hong Kong, Honduras, Japan, Luxembourg, Malaysia, Monaco, Netherlands, Panama, Paraguay, Singapore, Spain, Switzerland, Uruguay, the USA and a representative office in Iran. Lloyds Bank (BLSA) Limited operates in Ecuador. The National Bank of New Zealand Limited also operates through a representative office in Hong Kong.

25 Intangible fixed assets

	Cost £m	Amortisation £m	Net book value £m
Goodwill			
At 1 January 2000	**247**	**16**	**231**
Exchange and other adjustments	**(17)**	**(2)**	**(15)**
Acquisitions	**2,405**	**-**	**2,405**
Charge for the year	**-**	**22**	**(22)**
At 31 December 2000	**2,635**	**36**	**2,599**

26 Tangible fixed assets

	Premises £m	Equipment £m	Operating lease assets £m
Cost or valuation:			
At 1 January 2000 – before prior year adjustment	**1,133**	**2,208**	**561**
Prior year adjustment in respect of the adoption of FRS 15 (note 1)	**(112)**	**-**	**-**
At 1 January 2000 - restated	**1,021**	**2,208**	**561**
Exchange and other adjustments	**(22)**	**(8)**	**(1)**
Adjustments on acquisition	**11**	**13**	**351**
Additions	**70**	**429**	**583**
Disposals	**(28)**	**(299)**	**(83)**
At 31 December 2000	**1,052**	**2,343**	**1,411**
Depreciation:			
At 1 January 2000	**250**	**1,423**	**82**
Exchange and other adjustments	**(13)**	**(1)**	**(1)**
Charge for the year	**58**	**204**	**102**
Disposals	**(11)**	**(272)**	**(52)**
At 31 December 2000	**284**	**1,354**	**131**
Balance sheet amount at 31 December 2000	**768**	**989**	**1,280**
		3,037	
Balance sheet amount at 31 December 1999	771	785	479
		2,035	

Operating leased assets includes properties leased to customers of £38 million at 31 December 2000 (1999: £38 million), net of accumulated depreciation of £2 million (1999: £1 million).

	2000 £m	1999 £m
Balance sheet amount of premises comprises:		
Freeholds	**490**	500
Leaseholds 50 years and over unexpired	**22**	23
Leaseholds less than 50 years unexpired	**256**	248
	768	771
Land and buildings occupied for own activities	**691**	679

27 Lease commitments

At 31 December 2000, the Group was committed to various non-cancellable operating leases, which require aggregate future rental payments as follows:

	Premises £m	**Equipment £m**
Payable within one year	**205**	**3**
1 to 2 years	**200**	**2**
2 to 3 years	**200**	**-**
3 to 4 years	**195**	**-**
4 to 5 years	**188**	**-**
Over 5 years	**369**	**-**
	1,357	**5**

Annual commitments under non-cancellable operating leases were:

	2000 Premises £m	**2000 Equipment £m**	1999 Premises £m	1999 Equipment £m
Leases on which the commitment is due to expire in:				
1 year or less	**3**	**1**	14	7
5 years or less but over 1 year	**18**	**2**	41	3
Over 5 years	**184**	**-**	191	2
	205	**3**	246	12

	2000 Equipment £m	1999 Equipment £m
Obligations under finance leases were:		
Amounts payable in:		
1 year or less	**20**	2
5 years or less but over 1 year	**3**	2
Less future finance charges	**-**	-
	23	4

28 Capital commitments

Capital expenditure contracted but not provided for at 31 December 2000 amounted to £33 million (1999: £41 million) of which £28 million (1999: £33 million) relates to assets to be leased to customers under operating leases.

In December 2000 the Group announced that it had agreed to form a joint venture between Goldfish, Centrica's financial services brand, and *evolvebank.com*, Lloyds TSB's standalone internet banking operation. Although the amounts are not yet determined, the Group is committed to invest capital into the venture equivalent to 30 per cent of its initial regulatory capital requirement and to provide funds to the venture to cover its lending for the first two years of operation.

29 Own shares

Lloyds TSB Group plc sponsors the TSB Group Employee Trust and the Lloyds TSB Group Employee Share Ownership Trust, two discretionary trusts for the benefit of employees and former employees of the Lloyds TSB Group. The Company has lent £44 million to the trustees, interest free, to enable them to purchase Lloyds TSB Group plc ordinary shares, which are used to satisfy options granted by the Company or to meet commitments arising under other employee share schemes. Under the terms of the trusts, the trustees have waived all but a nominal dividend on the shares they hold. The cost of providing these shares is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit. At 31 December 2000, 3 million shares were held by the trustees with a book value of £24 million and a market value of £22 million. (1999: 6 million shares with a book value of £30 million and a market value of £44 million).

The Group has also established the Lloyds TSB Qualifying Employee Share Ownership Trust (‘the QUEST’) for the purpose of delivering shares on the exercise of options under certain of the Group’s SAYE share option schemes. During 2000, Lloyds TSB Group plc contributed £122 million to the QUEST, and the trustees subscribed for 30 million shares in the Company for a consideration of £193 million. (During 1999, Lloyds TSB Group plc contributed £210 million and the trustees subscribed for 30 million shares for a consideration of £257 million). At 31 December 2000, 1 million shares were held by the QUEST with a book value of £4 million (1999: 2 million shares with a book value of £5 million) reflecting the exercise price of the options the shares are expected to be used to satisfy. Under the terms of the QUEST’s trust deed, the trustees have waived all but a nominal dividend on the shares they hold. The difference between the amount contributed by the Company and the book value of the shares held by the QUEST at 31 December 2000 has been charged to profit and loss account reserves.

In addition, a further 1 million ordinary shares were held by TSB Group Holdings (Jersey) Limited at 31 December 2000 (1999: 1 million shares). These shares, on which the dividend entitlement has been waived, were gifted to the Group some years ago at nil cost and are used to satisfy outstanding options or to meet commitments arising under other employee share schemes.

30 Other assets

	2000 £m	1999 £m
Foreign exchange and interest rate contracts	**2,688**	2,742
Other assets	**879**	871
	3,567	3,613

31 Prepayments and accrued income

	2000 £m	1999 £m
Interest receivable	**875**	916
Other debtors and prepayments	**2,090**	1,712
	2,965	2,628

Included within other debtors and prepayments is £242 million (1999: £176 million) relating to the deferred element of the expenditure incurred under cash gift and discount mortgage schemes. If these incentives had been written off as incurred net interest income would have been £65 million lower in 2000 (1999: £11 million lower).

32 Long-term assurance business

	2000 £m	1999 £m
The value of long-term assurance business attributable to shareholders included in the consolidated balance sheet comprises:		
Net tangible assets of life companies including surplus	**4,128**	723
Value of other shareholders’ interests in long-term assurance funds	**2,421**	1,551
	6,549	2,274

32 Long-term assurance business (continued)

The shareholders' interest in the long-term assurance business has been calculated on the basis of a series of economic assumptions. The principal economic assumptions are shown below:

	2000	1999	1998
	%	%	%
Risk-adjusted discount rate (net of tax)	**8.50**	10.00	10.00
Return on equities (gross of tax)	**8.00**	8.50	8.50
Return on fixed interest securities (gross of tax)	**5.25**	5.25	5.25
Expenses inflation	**3.00**	3.00	3.00

In 1998 the assumptions were changed to reflect the revised economic outlook. The principal changes that were made were to reduce the risk-adjusted discount rate from 12.5 per cent to 10 per cent and reduce the assumed gross return on fixed interest securities from 7.5 per cent to 5.25 per cent. The assumed rate of inflation was also reduced from 5 per cent to 3 per cent. As explained in note 1(n) in order to calculate the value of the business in-force, projections are made of the future cash flows attributable to shareholders using a series of economic and actuarial assumptions, which are discounted using the adjusted risk-discount rate. Changes to the underlying economic assumptions will result in changes being made to the cash flow projections and a reduction in the risk-adjusted discount rate will increase the present value of the future cash flows. The aggregate effect of the changes in the economic assumptions was to increase the value of the business in-force by £123 million with a corresponding credit to the profit and loss account.

Following the acquisition of the business of Scottish Widows in 2000, a further review of the assumptions used in the embedded value calculation has been carried out, to ensure that these assumptions remain appropriate for the enlarged life and pensions business in the context of forecast long-term economic trends. As a result of this review certain assumptions have been amended, including the risk-adjusted discount rate which has been reduced from 10 per cent to 8.5 per cent. The adoption of the revised assumptions, which have been used with effect from 1 January 2000 for Abbey Life and the bancassurance operation of Lloyds TSB Life, has, for the reasons set out above, resulted in a credit to the profit and loss account of £127 million. The same assumptions have been used for the Scottish Widows business from the date of acquisition.

A margin over the long-term risk free rate of return is included within the discount rate to reflect the shareholders' overall risk premium; other margins are not included in the profit recognition method. Allowance for tax is made using models which reflect the different tax regimes affecting different classes of product; no credit is taken in respect of any reduction in taxes deriving from expenses attributable to future business.

The assumptions for mortality and morbidity are derived from published tables adjusted for demographic differences of policyholders; those in respect of lapses are in line with the experience of the companies concerned.

The income from long-term assurance business included in the Group's profit and loss account is as follows:

	2000	1999	1998
	£m	£m	£m
Value of long-term assurance business at 31 December	**6,549**	2,274	1,983
Value of long-term assurance business at 1 January	**2,274**	1,983	1,842
Increase in value of long-term assurance business	**4,275**	291	141
Exchange and other adjustments	**92**	(5)	(3)
Acquisitions	**(4,052)**	-	-
Capital injections	**-**	(220)	(175)
Dividends accrued	**126**	92	25
Income after tax from long-term assurance business	**441**	158	(12)
Income before pension provisions	**715**	329	379
Pension provisions	**(100)**	(102)	(400)
Income before tax from long-term assurance business	**615**	227	(21)

The result in 1998 was adversely affected by a £114 million provision made within Abbey Life following a sharp drop in bond yields, for liabilities under certain guaranteed annuity products written in the mid-1960's to the mid-1980's.

32 Long-term assurance business (continued)

Pension provisions

During the early 1990's, there was increasing concern in the UK that many of these customers had been given poor advice when they were advised to set up their own personal pension plan and that they would, in fact, have been in a better position if they had remained in, or joined, employer sponsored pension schemes. The regulator of the UK pension industry, carried out an industry wide investigation into the conduct of business involving the transfer of pensions. The conclusion of this investigation was that a large number of customers had been poorly advised, by insurance companies and intermediaries across the industry.

As a result of its investigation, the regulator established an action plan for the UK pensions industry to follow in reviewing all cases of possible misselling and determining necessary compensation.

As the review of pension cases in the Lloyds TSB Group has progressed, provisions have been established for the cost of compensation.

Movements in this provision over the last three years have been as follows:

	2000	1999	1998
	£m	£m	£m
Provision at 1 January	**397**	472	198
Accrual of interest on the provision	**26**	22	23
Additional amounts provided	**100**	102	400
Compensation paid	**(173)**	(161)	(149)
Guarantees *	**2**	(38)	-
Provision at 31 December	**352**	397	472

* In some cases, rather than pay cash compensation directly into the customer's private pension plan, the Group has guaranteed to 'top-up' the customer's pension income, on retirement, to the level that they would have received under the relevant occupational scheme.

When the UK regulator issued its original guidance on the review of cases of possible misselling of pensions, it indicated that it would not be necessary to actively review cases in the non-priority category. However, during 1998 the Financial Services Authority, which by then had taken over as regulator of the industry, announced that, following the results of new research that it had commissioned, it would now require a full review of non-priority cases. This meant that the Group needed to contact directly all the customers affected to ascertain whether they may have been missold their pensions; at the same time the Financial Services Authority initiated a public advertising campaign urging the public to respond to such circularisations. As a consequence of this significant widening of the scope of the review, the Group made a further provision, in the results for the year ended 31 December 1998, of £400 million to cover the anticipated additional liability.

During the second half of 1999, the Financial Services Authority published revised assumptions to be incorporated into the calculations of the continuing cost of redress reflecting the fact that the average life expectancy of pensioners had increased and interest and inflation rates were lower. Applying these guidelines, the cost of redress were forecast to increase by a further £102 million and an additional provision of this amount was raised in the accounts for the year ended 31 December 1999.

Towards the end of 1999, the Financial Services Authority published further revisions to the guidelines, particularly to the way that compensation should be calculated for customers who had opted out of the State Earnings Related Pension Scheme ('SERPS'). At this stage, the Group had insufficient experience of such cases to be able to establish the need for any additional provisioning. During 2000, the Financial Services Authority required that these revised SERPS guidelines be applied retrospectively to cases settled since the beginning of 1999; by this time the Group had also gained further experience and improved knowledge as to the number and size of compensation claims to be paid, both standard non-priority cases and those affected by the SERPS adjustment. Taking into account all of these factors, the cost of redress was forecast to increase by a further £100 million and a provision of this amount was raised in the year ended 31 December 2000.

32 Long-term assurance business (continued)

The following is a summarised balance sheet for the long-term assurance funds:

	2000 £m	1999 £m
The long-term assurance assets attributable to policyholders comprise:		
Investments	**52,683**	27,718
Value of other shareholders' interests in long-term assurance funds	**2,421**	1,551
Premises and equipment	**20**	30
Net current assets (liabilities)	**2,510**	(483)
	57,634	28,816
Long-term assurance business attributable to shareholders	**(6,549)**	(2,274)
	51,085	26,542
Investments shown above comprise:		
Debt securities	**14,512**	7,415
Equity shares	**31,885**	16,996
Investment properties	**3,098**	1,045
Other properties	**10**	10
Mortgages and loans	**117**	50
Deposits	**3,061**	2,202
	52,683	27,718
The liabilities to policyholders comprise:		
Technical provisions:		
Long-term business provision (net of reinsurance)	**23,514**	3,025
Claims outstanding (net of reinsurance)	**172**	114
Technical provisions for linked liabilities	**24,413**	23,372
Fund for future appropriations and other liabilities	**2,986**	31
	51,085	26,542

33 Assets and liabilities denominated in foreign currencies

		2000 £m	1999 £m
Assets	: denominated in sterling	**126,033**	111,076
	: denominated in other currencies	**41,275**	38,716
		167,308	149,792
Liabilities	: denominated in sterling	**126,547**	111,536
	: denominated in other currencies	**40,761**	38,256
		167,308	149,792

34 Deposits by banks

	2000 £m	1999 £m
Repayable on demand	**4,330**	3,594
Other deposits by banks with agreed maturity dates or periods of notice by residual maturity repayable:		
3 months or less	**9,712**	12,551
1 year or less but over 3 months	**1,790**	1,153
5 years or less but over 1 year	**695**	341
Over 5 years	**208**	55
	16,735	17,694

34 Deposits by banks (continued)

The breakdown of deposits by banks between the domestic and international offices of the Group is set out below:

	2000 £m	1999 £m
Domestic		
Non-interest bearing	**612**	442
Interest bearing	**11,816**	13,122
	12,428	13,564
International		
Non-interest bearing	**177**	303
Interest bearing	**4,130**	3,827
	4,307	4,130
Total	**16,735**	17,694

35 Customer accounts

	2000 £m	1999 £m
Repayable on demand	**74,404**	68,749
Other customer accounts with agreed maturity dates or periods of notice by residual maturity repayable:		
3 months or less	**21,064**	20,063
1 year or less but over 3 months	**3,522**	2,544
5 years or less but over 1 year	**1,331**	1,360
Over 5 years	**417**	135
	100,738	92,851

The breakdown of customer accounts between the domestic and international offices of the Group is set out below:

	2000 £m	1999 £m
Domestic		
Non-interest bearing	**5,522**	6,395
Interest bearing	**86,447**	77,814
	91,969	84,209
International		
Non-interest bearing	**619**	992
Interest bearing	**8,150**	7,650
	8,769	8,642
Total	**100,738**	92,851

36 Debt securities in issue

	2000 £m	1999 £m
Bonds and medium-term notes by residual maturity repayable:		
1 year or less	**538**	309
2 years or less but over 1 year	**169**	188
5 years or less but over 2 years	**472**	690
Over 5 years	**1,413**	407
	2,592	1,594
Other debt securities by residual maturity repayable:		
3 months or less	**8,574**	7,644
1 year or less but over 3 months	**6,476**	2,645
5 years or less but over 1 year	**241**	362
Over 5 years	**16**	15
	15,307	10,666
	17,899	12,260

Debt securities in issue includes certificates of deposit of £12,052 million (1999: £8,428 million) and commercial paper of £1,850 million (1999: £822 million). An amount of £929 million (1999: £660 million) relating to debt securities issued under the Group’s Euro Medium Term Note programme is included in these figures.

37 Other liabilities

	2000 £m	1999 £m
Foreign exchange and interest rate contracts	**2,346**	1,981
Current tax	**631**	617
Dividends	**1,172**	1,011
Other liabilities	**2,831**	1,917
	6,980	5,526

38 Accruals and deferred income

	2000 £m	1999 £m
Interest payable	**1,670**	1,229
Other creditors and accruals	**2,655**	2,080
	4,325	3,309

39 Deferred tax

	2000 £m	1999 £m
Short-term timing differences	**(59)**	(94)
Pensions prepayment	**230**	185
Emerging Market debt securities	**(74)**	(105)
Accelerated depreciation allowances	**1,586**	1,580
	1,683	1,566

	£m
At 1 January 2000 – as previously reported	**1,459**
Prior year adjustment in respect of the adoption of FRS 18 (note 1)	**107**
At 1 January 2000 - restated	**1,566**
Exchange and other adjustments	**20**
Adjustments on acquisition	**(3)**
Tax provided	**100**
At 31 December 2000	**1,683**

	2000 £m	1999 £m
Potential tax for which no provision has been made relating to accelerated depreciation allowances on equipment leased to customers	**72**	72

Provision has been made for the liability to tax on overseas earnings which are expected to be remitted to the UK. No provision has been made for the liability to tax which could arise if premises, to the extent that the tax base cost has been reduced by rollover relief, or group undertakings were disposed of at their balance sheet amounts or investments in associated undertakings and trade investments at their valuation. It is expected that the majority of these assets will be retained in the business and that, in view of the substantial number of assets involved and the law relating to rollover relief, the likelihood of any such material tax liability arising is remote; no useful purpose would be served by attempting to quantify it.

40 Other provisions for liabilities and charges

Group	Pension obligations £m	Insurance provisions £m	Post-retirement health care £m	Vacant leasehold property £m	Provision for closure of business £m	Other £m	Total £m
At 1 January 2000	**28**	**201**	**77**	**112**	**28**	**28**	**474**
Exchange and other adjustments	**-**	**5**	**-**	**1**	**-**	**-**	**6**
Provisions applied	**(1)**	**(146)**	**(4)**	**(15)**	**(28)**	**(15)**	**(209)**
Charge for the year	**7**	**142**	**3**	**(2)**	**-**	**21**	**171**
At 31 December 2000	**34**	**202**	**76**	**96**	**-**	**34**	**442**

Pension obligations
This represents the Group's obligations in respect of certain overseas pension schemes. Full actuarial valuations are carried out by independent actuaries every three years.

Insurance provisions
The Group's general insurance subsidiaries maintain provisions for outstanding claims which represent the ultimate cost of settling all claims arising from events which have occurred up to the balance sheet date and these include provisions for the cost of claims notified but not settled and for claims incurred but not yet reported. In addition, in line with the requirements of the Insurance Companies (Reserves) Act 1995, claims equalisation provisions are maintained in relation to property, credit and suretyship business. The majority of provisions in respect of claims will be settled in the following year, although new provisions will then be required in respect of claims arising from that year. The level of the claims equalisation provision will be adjusted annually, taking into account the guidelines contained in the legislation, and such provisions will be held for as long as the Group continues to write the relevant types of general insurance business.

Post-retirement health care
The Group operates a number of schemes which provide post-retirement health care benefits to certain employees, retired employees and their dependent relatives. The principal scheme relates to former Lloyds Bank staff and under this scheme the Group has undertaken to meet the cost of post-retirement health care for all eligible former employees (and their dependants) who retired prior to 1 January 1996. For retirements subsequent to this date, the Group will meet a reducing proportion of the cost until 31 December 2004, after which date the only obligation will be in respect of the pre 1 January 1996 retirements. The cost of providing all post-retirement health care benefits is charged to the profit and loss account on a systematic basis over employees' working lives; the provision represents the unfunded obligation and is based on valuations of the Group's liability by qualified actuaries.

Vacant leasehold property
Whenever the Group ceases to occupy a property, or commits itself to doing so, it is the Group's policy to raise a provision to cover any anticipated shortfall when comparing the recoverable amount of its interest in the property to the future rental and other payments that the Group is obligated to make over the remaining term of the lease. These provisions are made by reference to a prudent estimate of expected sub-let income and the possibility of disposing of the Group's interest in the lease, taking into account conditions in the property market. These provisions are reassessed on an annual basis and will normally run off over the remaining life of the leases concerned, which averaged six years at 31 December 2000; where a property is disposed of earlier than anticipated, any remaining balance relating to that property is released.

Provision for closure of business
In July 1999 the Group announced its decision to withdraw from the global custody and unit trust trusteeship business. As a result, a provision of £28 million was raised for the anticipated operating losses to be incurred by Lloyds TSB Securities Services until the business was closed. The provision has been released to match losses as they have been incurred over the period of run down of the business; this was completed by the end of 2000.

41 Subordinated liabilities

	2000 £m	1999 £m
* *Undated loan capital:*		
† Primary Capital Undated Floating Rate Notes:		
Series 1 (US$750 million)	**502**	465
Series 2 (US$500 million)	**335**	310
Series 3 (US$600 million)	**401**	372
■ 5? % Undated Subordinated Step-up Notes callable 2009 (€1,250 million)	**774**	766
† Undated Step-up Floating Rate Notes callable 2009 (€150 million)	**94**	93
¶ 6? % Undated Subordinated Step-up Notes callable 2010	**405**	405
✜ 5.57% Undated Subordinated Step-up Coupon Notes callable 2015 (¥20 billion)	**117**	120
¶ 6½% Undated Subordinated Step-up Notes callable 2019	**266**	266
11¾% Perpetual Subordinated Bonds	**100**	100
† 8% Undated Subordinated Step-up Notes callable 2023	**199**	199
¶ 6½% Undated Subordinated Step-up Notes callable 2029	**198**	198
	3,391	3,294
Dated loan capital:		
‡ Eurocurrency Zero Coupon Bonds 2003 (¥3 billion)	**15**	15
§ Subordinated Fixed Rate Bonds 2003 (NZ$165 million)	**49**	65
† Subordinated Floating Rate Notes 2004	**20**	25
7? % Subordinated Bonds 2004	**399**	399
†❖ Subordinated Floating Rate Notes 2004	**100**	100
† Subordinated Floating Rate Notes 2005	**-**	25
§ Subordinated Bonds 2005	**-**	16
§ Subordinated Bonds 2006 (NZ$75 million)	**22**	24
† Subordinated Floating Rate Notes 2006	**100**	100
8½% Subordinated Bonds 2006	**249**	248
7¾% Subordinated Bonds 2007	**298**	298
§ Subordinated Fixed Rate Bonds 2007 (NZ$150 million)	**44**	49
5¼% Subordinated Notes 2008 (DM 750 million)	**240**	237
‡¶ 10? % Guaranteed Subordinated Loan Stock 2008	**100**	100
9½% Subordinated Bonds 2009	**99**	99
† Subordinated Step-up Floating Rate Notes 2009 callable 2004 (US$500 million)	**334**	309
? 8.36% Subordinated Notes 2010 (NZ$100 million)	**30**	-
✠ 6¼% Subordinated Notes 2010 (€400 million)	**250**	-
†✠ Subordinated Floating Rate Notes 2010 (US$400 million)	**267**	-
‡ 12% Guaranteed Subordinated Bonds 2011	**100**	100
9? % Subordinated Bonds 2011	**148**	148
4¾% Subordinated Notes 2011 (€850 million)	**508**	500
? 6? % Subordinated Notes 2015	**343**	-
†? Subordinated Floating Rate Notes 2020 (€100 million)	**62**	-
9? % Subordinated Bonds 2023	**342**	342
	4,119	3,199
Total subordinated liabilities	**7,510**	6,493

These liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

* In certain circumstances, these notes and bonds would acquire the characteristics of preference share capital.

† These notes bear interest at rates fixed periodically in advance based on Interbank rates.

‡ Issued by a group undertaking under the Company's subordinated guarantee and, in the case of the Eurocurrency Zero Coupon Bonds 2003, on-lent to the Company on a subordinated basis.

41 Subordinated liabilities (continued)

✠ Issued during 2000 primarily to provide capital resources in connection with the acquisition of Chartered Trust.

¶ At the callable date the coupon on these Notes will be reset by reference to the applicable five year benchmark gilt rate.

§ These bonds bear interest, to be reset 5 years before redemption date, at a fixed margin over New Zealand Government stocks.

■ In the event that the Notes are not redeemed at the callable date, the coupon will be reset to a floating rate.

✜ In the event that the Notes are not redeemed at the callable date, the coupon will be reset to a fixed margin over the then 5 year Yen swap rate.

❖ Exchangeable at the election of the Group for further subordinated floating rate notes.

? Issued during 2000 primarily to finance the general business of the Group.

Dated subordinated liabilities are repayable as follows:

	2000 £m	1999 £m
1 year or less	**5**	5
2 years or less but over 1 year	**5**	5
5 years or less but over 2 years	**573**	594
Over 5 years	**3,536**	2,595
	4,119	3,199

42 Non-equity minority interests

Non-equity minority interests comprise non-cumulative preferred securities issued by Group undertakings during the year as part of the capital required to support the Group's acquisition of Scottish Widows (note 48).

	2000 £m	1999 £m
Euro Step-up Non-Voting Non-Cumulative Preferred Securities (€430 million) *	**267**	-
Sterling Step-up Non-Voting Non-Cumulative Preferred Securities §	**248**	-
	515	-

* These securities constitute limited partnership interests in Lloyds TSB Capital 1 L.P., a Jersey limited partnership in which Lloyds TSB (General Partner) Limited, a wholly owned subsidiary of the Group, is the general partner. Non-cumulative income distributions accrue at a fixed rate of 7.375 per cent per annum up to 7 February 2012; thereafter they will accrue at a rate of 2.33 per cent above EURIBOR, to be set annually.

§ These securities constitute limited partnership interests in Lloyds TSB Capital 2 L.P., a Jersey limited partnership in which Lloyds TSB (General Partner) Limited, a wholly owned subsidiary of the Group, is the general partner. Non-cumulative income distributions accrue at a fixed rate of 7.834 per cent per annum up to 7 February 2015; thereafter they will accrue at a rate of 3.50% above a rate based on the yield of specified UK government stock.

Both of these issues were made under the limited subordinated guarantee of Lloyds TSB Bank plc. In certain circumstances these preferred securities will be mandatorily exchanged for preference shares in Lloyds TSB Group plc. Lloyds TSB Group plc has entered into an agreement whereby dividends may only be paid on its ordinary shares if sufficient distributable profits are available for distributions due in the financial year on these preferred securities.

43 Called-up share capital

	2000	1999	1998
	£m	£m	£m
Authorised:			
Sterling			
6,911 million Ordinary shares of 25p each	**1,728**	1,728	1,728
79 million Limited voting ordinary shares of 25p each	**20**	20	20
300 million Limited voting preference shares of £1 each	**-**	300	300
175 million Preference shares of 25p each	**44**	-	-
	1,792	2,048	2,048
US dollars	**US$m**	US$m	US$m
160 million Preference shares of US25 cents each	**40**	-	-
Euro	**€m**	€m	€m
160 million Preference shares of € 25 cents each	**40**	-	-
Japanese yen	**¥m**	¥m	¥m
50 million Preference shares of ¥ 25 each	**1,250**	-	-

During the year Lloyds TSB Group plc reorganised its authorised preference share capital to provide flexibility for Lloyds TSB Group plc to be able to issue preference shares denominated in sterling, US Dollars, euro and yen, principally (but not exclusively) in connection with arrangements for raising additional capital for the Group, as and when appropriate.

	2000	1999	1998
	£m	£m	£m
Issued and fully paid:			
Ordinary shares of 25p each			
At 1 January	**1,369**	1,359	1,349
Issued instead of cash dividends	**-**	-	4
Issued to the QUEST (note 29)	**7**	7	-
Issued under employee share schemes	**-**	3	6
At 31 December	**1,376**	1,369	1,359
Limited voting ordinary shares of 25p each			
At 1 January and 31 December	**20**	20	20
Total	**1,396**	1,389	1,379
Number of shares in issue (millions):			
Ordinary shares of 25p each	**5,507**	5,475	5,435
Limited voting ordinary shares of 25p each	**79**	79	79

The limited voting ordinary shares are held by the Lloyds TSB Foundations. These shares carry no rights to dividends but rank pari passu with the ordinary shares in respect of other distributions and in the event of winding up. These shares do not have any right to vote at general meetings other than on resolutions concerning acquisitions or disposals of such importance that they require shareholder consent, or for the winding up of Lloyds TSB Group plc, or for a variation in the class rights of the limited voting ordinary shares.

At 31 December 2000, options to acquire 149 million Lloyds TSB Group shares were outstanding under senior executives' and savings-related share option schemes at prices ranging from 124p to 888p per share exercisable up to 2010.

44 Reserves

	2000	1999	1998
	£m	£m	£m
Share premium account:			
At 1 January	**404**	101	70
Premium arising on issue of shares	**191**	303	35
Shares issued instead of cash dividends	**-**	-	(4)
At 31 December	**595**	404	101
Revaluation reserve:			
At 1 January – as previously reported			(216)
Prior year adjustment in respect of the adoption of FRS 15 (note 1)			216
Amended balance at 1 January			-
Merger reserve:			
At 1 January and 31 December	**343**	343	343
Profit and loss account:			
At 1 January – as previously reported	**6,693**	5,740	4,688
Prior year adjustment in respect of the adoption of FRS 15 (note 1)	**-**	-	(328)
Prior year adjustment in respect of the adoption of FRS 18 (note 1)	**-**	-	184
At 1 January – restated	**6,693**	5,740	4,544
Exchange and other adjustments	**(11)**	(10)	(16)
Shares issued to the QUEST (note 29)	**(124)**	(205)	-
Shares issued instead of cash dividends	**-**	-	139
Goodwill written back on sale and closure of businesses	**109**	80	131
Retained profit	**1,023**	1,088	942
At 31 December	**7,690**	6,693	5,740

The Group profit and loss account reserves at 31 December 2000 include £1,396 million (1999: £1,165 million; 1998: £1,073 million) not presently available for distribution representing the Group's share of the value of long-term assurance business in force and the surplus retained within the long-term assurance funds.

The cumulative amount of premiums on acquisitions written off against reserves during previous years amounts to £2,271 million of which £1,828 million was within the last 10 years.

The accumulated foreign exchange translation adjustment as at 31 December 2000 reduced the Group's reserves by £173 million (1999: £162 million; 1998: £152 million).

45 Transactions with related parties

At 31 December 2000, transactions, arrangements and agreements entered into by the Group's banking subsidiaries with directors and connected persons and with officers included:

	2000 Number of persons	**2000 Total £000**	1999 Number of persons	1999 Total £000
Loans and credit card transactions:				
Directors and connected persons	**10**	**119**	13	191
Officers	**36**	**4,993**	28	2,986

Details of the principal group undertakings are given in note 24. In accordance with FRS 8, transactions or balances with group entities that have been eliminated on consolidation are not reported.

The Group enters into certain transactions with its long-term assurance businesses which cannot be eliminated in the consolidated accounts because of the embedded value basis of accounting used for the Group's insurance businesses. At 31 December 2000 Group entities owed £2,126 million (1999: £1,775 million) and were owed £1,164 million (1999: £1,337 million). In addition, fees of £68 million (1999: £42 million) were received, and fees of £29 million (1999: £30 million) were paid, in respect of asset management services.

Details of transactions with the Group's joint venture are set out in note 22.

46 Contingent liabilities and commitments

	2000 £m	1999 £m
Contingent liabilities:		
Acceptances and endorsements	**357**	459
Guarantees	**3,249**	2,485
Other:		
Other items serving as direct credit substitutes	**266**	273
Performance bonds and other transaction-related contingencies	**1,271**	1,198
Other contingent liabilities	**4**	8
	1,541	1,479
	5,147	4,423
Commitments:		
Documentary credits and other short-term trade-related transactions	**238**	247
Forward asset purchases and forward deposits placed	**779**	986
Undrawn note issuing and revolving underwriting facilities	**53**	90
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year maturity	**33,815**	21,314
1 year or over maturity	**7,701**	5,225
Other commitments	**3**	14
	42,589	27,876

Limited Voting Ordinary Shares (see note 43)

The limited voting ordinary shares are held by the Lloyds TSB Foundations for England & Wales, Scotland, Northern Ireland and the Channel Islands; these shares do not carry any entitlement to dividends. Lloyds TSB Group plc has entered into deeds of covenant with the four foundations, under the terms of which Lloyds TSB Group plc makes annual donations to the foundations equal, in total, to 1% of the Group's pre-tax profits (after certain adjustments) averaged over three years. The deeds of covenant can be cancelled by the Group at nine years notice.

47 Derivatives and other financial instruments

Information about the Group's use of financial instruments and management of the associated risks is given on pages 89 to 94.

a) Derivatives

Derivatives are used to meet the financial needs of customers, as part of the Group's trading activities and to reduce its own exposure to fluctuations in interest and exchange rates. The principal derivatives used by the Group are interest rate and exchange rate contracts; particular attention is paid to the liquidity of the markets and products in which the Group trades to ensure that there are no undue concentrations of activity and risk.

Interest rate related contracts include interest rate swaps, forward rate agreements and options. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts. Forward rate agreements are contracts for the payment of the difference between a specified rate of interest and a reference rate, applied to a notional principal amount at a specific date in the future. An interest rate option gives the buyer, on payment of a premium, the right, but not the obligation, to fix the rate of interest on a future loan or deposit, for a specified period and commencing on a specified future date.

Exchange rate related contracts include forward foreign exchange contracts, currency swaps and options. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal can be notional or actual. A currency option gives the buyer, on payment of a premium, the right, but not the obligation, to sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

Equity derivatives are also used by the Group as part of its equity based retail product activity to eliminate the Group's exposure to fluctuations in various international stock exchange indices. Index-linked equity options are purchased which give the Group the right, but not the obligation, to buy or sell a specified amount of equities, or basket of equities in the form of published indices.

47 Derivatives and other financial instruments (continued)

a) Derivatives (continued)

Derivatives contracts expose the Group to both market risk and credit risk. Only a few highly specialist trading centres within the Group are permitted to enter into derivative contracts and the level of exposure to interest rate and exchange rate movements and other market variables is strictly controlled and monitored within approved limits.

Unlike on-balance sheet instruments the principal amount of the contract does not represent the Group's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Group, should the counterparty default. To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure.

Trading

The notional principal amounts and fair values (which, after netting, are the carrying values) of trading instruments entered into with third parties were as follows:

31 December 2000	**Notional principal amount £m**	**Fair values Assets £m**	**Fair values Liabilities £m**
Exchange rate contracts:			
Spot, forwards and futures	**86,423**	**1,742**	**1,940**
Currency swaps	**6,049**	**304**	**206**
Options purchased	**1,208**	**23**	**-**
Options written	**1,023**	**-**	**19**
	94,703	**2,069**	**2,165**
Interest rate contracts:			
Interest rate swaps	**290,129**	**3,484**	**3,438**
Forward rate agreements	**48,002**	**57**	**64**
Options purchased	**3,539**	**17**	**-**
Options written	**2,229**	**-**	**8**
Futures	**34,390**	**6**	**-**
	378,289	**3,564**	**3,510**
Equity contracts	**2,768**	**443**	**59**
Effect of netting		**(3,388)**	**(3,388)**
Balances arising from off-balance sheet financial instruments		**2,688**	**2,346**

31 December 1999	Notional principal amount £m	Fair values Assets £m	Fair values Liabilities £m
Exchange rate contracts:			
Spot, forwards and futures	85,939	1,648	1,529
Currency swaps	6,371	261	235
Options purchased	1,265	16	1
Options written	1,220	2	9
	94,795	1,927	1,774
Interest rate contracts:			
Interest rate swaps	382,812	3,939	4,002
Forward rate agreements	85,613	83	67
Options purchased	4,545	97	-
Options written	3,067	-	72
Futures	40,022	-	-
	516,059	4,119	4,141
Equity contracts	2,393	646	16
Effect of netting		(3,950)	(3,950)
Balances arising from off-balance sheet financial instruments		2,742	1,981

47 Derivatives and other financial instruments (continued)

a) Derivatives (continued)

	Average fair values	
	2000	1999
	£m	£m
Exchange rate contracts – assets	**2,136**	1,802
Exchange rate contracts – liabilities	**1,994**	1,727
Interest rate contracts – assets	**3,520**	6,162
Interest rate contracts – liabilities	**3,358**	6,412
Equity contracts – assets	**554**	590
Equity contracts - liabilities	**29**	10

Non-trading

Through intra company and intra group transactions the Group establishes non-trading derivatives positions with the Group's independent trading operations. Similar positions are also established with third parties.

The notional principal amounts and fair values of non-trading instruments entered into with third parties were as follows:

31 December 2000	**Notional principal amount**	**Fair values**	
		Positive	**Negative**
	£m	**£m**	**£m**
Exchange rate contracts:			
Spot, forwards and futures	**296**	**4**	**4**
Currency swaps	**78**	**5**	**7**
	374	**9**	**11**
Interest rate contracts:			
Interest rate swaps	**2,466**	**96**	**35**
Forward rate agreements	**134**	**-**	**-**
	2,600	**96**	**35**

31 December 1999	Notional principal amount	Fair values	
		Positive	Negative
	£m	£m	£m
Exchange rate contracts:			
Spot, forwards and futures	187	4	1
Currency swaps	95	11	3
	282	15	4
Interest rate contracts:			
Interest rate swaps	2,203	31	23
Forward rate agreements	20	-	-
	2,223	31	23

The aggregate carrying value of non-trading derivatives with a positive fair value was an asset of £23 million (1999: an asset of £1 million) and with a negative fair value was a liability of £1 million (1999: an asset of £1 million).

47 Derivatives and other financial instruments (continued)

a) Derivatives (continued)

The maturity of the notional principal amounts and replacement cost of both trading and non-trading instruments entered into with third parties was:

	Under 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
31 December 2000				
Exchange rate contracts:				
Notional principal amount	**88,288**	**4,973**	**1,816**	**95,077**
Net replacement cost	**1,094**	**183**	**39**	**1,316**
Interest rate contracts:				
Notional principal amount	**177,684**	**159,422**	**43,783**	**380,889**
Net replacement cost	**731**	**146**	**157**	**1,034**
Equity contracts:				
Notional principal amount	**506**	**2,054**	**208**	**2,768**
Net replacement cost	**68**	**343**	**32**	**443**
31 December 1999				
Exchange rate contracts:				
Notional principal amount	90,281	4,125	671	95,077
Net replacement cost	996	137	13	1,146
Interest rate contracts:				
Notional principal amount	258,197	212,598	47,487	518,282
Net replacement cost	305	392	299	996
Equity contracts:				
Notional principal amount	204	1,776	413	2,393
Net replacement cost	39	528	79	646

The notional principal amount does not represent the Group's real exposure to credit risk, which is limited to the current cost of replacing contracts at current market rates should the counterparties default.

An analysis of the net replacement cost of both trading and non-trading instruments entered into with third parties by counterparty type is set out below:

	2000 £m	1999 £m
OECD banks	**2,244**	2,449
Other	**549**	339
	2,793	2,788

47 Derivatives and other financial instruments (continued)

b) Interest rate sensitivity gap analysis for the non-trading book

The table below summarises the repricing mismatches of the Group's non-trading assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. The table does not take into account the effect of interest rate options used by the Group to hedge its exposure; details of options are given on page F-41 in note 47a).

As at 31 December 2000	**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**	**Total £m**
Assets:							
Treasury bills and other eligible bills	**534**	**40**	**46**	**9**	**1**	**-**	**630**
Loans and advances to banks	**13,034**	**1,184**	**392**	**112**	**191**	**185**	**15,098**
Loans and advances to customers	**69,150**	**4,206**	**6,109**	**30,384**	**5,542**	**(1,378)**	**114,013**
Debt securities and equity shares	**2,497**	**475**	**464**	**1,202**	**1,747**	**51**	**6,436**
Other assets	**251**	**22**	**47**	**5**	**22**	**16,603**	**16,950**
Total assets	**85,466**	**5,927**	**7,058**	**31,712**	**7,503**	**15,461**	**153,127**
Liabilities:							
Deposits by banks	**12,854**	**1,090**	**604**	**396**	**92**	**789**	**15,825**
Customer accounts	**89,194**	**1,955**	**1,508**	**1,255**	**394**	**6,141**	**100,447**
Debt securities in issue	**8,519**	**5,950**	**1,769**	**623**	**82**	**-**	**16,943**
Other liabilities	**159**	**-**	**3**	**91**	**2**	**9,251**	**9,506**
Subordinated liabilities – loan capital	**1,727**	**509**	**-**	**637**	**4,637**	**-**	**7,510**
Minority interests and shareholders' funds	**-**	**-**	**-**	**-**	**-**	**10,556**	**10,556**
Total liabilities	**112,453**	**9,504**	**3,884**	**3,002**	**5,207**	**26,737**	**160,787**
	(26,987)	**(3,577)**	**3,174**	**28,710**	**2,296**	**(11,276)**	**(7,660)**
Net balances with group trading books	**(148)**	**982**	**264**	**6,188**	**374**	**-**	**7,660**
Off-balance sheet items	**12,229**	**(766)**	**170**	**(10,612)**	**(1,021)**	**-**	**-**
Interest rate repricing gap	**(14,906)**	**(3,361)**	**3,608**	**24,286**	**1,649**	**(11,276)**	**-**
Cumulative interest rate repricing gap	**(14,906)**	**(18,267)**	**(14,659)**	**9,627**	**11,276**	**-**	**-**

As at 31 December 1999	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	Total £m
Assets:							
Treasury bills and other eligible bills	896	108	134	60	-	-	1,198
Loans and advances to banks	13,418	1,640	1,074	334	227	121	16,814
Loans and advances to customers	58,410	3,746	4,449	29,064	7,289	(1,205)	101,753
Debt securities and equity shares	3,056	725	679	953	1,308	54	6,775
Other assets	230	-	-	5	27	9,307	9,569
Total assets	76,010	6,219	6,336	30,416	8,851	8,277	136,109
Liabilities:							
Deposits by banks	15,095	852	114	17	-	745	16,823
Customer accounts	81,298	1,586	903	1,321	110	7,387	92,605
Debt securities in issue	6,618	1,446	1,397	1,109	407	-	10,977
Other liabilities	149	-	5	-	2	6,915	7,071
Subordinated liabilities – loan capital	-	46	-	685	5,762	-	6,493
Minority interests and shareholders' funds	-	-	-	-	-	8,772	8,772
Total liabilities	103,160	3,930	2,419	3,132	6,281	23,819	142,741
	(27,150)	2,289	3,917	27,284	2,570	(15,542)	(6,632)
Net balances with group trading books	1,372	272	733	4,051	204	-	6,632
Off- balance sheet items	3,526	527	(1,576)	(4,280)	1,803	-	-
Interest rate repricing gap	(22,252)	3,088	3,074	27,055	4,577	(15,542)	-
Cumulative interest rate repricing gap	(22,252)	(19,164)	(16,090)	10,965	15,542	-	-

47 Derivatives and other financial instruments (continued)

c) Fair value analysis

Financial instruments include both financial assets and financial liabilities and also derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Wherever possible, fair values have been estimated using market prices for instruments held by the Group. Where market prices are not available, fair values have been estimated using quoted values for instruments with characteristics either identical or similar to those of the instruments held by the Group. In certain cases, where no ready markets currently exist, various techniques have been developed to estimate what the approximate fair value of such instruments might be. These estimation techniques are necessarily subjective in nature and involve several assumptions.

The fair values presented in the following table are at a specific date and may be significantly different from the amounts which will be actually paid or received on the maturity or settlement date. In many cases, the estimated fair values could not be realised immediately and accordingly do not represent the value of these financial instruments to the Group as a going concern.

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair values between financial institutions may not be meaningful. Readers of these accounts are thus advised to use caution when using this data to evaluate the Group's financial position.

Fair value information is not provided for items that do not meet the definitions of a financial instrument. These items include intangible assets, such as the value of the Group's branch network, and the long-term relationships with depositors and credit card relationships, premises and equipment and shareholders' equity. These items are material and accordingly the Group believes that the fair value information presented does not represent the underlying value of the Group.

The valuation technique for each major category of financial instrument is discussed below:

Loans and advances to banks and customers
The Group provides loans and advances to commercial, corporate and personal customers at both fixed and variable rates. The carrying value of the variable rate loans and those relating to lease financing is assumed to be their fair value. For fixed rate lending, several different techniques are used to estimate fair value, as considered appropriate. For commercial and personal customers, fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by the Group and other financial institutions. The fair value for corporate loans was estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically two to five years, after which the loans revert to the relevant variable rate. The fair value of such loans has been estimated by reference to the market rates for similar loans of maturity equal to the remaining fixed interest rate period.

Debt securities and equity shares held for investment purposes
Listed investment securities are valued at quoted mid-market prices. Unlisted securities and equity shares are valued based on discounted cash flows, market prices of similar securities and other appropriate valuation techniques.

Deposits by banks and customer accounts
The fair value of deposits repayable on demand are considered to be equal to their carrying value. The fair value for all other deposits and customer accounts was estimated using discounted cash flows applying either market rates, where applicable, or current rates for deposits of similar remaining maturities.

Debt securities and subordinated liabilities
The fair value is estimated using quoted market prices.

Financial commitments and contingent liabilities
The Group considers that, given the lack of an established market, the diversity of fee structures and the difficulty of separating the value of the instruments from the value of the overall transaction, it is not meaningful to provide an estimate of the fair value of financial commitments and contingent liabilities. These are therefore excluded from the following table.

The carrying and fair values of non-trading derivative financial instruments are disclosed on page F-42 in note 47a.

47 Derivatives and other financial instruments (continued)

c) Fair value analysis (continued)

The table below shows a comparison by category of book values and fair values of the Group's on-balance sheet financial assets and liabilities.

As at 31 December 2000	**Trading book**		**Non-trading book**	
	Book value £m	**Fair value £m**	**Book value £m**	**Fair value £m**
Assets:				
Treasury bills and other eligible bills	**1,079**	**1,079**	**630**	**627**
Loans and advances to banks and customers	**322**	**322**	**129,111**	**130,011**
Debt securities and equity shares	**8,416**	**8,416**	**6,436**	**6,916**
Liabilities:				
Deposits by banks and customers	**1,201**	**1,201**	**116,272**	**116,118**
Debt securities in issue	**956**	**956**	**16,943**	**16,982**
Subordinated liabilities	**-**	**-**	**7,510**	**7,692**

As at 31 December 1999	Trading book		Non-trading book	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Assets:				
Treasury bills and other eligible bills	867	867	1,198	1,197
Loans and advances to banks and customers	200	200	118,567	118,749
Debt securities and equity shares	8,322	8,322	6,775	7,161
Liabilities:				
Deposits by banks and customers	1,116	1,116	109,429	109,528
Debt securities in issue	1,283	1,283	10,977	10,971
Subordinated liabilities	-	-	6,493	6,667

d) Currency exposures

Structural currency exposures

The Group's main overseas operations are in New Zealand, the Americas and Europe. Details of the Group's structural foreign currency exposures are as follows:

Functional currency of Group operation	**2000 £m**	1999 £m
New Zealand dollar	**703**	716
Euro (and component former currencies)	**289**	335
US dollar	**194**	160
Swiss franc	**120**	108
Other non-sterling	**397**	371
Total	**1,703**	1,690

Non-structural currency exposures

All foreign exchange exposures in the non-trading book are transferred to the trading area where they are monitored and controlled.

Information about the management of market risk in the Group's trading activities is given on pages 89 to 94.

47 Derivatives and other financial instruments (continued)

e) Unrecognised gains and losses on hedging instruments

The Group uses a variety of financial instruments to hedge exposures in its banking book; these hedges are accounted for on an accruals basis, in line with the underlying instruments being hedged. Any gains or losses that would occur if these instruments were carried at market value are therefore not recognised.

At 31 December 2000, the unrecognised gains on financial instruments used for hedging were £200 million (1999: £161 million) and unrecognised losses were £457 million (1999: £253 million).

The net losses arising in 1999 and earlier years and recognised in 2000 amounted to £32 million. Net losses of £200 million arose in 2000 but were not recognised in the year.

Of the net losses of £257 million at 31 December 2000, £55 million of net losses are expected to be recognised in the year ending 31 December 2001 and £202 million of net losses in later years.

f) Value at risk in trading activities

Details of the value at risk in the Group's global trading activities are given on page 89.

48 Acquisitions

a) On 3 March 2000, the Group completed the transfer of the business of Scottish Widows' Fund and Life Assurance Society to its wholly owned subsidiaries Scottish Widows plc and Scottish Widows Annuities Limited; the results of Scottish Widows have been consolidated in full from that date. The premium on acquisition of £1,870 million has been capitalised and the directors have determined that it has an indefinite useful life (see note 1c).

A summarised profit and loss account for Scottish Widows for the period from 1 January 2000 to 2 March 2000 is set out below:

	£m
Earned premiums (net of reinsurance)	**477**
Other income and charges	**10**
Net investment returns	**(295)**
Claims paid (net of reinsurance)	**(419)**
Change in technical provisions	**(393)**
Operating expenses	**(57)**
Transfer from fund for future appropriations	**653**
Tax attributable to the long-term business account	**(12)**
Loss after tax for the period to 2 March 2000	**(36)**
Profit after tax for the year ended 31 December 1999	333

All recognised gains and losses are included in the profit and loss account.

48 Acquisitions (continued)

The balance sheet of Scottish Widows at 3 March 2000 was as follows:

	Book value at 3 March £m	Fair value adjustments £m	Fair value at acquisition £m
Investments	23,799	(23,799)	-
Assets held to cover linked liabilities	3,062	(3,062)	-
Other assets	1,250	(1,230)	20
Prepayments and accrued income	189	(155)	34
Loans and advances to banks	160	-	160
Loans and advances to customers	632	-	632
Long-term assurance business attributable to shareholders	-	4,052	4,052
Long-term assurance assets attributable to policyholders	-	24,166	24,166
Fund for future appropriations	(6,541)	6,541	-
Technical provisions	(18,084)	18,084	-
Technical provisions for linked liabilities	(3,062)	3,062	-
Customer accounts	(709)	-	(709)
Accruals and deferred income	(21)	9	(12)
Other liabilities	(675)	575	(100)
Long-term assurance liabilities to policyholders	-	(24,166)	(24,166)
Net assets acquired	-	4,077	4,077
Goodwill			1,870
			5,947
Consideration			5,846
Costs of acquisition			101
			5,947

As a mutual life assurance society, Scottish Widows prepared accounts under the modified statutory solvency basis; this is different to the Lloyds TSB Group accounting policy, which is set out in note 1(n). The fair value adjustments above are required to:

i) show the net assets of Scottish Widows in accordance with the Group's accounting policy; and

ii) reflect the fair value of assets and liabilities.

The Scottish Widows business is complex and whilst no further fair value adjustments are expected, in accordance with the requirements of paragraph 27 of Financial Reporting Standard 6, it is noted that the fair value of the net assets of Scottish Widows and the goodwill arising shown above are provisional.

Under the terms of the transfer of Scottish Widows' business, as set out in the Policyholder Circular dated 19 November 1999, a separate memorandum account was created within the With Profits Fund on 3 March 2000 called the Additional Account with a balance of £1.7 billion. This account included £1.3 billion which is available to meet any additional costs of meeting guaranteed benefits including annuity benefits on transferred policies allocated to the With Profits Fund and any unexpected liabilities which arise in the future but relate (with certain exceptions) to the operations of Scottish Widows and its subsidiaries prior to 3 March. The assets allocated to the Additional Account include certain hedge assets which are intended to protect the With Profits Fund against the consequences of a future fall in interest rates including increases in the costs of meeting policy guarantees.

48 Acquisitions (continued)

b) On 1 September 2000 the Group's subsidiary, Lloyds UDT Finance Limited, completed the acquisition of Chartered Trust Group plc and ACL Autolease Holdings Limited (together 'Chartered Trust'), the UK consumer finance and contract hire subsidiaries of Standard Chartered Bank; the results of these businesses have been consolidated in full from that date. The premium on acquisition of £508 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of 20 years.

A summarised profit and loss account for Chartered Trust for the period from 1 January 2000 to 31 August 2000 is set out below:

	£m
Net interest income	**122**
Net fees and commissions	**(17)**
Other income	**17**
Total income	**122**
Operating expenses	**(84)**
Provisions for bad and doubtful debts	**(23)**
Profit on ordinary activities before tax	**15**
Tax	**(8)**
Profit after tax for the period to 31 August 2000	**7**
Profit after tax for the year ended 31 December 1999	23

All recognised gains and losses are included in the profit and loss account.

The balance sheet of Chartered Trust at 1 September 2000 was as follows:

	Book value at 1 September £m	**Fair value adjustments £m**	**Fair value at acquisition £m**
Loans and advances to banks	**143**	**-**	**143**
Loans and advances to customers	**1,860**	**-**	**1,860**
Tangible fixed assets	**414**	**(39)**	**375**
Other assets and prepayments	**114**	**-**	**114**
Deposits by banks	**(1,798)**	**-**	**(1,798)**
Customer accounts	**(336)**	**-**	**(336)**
Other liabilities and accruals	**(249)**	**-**	**(249)**
Minority interests - equity	**(3)**	**-**	**(3)**
Net assets acquired	**145**	**(39)**	**106**
Goodwill			**508**
Consideration			**614**

The consideration was settled in cash. The fair value adjustments principally reflect provision for anticipated losses in respect of residual values on certain operating lease assets.

c) On 28 April 2000 the Group's French subsidiary, Lloyds Bank S.A., completed the purchase of the private client business of CPR Gestion Privée for a cash consideration of £27 million. The premium on acquisition of £27 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of 20 years. There were no fair value adjustments made to the assets acquired. The results of this business have been consolidated in full from the date of acquisition; the effect on the results of the Group is not material.

49 Consolidated cash flow statement

The cash flow statement reflects cash flows attributable to the banking, life and general insurance businesses. Cash flows from long-term assurance business attributable to shareholders include the surplus emerging from the life and pension businesses; 'Income from long-term assurance business' reflects the movement in the value of long-term assurance business attributable to shareholders (see Note 32) as adjusted for capital injections and acquisitions, which are reflected within the 'Capital expenditure and financial investment' and 'Acquisitions and disposals' sections of the cash flow statement. Cash flows relating to the long-term assurance business attributable to policyholders are not reflected within this statement.

a) Reconciliation of operating profit to net cash inflow (outflow) from operating activities	**2000 £m**	1999 £m	1998 £m
Operating profit	**3,857**	3,770	2,955
Increase in prepayments and accrued income	**(121)**	(231)	(318)
Increase in accruals and deferred income	**830**	183	369
Provisions for bad and doubtful debts	**541**	615	555
Net advances written off	**(580)**	(614)	(834)
Restructuring provision	**-**	-	38
Restructuring costs incurred	**-**	(62)	(158)
General insurance claims	**142**	169	146
General insurance claims paid	**(146)**	(145)	(110)
Amounts written off fixed asset investments	**32**	7	15
Income from long-term assurance business	**(615)**	(227)	21
Transfer from long-term assurance business	**-**	-	38
Interest on subordinated liabilities (loan capital)	**490**	362	323
Interest element of finance lease rental payments	**1**	-	-
Depreciation and amortisation	**386**	277	254
Other non-cash movements	**(266)**	(238)	(212)
Net cash flow from trading activities	**4,551**	3,866	3,082
Net increase in loans and advances	**(6,490)**	(6,304)	(5,617)
Net (increase) decrease in investments other than investment securities	**(355)**	461	(598)
Net decrease (increase) in other assets	**20**	1,737	(554)
Net (decrease) increase in deposits by banks	**(2,794)**	827	(856)
Net increase in customer accounts	**7,081**	3,147	4,618
Net increase (decrease) in debt securities in issue	**4,738**	551	(1,335)
Net increase (decrease) in other liabilities	**569**	(3,066)	(1,364)
Net (increase) decrease in items in course of collection/transmission	**(126)**	(60)	70
Other non-cash movements	**280**	54	28
Net cash inflow (outflow) from operating activities	**7,474**	1,213	(2,526)

b) Analysis of cash as shown in the balance sheet	**2000 £m**	1999 £m	1998 £m
Cash and balances with central banks	**1,027**	1,276	1,073
Loans and advances to banks repayable on demand	**2,794**	1,132	1,783
	3,821	2,408	2,856

The Group is required to maintain balances with the Bank of England which, at 31 December 2000, amounted to £142 million (1999: £128 million; 1998: £119 million).

c) Analysis of changes in cash during the year	**2000 £m**	1999 £m	1998 £m
At 1 January	**2,408**	2,856	6,158
Net cash inflow (outflow) before adjustments for the effect of foreign exchange movements	**1,406**	(448)	(3,303)
Effect of foreign exchange movements	**7**	-	1
At 31 December	**3,821**	2,408	2,856

49 Consolidated cash flow statement (continued)

d) Analysis of changes in financing during the year

	Share capital (including premium and merger reserve)		
	2000	1999	1998
	£m	£m	£m
At 1 January	**2,136**	1,823	1,782
Cash inflow from financing	**198**	313	41
At 31 December	**2,334**	2,136	1,823

	Preferred securities issued by subsidiary undertakings		
	2000	1999	1998
	£m	£m	£m
At 1 January	**-**	-	-
Effect of foreign exchange movements	**6**	-	-
Cash inflow from financing	**509**	-	-
At 31 December	**515**	-	-

	Subordinated liabilities and finance leases		
	2000	1999	1998
	£m	£m	£m
At 1 January	**6,497**	4,028	4,221
Effect of foreign exchange movements	**120**	(69)	20
Cash inflow (outflow) from financing	**897**	2,541	(245)
Capital repayments	**(4)**	(3)	(5)
Adjustments on acquisition	**23**	-	37
At 31 December	**7,533**	6,497	4,028

e) Analysis of the net cash outflow (inflow) in respect of the acquisition of group undertakings

	2000	1999	1998
	£m	£m	£m
Cash consideration paid	**5,110**	27	13
Cash acquired	**-**	-	(17)
Net cash outflow (inflow)	**5,110**	27	(4)

f) Acquisition of group undertakings

	2000	1999	1998
	£m	£m	£m
Net assets acquired:			
Cash and balances with central banks	**-**	-	17
Loans and advances	**2,827**	-	4,536
Long-term assurance business	**4,052**	-	-
Other assets	**168**	1	626
Tangible fixed assets	**375**	-	24
Deposits by banks, customer accounts and other liabilities	**(3,239)**	4	(5,144)
	4,183	5	59
Goodwill arising on consolidation	**2,405**	22	206
	6,588	27	265
Satisfied by:			
Issue of loan notes	**1,077**	-	252
Cash	**5,110**	27	13
Payments pending settlement	**401**	-	-
	6,588	27	265

49 Consolidated cash flow statement (continued)

g) **Disposal of group undertakings and businesses**	**2000 £m**	1999 £m	1998 £m
Net assets disposed of:			
Loans and advances to customers	**-**	-	1,015
Interests in associated undertakings	**-**	2	-
Deposits from banks	**-**	-	(795)
Other net assets (liabilities)	**2**	-	(192)
Goodwill written back on disposal	**93**	-	131
	95	2	159
(Loss) profit on sale	**(12)**	1	84
Cash consideration received	**83**	3	243

50 Differences between UK GAAP and US GAAP

The accounts presented in this report have been prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP). These differ in significant respects to the accounting principles generally accepted in the United States (US GAAP). The following is a summary of significant differences applicable to the Group.

UK GAAP	US GAAP
Business combinations	
For accounting periods beginning before 23 December 1994, UK GAAP permitted merger accounting for business combinations wherein the offeror acquired at least 90 per cent of all equity shares in issue and that equity shares comprised not less than 90 per cent of the fair value of the consideration.	Under Accounting Principles Board (APB) Opinion No. 16 'Business Combinations', a business combination should be accounted for as a pooling-of-interests if two previously independent entities combine as a result of one entity issuing common stock in exchange for substantially all the common stock of the second entity. Whilst the offer may include provisions to distribute cash for fractional shares or those held by dissenting shareholders, the offer may not include a pro rata distribution of cash or other consideration. In addition, no changes in the equity interests of the common stock may be made prior to the merger in contemplation of the transaction and neither may the ratio of the interest of the individual common stockholder to those of other common stockholders in a combining company change as a result of the exchange of stock.
Goodwill / core deposit 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. Goodwill is written off when judged to be irrecoverable. For acquisitions prior to 1 January 1998 goodwill was charged directly against reserves as permitted by Statement of Standard Accounting Practice (SSAP) 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.	APB No. 17 'Intangible Assets' requires that goodwill arising on acquisitions by group and associated undertakings be capitalised and amortised over its estimated life, which should not exceed 40 years. The Group amortises goodwill over periods of up to 20 years.
UK GAAP does not require a value to be placed upon the retail depositor relationship in an acquired financial institution.	Statement of Financial Accounting Standards (SFAS) No. 72 'Accounting for Certain Transactions of Banking and Thrift Institutions' requires that, when assessing the fair value of the assets of an acquired financial institution, certain identifiable intangible assets must be recognised. These include the asset representing the value of retail depositor relationships, termed the core deposit intangible, which is capitalised separately and amortised through the profit and loss account over the estimated average life of the retail depositor relationships.

50 Differences between UK GAAP and US GAAP (continued)

UK GAAP	US GAAP
Pension costs	
Under UK GAAP, pension costs relating to defined benefit schemes, calculated using actuarial assumptions and methods, are charged so as to allocate the cost of providing benefits over the average remaining service lives of employees. Variations from regular cost are spread in equal annual amounts over the average remaining service lives of current employees.	SFAS No. 87 'Employers' Accounting for Pensions' prescribes a similar method of actuarial valuation but requires assets to be assessed at fair value and the assessment of liabilities to be based on current settlement rates. Certain variations from regular cost are allocated in equal amounts over the average remaining service lives of current employees.
Leasing	
Under UK GAAP, 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 for Leases' gives rise to a level rate of return on the investment in the lease, but without taking into account tax payments and receipts. This results in income being recognised in different periods than under UK GAAP.
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.	Under US GAAP operating lease assets are depreciated such that the depreciation charge is at least equal to that which would arise on a straight line basis.
Property	
Under UK GAAP, depreciation is charged on the cost of freehold and long leasehold properties over their estimated useful economic lives. Following the adoption of Financial Reporting Standard No. 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 included in the balance sheet at historical cost and depreciated over their estimated useful economic lives.
Share compensation schemes	
Under UK GAAP, where shares are purchased to satisfy an actual, or anticipated, requirement created by the exercise of options under either the Group's Executive or Save-As-You-Earn option schemes, the difference between the purchase price and exercise price is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit. Where shares are issued, no charge is made to the profit and loss account.	The Group has adopted SFAS No. 123 'Accounting for Stock Based Compensation', and accounts for share compensation schemes based on their estimated fair values at the date of the grant.

50 Differences between UK GAAP and US GAAP (continued)

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.	The American Institute of Certified Public Accountants' Statement of Position 98-1 'Accounting for the costs of computer software developed or obtained for internal use' requires certain costs incurred from 1 January 1999 in respect of software developed for internal use to be capitalised and subsequently amortised.
Derivative instruments held for risk management purposes	
Under UK GAAP, derivative contracts entered into with an independently managed trading unit of the Group, to hedge an underlying balance sheet position, may be accounted for on an accruals basis by the hedging entity.	An interpretation of SFAS No. 80 'Accounting for Futures Contracts' by the SEC requires there to be a one-to-one link between the internal transaction and a transaction with the external market by the trading unit for hedge accounting to take place. If this is not evident, then the internal derivative contract must be fair valued by the hedging entity.
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 Translation', foreign currency assets and liabilities are translated at the year-end rate; however, results are translated at the average rate for the year.
Investment securities	
Under UK GAAP, 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 Investments in Debt and Equity Securities' requires that debt securities which are "available-for-sale" (where there is the absence of either the intent or the ability to hold them to maturity) and equity shares with a readily determinable market value should be recorded at fair value with unrealised gains and losses reflected in shareholders' equity. All debt securities held as available-for-sale are subject to assessment for other than temporary impairment in accordance with SFAS No. 115.
Dividend payable	
Under UK GAAP, dividends declared after the period end are recorded in the period to which they relate.	Dividends are recorded in the period in which they are declared.
Own shares	
Under UK GAAP, own shares held are included within equity and are reported as an asset on the balance sheet.	Under US GAAP, own shares held are reclassified as Treasury stock and deducted from shareholders' equity in accordance with Accounting Research Bulletin (ARB) No. 51 'Consolidated Financial Statements'.

50 Differences between UK GAAP and US GAAP (continued)

UK GAAP	US GAAP
Deferred tax	
Under UK GAAP, deferred tax is provided using the liability method on timing differences where there is a reasonable probability that a liability or asset will crystallise in the foreseeable future. No deferred asset is created in respect of the general provision for bad and doubtful debts which is not deductible in arriving at UK taxable profits.	Under SFAS No. 109 'Accounting for Income Taxes', the liability method is also used, but deferred tax assets and liabilities are recorded for all temporary differences, including the general provision for bad and doubtful debts. A valuation allowance is recorded against a deferred tax asset where it is more likely than not that some portion of the deferred tax asset will not be realised.
Provision for credit losses	
Under UK GAAP, a specific provision is made to cover the estimated loss as soon as the recovery of an outstanding loan is considered doubtful. 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 Impairment of a Loan' requires the overall credit risk provision to be determined based upon the present value of expected future cash flows, discounted at the loan's effective interest rate or, as a practical expedient, on the loan's observable market value, or the fair value of the collateral if the loan is collateral dependent. Smaller balance homogeneous consumer loans that are collectively valued for impairment are outside the scope of SFAS No. 114, as are debt securities and leases. General provisions are made against such loans when losses have been incurred but not yet identified as of the balance sheet date.
Acceptances	
Under UK GAAP, acceptances are not recorded on the balance sheet.	Acceptances and the related customer liabilities are recorded on the balance sheet.
Insurance activities	
Under UK GAAP, the shareholders' 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 the policies of the long-term assurance fund is not recognised. An adjustment is made for the amortisation of acquisition costs and fees. Additional information on the US accounting adopted by the Group is provided within the Insurance section of this note on pages F-82 to F-85.

50 Differences between UK GAAP and US GAAP (continued)

Recent developments

United Kingdom

FRS 17 'Retirement Benefits'

FRS 17 was issued in December 2000 and becomes fully effective no later than for the Group's 2003 financial statements. The main requirement of FRS 17 is that it will be necessary to recognise on the balance sheet an asset or liability with respect to the surplus or deficit on the Group's defined benefit schemes and to recognise immediately actuarial gains and losses in the statement of total recognised gains and losses. The FRS will require transitional disclosures in the Group's 2001 and 2002 financial statements, before becoming fully effective in 2003.

FRS 18 'Accounting Policies'

FRS 18 was issued in December 2000 and is effective for accounting periods ended on or after 22 June 2001. The FRS requires that an entity adopts the most appropriate accounting policies, and that these are reviewed regularly and explained in sufficient detail, for all material items. The Group has adopted the requirements of FRS 18 in these accounts which has resulted in a change of accounting policy for debt securities acquired in exchange for advances which are not (nor due to be) collateralised by US Treasury securities. The effect of this change in accounting policy is set out in Note 1.

FRS 19 'Deferred Tax'

FRS 19 was issued in December 2000 and will be effective no later than for the Group's 2002 financial statements. The FRS requires deferred tax to be provided on most types of timing differences. Currently, the Group recognises deferred tax assets and liabilities only to the extent that it is considered probable that an asset or liability will crystallise. The Group is currently assessing the likely impact on the Group's financial statements.

United States

SFAS No. 133 'Accounting for Derivative Instruments and for Hedging Activities'

SFAS No. 133 was issued in June 1998 and amended by SFAS Nos. 137 and 138, and is required to be adopted in financial years beginning after 15 June 2000. The Group has adopted the new Statement for the purposes of the US GAAP figures presented in this Note from 1 January 2001. The Statement requires the Group to recognise all derivatives on the US GAAP balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognised in other comprehensive income until the hedged item is recognised in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognised in earnings.

Based on the Group's derivative positions at 31 December 2000, the cumulative impact upon the Group on adoption will not be significant.

The Group will continue to hold a significant portfolio of derivatives designed to mitigate financial risk in its non-trading portfolio. These will be managed to meet the UK GAAP, rather than US GAAP, requirements for hedge accounting.

SFAS No. 140 'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125'

SFAS No. 140 was issued in September 2000 and revises the accounting for securitisations and other transfers of financial assets and collateral. The Statement is required to be adopted for transfers and servicing of financial assets and extinguishments of liabilities occurring after 31 March 2001. The Statement is currently effective for the recognition and reclassification of collateral and related disclosures, and has accordingly been adopted. The Statement is to be applied prospectively with certain exceptions. The provisions applicable from 1 April 2001 will not have a material impact on the Group's Financial Statements.

50 Differences between UK GAAP and US GAAP (continued)

SFAS No. 141 'Business Combinations'

SFAS No. 141 was issued in July 2001 and requires that the purchase method be used for all business combinations initiated after 30 June 2001. Use of the pooling-of-interests method is no longer permitted. Adoption is not expected to have a material impact on the Group's US GAAP financial statements.

SFAS No. 142 'Goodwill and Other Intangible Assets'

SFAS No. 142 was issued in July 2001 and is effective for the Group from 1 January 2002. Certain provisions are applicable to transactions completed after 30 June 2001. The Statement requires that goodwill should no longer be amortised to earnings, but instead reviewed for impairment and that any losses arising from such a review be charged to income as they arise. Retrospective application is not permitted and certain disclosures will be provided until all reported periods reflect the change in accounting treatment. The impact on the Group will be to increase US GAAP net income in the periods from 1 January 2002 by the amount of amortisation previously charged to net income on goodwill capitalised under US GAAP. For the year ended 31 December 2000, this amounted to £210 million.

50 Differences between UK GAAP and US GAAP (continued)

The following tables summarise the adjustments to net income and shareholders' equity which would arise from the application of US GAAP:

Reconciliation of net income	Note	2000 £m	1999 £m
Profit for the year attributable to shareholders under UK GAAP		**2,706**	2,539
Insurance activities, before tax (see page F-82)		**(528)**	119
Banking and Group activities:			
Goodwill amortisation	(a)	**(188)**	(118)
Profit/loss on sale and closure of businesses	(b)	**12**	21
Core deposit intangibles	(a)	**(219)**	(219)
Pension Costs	(c)	**(36)**	(39)
Leasing		**(47)**	(20)
Property depreciation		**3**	(7)
Share compensation schemes	(d)	**(31)**	(37)
Internal software costs		**10**	37
Derivative instruments held for risk management purposes	(f)	**(168)**	178
Foreign currency translation differences		**2**	3
Total Banking and Group activities, before tax		**(662)**	(201)
Taxation			
- deferred taxation	(i)	**(75)**	(107)
- deferred taxation on GAAP differences		**488**	(202)
Total Taxation		**413**	(309)
Total adjustments, after tax		**(777)**	(391)
Net income under US GAAP		**1,929**	2,148

Reconciliation of shareholders' equity	Note	2000 £m	1999 £m
Shareholders' funds under UK GAAP		**10,024**	8,829
Insurance activities, before tax (see page F-82)		**399**	69
Banking and Group activities:			
Goodwill	(a)	**1,533**	1,752
Core deposit intangibles	(a)	**991**	1,210
Pension Costs	(c)	**1,703**	1,544
Leasing		**(143)**	(96)
Property depreciation		**(56)**	(59)
Internal software		**47**	37
Derivative instruments held for risk management purposes	(f)	**(257)**	(92)
Net unrealised gain on available-for-sale investment securities	(g)	**480**	386
Dividend payable		**1,172**	1,011
Own shares	(h)	**(247)**	(35)
Total Banking and Group activities, before tax		**5,223**	5,658
Taxation			
- deferred taxation	(i)	**(83)**	6
- deferred taxation on GAAP differences		**(1,855)**	(1,400)
Total Taxation		**(1,938)**	(1,394)
Total adjustments, after tax		**3,684**	4,333
Shareholders' equity under US GAAP		**13,708**	13,162

50 Differences between UK GAAP and US GAAP (continued)

Reconciliation of movements in shareholders' equity under US GAAP	2000 £m	1999 £m
Net income in period	**1,929**	2,148
Dividends	**(1,522)**	(1,285)
	407	863
New share capital subscribed	**74**	108
Movement in own shares	**(41)**	(14)
Share compensation schemes	**31**	37
Change in the fair value of available for sale securities – Insurance	**21**	(50)
Change in the fair value of available for sale securities - Banking	**67**	4
Exchange differences	**(13)**	(58)
	546	890
Shareholders' equity at beginning of period	**13,162**	12,272
Shareholders' equity at end of period	**13,708**	13,162

Accumulated other comprehensive income	2000 £m	1999 £m
Exchange translation differences	**(223)**	(210)
Net unrealised gains on investment securities – Insurance	**98**	68
Net unrealised gains on investment securities – Banking	**480**	386
Taxation	**(180)**	(144)
	398	310
Accumulated other comprehensive income under US GAAP	**175**	100

50 Differences between UK GAAP and US GAAP (continued)

Condensed US GAAP Profit and loss account

The following table provides a condensed profit and loss account for the Group, incorporating the US GAAP adjustments arising.

	2000 £m	1999 £m
Loan interest, including fees	**10,218**	9,778
Other interest and dividends	**2,539**	1,541
Insurance premiums	**1,604**	1,230
Commissions and fees	**2,118**	1,982
Realised gains from sales of investments	**139**	102
Foreign-exchange trading income	**141**	133
Securities and other trading gains (losses)	**(253)**	328
Other income	**838**	880
Total revenues	**17,344**	15,974
Interest expense	**7,046**	6,259
Total revenues, net of interest expense	**10,298**	9,715
Policyholder benefits and claims expense	**1,418**	939
Provisions for bad and doubtful debts	**541**	615
Amounts written-off fixed asset investments	**32**	7
Total benefits, claims and provisions	**1,991**	1,561
Non-insurance compensation and benefits	**1,870**	1,715
Insurance underwriting, operating and acquisition expenses	**552**	345
Other operating expenses	**1,899**	1,781
Exceptional restructuring costs	**188**	-
Depreciation	**414**	284
Amortisation of intangible fixed assets		
Goodwill	**210**	130
Core deposit intangibles	**219**	219
Value of long-term assurance business acquired	**285**	1
	714	350
	5,637	4,475
Loss on sale and closure of businesses	**-**	(105)
Income before tax	**2,670**	3,574
Provision for income taxes*	**692**	1,420
Minority interests, net of income taxes	**49**	6
Net income under US GAAP	**1,929**	2,148
Exchange translation differences	**(13)**	(58)
Net unrealised gains (losses) on investment securities – Insurance	**30**	(72)
Net unrealised gains (losses) on investment securities – Banking	**94**	5
Taxation	**(36)**	21
	88	(46)
Comprehensive income under US GAAP	**2,004**	2,044
Earnings per share (pence)	**35.2p**	39.4p
Diluted earnings per share (pence)	**34.8p**	38.7p

* Significant items affecting the Group's effective tax rate under US GAAP include the fact that tax is levied on UK life assurance and pension businesses under specialised rules not based on the profit and loss account. In addition, under US GAAP a tax provision is required for unrealised gains that are attributable to the policyholders. The amount provided will vary depending upon the fluctuations of the stock market and this movement can result in significant changes in the effective rate of tax.

50 Differences between UK GAAP and US GAAP (continued)

Condensed US GAAP Balance sheet

The following table provides a condensed balance sheet for the Group, incorporating the US GAAP adjustments arising.

	2000	1999
	£m	£m
Assets		
Cash and due from banks	**6,478**	3,653
Deposits at interest with banks	**10,799**	10,569
Securities purchased under resale agreements	**4,937**	7,849
Treasury bills and other eligible bills	**630**	1,198
Trading account assets	**36,872**	15,856
Investments	**10,626**	9,006
Loans, net of provisions	**110,788**	99,120
Tangible fixed assets	**3,146**	2,039
Intangible fixed assets – goodwill	**4,132**	1,983
– core deposit intangibles	**991**	1,210
– value of long-term assurance business acquired	**3,312**	701
Deferred acquisition costs	**698**	638
Separate account assets	**25,559**	20,722
Other assets	**6,904**	6,345
Total assets	**225,872**	180,889
Liabilities		
Deposits	**117,473**	110,545
Trading account liabilities	**3,302**	3,264
Debt securities in issue	**16,943**	10,977
Policyholder liabilities	**22,182**	5,183
Undistributed policyholder allocations	**5,905**	30
Commitments and contingencies	**291**	313
Deferred tax	**3,719**	3,012
Long-term debt	**7,510**	6,493
Separate account liabilities	**25,559**	20,722
Other liabilities	**8,728**	7,155
Minority interests	**552**	33
Total liabilities	**212,164**	167,727
Shareholders' equity:		
Common stock	**1,396**	1,389
Additional paid-in capital	**4,260**	4,038
Retained earnings	**8,124**	7,670
Treasury stock	**(247)**	(35)
Accumulated other comprehensive income	**175**	100
Total shareholders' equity	**13,708**	13,162
Total liabilities and shareholders' equity	**225,872**	180,889

50 Differences between UK GAAP and US GAAP (continued)

Condensed Consolidated Statement of Cash flows in accordance with SFAS No. 95

	2000 £m	1999 £m
Cash flows from operating activities		
Net income before minority interests	**1,978**	2,154
Adjustments required to reconcile net income to net cash provided by operating activities:		
Amortisation of intangible fixed assets	**714**	350
Depreciation of tangible fixed assets	**414**	284
Provision for bad and doubtful debts	**(39)**	1
Change in trading account assets	**861**	2,176
Change in trading account liabilities	**38**	(2,242)
Change in deferred acquisition costs	**(60)**	(74)
Change in other assets	**658**	1,179
Change in policyholder liabilities	**310**	488
Change in undistributed policyholder allocations	**(164)**	24
Change in other liabilities	**(367)**	(1,336)
Net gain on sale of investment securities	**(139)**	(102)
(Profit) loss on disposal of tangible fixed assets	**(6)**	2
Other, net	**(50)**	515
Total adjustments	**2,170**	1,265
Net cash provided by operating activities	**4,148**	3,419
Cash flows from investing activities		
Change in deposits at interest with banks	**474**	3,448
Change in securities purchased under resale agreements	**2,912**	(4,816)
Change in loans and advances to customers	**(9,510)**	(5,146)
Purchases of investment securities	**(24,659)**	(25,871)
Proceeds from sale of investment securities	**25,655**	13,376
Proceeds from maturities of investment securities	**76**	9,424
Purchases of tangible fixed assets	**(1,031)**	(639)
Proceeds from sale of tangible fixed assets	**87**	83
Acquisition of subsidiary undertakings	**(5,110)**	(27)
Disposal of subsidiary undertakings	**83**	3
Net cash used in investing activities	**(11,023)**	(10,165)
Cash flows from financing activities		
Dividends paid - equity	**(1,522)**	(1,285)
Dividends paid to minorities - equity	**(12)**	(11)
Dividends paid to minorities - non-equity	**(36)**	-
Issue of ordinary shares	**74**	108
Purchase of treasury stock	**(41)**	(14)
Issue of preferred securities	**509**	-
Issue of long-term debt	**952**	2,769
Redemption of long-term debt	**(55)**	(228)
Change in deposits	**4,287**	3,975
Change in short-term borrowings	**5,065**	851
Policyholders' deposits	**1,978**	314
Policyholders' withdrawals	**(1,499)**	(752)
Net cash provided by financing activities	**9,700**	5,727
Change in cash and cash equivalents	**2,825**	(1,019)
Cash and cash equivalents at beginning of period	**3,653**	4,672
Cash and cash equivalents at end of period	**6,478**	3,653
Cash paid during the year for income taxes	**864**	807
Cash paid during the year for interest	**6,102**	5,935
Non-cash investing and financing activities:		
Loan notes issued to Scottish Widows policyholders	**1,077**	-

50 Differences between UK GAAP and US GAAP (continued)

Balance sheet presentation

Certain classification differences exist in financial reporting under UK GAAP and US GAAP. For the Group, such differences primarily arise in the balance sheet and the following comparison lists the line items in which such differences occur.

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 account assets” where appropriate
Loans and advances to banks	Loans to banks due on demand classified as “Cash and due from banks”; Reverse repos classified as “Securities purchased under resale agreements”
Loans and advances to customers	Reverse repos classified as “Securities purchased under resale agreements”
Debt securities	Classified as “Trading account assets” and “Investments” where appropriate
Equity shares	Classified as “Trading account assets” and “Investments” where appropriate
Other assets	Classified as “Trading account assets” where appropriate
Prepayments and accrued income	Other assets
Items in course of transmission to banks	Classified as “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-82 to F-85

Consolidated Statement of Cash flows

The Group’s UK GAAP cash flow statement on page F-7 is prepared under the provisions of FRS 1(Revised). This is similar in many respects to SFAS No. 95 ‘Statement of Cash Flows’, as amended by SFAS No. 104 ‘Statement of Cash Flows - Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions’. Two principal differences arise between the standards with regard to the definition of cash and the classification of items within the cash flow statement.

50 Differences between UK GAAP and US GAAP (continued)

FRS 1 (Revised) defines cash as cash in hand and repayable on demand. Under SFAS No. 95, cash and cash equivalents are defined as short term, highly liquid investments that are both readily convertible to known amounts of cash; and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

For the purposes of SFAS No. 95, the Group's cash and cash equivalents of £6,478 million (1999: £3,653 million) comprise items reported under the following UK balance sheet categories: cash and balances at central banks; items in the course of collection from banks; loans and advances to banks repayable on demand and items in the course of transmission to banks. Under UK GAAP the results, assets and liabilities of the long-term assurance business is presented on a one-line basis and accordingly movements in cash flows are aggregated into one line within the reconciliation of operating profit. Under US GAAP, the insurance activities have been disaggregated and accordingly the cash flows have been allocated to the appropriate line items within the cash flow statement. Cash attributable to the long-term assurance business is included within cash and cash equivalents above.

Differences between UK and US GAAP with regard to classification of items within the cash flow statement are summarised below:

Cash flow	Classification under FRS 1 (Revised)	Classification under SFAS No. 95
Net change in loans and advances, including lease financing	Operating activities	Investing activities
Net change in deposits and debt securities in issue	Operating activities	Financing activities
Dividends paid to equity and non-equity minority interests	Returns on investment and servicing of finance	Financing activities
Tax paid	Taxation	Operating activities
Capital expenditure and financial investment	Capital expenditure and financial investment	Investing activities
Purchases/proceeds from disposal of subsidiary and associated undertakings	Acquisitions and disposals	Investing activities
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 assets or liabilities. Details of withdrawal and usage restrictions in respect of cash and balances at central banks are discussed on page 119 and F-50.

Notes to the UK/US GAAP reconciliation

a) Goodwill and core deposit intangible assets

Under UK GAAP, on 1 January 1998, the Group adopted FRS 10, 'Goodwill and Intangible Assets'. In respect of acquisitions since 1 January 1998, goodwill is included in the consolidated balance sheet under intangible fixed assets and amortised over its estimated useful economic life on a straight-line basis. Prior to 1 January 1998, the Group charged goodwill directly against reserves. In the case of the acquisition of Scottish Widows in 2000, in view of the strength of the Scottish Widows brand and the position of the business as one of the leading providers of life, pensions, unit trust and fund management products, the directors consider that it is appropriate to assign an indefinite life to the goodwill. This goodwill is not being amortised through the profit and loss account; however it is subjected to annual impairment reviews in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill'. Should any impairment be identified, it would be charged to the profit and loss account immediately.

50 Differences between UK GAAP and US GAAP (continued)

a) Goodwill and core deposit intangible assets (continued)

Under US GAAP, all goodwill arising in respect of acquisitions is capitalised and amortised over periods of up to 40 years. The Group amortises all goodwill, including that for Scottish Widows, over periods of up to 20 years.

The treatment of the Group's major acquisitions is detailed below:

Abbey Life
In 1988, Lloyds Bank Plc transferred a minority interest in five businesses to Abbey Life Group plc, a life insurance company, in return for a majority interest in the enlarged Abbey Life Group. Under UK GAAP, this transaction was accounted for as a merger. Under US GAAP, the same transaction would be accounted for as an acquisition. Accordingly the net assets of Abbey Life Group plc (later renamed Lloyds Abbey Life plc) have been fair valued in accordance with US GAAP and a purchase price determined based on the fair value of the minority interest transferred.

In 1996, Lloyds TSB Group plc acquired the remaining minority interest in Lloyds Abbey Life plc. Under UK and US GAAP the transaction is treated as an acquisition. However, certain differences arise under US GAAP regarding the determination of fair value of life insurance companies and accordingly an adjustment has been made for the items affected. The goodwill arising is being amortised over 20 years.

Cheltenham & Gloucester
Under UK and US GAAP, the purchase of the business of Cheltenham & Gloucester Building Society by Lloyds Bank Plc in August 1995 is treated as an acquisition. Certain differences arise under US GAAP regarding the fair value of the net assets. In addition, the net assets acquired include £521 million relating to core deposit intangibles, which is being amortised over 7 years. The goodwill arising is being amortised over 20 years.

TSB Group plc
The business combination of Lloyds Bank Plc and TSB Group plc in December 1995 was accounted for as a merger as permitted under UK GAAP at that time, although legally TSB Group plc was deemed to have acquired Lloyds Bank Plc. Under US GAAP, the same transaction would have been accounted for as an acquisition of TSB Group plc by Lloyds Bank Plc. Accordingly, for US GAAP, the net assets of TSB Group plc have been fair valued as at the date of the business combination and a purchase price determined based on the value of TSB Group plc shares at that time. The net assets include £1,596 million relating to core deposit intangibles, which is being amortised over 11 years. The resulting goodwill of £601 million is being amortised over 20 years.

Scottish Widows
In March 2000, the Group acquired the business of Scottish Widows' Fund and Life Assurance Society, a life insurance and pensions provider. Under UK and US GAAP, the purchase is treated as an acquisition. However certain differences arise under US GAAP regarding the determination of fair value of the life insurance business. Accordingly adjustments have been made for these items. Under US GAAP, the resulting goodwill is being amortised over 20 years.

50 Differences between UK GAAP and US GAAP (continued)

a) Goodwill and core deposit intangible assets (continued)

The movement in US GAAP goodwill is summarised as follows:

	2000 UK GAAP £m	**2000** US GAAP adjustment £m	**2000** US GAAP £m	1999 UK GAAP £m	1999 US GAAP adjustment £m	1999 US GAAP £m
Cost						
Balance at 1 January	**247**	**2,486**	**2,733**	220	2,532	2,752
Exchange movements	**(17)**	**(1)**	**(18)**	5	(46)	(41)
Acquisitions	**2,405**	**67**	**2,472**	22	-	22
Disposals	**-**	**(189)**	**(189)**	-	-	-
Balance at 31 December	**2,635**	**2,363**	**4,998**	247	2,486	2,733
Amortisation						
Balance at 1 January	**(16)**	**(734)**	**(750)**	(4)	(561)	(565)
Exchange movements	**2**	**-**	**2**	-	4	4
Charge for the year	**(22)**	**(188)**	**(210)**	(12)	(118)	(130)
Impairment provision (see note 50b)	**-**	**-**	**-**	-	(59)	(59)
Disposals	**-**	**92**	**92**	-	-	-
Balance at 31 December	**(36)**	**(830)**	**(866)**	(16)	(734)	(750)
Net book value	**2,599**	**1,533**	**4,132**	231	1,752	1,983

Under US GAAP, the asset representing the value of retail depositor relationships associated with an acquisition of a savings entity, termed the core deposit intangible, is capitalised separately and amortised in the consolidated statement of income over the estimated average life of the retail depositor relationships. The average life of the retail depositor relationships is estimated at between 7 and 11 years.

	2000 £m	1999 £m
Core deposit intangibles		
Balance at 1 January	**1,210**	1,429
Amortisation	**(219)**	(219)
Balance at 31 December	**991**	1,210

b) Profit/loss on sale and closure of businesses

Under UK GAAP, upon disposal of a business or undertaking, goodwill written-off directly against reserves prior to the implementation FRS 10 “Goodwill and Intangible Assets”, is included in the Group’s share of the net assets of the business or undertaking in the calculation of the profit or loss on disposal.

Under US GAAP, all goodwill is capitalised and amortised over its estimated useful life. Upon disposal of a business or undertaking, the unamortised goodwill is included in the calculation of the profit or loss on disposal. Compared to the treatment under UK GAAP, the effect of this is to increase the profits, and reduce the losses, arising on the sale and closure of those businesses acquired before the implementation of FRS10.

On 1 February 2000 the Group announced the sale of Abbey Life’s new business capability. In the Group’s 1999 results calculated under UK GAAP a provision of £98 million was made for asset impairment, of which £80 million related to the impairment of goodwill previously written-off against reserves and £18 million to other asset write-off’s. Under US GAAP this provision would have been £21 million lower reflecting the cumulative effect of goodwill amortisation.

50 Differences between UK GAAP and US GAAP (continued)

c) Pension costs

The measurement of the US GAAP pension cost is undertaken in accordance with the requirements of SFAS No. 87 and SFAS No. 109. The disclosures reflect the amendments arising from SFAS No. 132 ‘Employers’ Disclosures about Pensions and Other Postretirement Benefits’.

For the reconciliations below, the Group has applied SFAS No. 87 to the Lloyds TSB Group Pension Schemes No’s 1 and 2 with effect from 31 December 1997 as it was not feasible to apply it as of January 1989, the date specified in the standard. The Scottish Widows pension scheme has been included from 3 March 2000, the date of acquisition.

The components of the pension expense which arise under US GAAP are estimated as:

	2000	1999
	£m	£m
Service cost	**211**	226
Interest cost	**516**	472
Expected return on plan assets	**(720)**	(688)
Net amortisation and deferral	**(92)**	(92)
Net pension credit	**(85)**	(82)

Change in projected benefit obligation

	2000	1999
	£m	£m
Projected benefit obligation as at 1 January	**8,527**	7,861
Acquisition of Scottish Widows	**278**	-
Service cost	**211**	226
Interest cost	**516**	472
Employee contributions	**-**	1
Amendments	**-**	120
Net actuarial (gain)/loss	**(7)**	84
Benefits paid	**(303)**	(237)
Projected benefit obligation as at 31 December	**9,222**	8,527

50 Differences between UK GAAP and US GAAP (continued)

c) Pension costs (continued)

Change in plan assets

	2000	1999
	£m	£m
Plan assets at fair value as at 1 January	**11,601**	9,693
Acquisition of Scottish Widows	**499**	-
Actual return on plan assets	**1,250**	2,144
Employee contributions	**-**	1
Benefits paid	**(303)**	(237)
Plan assets at fair value at 31 December	**13,047**	11,601

	2000	1999
	£m	£m
Funded status	**3,825**	3,074
Unrecognised net actuarial gain	**(1,141)**	(604)
Unrecognised prior service cost	**132**	146
Unrecognised transition asset	**(319)**	(425)
Prepaid benefit cost	**2,497**	2,191
Recognised under UK GAAP	**(768)**	(647)
Recognised on acquisition of Scottish Widows under UK GAAP	**(26)**	-
US GAAP adjustment recognised	**1,703**	1,544

The valuations of plan assets were conducted on 30 September 1999 and 2000. The assets of the pension schemes are invested primarily in equities and fixed interest securities.

In accordance with SFAS No. 87, the excess of the plan assets over the projected benefit obligation at the transition date (1 January 1998) is recognised as a reduction to pension expense on a prospective basis over approximately 15 years, which was the average remaining services period of employees expected to receive benefits under the plans.

The financial assumptions used to calculate the projected benefit obligation at 31 December 1999 and 2000 are as follows:

	2000	1999
Discount rate	**6.0%**	6.0%
Return on assets	**6.6%**	6.6%
Rate of pay increase	**3.5%**	3.5%

50 Differences between UK GAAP and US GAAP (continued)

d) Share compensation schemes

The Group has adopted SFAS No. 123 and accounts for share compensation schemes based on their estimated fair value at the date of grant. The following disclosures only reflect options granted from 1 January 1995 onwards. In the initial phase-in period, the amounts will not be representative of the effect on reported net income for future years. The SFAS No. 123 charge for the fair value of share options issued since 1 January 1996 is:

	2000 **£m**	1999 £m
Balance at 1 January	**(87)**	(50)
Charge for options granted in year	**(13)**	(4)
Charge for options granted in prior years	**(18)**	(33)
Total charge for the year	**(31)**	(37)
Balance at 31 December	**(118)**	(87)

During the period from 1 January 1995 to 31 December 2000 the Group operated the following stock compensation plans:

Executive scheme

The Executive share option schemes are long-term incentive schemes and are available to certain senior executives of the Group, with grants usually made annually. Options are granted within limits set by the rules of the schemes. These limits relate to the number of shares under option and the price payable on the exercise of options. The aggregate value of the award based upon the market price at the date of grant, must not exceed four times the executive's annual remuneration and, normally, the limit for the grant of options to an executive in any one year would be equal to one year's remuneration.

Options are normally exercisable between three and ten years from the date of grant. However, the exercise of the options is subject to the satisfaction of the following performance conditions:

(i) the company's ranking, based on total shareholder return (calculated by reference to both dividends and growth in share price) over the relevant period, should be in the top fifty companies listed in the FTSE 100; and

(ii) there must have been growth in earnings per share which is at least equal to the aggregate percentage change in the Retail Price Index plus three percentage points for each complete year of the relevant period. For options granted between 1997 and 1999 there must have been growth in earnings per share which is at least equal to the aggregate percentage change in the Retail Price Index plus two percentage points for each complete year of the relevant period.

Options granted in 1996 are only exercisable if there has been growth in earnings per share which is at least equal to the aggregate percentage change in the Retail Price Index, plus two percentage points for each complete year of the relevant period.

The relevant period for these conditions begins at the end of the financial year of the date of grant and will continue until the end of the third financial year following commencement or, if not met, the end of such later year in which the conditions are met. Once the conditions have been satisfied the options will remain exercisable without further conditions. If they are not satisfied by the tenth anniversary of the grant the option will lapse.

For options granted in 1995, no performance conditions were attached to the exercise of options.

The effect of the performance conditions on the value of the executive share options has been determined by assuming that the earnings per share condition will be satisfied at all times and using a stochastic projection model to determine the effect of the market-based condition. The compensation cost accrued in the US GAAP financial statements has therefore been based on a best estimate of the number of options that are likely to vest. To the extent that actual forfeitures are different from the estimate, the calculation of the compensation cost will be revised as appropriate.

As at 31 December 2000, no options granted under the Executive share scheme have lapsed as a result of a failure to satisfy the performance conditions.

50 Differences between UK GAAP and US GAAP (continued)

d) Share compensation schemes (continued)

Save-As-You-Earn scheme

Eligible employees may enter into contracts through the Save-As-You-Earn (SAYE) Scheme to save up to £250 per month and, at the expiry of a fixed term of three, five or seven years, have the option to use these savings to acquire shares in the Group at a discount, which is currently 20 per cent of the market price at the date the options were granted.

Executive scheme	**2000**		1999	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**8,472,746**	**623.44**	9,828,305	489.52
Granted	**4,260,747**	**553.92**	1,677,700	870.67
Exercised	**(1,065,674)**	**435.46**	(2,836,443)	315.15
Forfeited	**(451,183)**	**614.97**	(196,816)	486.64
Outstanding at 31 December	**11,216,636**	**615.23**	8,472,746	623.44

The weighted average fair value of options granted in the year was £1.29 (1999: £1.98).

SAYE scheme	**2000**		1999	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**141,451,803**	**393.90**	133,795,429	354.86
Granted	**55,205,646**	**455.64**	16,045,457	718.44
Exercised	**(26,567,632)**	**179.71**	(2,140,791)	279.97
Forfeited	**(33,920,074)**	**621.48**	(6,248,292)	430.38
Outstanding at 31 December	**136,169,743**	**404.03**	141,451,803	393.90

The weighted average fair value of options granted in the year was £1.65 (1999: £2.52).

The ranges of exercise prices, weighted average fair values and weighted average contractual life for the options granted under both schemes outstanding at 31 December 1999 and 2000 are shown in the table below:

	2000		1999	
	Executive	**SAYE**	Executive	SAYE
Exercise price (pence)	**242.50-887.50**	**160.40-768.00**	242.50-887.50	160.40-768.00
Fair value (pence)	**64 - 209**	**63 - 295**	64 - 209	63 - 295
Weighted average remaining life (years)	**7.6**	**2.1**	8.3	2.6

50 Differences between UK GAAP and US GAAP (continued)

d) Share compensation schemes (continued)

The ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life and number of options outstanding at 31 December 2000 for both schemes are as follows:

	Executive scheme			SAYE Scheme		
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**
£1 to £2	-	-	-	**180.44**	**1.1**	**1,469,500**
£2 to £3	**245.24**	**4.2**	**795,311**	**262.85**	**0.6**	**47,430,705**
£3 to £4	**321.00**	**5.2**	**823,150**	-	-	-
£4 to £5	-	-	-	**434.62**	**3.0**	**60,919,811**
£5 to £6	**537.19**	**8.2**	**5,568,055**	**542.90**	**3.1**	**15,468,319**
£6 to £7	**615.50**	**9.6**	**265,929**	**632.00**	**2.2**	**5,712,733**
£7 to £8	**742.71**	**7.0**	**42,000**	**734.97**	**2.6**	**5,168,675**
£8 to £9	**874.64**	**7.7**	**3,722,191**	-	-	-

The fair value calculations are based on following assumptions:

	Executive	**SAYE**
Risk-free interest rate	**5.93%**	**5.97%**
Expected life	**3 years**	**3, 5 or 7 years**
Expected volatility	**30%**	**30%**
Expected dividend yield	**4.7%**	**4.7%**

Details of options outstanding in respect of stock compensation plans operated prior to 1 January 1995 are as follows:

2000	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	Weighted average exercise prices (pence)
Lloyds TSB Group Staff Share Save Scheme (1989)	**487,419**	**210.7**	**27,550**	**311,687**	**1,263,356**	**139.9**
Lloyds TSB Group Staff Share Save Scheme	**828,605**	**161.0**	**-**	**2,556**	**14,153**	**161.0**
Lloyds Bank Plc Staff Savings-Related Share Option Scheme 1990	**-**	**-**	**-**	**230,388**	**363,503**	**169.4**
Lloyds TSB Group plc Executive Share Option Scheme (1989)	**184,316**	**190.7**	**184,316**	**-**	**41,942**	**140.7**
Lloyds TSB Group plc Executive Share Option Scheme	**154,912**	**282.5**	**154,912**	**-**	**56,712**	**282.5**
Lloyds Bank Plc Senior Executives' UK Share Option Scheme 1987	**325,832**	**176.6**	**325,832**	**-**	**148,720**	**185.1**
Lloyds TSB Group Rollover Scheme (formerly Lloyds Abbey Life)	**314,317**	**135.7**	**314,317**	**-**	**-**	**-**
	2,295,401		**1,006,927**	**544,631**	**1,888,386**	

50 Differences between UK GAAP and US GAAP (continued)

d) Share compensation schemes (continued)

1999	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	Weighted average exercise prices (pence)
Lloyds TSB Group Staff Share Save Scheme (1989)	2,062,462	157.9	298,783	19,745	4,641,402	162.4
Lloyds TSB Group Staff Share Save Scheme	845,314	161.0	-	777,134	3,770,907	161.0
Lloyds Bank Plc Staff Savings-Related Share Option Scheme 1990	593,891	169.4	593,891	186,654	23,546,327	169.4
Lloyds TSB Group plc Executive Share Option Scheme (1989)	226,258	181.4	226,258	-	187,199	146.4
Lloyds TSB Group plc Executive Share Option Scheme	211,624	282.5	211,624	4,247	244,633	282.5
Lloyds Bank Plc Senior Executives' UK Share Option Scheme 1987	474,552	179.3	474,552	-	1,342,982	184.0
Lloyds Bank Plc Senior Executives' Overseas Share Option Scheme 1987	-	-	-	-	18,928	164.8
Lloyds TSB Group Rollover Scheme (formerly Lloyds Abbey Life)	314,317	135.7	314,317	24,338	831,068	129.7
	4,728,418		2,119,425	1,012,118	34,583,446	

e) Earnings per share

Earnings per share calculations and disclosures are governed by SFAS No. 128 'Earnings per Share'. Basic earnings per share under US GAAP differs from UK GAAP (see note 12) only to the extent that income calculated under US GAAP differs from UK GAAP.

Diluted earnings per share measures the effect that existing share options would have on the basic earnings per share if they were to be exercised, by increasing the number of ordinary shares although any options that are anti-dilutitive are excluded from this calculation. An option is considered anti-dilutitive when the value of the exercise price exceeds the market price. Under US GAAP certain incentive plan shares for which the trustees have waived all dividend and voting rights, have been included in the calculation of diluted earnings per share.

	2000	1999
Basic		
Net income (US GAAP)	**£1,929m**	£2,148m
Weighted average number of ordinary shares in issue	**5,487m**	5,445m
Earnings per share	**35.2p**	39.4p
Diluted		
Net income (US GAAP)	**£1,929m**	£2,148m
Weighted average number of ordinary shares in issue	**5,548m**	5,549m
Earnings per share	**34.8p**	38.7p

The weighted average number of anti-dilutitive shares excluded from the calculation of diluted earnings per share was 14 million at 31 December 2000 (1999: 3 million).

50 Differences between UK GAAP and US GAAP (continued)

f) Derivatives held for risk management purposes

Under UK GAAP, the Group uses a variety of financial instruments to hedge exposures in its banking book; these hedges are accounted for on an accruals basis, in line with the underlying instruments being hedged. Any gains or losses that would occur if these instruments were carried at market value are therefore not recognised. Under US GAAP, such exposures do not qualify for hedge accounting and accordingly have been marked to market, with gains and losses taken directly to income. The movement in the US GAAP adjustment arising is summarised below:

	2000 £m	1999 £m
Balance at 1 January	**(92)**	(272)
Exchange and other adjustments	**3**	2
Net losses recognised in the year	**32**	136
Unrecognised gains (losses) arising during the year	**(200)**	42
	(168)	178
Balance at 31 December	**(257)**	(92)

These activities are discussed more fully on pages 90 to 92 and in Note 46 (e) on page F-47.

g) Investment securities

Under UK GAAP investment securities are held at amortised cost except within the long-term insurance businesses where the securities are held at market value, with unrealised gains and losses taken to the income statement in the period to which they relate.

Under SFAS No. 115 all debt securities and equity shares are classified and disclosed as either held-to-maturity, available-for-sale or trading. Those classified as held-to-maturity are measured at amortised cost. Available-for-sale securities are measured at fair value with unrealised gains and losses excluded from the income statement and reported net of tax and minority interests as a separate component of other comprehensive income. Trading securities are measured at fair value with unrealised gains and losses included in the income statement. Debt securities and equity shares categorised as available-for-sale under US GAAP give rise to an adjustment to accumulated other comprehensive income as follows:

	2000 £m	1999 £m
Adjustment to accumulated other comprehensive income		
- Insurance activities	**98**	68
- Banking activities	**480**	386
- Taxation	**(180)**	(144)
	398	310

50 Differences between UK GAAP and US GAAP (continued)

g) Investment securities (continued)

The disclosures for investment securities in the tables below include those held within the banking business as reported in notes 21 and 22 and those held within the insurance business. Securities held by the general insurance business are included within notes 21 and 22 under UK GAAP; for the purposes of US GAAP they have been reclassified into insurance activities. At 31 December 2000, the book and market values of these securities was £191 million (1999: book value £81 million; market value £80 million).

	2000 £m	1999 £m
Proceeds from sales of available for sale securities	**17,349**	11,638
Gross realised gains	**(170)**	(109)
Gross realised losses	**31**	7
Net amount sold	**17,210**	11,536

Realised gains and losses are computed using the weighted average cost method. There were no gains recorded on securities transferred from available-for-sale to trading. Further details on investment securities can be found in notes 20 and 21, on pages F-24 and F-25. The Group had no held-to-maturity securities at 31 December 2000 or 31 December 1999.

50 Differences between UK GAAP and US GAAP (continued)

g) Investment securities (continued)

2000	**Amortised cost £m**	**Gross unrealised gains £m**	**Gross unrealised losses £m**	**Carrying value £m**
Available-for-sale investment securities:				
UK Government	**886**	**58**	**(4)**	**940**
Securities of the US Treasury and US government agencies	**12**	**-**	**-**	**12**
European governments	**112**	**1**	**-**	**113**
Other Government securities	**1,559**	**343**	**(3)**	**1,899**
Other public sector securities	**291**	**87**	**(1)**	**377**
Bank and building society certificates of deposit	**3,035**	**1**	**(1)**	**3,035**
Corporate debt securities	**2,297**	**41**	**(25)**	**2,313**
Mortgage backed securities	**18**	**-**	**-**	**18**
Other asset backed securities	**574**	**1**	**(1)**	**574**
Other debt securities	**1,213**	**17**	**(2)**	**1,228**
Debt securities	**9,997**	**549**	**(37)**	**10,509**
Equity shares	**51**	**71**	**(5)**	**117**
	10,048	**620**	**(42)**	**10,626**
Of which:				
Banking	**6,245**	**490**	**(10)**	**6,725**
Insurance	**3,803**	**130**	**(32)**	**3,901**
	10,048	**620**	**(42)**	**10,626**

1999	Amortised cost £m	Gross unrealised gains £m	Gross unrealised losses £m	Carrying value £m
Available-for-sale investment securities:				
UK Government	1,265	80	(10)	1,335
Securities of the US Treasury and US government agencies	10	-	-	10
European governments	184	-	-	184
Other Government securities	1,520	305	(8)	1,817
Other public sector securities	224	64	-	288
Bank and building society certificates of deposit	4,152	-	(9)	4,143
Corporate debt securities	376	6	(8)	374
Mortgage backed securities	15	-	-	15
Other asset backed securities	49	-	-	49
Other debt securities	711	3	(8)	706
Debt securities	8,506	458	(43)	8,921
Equity shares	46	44	(5)	85
	8,552	502	(48)	9,006
Of which:				
Banking	6,694	408	(22)	7,080
Insurance	1,858	94	(26)	1,926
	8,552	502	(48)	9,006

50 Differences between UK GAAP and US GAAP (continued)

g) Investment securities (continued)

Maturity of investment debt securities:

	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
2000						
Available for sale						
Amortised cost	**3,409**	**1,508**	**1,237**	**3,710**	**133**	**9,997**
Fair value	**3,426**	**1,576**	**1,382**	**3,995**	**130**	**10,509**
1999						
Available for sale						
Amortised cost	4,623	976	581	2,314	12	8,506
Fair value	4,633	1,062	638	2,575	13	8,921

h) Own shares

Own shares held amounted to £247 million at 31 December 2000 (1999: £35 million), including £219 million resulting from the acquisition of Scottish Widows.

i) Deferred taxation

In accordance with the provisions of SFAS No. 109, the US GAAP deferred tax liability is:

	2000 £m	1999 £m
Deferred tax liabilities:		
Assets used in the business	**76**	26
Assets leased to customers	**1,538**	1,596
Pension schemes	**758**	664
Value of business acquired	**799**	210
Deferred acquisition costs	**174**	154
Pension profit recognition	**268**	282
Unrealised gains on trading securities	**491**	433
Other	**334**	272
Total liabilities	**4,438**	3,637
Deferred tax assets:		
Goodwill	**(260)**	(227)
General loan loss allowance	**(108)**	(108)
Tax losses - pensions business	**(1,061)**	-
- other	**(299)**	(265)
Specific loan loss allowance	**(50)**	(57)
Other	**(316)**	(256)
Total assets	**(2,094)**	(913)
Valuation allowance	**1,375**	288
	3,719	3,012

50 Differences between UK GAAP and US GAAP (continued)

i) Deferred taxation (continued)

Valuation allowance

The Scottish Widows Business, acquired in March 2000, has a significant with-profits pensions business. This business is subject to UK corporation tax on the basis of a notional return determined by the UK taxation authorities. To the extent that the actual return from the business is less than the notional return, tax losses accumulate which may be carried forward and offset against excess returns in future years. The value of these losses at 31 December 2000 was £1,061 million (1999: Nil). Excess returns have only occurred once in the twelve years since this basis of taxation was introduced and are only likely to be triggered in the future if interest rates increase significantly or the actuarial valuation basis alters significantly. Given the current low interest rate environment and in view of the fact that the actuarial valuation basis is currently considered unlikely to alter significantly, in the opinion of management it is more likely than not that these losses will not be realised and therefore a full valuation allowance has been established against this balance.

A further valuation allowance of £54 million (1999: £61 million) has been established against other tax losses which are not expected to be utilised in the foreseeable future. Under UK tax legislation, certain capital losses may only be offset against taxable gains of a particular type and consequently the associated deferred tax assets are less certain of realisation. Assessments have been made as to the likelihood of gains arising that can be offset against these losses and, to the extent that it is more likely than not that these losses will not be realised, appropriate valuation allowances have been established. In relation to other tax losses, the pattern of utilisation of losses over previous years has been reviewed together with gains that may be realised in the foreseeable future and an appropriate valuation allowance established to the extent that it is more likely than not that these losses will not be realised.

A deferred tax asset of £260 million (1999: £227 million) has been recognised as a result of the different accounting and tax treatments for goodwill arising upon acquisition of companies and businesses. There is currently no expectation that these businesses will be disposed of and therefore in the opinion of management it is more likely than not that these losses will not be realised. Accordingly, a full valuation allowance has been established against this balance.

Tax losses

The Group has the following tax losses available to be carried forward and offset against the future taxable profits of certain subsidiaries. The majority of the losses may be carried forward indefinitely.

	2000 £m	1999 £m
Trading losses	**289**	312
Capital losses	**488**	397
Pensions business	**3,370**	-
	4,147	709

US GAAP reconciliation

The following tables reconcile the UK GAAP deferred tax liability and taxation charge to the US GAAP liability and charge as disclosed on pages F-61 and F-62.

	2000 £m	1999 £m
UK GAAP Profit and loss tax charge	**1,105**	1,111
Deferred tax – US GAAP	**75**	107
Deferred tax – US GAAP reconciling items	**(488)**	202
US GAAP Profit and loss tax charge	**692**	1,420

50 Differences between UK GAAP and US GAAP (continued)

i) Deferred taxation (continued)

	2000	1999
	£m	£m
UK GAAP Deferred tax liability	**1,683**	1,566
Deferred tax – US GAAP	**83**	(6)
Deferred tax - US GAAP reconciling items	**1,855**	1,400
Other items *	**98**	52
US GAAP Deferred tax liability	**3,719**	3,012

* Under UK GAAP applicable to banking groups, the Group accounts for its life assurance operations using the embedded value basis of accounting and the shareholders' and policyholders' interests are accounted for as one-line items. Under US GAAP the constituent parts of the shareholders' and policyholders' interests are separately disclosed and as a result of this reclassification the total deferred tax liability has been increased. There is no impact on the underlying shareholders' equity.

j) Loan impairment

At 31 December 2000, the Group estimated that there was no difference between the carrying value of its loan portfolio on the basis of SFAS No. 114 and its value in the UK GAAP financial statements. Impaired loans are those reported as non-performing on page F-22, less those loans which are outside the scope of SFAS No. 114, and amounted to £477 million (1999: £450 million). The impairment reserve in respect of these loans estimated in accordance with the provisions of SFAS No. 114 was £235 million (1999: £242 million). During the year ended 31 December 2000, impaired loans, including those excluded from SFAS No. 114, averaged £1,159 million (1999: £1,098 million) and interest income recognised on these loans was £11 million (1999: £17 million).

k) Significant Group concentrations of credit risk

SFAS No. 105 'Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk' states that concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Group's exposure to credit risk is concentrated in the United Kingdom where the majority of the Group's activities are conducted and is detailed further in Note 18.

l) Repos and reverse repos

The Group enters into reverse repo transactions which are accounted for as collateralised loans. It is the Group's policy to seek collateral which is at least equal to the amount loaned. At 31 December 2000, the fair value of collateral accepted under reverse repo transactions that the Group is permitted by contract or custom to sell or repledge was £4,673 million. Of this, £3,488 million was sold or repledged as at 31 December 2000. The remainder has been held for continuing use within the business.

The Group also enters into repos which are accounted for as secured borrowings. As at 31 December 2000, the carrying value of assets that have been pledged as collateral under repo transactions where the secured party is permitted by contract or custom to sell or repledge was £3,803 million.

50 Differences between UK GAAP and US GAAP (continued)

m) Segmental analysis

Under UK GAAP, if an entity has two or more classes of business, or operates in two or more geographical segments which differ substantially from each other, Statement of Standard Accounting Practice No 25 “Segmental Reporting” requires that information concerning the results and net assets of the different classes of business and geographical segments should be given in the accounts. In determining whether an entity has different classes of business the accounting standard recommends that a number of factors should be taken into account, including the nature of products and services, the markets in which they are sold, the distribution channels for the products and the manner in which the entity’s activities are organised. Ultimately, however, SSAP 25 states that the determination of an entity’s classes of business depends upon the judgement of the directors. The Group’s segmental analysis prepared in accordance with UK GAAP is shown in Note 9 on pages F-16 to F-18.

In order to give a more meaningful presentation of the performance of the Group’s operations and to take into account the similarities of products and services, customer bases, distribution channels and regulatory regimes, the results of a small number of a number of businesses have been reflected in different reporting segments for financial reporting purposes compared with the management accounts. The effect of this is shown below.

Under US GAAP, SFAS 131 “Disclosure about Segments of an Enterprise and Related Information” an operating segment is defined as a component of the business that engages in business activities from which it may earn income or incur expenses and whose operating results are regularly reviewed by the enterprise’s chief operating decision maker to make decisions about resource allocation and to assess its performance. SFAS 131 permits the aggregation of operating segments if the segments demonstrate similar economic characteristics and if the segments are similar in the following respects; the nature of the products and services offered; the nature of the production processes; the type or class of customer for their products or services; the distribution channels; and the nature of the regulatory environment.

50 Differences between UK GAAP and US GAAP (continued)

m) Segmental analysis (continued)

UK Retail Banking and Mortgages	**2000**			1999		
	Figures based on management accounts £m	**Businesses transferred £m**	**Figures disclosed in segmental analysis £m**	Figures based on management accounts £m	Businesses transferred £m	Figures disclosed in segmental analysis £m
Net interest income	**2,645**	**317**	**2,962**	2,660	283	2,943
Other operating income	**1,043**	**98**	**1,141**	983	104	1,087
Total income	**3,688**	**415**	**4,103**	3,643	387	4,030
Exceptional restructuring costs	**(99)**	**-**	**(99)**	-	-	-
Other operating expenses	**(1,953)**	**(138)**	**(2,091)**	(1,810)	(141)	(1,951)
Trading surplus	**1,636**	**277**	**1,913**	1,833	246	2,079
Provisions for bad and doubtful debts	**(288)**	**(44)**	**(332)**	(379)	(46)	(425)
Income from associated undertakings and joint ventures	**2**	**-**	**2**	3	-	3
Profit before tax	**1,350**	**233**	**1,583**	1,457	200	1,657

Wholesale Markets and International Banking	**2000**			1999		
	Figures based on management accounts £m	**Businesses transferred £m**	**Figures disclosed in segmental analysis £m**	Figures based on management accounts £m	Businesses transferred £m	Figures disclosed in segmental analysis £m
Net interest income	**1,970**	**(317)**	**1,653**	1,947	(283)	1,664
Income from long-term assurance business	**8**	**-**	**8**	8	-	8
Other operating income	**1,157**	**(99)**	**1,058**	980	(104)	876
Total income	**3,135**	**(416)**	**2,719**	2,935	(387)	2,548
Exceptional restructuring costs	**(30)**	**-**	**(30)**	-	-	-
Other operating expenses	**(1,402)**	**148**	**(1,254)**	(1,285)	141	(1,144)
Trading surplus	**1,703**	**(268)**	**1,435**	1,650	(246)	1,404
Provisions for bad and doubtful debts	**(253)**	**44**	**(209)**	(236)	46	(190)
Amounts written-off fixed asset investments	**(32)**	**-**	**(32)**	(7)	-	(7)
Profit before tax	**1,418**	**(224)**	**1,194**	1,407	(200)	1,207

50 Differences between UK GAAP and US GAAP (continued)

Insurance activities

The following tables summarise the adjustments to the profit and loss account and balance sheet which would arise from the application of US GAAP to the Group's insurance business.

Profit and loss account	Note	**2000 Life £m**	**2000 General £m**	**2000 Total £m**	1999 Life £m	1999 General £m	1999 Total £m
Income from long-term assurance business	(i)	**(615)**	**-**	**(615)**	(227)	-	(227)
Other interest and dividends	(i)	**948**	**-**	**948**	191	-	191
Insurance premiums	(i)	**1,205**	**-**	**1,205**	840	-	840
Other income	(i)	**258**	**-**	**258**	363	-	363
Policyholder benefits and claims expense	(i)	**(1,268)**	**(12)**	**(1,280)**	(762)	(11)	(773)
Insurance underwriting, operating and acquisition expenses	(i)	**(734)**	**13**	**(721)**	(287)	8	(279)
Depreciation	(i)	**(16)**	**-**	**(16)**	(9)	-	(9)
Amortisation of value of long-term assurance business acquired	(ii)	**(285)**	**-**	**(285)**	(1)	-	(1)
Revenue and expense recognition		**-**	**(26)**	**(26)**	-	11	11
Equalisation provision		**-**	**4**	**4**	-	3	3
Total adjustments before tax		**(507)**	**(21)**	**(528)**	108	11	119

Balance sheet	Note	**2000 Life £m**	**2000 General £m**	**2000 Total £m**	1999 Life £m	1999 General £m	1999 Total £m
Long-term assurance business attributable to shareholders	(iii)	**(6,549)**	**-**	**(6,549)**	(2,274)	-	(2,274)
Long-term assurance assets attributable to policyholders	(iii)	**(51,085)**	**-**	**(51,085)**	(26,542)	-	(26,542)
Cash and due from banks		**1,569**	**-**	**1,569**	308	-	308
Trading account assets	(iv)	**28,591**	**-**	**28,591**	5,715	-	5,715
Tangible fixed assets		**156**	**-**	**156**	36	-	36
Deferred acquisition costs	(v)	**572**	**(11)**	**561**	511	(12)	499
Value of long-term assurance business acquired	(ii)	**3,312**	**-**	**3,312**	701	-	701
Separate account assets	(viii)	**25,559**	**-**	**25,559**	20,722	-	20,722
Other assets		**872**	**24**	**896**	748	42	790
Indebtedness of related parties		**1,478**	**-**	**1,478**	604	-	604
Long-term assurance liabilities to policyholders	(iii)	**51,085**	**-**	**51,085**	26,542	-	26,542
Debt securities in issue		**(31)**	**-**	**(31)**	-	-	-
Policyholder liabilities	(vi)	**(22,059)**	**-**	**(22,059)**	(5,050)	-	(5,050)
Undistributed policyholder allocations	(vii)	**(5,905)**	**-**	**(5,905)**	(30)	-	(30)
Equalisation provision		**-**	**23**	**23**	-	19	19
Other liabilities		**(824)**	**(12)**	**(836)**	(841)	(4)	(845)
Separate account liabilities	(viii)	**(25,559)**	**-**	**(25,559)**	(20,722)	-	(20,722)
Indebtedness to related parties		**(807)**	**-**	**(807)**	(404)	-	(404)
Total adjustments before tax		**375**	**24**	**399**	24	45	69

50 Differences between UK GAAP and US GAAP (continued)

(i) Revenue recognition

Under UK GAAP applicable to banking groups, the Group accounts for its life assurance operations using the embedded value basis of accounting. An embedded value is an actuarially determined estimate of the economic value of a life assurance company, excluding any value which may be attributed to future new business. The embedded value is the sum of the net assets of the life assurance company and the present value of the in-force business. The value of the in-force business is calculated by projecting future net cash flows using appropriate economic and actuarial assumptions and the result discounted at a rate which reflects the shareholders' overall risk premium. The change in the embedded value during any reporting period adjusted for any dividends declared or capital injected, and grossed up at the underlying rate of corporation tax, is reflected in the Group's profit and loss account as income from long-term assurance business.

US GAAP requires that results of the life assurance business should be reported on a gross basis and reflected in appropriate captions in the income statement. Premiums from conventional with-profits policies and other protection-type life insurance policies are recognised as revenue when due from the policyholder. Premiums from unitised with-profits life insurance policies and investment contracts, which have minimal mortality risk, are reported as increases in policyholder account balances when received. Revenues derived from these policies consist of mortality charges, policy administration charges, investment management fees and surrender charges that are deducted from policyholders' accounts and are disclosed within other income.

Under US GAAP, premiums and policy charges received that relate to future periods are deferred until the period to which they relate. For limited payment annuities, the excess of the gross premium over the US GAAP net benefit premium is deferred and amortised in relation to the expected future benefit payments. For investment contracts, policy charges that benefit future periods are deferred and amortised in relation to expected gross profits.

(ii) Value of Long Term Assurance Business Acquired

Under US GAAP the value of the long term assurance business acquired ('VOBA') is calculated at acquisition by discounting future earnings to a present value. In subsequent years the VOBA is amortised over the premium recognition period for with-profits life insurance and other protection-type insurance policies using assumptions consistent with those used in computing policyholder benefit provisions. VOBA for investment-type policies and unitised insurance policies is amortised in relation to expected gross profits. Expected gross profits are evaluated regularly against actual experience and revisions made to allow for the effect of any changes.

	2000 £m	1999 £m
Balance at 1 January	**701**	702
Acquisition	**2,896**	-
Interest accrued on unamortised balance	**120**	101
Amortisation	**(405)**	(102)
Balance at 31 December	**3,312**	701

Over the next 5 years the amount of VOBA expected to be amortised prior to interest accruals is:

2001	£278m
2002	£267m
2003	£245m
2004	£229m
2005	£218m

50 Differences between UK GAAP and US GAAP (continued)

(iii) Balance sheet

Under UK GAAP applicable to banking groups, in order to reflect the different nature of the shareholder's and policyholders' interests in the long-term assurance business these are shown separately as one-line items in the Group's balance sheet. The value of the long-term assurance business attributable to shareholders, comprises the net assets of the life assurance companies and the value of the in-force business. The assets attributable to policyholders' mainly comprise the investments held in the long-term assurance funds either on behalf of policyholders, or which have not yet been allocated to either the policyholders or the shareholder. Liabilities to policyholders mainly comprise policyholder benefit provisions.

Under US GAAP the constituent parts of the shareholder's and policyholders' interests in the long-term assurance business are separately disclosed. Significant differences also arise regarding the valuation of the constituent assets and liabilities, which are discussed further in the notes which follow.

(iv) Investments

Under UK GAAP applicable to banking groups, debt securities and equity shares held within the long-term assurance funds are included in the Group's balance sheet at market value; investment properties are included at existing use value.

Under US GAAP, debt securities are classified as trading, available-for-sale or held-to-maturity; equity shares may only be classified as trading or available-for-sale. Securities classified as trading are carried at current market value. Securities classified as available-for-sale are carried at current market value, and unrealised gains and losses arising are held as a separate component of shareholders' equity. Securities classified as held-to-maturity are carried at amortised cost. In addition, US GAAP requires that all freehold and long leasehold properties should be carried at depreciated historic cost.

For those securities classified as available-for-sale, the disclosures required under SFAS No. 115 are presented in aggregate with the banking business on pages F-74 and F-77.

(v) Deferred acquisition costs

Under UK GAAP applicable to banking groups, the cost of acquiring new and renewal life assurance business is recognised in the embedded value calculation as incurred.

Under US GAAP the costs incurred by the Group in the acquisition of new and renewal life insurance business are capitalised. These consist of the acquisition costs, principally commissions, marketing and advertising and the administration costs associated with the processing and policy issuance, typically underwriting, together these are capitalised as an asset and amortised in relation to the profit margin of the policies acquired.

Deferred acquisition costs for conventional with-profits life insurance and other protection type insurance policies are amortised in relation to premium income using assumptions consistent with those used in computing policyholder benefits provisions. Investment, universal life, and separate account contracts are amortised in proportion to the estimated gross profits arising from the contracts.

(vi) Policyholder liabilities

Under UK GAAP applicable to banking groups, future policyholder benefit provisions included in the Group's balance sheet are calculated using net premium methods for conventional with-profits life insurance and other protection-type policies and are based on fund value for unitised with-profits insurance policies and investment-type policies. Net premiums are calculated using assumptions for interest, mortality, morbidity and expenses. These assumptions are determined as prudent best estimates at the date of valuation. Liabilities are not established for future annual and terminal bonus declarations.

50 Differences between UK GAAP and US GAAP (continued)

Under US GAAP, for unitised with-profits insurance and other investment-type policies, the liability is represented by the policyholder's account balance before any applicable surrender charges. Policyholder benefit liabilities for conventional with-profits life insurance and other protection-type insurance policies are developed using the net level premiums method. Assumptions for interest, mortality, morbidity, withdrawals and expenses were prepared using best estimates at date of policy issue (or date of company acquisition by the Group, if later) plus a provision for adverse deviation based on Group experience. Interest assumptions range from 5% to 11%.

(vii) With profits business

With-profits policies entitle the policyholder to participate in the surplus within the with-profits life fund of the insurance company which issued the policy. Regular bonuses are determined annually by the issuing company's Appointed Actuary and the board of directors. The bonuses that may be declared are highly correlated to the overall performance of the underlying assets and liabilities of the fund in which the contracts participate and are the subject of normal variability and volatility. Terminal bonuses are paid on maturity of the contract and are designed to provide policyholders with a share of the total performance of the company during the period of the contract.

The contract for conventional with-profits business written into the with-profits fund provides that approximately 90% of the surplus arising from the net assets of the fund are allocated to policyholders in the form of annual bonuses. For unitised with-profits business written into the with-profits fund all of the surplus is allocated to policyholders as bonus.

Under UK GAAP all amounts in the with-profits fund not yet allocated to policyholders or shareholders are recorded in the liabilities attributable to policyholders on the Group's balance sheet.

Under US GAAP a liability is established for undistributed policyholder allocations. The excess of assets over liabilities in the with-profits fund is allocated to the policyholders and shareholders in accordance with the proportions prescribed by the contracts. The remaining liability comprises the obligation of the company to the policyholders.

(viii) Separate Account Assets and Liabilities

Under UK GAAP, segregated accounts are established for policyholder business for which policyholder benefits are wholly or partly determined by reference to specific investments or to an investment-related index. This is referred to as linked business. Linked business can either be unit linked, property-linked or index-linked. In the case of the unit linked and property-linked business the policyholders bear the investment risk. The Group bears the investment risk relating to the index-linked business.

Under US GAAP only those assets where the policyholder bears the investment risk are reported as separate account assets and liabilities.

51 Parent company disclosures

a) Company profit and loss account

	2000 £m	1999 £m	1998 £m
Net interest income	**8**	8	(28)
Dividends received from group undertakings	**1,685**	1,300	1,668
Total income	**1,693**	1,308	1,640
Operating expenses	**(39)**	(35)	(32)
Provision for diminution in value of investment in group undertaking	**-**	-	(235)
Profit on ordinary activities before tax	**1,654**	1,273	1,373
Taxation credit (charge)	**45**	71	(102)
Profit on ordinary activities after tax	**1,699**	1,344	1,271
Dividends	**(1,683)**	(1,451)	(1,204)
Profit (loss) for the year	**16**	(107)	67

b) Company balance sheet

	2000 £m	1999 £m
Fixed assets		
Investments		
Shares in group undertakings	**11,152**	10,197
Loans to group undertakings	**759**	759
Own shares	**24**	35
	11,935	10,991
Current assets		
Debtors falling due within one year		
Amounts owed by group undertakings	**1,233**	860
Other debtors	**42**	47
Tax recoverable	**16**	34
Cash balances with group undertakings	**66**	262
	1,357	1,203
Current liabilities		
Amounts falling due within one year		
Short-term borrowings	**1**	1
Amounts owed to group undertakings	**1,811**	1,918
Other creditors	**62**	60
Dividend payable	**1,172**	1,011
	3,046	2,990
Net current liabilities	**(1,689)**	(1,787)
Total assets less current liabilities	**10,246**	9,204
Creditors: amounts falling due after more than one year		
Dated loan capital	**512**	511
Net assets	**9,734**	8,693
Capital and reserves		
Called-up share capital	**1,396**	1,389
Share premium account	**595**	404
Revaluation reserve	**5,086**	4,131
Profit and loss account	**2,657**	2,769
Shareholders' funds (equity)	**9,734**	8,693

51 Parent company disclosures (continued)

c) Company cash flow statement

	2000 £m	1999 £m	1998 £m
Net cash inflow from operating activities	**1,226**	525	1,656
Returns on investments and servicing of finance:			
Interest paid on subordinated liabilities (loan capital)	**(34)**	(25)	(46)
Taxation:			
UK corporation tax received	**64**	98	10
Capital expenditure and financial investment:			
Capital lending to subsidiaries	**-**	(150)	(150)
Repayments of capital lending by subsidiaries	**-**	740	50
Net cash inflow (outflow) from capital expenditure and financial investment	**-**	590	(100)
Acquisitions and disposals:			
Acquisition of group undertakings	**-**	(3,714)	(670)
Disposal of group undertakings	**-**	3,920	101
Net cash inflow (outflow) from acquisitions and disposals	**-**	206	(569)
Equity dividends paid	**(1,522)**	(1,285)	(862)
Net cash (outflow) inflow before financing	**(266)**	109	89
Financing:			
Issue of ordinary share capital net of £128 million (1999: £205 million; 1998: nil) contribution to the QUEST	**70**	108	41
Repayments of subordinated liabilities (loan capital)	**-**	-	(311)
Net cash inflow (outflow) from financing	**70**	108	(270)
(Decrease) increase in cash	**(196)**	217	(181)

d) Reconciliation to US GAAP

	2000 £m	1999 £m
Shareholders' funds (UK GAAP)	**9,734**	8,693
Dividends	**1,172**	1,011
Own shares	**(24)**	(35)
Revaluation of shares in group undertakings	**2,708**	3,280
Shareholders' equity (US GAAP)	**13,590**	12,949

There is no difference between Profit on ordinary activities after tax under UK GAAP and Net income under US GAAP.

e) Reconciliation of shareholders' equity under US GAAP

	2000 £m	1999 £m
Net income	**1,699**	1,344
Dividends paid	**(1,522)**	(1,285)
	177	59
Issue of shares	**70**	108
Movement in own shares	**11**	(14)
Revaluation of shares in group undertakings	**383**	709
	641	862
Shareholders' equity at 1 January	**12,949**	12,087
Shareholders' equity at 31 December	**13,590**	12,949

INDEX TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated profit and loss account

for the half-year ended 30 June 2001

	Half-year to 30 June **2001** **£ million**	2000 £ million
Interest receivable:		
Interest receivable and similar income arising from debt securities	**202**	240
Other interest receivable and similar income	**5,647**	5,116
Interest payable	**3,467**	3,045
Net interest income	**2,382**	2,311
Other income		
Fees and commissions receivable	**1,469**	1,348
Fees and commissions payable	**(271)**	(223)
Dealing profits (before expenses)	**106**	100
Income from long-term assurance business	**98**	371
General insurance premium income	**206**	200
Other operating income	**392**	188
	2,000	1,984
Total income	**4,382**	4,295
Operating expenses		
Administrative expenses	**1,801**	1,642
Exceptional restructuring costs	**54**	74
Total administrative expenses	**1,855**	1,716
Depreciation	**259**	154
Amortisation of goodwill	**19**	6
Depreciation and amortisation	**278**	160
Total operating expenses	**2,133**	1,876
Trading surplus	**2,249**	2,419
General insurance claims	**77**	71
Provisions for bad and doubtful debts		
Specific	**327**	264
General	**(4)**	1
	323	265
Amounts written off fixed asset investments	**6**	22
Operating profit	**1,843**	2,061
Income from associated undertakings and joint ventures	**(5)**	3
Profit on ordinary activities before tax	**1,838**	2,064
Tax on profit on ordinary activities	**513**	576
Profit on ordinary activities after tax	**1,325**	1,488
Minority interests – equity	**7**	6
– non-equity	**26**	16
Profit for the period attributable to shareholders	**1,292**	1,466
Dividends	**566**	511
Retained profit	**726**	955
Earnings per share	**23.4p**	26.8p
Diluted earnings per share	**23.2p**	26.5p

Consolidated balance sheet

at 30 June 2001

	30 June 2001 £ million	30 June 2000 £ million
Assets		
Cash and balances at central banks	**688**	729
Items in course of collection from banks	**1,866**	2,021
Treasury bills and other eligible bills	**3,303**	1,876
Loans and advances to banks	**19,320**	16,265
Loans and advances to customers	**119,926**	106,573
Non-returnable finance	**(230)**	-
	119,696	106,573
Debt securities	**17,749**	15,607
Equity shares	**240**	201
Interests in associated undertakings and joint ventures	**8**	4
Intangible fixed assets	**2,573**	2,082
Tangible fixed assets	**3,125**	2,155
Own shares	**50**	29
Other assets	**3,780**	3,125
Prepayments and accrued income	**3,051**	3,271
Long-term assurance business attributable to shareholders	**6,591**	6,607
	182,040	160,545
Long-term assurance assets attributable to policyholders	**47,536**	49,910
Total assets	**229,576**	210,455

	30 June 2001 £ million	30 June 2000 £ million
Liabilities		
Deposits by banks	**26,033**	13,385
Customer accounts	**104,557**	97,001
Items in course of transmission to banks	**403**	547
Debt securities in issue	**19,587**	15,896
Other liabilities	**6,129**	10,964
Accruals and deferred income	**3,824**	3,302
Provisions for liabilities and charges:		
Deferred tax	**1,682**	1,655
Other provisions for liabilities and charges	**414**	458
Subordinated liabilities:		
Undated loan capital	**3,432**	3,389
Dated loan capital	**4,113**	3,456
Minority interests		
Equity	**33**	33
Non-equity	**948**	516
	981	549
Called-up share capital	**1,409**	1,395
Share premium account	**906**	546
Merger reserve	**343**	343
Profit and loss account	**8,227**	7,659
Shareholders' funds (equity)	**10,885**	9,943
	182,040	160,545
Long-term assurance liabilities to policyholders	**47,536**	49,910
Total liabilities	**229,576**	210,455

Other statements

Statement of total recognised gains and losses
for the half-year ended 30 June 2001

	Half-year to 30 June	
	2001	2000
	£ million	£ million
Profit attributable to shareholders	**1,292**	1,466
Currency translation differences on foreign currency net investments	**(37)**	30
Total recognised gains and losses relating to the period	**1,255**	1,496
Prior year adjustment in respect of the adoption of FRS 18 (page F-8, note 1)	**248**	-
Prior period adjustment in respect of the adoption of FRS 15	**-**	(112)
Total gains and losses recognised during the period	**1,503**	1,384

Historical cost profits and losses
for the half-year ended 30 June 2001

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis. Accordingly, no note of historical cost profits and losses has been included

Reconciliation of movements in shareholders' funds
for the half-year ended 30 June 2001

	Half-year to 30 June	
	2001	2000
	£ million	£ million
Profit attributable to shareholders	**1,292**	1,466
Dividends	**(566)**	(511)
Retained profit	**726**	955
Currency translation differences on foreign currency net investments	**(37)**	30
Issue of shares	**172**	40
Goodwill written back on sale of businesses	**-**	89
Net increase in shareholders' funds	**861**	1,114
Shareholders' funds at beginning of period	**10,024**	8,829
Shareholders' funds at end of period	**10,885**	9,943

Consolidated cash flow statement

for the half-year ended 30 June 2001

	Half-year to 30 June 2001 £ million	Half-year to 30 June 2000 £ million
Net cash inflow from operating activities	**5,261**	4,889
Dividends received from associated undertakings	**2**	2
Returns on investments and servicing of finance:		
Dividends paid to equity minority interests	**(11)**	(6)
Payments made to non-equity minority interests	**(26)**	(16)
Interest paid on subordinated liabilities (loan capital)	**(256)**	(210)
Interest element of finance lease rental payments	**(1)**	-
Net cash outflow from returns on investments and servicing of finance	**(294)**	(232)
Taxation:		
UK corporation tax	**(213)**	(194)
Overseas tax	**(80)**	(63)
Total taxation	**(293)**	(257)
Capital expenditure and financial investment:		
Additions to fixed asset investments	**(21,327)**	(12,812)
Disposals of fixed asset investments	**19,465**	12,485
Additions to tangible fixed assets	**(380)**	(306)
Disposals of tangible fixed assets	**53**	26
Net cash inflow (outflow) from capital expenditure and financial investment	**(2,189)**	(607)
Acquisitions and disposals:		
Acquisition of group undertakings	**(117)**	(19)
Disposal of group undertakings and businesses	**-**	80
Net cash (outflow) inflow from acquisitions and disposals	**(117)**	61
Equity dividends paid	**(1,172)**	(1,011)
Net cash inflow before financing	**1,198**	2,845
Financing:		
Issue of subordinated liabilities (loan capital)	**29**	278
Issue of perpetual capital securities by subsidiary undertakings	**456**	509
Issue of ordinary share capital net of £152 million (2000: first half £105m; second half £19m) contribution to the QUEST	**172**	40
Repayments of subordinated liabilities (loan capital)	**(26)**	(51)
Capital element of finance lease rental payments	**(16)**	(1)
Net cash inflow from financing	**615**	775
Increase in cash	**1,813**	3,620

Notes to the interim consolidated financial statements

1 Accounting policies and presentation

Lloyds TSB Group publicly announced its unaudited interim results on 27 July 2001 and these are presented on pages I-2 to I-6, in accordance with the requirements of Item 8.A.5 of Form 20-F. The accounting policies used in the preparation of these results are unchanged from those set out in Note 1 of the Notes to the Accounts set out on pages F-8 to F-13.

2 Earnings per share

	Half-year to 30 June	
	2001	2000
Basic		
Profit attributable to shareholders	**£1,292m**	£1,466m
Weighted average number of ordinary shares in issue	**5,517m**	5,476m
Earnings per share	**23.4p**	26.8p
Fully diluted		
Profit attributable to shareholders	**£1,292m**	£1,466m
Weighted average number of ordinary shares in issue	**5,574m**	5,536m
Earnings per share	**23.2p**	26.5p

3 Differences between UK GAAP and US GAAP

There are no material differences between UK GAAP and US GAAP arising in the half-year to 30 June 2001, other than those differences discussed in note 50 of the Notes to the accounts on pages F-53 to F-85.

GLOSSARY

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	See “Business— History and development of Lloyds TSB Group”. See also “Demutualisation”.
Called-up share capital	Ordinary shares, issued and fully paid.
Contract hire	Leasing.
Contribution	Profit before tax before taking into account the unusual items.
Creditors	Payables.
Dealing	Trading.
Debtors	Receivables.
Deed of covenant	See “Description of Share Capital and Memorandum and Articles of Association—Conversion of limited voting shares”.
Demutualisation	Process by which a mutual society is converted into a public limited company.
Economic profit	See definition under “Operating and Financial Review and Prospects—Economic profit”.
Embedded value	See definition under “Operating and Financial Review and Prospects—Overview”.
Endowment mortgage	An interest-only mortgage ultimately repaid by the proceeds of an endowment insurance policy which is assigned to the lender providing the mortgage. The sum insured, which is payable on maturity or upon the death of the policyholder, is used to repay the mortgage.
Estate agency	Real estate agent.
Fees and commissions payable	Fees and commissions expense.

Terms Used	US Equivalent or Brief Description
Fees and commissions receivable	Fees and commissions income.
Finance lease	Capital lease.
Freehold	Ownership with absolute rights in perpetuity.
Guaranteed annuity	See “Business—Guaranteed Annuity Options”.
Guaranteed annuity option	See “Business—Guaranteed Annuity Options”.
Hire purchase	See “Business—Wholesale Markets and International Banking—Asset finance”.
Interchange	System allowing customers of different Automatic Teller Machine (ATM) operators to use any ATM that is part of the system. The LINK network is an interchange in the UK.
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 under a lease. At 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.
LINK network	See “Interchange”.
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 self-employed, used to fund benefits at the national level including state pensions, medical benefits through the National Health System (NHS), unemployment and maternity. It is part of the UK’s national social security system and ultimately controlled by the Department of Social Security.
NBNZ	The National Bank of New Zealand Limited.
Nominal value	Par value.

Terms Used	US Equivalent or Brief Description
One-off	Non-recurring.
Ordinary shares	Common stock.
Overdraft	A line of credit, contractually repayable on demand unless a fixed-term has been agreed, established through a customer's current account.
Preference shares	Preferred stock.
Premises	Real estate.
Profit & loss account	Income statement.
Profit & loss account reserve	Retained earnings.
Provisions	Reserves.
Recurring premium	Premiums which are payable throughout the duration of a policy or for some shorter fixed period.
Reinsurance	The insuring again by an insurer of the whole or part of a risk that it has already insured with another insurer called a reinsurer.
SERPS	State Earnings Related Pension Scheme, a UK government pension scheme.
Share capital	Capital stock.
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 commencement of the policy.
SRO	Self-regulating organisation.
Stakeholder pension	See "Operating and Financial Review and Prospects—Other Income—2000 compared with 1999".
Superannuation	An occupational pension scheme.
Tangible fixed assets	Property and equipment.
Undistributable reserves	Restricted surplus.
Unit-linked products	See "Business—Guaranteed Annuity Options".

Terms Used	US Equivalent or Brief Description
Unit trust	Mutual fund.
VaR	Value at Risk, see definition under "Operating and Financial Review and Prospects—Market risk in banking operations—Trading Value at Risk (VaR)".
VcV	Variance/covariance methodology, see definition under "Operating and Financial Review and Prospects—Market risk in banking operations—Trading Value at Risk (VaR)"
Weighted sales	The sum of regular premiums plus one-tenth of single premiums paid by customers on life insurance, pensions and unit trusts.
With-profits bond	See "Operating and Financial Review and Prospects —Life and Pensions (including unit trusts)—2000 compared to 1999".
With-profits fund	See "Operating and Financial Review and Prospects—Liquidity and capital resources—Insurance and investments businesses".

FORM 20-F CROSS-REFERENCE SHEET

LIST OF EXHIBITS

1 Memorandum and articles of association of Lloyds TSB Group plc.

2 (a) ADR Deposit Agreement.

(b) (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) Transfer Agreement between Scottish Widows' Fund and Life Assurance Society and Lloyds TSB Group plc dated 23 June 1999, relating to the transfer of the business of Scottish Widows Fund and Life Assurance Society.

(ii) Deed of Amendment between Scottish Widows' Fund and Life Assurance Society and Lloyds TSB Group plc dated 17 November 1999, amending the Transfer Agreement dated 23 June 1999, relating to the transfer of the business of Scottish Widows Fund and Life Assurance Society.

(iii) Share Purchase Agreement among Lloyds TSB Bank plc, Chartered Trust Holdings plc and others dated 31 August 2000, relating to the acquisition of the Chartered Trust Group plc.

(b) (i) Service agreement dated 2 February 1999, as amended, between Lloyds TSB Group plc and M Kent Atkinson.

(ii) Service agreement dated 19 June 1989, as amended, between Lloyds TSB Group plc and Peter B. Ellwood.

(iii) Service agreement dated 6 September 1991, as amended,between Lloyds TSB Group plc and Michael E. Fairey.

(iv) Service agreement dated 9 February 2000, as amended, between Lloyds TSB Group plc and Archie G. Kane.

(v) Service agreement dated 13 February 1998, as amended, between Lloyds TSB Group plc and David P. Pritchard.

(vi) Service agreement dated 7 March 2000, as amended, between Lloyds TSB Group plc and Michael D. Ross.

8 List of subsidiaries, their jurisdiction of incorporation and the names under which they conduct business

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this registration statement.

LLOYDS TSB GROUP plc

By: /s/ M. Kent Atkinson

Name: M. Kent Atkinson
Title: Group Finance Director

Dated: September 24, 2001