Lloyds TSB Group plc

2000 Results

Lloyds TSB

PRESENTATION OF RESULTS

On 3 March 2000 the Group completed the acquisition of Scottish Widows and, as a result, the investments now held to support the with-profits business of the Group's life companies are much more significant than in previous years. In accordance with generally accepted accounting practice amongst listed insurance companies in the UK, the results of the Group's insurance businesses have been separately analysed between an operating profit, which includes investment earnings calculated using longer-term rates of investment return, and a profit before tax, separately identifying the short-term fluctuations in investment returns (page 42, note 8).

Other items also had a significant impact on the Group's 2000 results: changes in the economic assumptions applied to our long-term assurance business (page 43, note 9), exceptional restructuring costs (page 43, note 10), the impact of provisions for redress to past purchasers of pension policies (page 23) and a one-off charge relating to stakeholder pensions (page 23). In 1999 the sale and closure of businesses was also significant (page 41, note 5). To facilitate comparisons of the results, certain financial information and commentaries have been presented on a 'business as usual operating profit' basis, which excludes the effect of these items.

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PROFIT BEFORE TAX BY MAIN BUSINESSES

	2000 £m	1999 £m	Increase %
UK Retail Banking (page 17)	**817**	789	4
Mortgages (page 20)	**865**	868	-
Insurance and Investments* (page 21)	**1,447**	873	66
UK Retail Financial Services	**3,129**	2,530	24
Wholesale Markets (page 26)	**749**	728	3
International Banking (page 27)	**501**	444	13
Central group items	**(133)**	119	
Business as usual operating profit	**4,246**	3,821	11
Short-term fluctuations in investment returns (page 42, note 8)	**(119)**	28	
Changes in economic assumptions (page 43, note 9)	**127**	-	
Exceptional restructuring costs (page 43, note 10)	**(188)**	-	
Pension provisions (page 23)	**(100)**	(102)	
Stakeholder pension related charge (page 23)	**(80)**	-	
Loss on sale and closure of businesses (page 41, note 5)	**-**	(126)	
Statutory profit before tax	**3,886**	3,621	7

* Insurance and Investments includes 'normalised' investment returns based on long-term rates of investment return (page 42, note 8)

LLOYDS TSB GROUP 2000 RESULTS

PERFORMANCE HIGHLIGHTS

Results - business as usual basis

- Total income increased by 8 per cent to £8,641 million.
- Operating profit up 11 per cent to £4,246 million from £3,821 million.
- Efficiency ratio 43.6 per cent compared with 42.7 per cent.
- Earnings per share increased by 10 per cent to 54.5p.
- Post-tax return on average shareholders' equity 31.8 per cent.
- UK Retail Financial Services profit up £599 million, or 24 per cent, to £3,129 million.

Results - statutory basis

- Profit before tax up 7 per cent to £3,886 million from £3,621 million.
- Total income increased by 7 per cent to £8,469 million.
- Economic profit increased by 6 per cent to £1,882 million.
- Earnings per share increased by 7 per cent to 49.6p.
- Shareholders' funds up by 13 per cent to £9,737 million.
- Post-tax return on average shareholders' equity 29.1 per cent.
- Total capital ratio 9.0 per cent, tier 1 capital ratio 8.2 per cent.
- Final dividend of 21.3p per share, making a total of 30.6p for the year, an increase of 15 per cent.

Other significant achievements during 2000 include:

- The Group completed the acquisitions of Scottish Widows and Chartered Trust.
- Customer lending grew by 12 per cent to £114 billion and customer deposits increased by 8 per cent to £101 billion.
- The Group has over 1.2 million online customers of *LloydsTSB.com*. *LloydsTSB.com* is now consistently one of the most visited financial websites in Europe.
- 11.4 per cent estimated market share of net new mortgage lending.
- Funds under management throughout the Group increased to £122 billion.

Commenting on the results Lloyds TSB Group chairman, Sir Brian Pitman, said:-

"2000 was another successful year for the Lloyds TSB Group, with profit, earnings per share and economic profit all at record levels. At the same time, we are investing heavily in e-commerce and restructuring to enhance future earnings. This good performance enabled the board to increase the final dividend to 21.3p, bringing the total for the year to 30.6p, an increase of 15 per cent."

GROUP CHIEF EXECUTIVE'S STATEMENT

2000 was a watershed year for the financial services sector. It heralded dramatic change in the use of technology, driven by the internet. It saw a significant increase in competition from both traditional players and new entrants, and it was marked by the increasing requirements of consumers who are rightly becoming more aware and more demanding. 2000 also saw strong Government interest in the industry with the Cruickshank report and the subsequent review by the Competition Commission into the provision of banking services to small and medium-sized businesses. We were pleased to commit, with the other major banks, to partial funding of the Universal Bank, which we believe will be a useful contribution to providing banking facilities to all those who require them.

Against that background, we believe that the organisations which will survive and prosper in this changing environment will be those which maximise shareholder value by creating real value for their customers. Our vision is to create an organisation that understands and looks after our customers so well that they give us the privilege of looking after more of their financial affairs.

Our Governing Objective to maximise shareholder value over time is underpinned by our three strategic aims of being a leader in our chosen markets, being first choice for our customers by better understanding and meeting their needs, and by driving down our day-to-day operating costs so that we have greater scope for investment in better products, superior service and multi-channel distribution. We have made good progress on a number of fronts.

During the year we made further progress on our first strategic aim to be a leader in our chosen markets with the acquisition of Scottish Widows, concluded in March, which made us one of the top three suppliers of long-term savings and protection products in the UK. Scottish Widows also brought a leading and powerful brand to the Group. In September we also concluded the purchase of Chartered Trust which gave us market leadership in the independent provision of motor finance.

So, we have made significant progress towards meeting this important strategic aim, but the most exciting developments and progress have been made in the critically important strategic aim of being first choice for our customers by better understanding and meeting their needs.

During 2000 we introduced a greatly enhanced model of Customer Relationship Management (CRM) which is already improving customer loyalty, and increasing revenue growth in our retail business. This involves the real time delivery of detailed information to our customer facing staff and allows us to manage customer relationships in a manner that is consistent with an individual customer's needs. The new system takes a segmented approach to our customer base and draws extensively on best CRM practice throughout the world. Full roll out throughout our UK branch network is to be completed during the first quarter of 2001.

Revenue growth will be a key component of sustainable profits over the next few years and we will therefore be investing heavily in core markets such as wealth management, long-term savings and investments, business banking, our core retail franchise and in new technology.

Our added value current account product range continues to be in strong demand and over 2 million of our customers now have either a Gold or Select Current Account, making us a market leader in this field. In addition, we increased the number of our higher value personal choice customers to over 850,000 during 2000, and increased our customers' total product holdings by a net 700,000. We are targeting to increase our product sales substantially during 2001 and we remain confident of achieving a net 3 million increase in total product holdings by the end of 2002.

At its heart, CRM is about retaining and deepening our relationships with our customers through a policy of segmentation and this forms a key part of our new strategies in the wealth management and small business sectors. The first stage of our new approach in the wealth management segment has been the development of our plans to provide a new set of products and services for more affluent customers, which are now being implemented under a new brand 'Create'. For these customers we will provide tailored independent advice, superior service and a choice of investment options from quality providers. Key elements will be our online share dealing and funds hypermarket, and a new Wealth Management Account that will allow consolidation of financial products into a single account.

The Create offer will be underpinned by access to the comprehensive broking services of Goldman Sachs PrimeAccess™. This service will provide clients with customised proprietary research from Goldman Sachs, international equity dealing and market making, custody and settlement, and access to selected equity capital market offerings managed by Goldman Sachs. Create forms a key part of Lloyds TSB's revenue growth strategy and expects to have around 250,000 clients by the end of 2002. Lloyds TSB currently makes pre-tax profits of some £300 million annually from wealth management in the UK and overseas, and believes that this can be doubled within four years of Create's full market launch this summer.

In the small business market, we have been greatly encouraged by the success of a recent pilot of a set of new segmented offers, which we have developed in response to our business customers' differing needs. The rollout of these new offers during 2001, coupled with further enhancement of our innovative small business portal - *success4business.com* - which within 6 months of launch already has over 20,000 registered customers, will cement our position as the UK's leading bank for small business start ups. We have also launched *LloydsTSBMarketplace*, a trade facilitation web service, that allows suppliers and buyers access to a secure e-enabled environment to conduct business with a wide variety of companies within their specific marketplace.

Lloyds TSB is one of the most powerful financial services brands in the UK. We have a very comprehensive network of branches together with one of the largest telephone banking businesses in the UK with over 2.0 million customers and, with over 1.2 million registered online customers, *LloydsTSB.com* is now consistently one of the most visited financial websites in Europe.

Our overall distribution capability will be further improved in the second half of the year as we complete our IT integration as planned, providing online real time technology for all our retail banking customers, a facility which will become increasingly important in the internet world.

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. The joint venture intends to offer a broad range of integrated financial services products from which customers can select to meet their individual needs. *evolvebank.com* will provide technology and banking expertise, together with Lloyds TSB's track record in bancassurance and regulatory experience. Centrica will bring the Goldfish brand, together with immediate access to 9 million Centrica customers.

Turning from income generation to cost management, the management of our day-to-day costs continues to have a strong emphasis in the Group, whilst at the same time we are continuing to invest heavily in e-commerce, in restructuring to improve our efficiency and productivity, and in improving the quality of our sales and service in order to enhance future earnings. Our restructuring programme is making strong progress, with further centralisation of processing achieved and consolidation of IT centres underway. We are also accelerating the expansion of lower cost delivery channels which will involve greater use of telephony, with more telephone calls taken out of our branches into dedicated call centres, allowing the branches to concentrate on face-to-face contact with our customers.

In August 2000 the Group announced the creation of a new payments processing company – Intelligent Processing Solutions Limited (iPSL) - in conjunction with Unisys and Barclays. iPSL will handle all of the 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.

So, how did these strategies translate into growth and profits?

Our business as usual results for 2000 were good, with an 8 per cent growth in income, profit before tax up 11 per cent, customer lending up 12 per cent, and customer deposits up by 8 per cent. Our efficiency ratio remained good at 43.6 per cent, one of the best efficiency ratios in the world for a financial services group of our size, business mix and complexity. Asset quality improved and we maintained our strong position in all our core markets. Profit before tax on a statutory basis rose by £265 million, or 7 per cent, to £3,886 million. Retained profit for the year was £1,041 million, reflecting the significant capital generation within the Group.

Income again grew satisfactorily with continuing margin pressure in retail markets more than offset by good volume growth in a number of areas. We achieved a record level of product sales, and market share gains in many of our core markets. We are now selling more retail products and servicing more personal customers than we have ever done.

LLOYDS TSB GROUP

The quality of the Group's earnings remained high and profit before tax from UK Retail Financial Services, encompassing UK Retail Banking, Mortgages, and Insurance and Investments, increased by £599 million, or 24 per cent, to £3,129 million. This represents 74 per cent of total group profit. Our Wholesale Markets and International Banking divisions also continued to make solid progress.

Going forward, the thrust of our strategy is about the continuing investment in our growth businesses to deliver organic revenue growth through customer relationship management, leveraging the strength of our brands and our multi-channel distribution capability, reducing our day-to-day unit costs and driving forward our e-commerce strategy.

We also intend to participate in the further consolidation of financial services, both in the UK and overseas. Our recent proposal for Abbey National to join the Lloyds TSB Group would, we believe, greatly enhance productivity and the ability to deliver value to shareholders and customers, defend our market position and put us in a stronger position to pursue our overseas aspirations.

The implementation of our strategies will ensure that, through profitable top line revenue growth and a strong grip on our day-to-day operating costs, the Group can continue to deliver a strong and sustainable return on equity, together with robust growth in equity and economic profit. The future for the financial services sector will undoubtedly be more challenging than it has been in the past, but we believe we are equipped with the strategy, the staff, the management and the determination to continue to succeed.

Peter Ellwood
Group Chief Executive

SUMMARY OF RESULTS

Results (business as usual basis*)	**2000 £m**	1999 £m	Increase (Decrease) %
Total income	**8,641**	8,002	8
Operating expenses	**3,764**	3,417	10
Trading surplus	**4,877**	4,585	6
Provisions for bad and doubtful debts	**475**	588	(19)
Operating profit	**4,246**	3,821	11
Profit attributable to shareholders	**2,988**	2,691	11
Economic profit (page 40, note 2)	**2,142**	1,949	10
Earnings per share (pence)	**54.5**	49.4	10
Post-tax return on average shareholders' equity (%)	**31.8**	32.7	
Results (statutory basis)			
Total income	**8,469**	7,928	7
Operating expenses	**3,952**	3,417	16
Trading surplus	**4,517**	4,511	-
Provisions for bad and doubtful debts	**475**	588	(19)
Profit before tax	**3,886**	3,621	7
Profit attributable to shareholders	**2,724**	2,514	8
Economic profit (page 40, note 2)	**1,882**	1,772	6
Earnings per share (pence)	**49.6**	46.2	7
Post-tax return on average shareholders' equity (%)	**29.1**	30.5	
Shareholder value			
Closing market price per share	**708p**	774p	(9)
Total market value of shareholders' equity	**£39.0bn**	£42.4bn	(8)
Dividends per share	**30.6p**	26.6p	15
Balance sheet	**£m**	£m	
Shareholders' equity	**9,737**	8,581	13
Total assets	**217,982**	175,979	24
Net assets per share (pence)	**174**	155	12
Risk asset ratios	**%**	%	
Total capital	**9.0**	15.0	
Tier 1 capital	**8.2**	9.9	

*excluding the impact of short-term fluctuations in investment returns, changes in the economic assumptions applied to our long-term assurance business, exceptional restructuring costs in 2000, pension provisions, a stakeholder pension related charge and, in 1999, the loss on sale and closure of businesses.

REVIEW OF FINANCIAL PERFORMANCE

2000 figures contain a number of items which had a significant impact on the Group's results; short-term fluctuations in investment returns, changes in the economic assumptions applied to our long-term assurance business, exceptional restructuring costs, pension provisions, a stakeholder pension related charge and, in 1999, the loss on sale and closure of businesses. Excluding the impact of these items, profit before tax on a business as usual basis rose by £425 million, or 11 per cent, to £4,246 million from £3,821 million in 1999. Total income increased by 8 per cent, operating expenses increased by 10 per cent and there was a 6 per cent increase in the trading surplus. Customer lending and deposits continued to grow, however the net interest margin decreased by 37 basis points to 3.49 per cent, partly as a result of the impact of the funding cost of the purchase of Scottish Widows which, as expected, reduced the margin by 20 basis points. Excluding the funding cost of Scottish Widows, the group net interest margin in the second half of 2000 was 3.67 per cent, compared with 3.70 per cent in the first half of the year. Good volume growth in customer lending and deposits more than compensated for the decrease in the margin. The efficiency ratio was 43.6 per cent compared with 42.7 per cent in 1999. Profit attributable to shareholders increased by 11 per cent, earnings per share increased by 10 per cent to 54.5p and economic profit increased by 10 per cent to £2,142 million. The post-tax return on average shareholders' equity was 31.8 per cent, compared with 32.7 per cent in 1999. The post-tax return on average assets increased to 1.92 per cent from 1.82 per cent in 1999, and the post-tax return on average risk-weighted assets increased to 3.44 per cent from 3.24 per cent.

Profit before tax on a statutory basis rose by £265 million, or 7 per cent, to £3,886 million from £3,621 million in 1999. Economic profit increased by 6 per cent to £1,882 million, earnings per share increased by 7 per cent to 49.6p, shareholders' equity increased by 13 per cent and the post-tax return on average shareholders' equity was 29.1 per cent.

The transfer of Scottish Widows' business to the Lloyds TSB Group was completed on 3 March 2000 and the results of the Scottish Widows' business have been consolidated in full with effect from that date. On a business as usual basis, Scottish Widows contributed £403 million since 3 March 2000, before taking into account funding costs of £258 million. This compares with normalised pre-tax profits of £349 million in 1999. As a result of the Scottish Widows acquisition, group fee income increased to 46 per cent of total income in 2000, compared with 40 per cent in 1999. In 2000, the contribution from Insurance and Investments rose to 34 per cent of group profit, with more than half of this from life, pensions and unit trusts.

The acquisition of Chartered Trust was completed on 1 September 2000. Its results have been consolidated in full with effect from that date and a restructuring provision of £21 million has been made to cover the costs of integrating Chartered Trust and Lloyds UDT. Excluding this restructuring provision and £9 million goodwill amortisation, the impact on group figures has been to increase net interest income by £31 million after funding costs of £12 million, increase other income by £53 million, increase operating expenses by £62 million, increase the provisions charge by £12 million and increase profit before tax by £10 million.

As previously anticipated, we incurred £188 million exceptional restructuring costs in 2000. E-commerce investment costs totalled approximately £150 million. Cost control will remain very important but a core element of our strategies is to continue to increase investment to underpin further our competitiveness and revenue growth opportunities. These strategies are aimed at increasing economic profit from many of the Group's higher growth markets, particularly wealth management, long-term savings and investments, business banking and the further segmentation of our core retail franchise. Accordingly, the Group's efficiency ratio is expected to improve further over time but we no longer believe that it is appropriate to be constrained by a separate efficiency ratio target.

Total profit before tax on a business as usual basis from **UK Retail Financial Services,** which encompasses UK Retail Banking, Mortgages, and Insurance and Investments, increased by £599 million, or 24 per cent, to £3,129 million from £2,530 million in 1999.

- Pre-tax profit from **UK Retail Banking** rose by £28 million, or 4 per cent, to £817 million. Total income increased by 2 per cent, costs increased by 7 per cent largely as a result of e-commerce investment costs, and there was a reduction of 19 per cent in bad debt provisions largely due to the good economic conditions during 2000, and a one-off benefit of £42 million arising from a change in methodology for retail provisioning to recognise more accurately the amount that the Group expects to recover.

- Competition in the mortgage market was evident throughout the year leading, as anticipated, to a lower net interest margin which resulted in pre-tax profit from **Mortgages** decreasing by £3 million, to £865 million from 1999. Gross new lending increased by 7 per cent to £11.5 billion, compared with £10.7 billion a year ago, and net new lending was £4.6 billion, significantly higher than £2.8 billion last year. This represented an estimated market share of net new lending of 11.4 per cent, higher than our 9.8 per cent share of mortgages outstanding, and is particularly encouraging given that mortgages are key recruitment products for other retail products and services. The Group continues to be one of the most efficient mortgage providers in the UK.

- Operating profit, including investment returns based on long-term rates of investment return, from **Insurance and Investments** increased by 66 per cent to £1,447 million from £873 million, largely as a result of the inclusion, since 3 March 2000, of Scottish Widows within our life and pensions business. Pre-tax profit from general insurance operations, comprising underwriting and broking, rose by £130 million, or 28 per cent, to £591 million, mainly as a result of continued strong revenue growth and an improvement in our claims experience. The Group has maintained its position as a leading distributor of personal lines insurance in the UK.

Wholesale Markets pre-tax profit increased by £21 million, or 3 per cent, to £749 million. Provisions for bad and doubtful debts increased by £19 million to £94 million largely as a result of a higher level of provisions in the motor finance businesses and the acquisition of Chartered Trust. Total assets increased by 7 per cent and risk-weighted assets grew by 16 per cent mainly reflecting the acquisition of Chartered Trust.

International Banking pre-tax profit was £57 million higher at £501 million compared with 1999. Profits from New Zealand in local currency terms increased by 21 per cent. International private banking and the Group's offshore banking operations both showed improvements over 1999. Our consumer finance business in Brazil, Losango Consumer Finance, made a pre-tax profit of £41 million, compared with a profit of £31 million in 1999.

The total group charge for bad and doubtful debts was 19 per cent lower at £475 million, compared with £588 million in 1999. The domestic charge decreased to £426 million from £500 million, lower provisions in retail banking and mortgages were partially offset by a higher charge in the motor finance businesses. Provisions overseas decreased to £49 million from £88 million mainly as a result of higher Emerging Market Debt provision releases, following debt repayments and some asset sales, which offset higher provisions in Argentina. The Group's charge for bad and doubtful debts, expressed as a percentage of average lending, was 0.43 per cent compared to 0.57 per cent in 1999. At the end of the year specific provisions for bad and doubtful debts for the Group totalled £1,816 million, representing over 140 per cent of non-performing loans.

The total capital ratio was 9.0 per cent and the tier 1 capital ratio was 8.2 per cent. Balance sheet assets increased by £42 billion, or 24 per cent, to £218 billion from £176 billion at the end of 1999. £25 billion of this growth was represented by an increase in long-term assurance liabilities to policyholders following the acquisition of Scottish Widows. Loans and advances to customers increased by £12 billion, or 12 per cent. Risk-weighted assets increased by 11 per cent to £93.5 billion from £84.1 billion at the end of 1999.

Staff eligible to participate in the staff profit sharing scheme will receive 10 per cent of basic salary (1999: 10.5 per cent). The total payment will be £108 million (1999: £104 million).

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Group (excl. Scottish Widows) **2000 £m**	Scottish Widows (from 3 March)* **2000 £m**	Total **2000 £m**
Interest receivable:			
Interest receivable and similar income arising from debt securities	**443**	**-**	**443**
Other interest receivable and similar income	**10,511**	**100**	**10,611**
Interest payable	**6,132**	**335**	**6,467**
Net interest income	**4,822**	**(235)**	**4,587**
Other income			
Fees and commissions receivable	**2,706**	**62**	**2,768**
Fees and commissions payable	**(461)**	**(18)**	**(479)**
Dealing profits (before expenses)	**193**	**5**	**198**
Income from long-term assurance business:			
Income before pension provisions	**447**	**268**	**715**
Pension provisions	**(100)**	**-**	**(100)**
General insurance premium income	**399**	**-**	**399**
Other operating income	**381**	**-**	**381**
	3,565	**317**	**3,882**
Total income	**8,387**	**82**	**8,469**
Operating expenses			
Administrative expenses	**3,332**	**46**	**3,378**
Exceptional restructuring costs	**129**	**59**	**188**
Total administrative expenses	**3,461**	**105**	**3,566**
Depreciation	**364**	**-**	**364**
Amortisation of goodwill	**22**	**-**	**22**
Depreciation and amortisation	**386**	**-**	**386**
Total operating expenses	**3,847**	**105**	**3,952**
Trading surplus (deficit)	**4,540**	**(23)**	**4,517**
General insurance claims	**142**	**-**	**142**
Provisions for bad and doubtful debts			
Specific	**481**	**-**	**481**
General	**(6)**	**-**	**(6)**
	475	**-**	**475**
Amounts written off fixed asset investments	**14**	**-**	**14**
Profit (loss) on ordinary activities before tax	**3,909**	**(23)**	**3,886**
Tax on profit on ordinary activities			**1,113**
Profit on ordinary activities after tax			**2,773**
Minority interests - equity			**13**
- non-equity			**36**
Profit for the year attributable to shareholders			**2,724**
Dividends			**1,683**
Retained profit			**1,041**

*including funding costs of £258 million, adverse short-term fluctuations in investment returns of £109 million and exceptional restructuring costs of £59 million.

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

	2000	1999
	£m	£m
Interest receivable:		
Interest receivable and similar income arising from debt securities	**443**	430
Other interest receivable and similar income	**10,611**	10,022
Interest payable	**6,467**	5,669
Net interest income	**4,587**	4,783
Other income		
Fees and commissions receivable	**2,768**	2,497
Fees and commissions payable	**(479)**	(426)
Dealing profits (before expenses)	**198**	215
Income from long-term assurance business:		
Income before pension provisions	**715**	329
Pension provisions	**(100)**	(102)
General insurance premium income	**399**	390
Other operating income	**381**	242
	3,882	3,145
Total income	**8,469**	7,928
Operating expenses		
Administrative expenses	**3,378**	3,140
Exceptional restructuring costs	**188**	-
Total administrative expenses	**3,566**	3,140
Depreciation	**364**	265
Amortisation of goodwill	**22**	12
Depreciation and amortisation	**386**	277
Total operating expenses	**3,952**	3,417
Trading surplus	**4,517**	4,511
General insurance claims	**142**	169
Provisions for bad and doubtful debts		
Specific	**481**	588
General	**(6)**	-
	475	588
Amounts written off fixed asset investments	**14**	7
Operating profit	**3,886**	3,747
Loss on sale and closure of businesses	**-**	126
Profit on ordinary activities before tax	**3,886**	3,621
Tax on profit on ordinary activities	**1,113**	1,101
Profit on ordinary activities after tax	**2,773**	2,520
Minority interests - equity	**13**	6
- non-equity	**36**	-
Profit for the year attributable to shareholders	**2,724**	2,514
Dividends	**1,683**	1,451
Retained profit	**1,041**	1,063
Earnings per share	**49.6p**	46.2p
Diluted earnings per share	**49.1p**	45.3p

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CONSOLIDATED BALANCE SHEET

	31 December 2000	31 December 1999*
Assets	**£m**	£m
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	**1,709**	2,065
Loans and advances to banks	**15,290**	16,963
Loans and advances to customers	**114,855**	102,149
Non-returnable finance	**(400)**	-
	114,455	102,149
Debt securities	**13,882**	14,184
Equity shares	**247**	213
Intangible assets	**2,599**	231
Tangible fixed assets	**3,037**	2,035
Own shares	**28**	35
Other assets	**3,576**	3,641
Prepayments and accrued income	**2,965**	2,628
Long-term assurance business attributable to shareholders	**6,549**	2,274
	166,897	149,437
Long-term assurance assets attributable to policyholders	**51,085**	26,542
Total assets	**217,982**	175,979
Liabilities		
Deposits by banks	**16,735**	17,694
Customer accounts	**100,738**	92,851
Items in course of transmission to banks	**420**	757
Debt securities in issue	**17,899**	12,260
Other liabilities	**6,980**	5,526
Accruals and deferred income	**4,325**	3,309
Provisions for liabilities and charges:		
Deferred tax	**1,559**	1,459
Other provisions for liabilities and charges	**442**	474
Subordinated liabilities:		
Undated loan capital	**3,391**	3,294
Dated loan capital	**4,119**	3,199
Minority interests		
Equity	**37**	33
Non-equity	**515**	-
	552	33
Called-up share capital	**1,396**	1,389
Share premium account	**595**	404
Merger reserve	**343**	343
Profit and loss account	**7,403**	6,445
Shareholders' funds (equity)	**9,737**	8,581
	166,897	149,437
Long-term assurance liabilities to policyholders	**51,085**	26,542
Total liabilities	**217,982**	175,979

* restated (page 40, note 1)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2000 **£m**	1999 £m
Profit attributable to shareholders	**2,724**	2,514
Currency translation differences on foreign currency net investments	**(68)**	(33)
Total recognised gains and losses relating to the year	**2,656**	2,481
Prior period adjustment (page 40, note 1)	**(112)**	
Total gains and losses recognised during the year	**2,544**	

HISTORICAL COST PROFITS AND LOSSES

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

	2000 **£m**	1999 £m
Profit attributable to shareholders	**2,724**	2,514
Dividends	**(1,683)**	(1,451)
Retained profit	**1,041**	1,063
Currency translation differences on foreign currency net investments	**(68)**	(33)
Issue of shares	**74**	108
Goodwill written back on sale and closure of businesses	**109**	80
Net increase in shareholders' funds	**1,156**	1,218
Shareholders' funds at beginning of year	**8,581**	7,475
Prior period adjustment (page 40, note 1)	**-**	(112)
Shareholders' funds at end of year	**9,737**	8,581

CONSOLIDATED CASH FLOW STATEMENT

	2000 £m	1999 £m
Net cash inflow from operating activities	**7,558**	1,261
Returns on investments and servicing of finance:		
Dividends paid to equity minority interests	**(12)**	(11)
Payments made to non-equity minority interests	**(36)**	-
Interest paid on subordinated liabilities (loan capital)	**(442)**	(270)
Interest element of finance lease rental payments	**(1)**	-
Net cash outflow from returns on investments and servicing of finance	**(491)**	(281)
Taxation:		
UK corporation tax	**(723)**	(670)
Overseas tax	**(141)**	(137)
Total taxation	**(864)**	(807)
Capital expenditure and financial investment:		
Additions to fixed asset investments	**(23,552)**	(23,147)
Disposals of fixed asset investments	**24,756**	21,921
Additions to tangible fixed assets	**(1,006)**	(595)
Disposals of tangible fixed assets	**78**	83
Capital injection to life fund	**-**	(220)
Net cash inflow (outflow) from capital expenditure and financial investment	**276**	(1,958)
Acquisitions and disposals:		
Acquisition of group undertakings	**(5,110)**	(27)
Disposal of group undertakings and businesses	**83**	3
Net cash outflow from acquisitions and disposals	**(5,027)**	(24)
Equity dividends paid	**(1,522)**	(1,285)
Net cash outflow before financing	**(70)**	(3,094)
Financing:		
Issue of subordinated liabilities (loan capital)	**952**	2,769
Issue of preferred securities by subsidiary undertakings	**509**	-
Issue of ordinary share capital net of £124 million (1999: £205m) contribution to the QUEST	**74**	108
Repayments of subordinated liabilities (loan capital)	**(55)**	(228)
Capital element of finance lease rental payments	**(4)**	(3)
Net cash inflow from financing	**1,476**	2,646
Increase (decrease) in cash	**1,406**	(448)

PERFORMANCE BY SECTOR

UK Retail Financial Services

Total profit before tax on a business as usual basis from UK Retail Financial Services, which encompasses UK Retail Banking, Mortgages, and Insurance and Investments, increased by £599 million, or 24 per cent, to £3,129 million from £2,530 million in 1999.

UK Retail Banking and Mortgages

Total profit before tax from UK Retail Banking and Mortgages rose by £25 million, or 2 per cent, to £1,682 million. Total income increased by 2 per cent and costs increased by 7 per cent, largely as a result of e-commerce investment costs and higher marketing costs. Bad debt provisions decreased by £93 million, or 22 per cent, to £332 million largely due to the good economic conditions during 2000, and a one-off benefit of £42 million arising from a change in methodology for retail provisioning to recognise more accurately the amount that the Group expects to recover.

	2000 £m	1999 £m
Net interest income	**2,962**	2,943
Other income	**1,143**	1,090
Total income	**4,105**	4,033
Operating expenses	**2,091**	1,951
Trading surplus	**2,014**	2,082
Provisions for bad and doubtful debts	**332**	425
Profit before tax	**1,682**	1,657
Profit before tax		
UK Retail Banking	**817**	789
Mortgages	**865**	868
	1,682	1,657
Efficiency ratio	**50.9%**	48.4%
Total assets (year-end)	**£71.3bn**	£64.3bn
Total risk-weighted assets (year-end)	**£44.0bn**	£39.7bn

UK Retail Banking
(the UK retail businesses of Lloyds TSB, providing banking and financial services to personal and small business customers; private banking; and stockbroking)

Pre-tax profit from **UK Retail Banking** rose by £28 million, or 4 per cent, to £817 million. Total income increased by 2 per cent, costs increased by 7 per cent largely as a result of e-commerce investment costs, and there was a reduction of 19 per cent in bad debt provisions. A significant element of the profitability of the Group's insurance operations is also driven through the relationship we have with our substantial retail customer base.

Personal loans and credit card lending increased by 9 per cent since the end of 1999 and balances on current accounts and savings and investment accounts grew by 10 per cent over the same period, supported by the launch of a number of new products. The popularity of the Group's Added Value current accounts continued with Lloyds TSB maintaining its position as a market leader in this area with over 2 million accounts in operation. The Group also continues to maintain market leading positions in many of its core markets, including personal current accounts, savings and business banking.

We have continued to develop a number of alternative distribution channels in order to offer a broad range of access points for our customers thereby improving service and enhancing revenue growth. PhoneBank, our telephone banking operation, is one of the largest in Europe with 1.3 million customers. In addition, PhoneBank Express, our leading edge interactive voice recognition system, now has over 700,000 registered users. PhoneBank and PhoneBank Express handled 23.5 million calls during the year. Our supermarket banking operation, branded 'easibank', continues to expand, and we now have 22 branches in ASDA stores or large shopping centres. We have extended our relationship with the Post Office to allow our personal customers to undertake banking transactions in post offices in Scotland, in addition to our existing arrangements in England and Wales.

We continue to make substantial progress with our e-commerce strategy. We exceeded our target of 1 million online customers of *LloydsTSB.com* by the end of 2000, and we now have over 1.2 million customers registered to use our online banking service. *LloydsTSB.com* is now consistently one of the most visited financial websites in Europe. We successfully launched our standalone internet bank, *evolvebank.com,* in Spain during November 2000.

We have also made substantial progress on a number of initiatives for business customers. The Group has launched *success4business.com*, an internet portal designed to help small business customers maximise opportunities in e-commerce, and *LloydsTSBMarketplace*, a trade facilitation web service, that allows suppliers and buyers access to a secure e-enabled environment to conduct business with a wide variety of companies within their specific marketplace.

Our new e-procurement system has recently been launched throughout the Group and over 8,000 staff can now make purchases from their desktop PCs, saving substantial time and money as all purchases are made using the Group's preferred suppliers with whom discounts have been negotiated.

UK Retail Banking (continued)

On 20 July 2000 the Group announced a mobile banking offer, in association with BT Cellnet, that will provide Lloyds TSB customers with access to the Bank's internet banking service, as well as a range of other online services. We have also started to provide, in association with Telewest, a product information service on digital interactive television, and will launch a banking service in Spring 2001.

On 24 July 2000 the Group announced the launch of a £20 million joint venture with antfactory, a leading European e-commerce investment company. The new joint venture, called Valuefactory Ventures, aims to identify, invest in and develop global new economy businesses as standalone, value-creating companies. The focus will be on investment opportunities which can benefit from the resources and capabilities of Lloyds TSB and antfactory.

On 15 August 2000 the Group announced the creation of a new payments processing company – Intelligent Processing Solutions Limited (iPSL) – in conjunction with Unisys and Barclays. iPSL, which is 24.5 per cent owned by Lloyds TSB, will handle all the 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.

On 13 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. The joint venture will be known as Goldfish Holdings Ltd. Centrica will have a 70 per cent share of the joint venture and Lloyds TSB will have a 30 per cent share. The joint venture intends to offer a broad range of integrated financial services products from which customers can select to meet their individual needs. *evolvebank.com* will provide technology and banking expertise, together with Lloyds TSB's track record in bancassurance and regulatory experience. Centrica will bring the Goldfish brand, together with immediate access to 9 million Centrica customers.

Business Banking continues to attract a substantial number of new customers and has further consolidated the Group's position as a market leader in the recruitment of start-up businesses. Some 116,000 new business customers chose Lloyds TSB during the year. Revenue growth and profitability has again improved based on a 14 per cent increase in lodgements, a 13 per cent increase in lending and increased sales of insurance, mortgages and investment products. Business Banking has, during 2000, successfully launched four new relationship offers which provide our small business customers with a choice of options regarding the level of business and banking support they require from Lloyds TSB. Following a pilot study in May 2000, full national roll out has commenced and supports our strategy of increasing market share from 19 per cent in 1999 to 23 per cent in 2003.

UK Retail Banking (continued)

In our UK wealth management businesses, UK Private Banking had another successful year. Profit before tax increased by 11 per cent to £110 million, from £99 million in 1999. £1.5 billion of new funds were gained during the year and total funds managed and administered now stand at some £12.2 billion.

Lloyds TSB Stockbrokers, one of the largest retail stockbrokers in the UK, continued to perform well as high transaction levels were combined with efficiency gains. Pre-tax profit increased to £23 million compared with £21 million last year.

A new wealth management strategy, based on providing a new set of products and services for more affluent customers, is now being implemented under a new brand ‘Create’. For these customers we will provide tailored independent advice, superior service and a choice of investment options from quality providers. Key elements will be our 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™. This service will provide clients with customised proprietary research from Goldman Sachs, international equity dealing and market making, custody and settlement, and access to selected equity capital market offerings managed by Goldman Sachs.

Create forms a key part of Lloyds TSB’s revenue growth strategy and expects to have around 250,000 clients by the end of 2002. Lloyds TSB currently makes pre-tax profits of some £300 million annually from wealth management in the UK and overseas, and believes that this can be doubled within four years of Create’s full market launch this summer.

Mortgages

(covering the Group's total UK mortgage business through Cheltenham & Gloucester, Lloyds TSB, Lloyds TSB Scotland, Scottish Widows Bank and C&G TeleDirect)

	2000	1999
Profit before tax	**£865m**	£868m
Efficiency ratio	**23.9%**	22.6%
Gross new mortgage lending	**£11.5bn**	£10.7bn
Market share of gross new mortgage lending	**9.6%**	9.4%
Net new mortgage lending	**£4.6bn**	£2.8bn
Market share of net new mortgage lending	**11.4%**	7.4%
Mortgages outstanding (year-end)	**£52.7bn**	£47.5bn
Market share of mortgages outstanding	**9.8%**	9.5%

Intense competition in the mortgage market was evident throughout the year leading, as anticipated, to a lower net interest margin which resulted in pre-tax profit from Mortgages decreasing by £3 million to £865 million, from £868 million in 1999. Profit before tax in the second half of 2000 was £436 million, £7 million, or 2 per cent, higher than in the first half of the year. The efficiency ratio of the Group's total mortgage business was 23.9 per cent compared with 22.6 per cent in 1999. The Group continues to be one of the most efficient mortgage providers in the UK.

Against this competitive background, the Group achieved in excess of its natural market share of net new lending. Gross new lending increased by 7 per cent to £11.5 billion, compared with £10.7 billion a year ago, and net new lending was £4.6 billion, significantly higher than £2.8 billion last year. This represented an estimated market share of net new lending of 11.4 per cent, higher than our 9.8 per cent share of mortgages outstanding, and is particularly encouraging given that mortgages are key recruitment products for other retail products and services.

C&G continues to benefit from mortgage sales distribution through the Lloyds TSB branch network, the IFA market and from the strength of the C&G brand. Once again the provision of a first class service has been a significant factor with independent financial advisers awarding C&G its sixth consecutive 5-star rating in the 2000 Financial Adviser service awards. Business levels sourced from intermediaries remain strong.

A relatively low arrears position and the beneficial effect of house price increases have meant that bad debt provisions remained at a low level. New provisions were offset by releases and recoveries resulting in a net credit of £13 million for the year, compared with a credit of £3 million in 1999. The quality of our mortgage lending remains very satisfactory.

Insurance and Investments
(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
Life and pensions		
Scottish Widows	**393**	-
Lloyds TSB bancassurance	**259**	234
Abbey Life	**164**	156
	816	390
General insurance	**591**	461
Operating profit from Insurance*	**1,407**	851
Scottish Widows Investment Partnership		
Scottish Widows	**10**	-
Hill Samuel Asset Management	**30**	22
	40	22
Total operating profit*	**1,447**	873
Short-term fluctuations in investment returns (page 42, note 8)	**(119)**	28
Changes in economic assumptions (page 43, note 9)	**127**	-
Pension provisions (page 23)	**(100)**	(102)
Stakeholder pension related charge (page 23)	**(80)**	-

*including normalised investment returns based on long-term rates of investment return and excluding changes in the economic assumptions applied to our long-term assurance business, pension provisions and stakeholder pension related charge.

Operating profit, including investment returns based on long-term rates of investment return, from Insurance and Investments increased by 66 per cent to £1,447 million from £873 million, largely as a result of the inclusion, since 3 March 2000, of Scottish Widows within our life and pensions business. Since that date Scottish Widows contributed pre-tax profits of £403 million, before funding costs of £258 million. This compares with normalised pre-tax profits of £349 million in 1999.

Profit before tax from our life and pensions business increased by £426 million, or 109 per cent, to £816 million. Weighted sales 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 offset by the inclusion, from 3 March 2000, of Scottish Widows.

Pre-tax profit from general insurance operations, comprising underwriting and broking, rose by £130 million, or 28 per cent, to £591 million, mainly as a result of continued strong revenue growth and an improvement in our claims experience. The Group has maintained its position as a leading distributor of personal lines insurance in the UK.

Insurance and Investments (continued)

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 creation of Scottish Widows Investment Partnership, with some £87 billion of funds under management, has enabled the Group to become a leading player in the asset management business. Pre-tax profit from investment management for the year was £40 million, up 82 per cent from £22 million 1999, largely as a result of the inclusion, since 3 March 2000, of the Scottish Widows investment management business.

Life and pensions (including unit trusts)

	2000 **£m**	1999 £m
New business	**281**	134
Existing business	**500**	260
Investment earnings	**212**	38
Life and pensions distribution costs	**(225)**	(99)
	768	333
Unit trusts	**157**	138
Unit trust distribution costs	**(109)**	(81)
	48	57
Operating profit*	**816**	390

* including ‘normalised’ investment returns based on long-term rates of investment return (page 42 note 8)

Weighted sales of life, pensions and unit trusts increased by 40 per cent to £789.5 million from £565.2 million in 1999 as a result of the inclusion, from 3 March 2000, of Scottish Widows. The withdrawal from sale of mortgage-related endowment policies slowed the sales of regular premium life policies.

On a pro forma basis, weighted sales for the combined Lloyds TSB bancassurance and Scottish Widows life, pensions and unit trust businesses were £711.0 million, compared to £713.1 million in 1999. By distribution channel pro forma weighted sales in 2000 were £353.3 million from the branch network, £280.8 million from independent financial advisers and £76.9 million from direct channels, compared with £355.2 million, £296.5 million and £61.4 million respectively in 1999. In the second half of 2000, weighted sales increased by 19 per cent from £318.4 million in the second half of 1999 to £379.8 million. In 2001, we anticipate that our sales growth will exceed overall market growth.

Insurance and Investments (continued)

From the date of acquisition, Scottish Widows products have been available throughout the Lloyds TSB branch network, as well as via independent financial advisers and directly from Scottish Widows itself. From August 2000, Scottish Widows has successfully been selling term assurance to Cheltenham and Gloucester customers.

Scottish Widows maintained its 5-star awards from independent financial advisers in both the Life and Pensions and Investment Provider ratings. This is the fifth consecutive Life and Pensions Provider 5-star award and the fourth consecutive Investment Provider 5-star award.

The adequacy of the provision for redress to past purchasers of pension policies has been reviewed in the light of the changes arising from SERPS adjustments, further experience and improved knowledge as to the number and size of compensation claims likely to be paid. The cost of redress is forecast to increase by £100 million and a provision of this amount has been made, bringing the total provision charged for this purpose to £902 million, of which £654 million had been used at 31 December 2000.

Stakeholder pensions will be introduced from 6 April 2001, with charges on these new products being limited by Government to a maximum of one per cent per annum. In order not to disadvantage existing pensions customers, charges will be reduced on our existing book. This will have the effect of reducing future cash flows in the Group’s embedded value calculation and a one-off charge of £80 million has therefore been made to the 2000 profit and loss account.

In 1998, a provision was made within Abbey Life for liabilities under certain unit linked products with guaranteed annuity options written in the mid-1960s to the mid-1980s and at 31 December 2000 this provision was £152 million. We continually review the adequacy of the provision and remain satisfied that no further provision is necessary at this stage. As part of the acquisition of Scottish Widows by the Group, certain measures were taken to protect shareholders from any likely potential exposure to this issue. Scottish Widows has assets to match its liabilities in respect of guaranteed annuity options. The assets are held in such a way that should a change in interest rates cause the liabilities to increase then the assets will also increase to reflect this.

Insurance and Investments (continued)

	2000 **£m**	1999 £m
Total new business premium income and unit trust sales:		
Regular premiums	**158.1**	129.4
Single premiums	**3,501.4**	1,875.7
Unit trusts	**1,993.3**	1,770.2
Weighted sales (regular + $^{1}/_{10}$ single)	**789.5**	565.2
Weighted sales by distribution channel:		
Branch network	**353.3**	355.2
Independent financial advisers	**253.0**	92.8
Direct	**69.5**	9.3
Fund management	**113.7**	107.9
	789.5	565.2
Scottish Widows (including bancassurance)		
Regular premiums:		
Life - mortgage related	**23.6**	31.4
- non-mortgage related	**19.2**	9.8
Pensions	**105.2**	28.2
Fund management	**1.2**	-
Health	**5.6**	4.9
Total regular premiums	**154.8**	74.3
Single premiums:		
Life	**1,196.5**	329.6
Annuities	**327.1**	101.7
Pensions	**830.8**	79.3
Fund management	**1,125.3**	1,079.0
Total single premiums	**3,479.7**	1,589.6
External unit trust sales:		
Regular payments	**90.9**	76.7
Single amounts	**1,899.1**	1,624.5
Total external unit trust sales	**1,990.0**	1,701.2
Abbey Life*		
Single premiums	**21.7**	286.1
Regular premiums	**3.3**	55.1
External unit trust sales:		
Regular payments	**0.1**	2.4
Single amounts	**3.2**	66.6
Total life funds under management	**51,085**	26,542

* The Group disposed of the new business capability of Abbey Life on 1 February 2000

Insurance and Investments (continued)

General Insurance

	2000	1999
	£m	£m
Premium income from underwriting		
Creditor	**126**	136
Home	**228**	203
Health	**50**	55
Other	**-**	1
Re-insurance premiums	**(5)**	(5)
	399	390
Commissions from insurance broking		
Creditor	**225**	175
Home	**34**	35
Health	**19**	21
Other	**120**	96
	398	327
Operating profit*	**591**	461

*including normalised investment returns based on long-term rates of investment return (page 42, note 8)

Operating profit, excluding short-term fluctuations in investment returns, from general insurance operations, comprising underwriting and broking, rose by £130 million, or 28 per cent, to £591 million.

Income from creditor insurance increased by 13 per cent, reflecting higher personal and business sector lending. Sales of home insurance policies increased by 10 per cent, with strong growth in both branch network and direct sales. Lloyds TSB is now the leading distributor of household insurance in the UK. 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. The overall increase in sales, together with renewal business, produced a 22 per cent increase in commission income from broking and a 2 per cent increase in earned premium income from underwriting. Investment income, on a normalised basis, increased by 37 per cent to £67 million.

The overall claims ratio of 35.1 per cent was lower than in 1999 (42.8 per cent). Claims were £27 million, or 16 per cent, lower at £142 million than in last year. This reflected the favourable impact on our creditor products of good economic conditions throughout the year, partly offset by the adverse weather conditions in the autumn.

The Group now has six general insurance products live on interactive television and has full quote and buy functionality on the internet for home, motor and travel insurance.

Wholesale Markets

(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 UDT)

	2000 £m	1999 £m
Net interest income	**900**	930
Other income	**622**	444
Total income	**1,522**	1,374
Operating expenses	**665**	564
Trading surplus	**857**	810
Provisions for bad and doubtful debts	**94**	75
Amounts written off fixed asset investments	**14**	7
Profit before tax	**749**	728
Efficiency ratio	**43.7%**	41.0%
Total assets (year-end)	**£65.7bn**	£61.5bn
Total risk-weighted assets (year-end)	**£36.5bn**	£31.6bn

Wholesale Markets pre-tax profit increased by £21 million, or 3 per cent, to £749 million. Provisions for bad and doubtful debts increased by £19 million to £94 million largely as a result of a higher level of provisions in the motor finance businesses and the acquisition of Chartered Trust (page 42, note 7). Total assets increased by 7 per cent and risk-weighted assets grew by 16 per cent reflecting the acquisition of Chartered Trust. The efficiency ratio increased to 43.7 per cent, from 41.0 per cent in 1999, again reflecting the acquisition of Chartered Trust.

Our Corporate and Financial Institutions businesses, serving the larger corporate market and financial institutions, achieved record results. Corporate Banking's continuing focus on quality income growth ensured another strong performance. Bad debt provisions remained at a relatively low level. Lloyds TSB Leasing maintained its position as the largest 'big ticket' leasing company in the UK and Lloyds TSB Commercial Banking, serving the commercial middle market, continued to perform well, with revenue increases, tight cost control and lower provisions all contributing to the achievement of record profits for the year. Lloyds TSB Commercial Finance and Alex Lawrie Factors, two of the leading invoice discounting and factoring companies in the UK, expanded their range of specialist products and services and continued to grow their market share. Lloyds TSB Development Capital continued to expand its presence in the venture capital market and achieved record profits in 2000. The Agricultural Mortgage Corporation maintained its position as a market leader in the provision of long-term finance to farmers.

Lloyds TSB Registrars had another very successful year with income growing by 9 per cent and profit by 41 per cent to a record £45 million. During the year *shareview.co.uk*, our unique internet information service for shareholders, was successfully launched.

Wholesale Markets (continued)

In Treasury Division the more stable interest rate environment, compared with 1999, resulted in lower income from our interest rate management businesses. The Group's activity in the derivatives markets continues to remain focused on straight cash based products.

On 1 September 2000, the Group announced that its subsidiary, Lloyds UDT, had acquired Chartered Trust Group Plc and ACL Autolease Holdings Limited, ('Chartered Trust'), the UK consumer finance and contract hire subsidiaries of Standard Chartered Bank, for a cash consideration of £614 million. The acquisition allowed the Group to consolidate its position as market leader in the independent provision of motor finance and become one of the leading contract hire providers in the UK. A restructuring provision of £21 million has been made to cover the costs of integrating Chartered Trust and Lloyds UDT.

International Banking

(banking and financial services overseas in four main areas: The Americas, New Zealand, Europe and Offshore Banking; and Emerging Markets Debt)

	2000	1999
	£m	£m
Net interest income	**753**	734
Other income	**386**	378
Total income	**1,139**	1,112
Operating expenses	**589**	580
Trading surplus	**550**	532
Provisions for bad and doubtful debts	**49**	88
Profit before tax	**501**	444
Efficiency ratio	**51.7%**	52.2%
Total assets (year-end)	**£19.2bn**	£19.4bn
Total risk-weighted assets (year-end)	**£11.9bn**	£11.6bn

International Banking pre-tax profit was £57 million, or 13 per cent, higher at £501 million compared with 1999 and represented 12 per cent of Group pre-tax profit. 4 per cent related to our New Zealand business, 5 per cent to our Europe and offshore banking operations and 3 per cent to Latin America.

Profits from New Zealand in local currency terms increased by 21 per cent. International private banking and the Group's offshore banking operations both showed strong improvements over 1999 with an 18 per cent increase in pre-tax profit to £194 million, from £165 million in 1999.

Our consumer finance business in Brazil, Losango Consumer Finance, made a pre-tax profit of £41 million, compared with a profit of £31 million in 1999.

International Banking (continued)

The Emerging Markets Debt portfolio contributed £104 million, which included a release of provisions of £85 million following the repayment of debt by certain borrowers and some asset sales. This compared with a contribution of £48 million in 1999, which included a release of provisions of £32 million.

At the end of December 2000 the Group's provisionable exposure to Emerging Market economies which is included in loans and advances was £1,352 million (December 1999: £1,328 million) against which provisions of £803 million (December 1999: £799 million) were held, giving cover of 59 per cent (December 1999: 60 per cent). Based on secondary market prices, the surplus of market value over net book value of the total Emerging Markets Debt portfolio (including advances, unapplied interest and collateralised bonds held as investments) was more than £800 million (December 1999: £700 million).

Central group items
(earnings on surplus capital, central costs and other unallocated items)

	2000 **£m**	1999 £m
Accrual for payment to Lloyds TSB Foundations	**(34)**	(31)
Earnings on surplus capital, central costs and other unallocated items	**(99)**	150
	(133)	119

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 1 per cent of the Group's pre-tax profit, averaged over 3 years, instead of the dividend on their shareholdings. In 2001 they will receive £34 million (2000: £31 million) to distribute to charities, making them in aggregate one of the largest general grant-giving organisations in the UK.

The reduction in earnings on surplus 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.

Historically it has been the Group's practice for central income items such as the earnings on surplus group capital and the profit on the sale of investments to be allocated to business units for statutory reporting purposes. To avoid unnecessary volatility in business unit earnings, as a result of decisions at the Group Centre on the build up and use of surplus capital, these central income items will in the future be reported within central group items. The effect on 1999 figures, which have been restated, is an increase in central group items of £168 million offset by a commensurate reduction in business unit earnings.

INCOME

Group net interest income

Excluding the £258 million funding cost of Scottish Widows, 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. Average interest-earning assets increased by 6 per cent to £131 billion. There was further growth in mortgages and other customer lending in the UK. The net interest margin decreased to 3.49 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 and a lower international net interest margin. Excluding the funding cost of Scottish Widows, the group net interest margin in the second half of 2000 was 3.67 per cent, compared with 3.70 per cent in the first half of the year.

	2000 £m	1999 £m
Net interest income	**4,587**	4,783
Average balances		
Short-term liquid assets	**2,060**	1,985
Loans and advances	**123,317**	116,965
Debt securities	**5,992**	5,038
Total interest-earning assets	**131,369**	123,988
Financed by:		
Interest-bearing liabilities	**118,348**	107,631
Interest-free liabilities	**13,021**	16,357
Average rates	**%**	%
Gross yield on interest-earning assets	**8.41**	8.43
Cost of interest-bearing liabilities	**5.46**	5.27
Interest spread	**2.95**	3.16
Contribution of interest-free liabilities	**0.54**	0.70
Net interest margin	**3.49**	3.86
Net interest margin, excluding funding cost of Scottish Widows	**3.69**	3.86

Note: Payments made under cash gift and discount mortgage schemes are amortised over the early redemption charge period, being a maximum of 5 years. If these incentives had been fully written off as incurred, group and domestic net interest income would have been £65 million lower in 2000 (1999: £11 million lower). The deferred element of the expenditure amounting to £242 million at 31 December 2000 (31 December 1999: £176 million) is included within prepayments and accrued income in the balance sheet.

Domestic net interest income

Domestic net interest income 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.

Average interest-earning assets increased by 6 per cent to £111 billion. 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. In addition, 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 the Group had strong growth in a number of finer margin products, particularly mortgages and preferentially priced savings accounts. Excluding the funding cost of Scottish Widows, the domestic net interest margin in the second half of 2000 was 3.80 per cent, compared with 3.83 per cent in the first half of the year.

	2000 **£m**	1999 £m
Net interest income	**3,956**	4,154
Average balances		
Short-term liquid assets	**836**	985
Loans and advances	**105,856**	99,985
Debt securities	**3,882**	3,272
Total interest-earning assets	**110,574**	104,242
Financed by:		
Interest-bearing liabilities	**99,220**	89,515
Interest-free liabilities	**11,354**	14,727
Average rates	**%**	%
Gross yield on interest-earning assets	**8.07**	7.69
Cost of interest-bearing liabilities	**5.01**	4.31
Interest spread	**3.06**	3.38
Contribution of interest-free liabilities	**0.52**	0.60
Net interest margin	**3.58**	3.98
Net interest margin, excluding funding cost of Scottish Widows	**3.81**	3.98

International 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 our New Zealand mortgage portfolio, but this increase was partly offset by the effect of exchange rate movements. The international net interest margin decreased by 16 basis points to 3.03 per cent. Whilst the interest spread held up well, the gross yield on interest-earning assets fell significantly as a result of lower interest rates in Latin America.

	2000	1999
	£m	£m
Net interest income	**631**	629
Average balances		
Short-term liquid assets	**1,224**	1,000
Loans and advances	**17,461**	16,980
Debt securities	**2,110**	1,766
Total interest-earning assets	**20,795**	19,746
Financed by:		
Interest-bearing liabilities	**19,128**	18,116
Interest-free liabilities	**1,667**	1,630
Average rates	**%**	%
Gross yield on interest-earning assets	**10.23**	12.34
Cost of interest-bearing liabilities	**7.82**	9.98
Interest spread	**2.41**	2.36
Contribution of interest-free liabilities	**0.62**	0.83
Net interest margin	**3.03**	3.19

Other income

Other income increased by £737 million, or 23 per cent, to £3,882 million. This represented 46 per cent of total income. Scottish Widows contributed £317 million of this increase. Excluding short-term fluctuations in investment returns in our insurance businesses, changes in the economic assumptions applied to our long-term assurance business, pension provisions and the stakeholder pension related charge in 2000, other income increased by £837 million, or 26 per cent, to £4,054 million.

Fees and commissions receivable increased by 11 per cent reflecting increased business volumes and strong growth in income from insurance broking. Other UK fees and commissions increased by 20 per cent, as a result of growth in all core UK businesses and the impact of the acquisition of Scottish Widows. International fees and commissions increased by 6 per cent.

Fees and commissions payable increased by £53 million against 1999, largely as a result of higher interchange fees for card services and increased costs associated with a number of new products.

Income from long-term assurance business increased by £388 million, largely as a result of the impact of the acquisition of Scottish Widows. General insurance premium income on underwritten business increased by £9 million, or 2 per cent, against 1999.

Other operating income increased by £139 million, largely reflecting the acquisition of Chartered Trust and increased operating lease rental income within Lloyds TSB Leasing. There were also higher gains on the realisation of venture capital investments.

	2000 £m	1999 £m
Fees and commissions receivable:		
UK current account fees	**629**	663
Other UK fees and commissions	**1,171**	978
Insurance broking	**398**	327
Card services	**304**	279
International fees and commissions	**266**	250
	2,768	2,497
Fees and commissions payable	**(479)**	(426)
Dealing profits (before expenses):		
Foreign exchange trading income	**141**	133
Securities and other gains	**57**	82
	198	215
Income from long-term assurance business:		
Income before pension provisions	**715**	329
Pension provisions	**(100)**	(102)
	615	227
General insurance premium income	**399**	390
Other operating income	**381**	242
Total other income	**3,882**	3,145

OPERATING EXPENSES

Operating expenses

	2000 £m	1999 £m
Administrative expenses:		
Staff:		
Salaries and profit sharing	**1,626**	1,500
National insurance	**131**	125
Pensions	**(105)**	(108)
Restructuring	**47**	20
Other staff costs	**189**	180
	1,888	1,717
Premises and equipment:		
Rent and rates	**247**	250
Hire of equipment	**26**	33
Repairs and maintenance	**115**	107
Other	**109**	100
	497	490
Other expenses:		
Communications and external data processing	**394**	406
Advertising and promotion	**167**	113
Professional fees	**126**	90
Other	**306**	324
	993	933
Administrative expenses	**3,378**	3,140
Exceptional restructuring costs	**188**	-
Total administrative expenses	**3,566**	3,140
Depreciation	**364**	265
Amortisation of goodwill	**22**	12
Total operating expenses	**3,952**	3,417
Efficiency ratio	**46.7%**	43.1%
Efficiency ratio *	**43.6%**	42.7%

*excluding short-term fluctuations in investment returns, changes in economic assumptions, exceptional restructuring costs, pension provisions and stakeholder pension related charge

Total operating expenses increased by £535 million, or 16 per cent, compared with 1999. On a like-for-like basis, excluding exceptional restructuring costs of £188 million, increased costs following the acquisitions of Scottish Widows and Chartered Trust of £117 million, and additional investments in revenue growth businesses and e-commerce of £224 million (1999: £44 million), costs increased by 1 per cent to £3,423 million, from £3,373 million in 1999, less than the underlying rate of inflation. Reduced costs in many areas were offset by higher staff costs, partly reflecting an increased accrual for profit sharing and millennium weekend overtime costs, increased advertising costs and a higher depreciation charge.

Operating expenses (continued)

The exceptional restructuring costs of £188 million comprise mainly severance, consultancy costs, the write-down of equipment and the £21 million Chartered Trust restructuring provision. During 2001 we 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 approximately £75 million in 2001 rising to £410 million in 2004. Expenditure on e-commerce in 2001 is expected to be similar to 2000 at approximately £150 million, and we will also spend £100 million in 2001 to deliver our new wealth management strategies. Overall, the individual programmes associated with these costs are expected to achieve average payback within three years.

The efficiency ratio was 46.7 per cent compared to 43.1 per cent a year ago. Excluding short-term fluctuations in investment returns, changes in the economic assumptions applied to our long-term assurance business, exceptional restructuring costs, pension provisions and the stakeholder pension related charge in 2000, the efficiency ratio deteriorated slightly to 43.6 per cent, from 42.7 per cent in 1999.

Number of employees (full-time equivalent)

Staff numbers increased by 1,484 to 77,540 during 2000. Excluding an increase of 3,061 staff following the acquisition of Scottish Widows, an increase of 1,775 staff following the acquisition of Chartered Trust and a reduction of 584 on the disposal of the new business capacity of Abbey Life, staff numbers decreased by 2,768. Within UK Retail Banking staff numbers decreased by 287 despite improvements to customer service and a substantial increase in our call centre capability. In Insurance and Investments numbers of staff increased to reflect the acquisition of Scottish Widows, in Wholesale Markets staff numbers increased by 1,245, reflecting the acquisition of Chartered Trust, and in International Banking there were lower staff numbers in Brazil and New Zealand.

Since the merger of Lloyds Bank and TSB Group at the end of 1995, there has been an underlying reduction of 20,076 staff of which 5,407 relate to staff employed in businesses sold and 14,669 to reductions in our ongoing businesses.

	31 December 2000	31 December 1999
UK Retail Banking*	**45,371**	45,658
Mortgages	**3,657**	3,669
Insurance and Investments	**6,420**	5,187
Wholesale Markets	**8,339**	7,094
International Banking	**12,563**	13,223
Other	**1,190**	1,225
Total number of employees (full-time equivalent)	**77,540**	76,056

*Although the costs of distributing mortgages and insurance through the Lloyds TSB network are allocated to the mortgage and insurance businesses, the number of employees involved in these activities in the networks is included under UK Retail Banking.

CREDIT QUALITY

Charge for bad and doubtful debts

	2000 £m	1999 £m
Domestic:		
UK Retail Banking	**345**	428
Mortgages	**(13)**	(3)
Wholesale Markets	**94**	75
Total domestic	**426**	500
International Banking	**49**	88
Total charge	**475**	588
Specific provisions	**481**	588
General provisions	**(6)**	-
Total charge	**475**	588
Charge as % of average lending:	**%**	%
Domestic	**0.45**	0.57
International	**0.32**	0.60
Total charge	**0.43**	0.57

The total charge for bad and doubtful debts decreased to £475 million from £588 million. The domestic charge decreased to £426 million from £500 million largely due to the good economic conditions during 2000, and a one-off benefit of £42 million arising from a change in methodology for retail provisioning to recognise more accurately the amount that the Group expects to recover. Provisions overseas decreased to £49 million from £88 million, mainly as a result of higher Emerging Market Debt provision releases, which offset higher provisions in Argentina.

Movements in provisions for bad and doubtful debts

	2000		1999	
	Specific £m	**General £m**	Specific £m	General £m
At 1 January	**1,762**	**361**	1,792	365
Exchange and other adjustments	**111**	**(2)**	(4)	(4)
Adjustments on acquisition	**45**	**4**	-	-
Advances written off	**(748)**	**-**	(744)	-
Recoveries of advances written off in previous years	**165**	**-**	130	-
Charge (release) to profit and loss account:				
New and additional provisions	**1,093**	**7**	1,087	7
Releases and recoveries	**(612)**	**(13)**	(499)	(7)
	481	**(6)**	588	-
At 31 December	**1,816**	**357**	1,762	361
	2,173		2,123	
Closing provisions as % of lending (excluding unapplied interest)				
Specific:				
Domestic	**774**	**(0.8%)**	773	(0.9%)
International	**1,042**	**(6.5%)**	989	(6.6%)
	1,816	**(1.6%)**	1,762	(1.7%)
General	**357**	**(0.3%)**	361	(0.3%)
Total	**2,173**	**(1.9%)**	2,123	(2.0%)

At the end of 2000 provisions for bad and doubtful debts totalled £2,173 million. This represented 1.9 per cent of total lending.

The level of specific provisions increased to £1,816 million. Non-performing lending increased to £1,283 million from £1,088 million in December 1999, largely reflecting the acquisition of Chartered Trust, and represented 1.1 per cent of total lending, compared with 1.0 per cent in December 1999. At the end of the year, specific provisions represented over 140 per cent of non-performing loans.

CAPITAL RATIOS

Risk asset ratios

	31 December 2000 £m	31 December 1999* £m
Capital		
Tier 1	**7,662**	8,348
Tier 2	**7,579**	6,838
	15,241	15,186
Supervisory deductions	**(6,862)**	(2,588)
Total capital	**8,379**	12,598
	£bn	£bn
Risk-weighted assets		
UK Retail Banking	**17.4**	15.7
Mortgages	**26.6**	24.0
Insurance and Investments	**0.2**	0.1
UK Retail Financial Services	**44.2**	39.8
Wholesale Markets	**36.5**	31.6
International Banking	**11.9**	11.6
Central group items	**0.9**	1.1
Total risk-weighted assets	**93.5**	84.1
Post-tax return on average risk-weighted assets	**3.14%**	3.02%
Risk asset ratios		
Total capital	**9.0%**	15.0%
Tier 1	**8.2%**	9.9%

* restated (page 40, note 1)

At the end of December 2000 the risk asset ratios were 9.0 per cent for total capital and 8.2 per cent for tier 1 capital. The 8.2 per cent tier 1 capital ratio appears higher than would perhaps be expected for the Group. This reflects the higher level of supervisory deductions resulting from Lloyds TSB's significantly increased investment in life assurance following the acquisition of Scottish Widows.

In 2000, following the acquisitions of Scottish Widows and Chartered Trust, total capital for regulatory purposes fell by £4,219 million to £8,379 million. Tier 1 capital was reduced by £686 million, as retained profits and the raising of the necessary capital required to complete the purchases of Scottish Widows and Chartered Trust was offset by the £2.4 billion goodwill arising on the acquisitions. Tier 2 capital increased by £741 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 £93.5 billion and the post-tax return on average risk-weighted assets, a key measure of efficient use of capital, improved to 3.14 per cent from 3.02 per cent in 1999.

BALANCE SHEET INFORMATION

Total assets

Total assets increased by £42 billion, or 24 per cent, from the end of 1999 of which £25 billion represented an increase in long-term assurance liabilities to policyholders following the acquisition of Scottish Widows (page 13). Over the last 12 months, loans and advances to customers increased by £12 billion, or 12 per cent, to £114 billion.

Deposits – customer accounts	**31 December 2000 £m**	31 December 1999 £m
Sterling:		
Non-interest bearing current accounts	**5,504**	6,012
Interest bearing current accounts	**18,221**	17,461
Savings and investment accounts	**45,972**	41,330
Other customer deposits	**16,682**	14,696
Total sterling	**86,379**	79,499
Currency	**14,359**	13,352
Total deposits – customer accounts	**100,738**	92,851
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	**3,016**	2,558
New Zealand	**7,368**	7,659
Rest of the world	**5,002**	4,159
Total international	**15,386**	14,376
	116,662	104,316
Provisions for bad and doubtful debts*	**(2,117)**	(2,067)
Interest held in suspense	**(90)**	(100)
Total loans and advances to customers	**114,455**	102,149

* Excluding provisions relating to loans and advances to banks

NOTES

1. Accounting policies and presentation

During the year, the Group 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. Following the implementation of the new standard the Group's premises will 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 1999 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 changed its presentation of assets held for leasing to customers under operating lease agreements. 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 (31 December 1999: £479 million). Comparative figures have been restated.

2. Economic profit

In pursuit of our aim to maximise shareholder value, we use a system of value based management as a framework to identify and measure value in order to help us to make better business decisions. Accounting profit is of limited use as a measure of value creation and performance as it ignores the cost of the equity capital that has to be invested to generate the profit. We choose economic profit as a measure of performance because it captures both growth in investment and return. Economic profit represents the difference between the earnings on the equity invested in a business and the cost of the equity. Our calculation of economic profit uses average equity for the year and is based on a cost of equity of 9 per cent (1999: 9 per cent).

Economic profit instils a rigorous financial discipline in determining investment decisions throughout the Group. It enables us 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.

3. Earnings per share

	2000	1999
Basic		
Profit attributable to shareholders	**£2,724m**	£2,514m
Weighted average number of ordinary shares in issue	**5,487m**	5,445m
Earnings per share	**49.6p**	46.2p
Fully diluted		
Profit attributable to shareholders	**£2,724m**	£2,514m
Weighted average number of ordinary shares in issue	**5,545m**	5,546m
Earnings per share	**49.1p**	45.3p

4. Tax

The effective rate of tax was 28.6 per cent (1999: 30.4 per cent), compared with an average UK corporation tax rate for 2000 of 30 per cent (1999: 30.25 per cent). The lower effective rate of tax, compared with the standard tax rate of 30 per cent, is largely due to tax relief on payments to the QUEST to satisfy Save As You Earn options, and gains on disposals of investments and properties sheltered by capital losses.

5. Sale and closure of businesses

	2000 **£m**	1999 £m
Provision for closure of Lloyds TSB Securities Services (tax: nil)	-	(28)
Provision for sale of Abbey Life new business capability (tax: nil) (including £80 million in respect of goodwill previously written off to reserves, and other asset write-offs)	-	(98)
	-	(126)

6. Scottish Widows

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 consideration for the transfer of £5.8 billion to policyholders was paid in August. Goodwill of £1.8 billion has been capitalised and included in the Group's balance sheet. 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, in the opinion of the directors the useful economic life of the goodwill is indefinite and, consequently, no amortisation charge has been included in the Group's results.

7. Chartered Trust

On 1 September 2000, the Group announced that its subsidiary, Lloyds UDT, had acquired Chartered Trust Group Plc and ACL Autolease Holdings Limited, (‘Chartered Trust’), the UK consumer finance and contract hire subsidiaries of Standard Chartered Bank, for a cash consideration of £614 million. A restructuring provision of £21 million has been made to cover the costs of integrating Chartered Trust and Lloyds UDT.

8. Short-term fluctuations in investment returns

In accordance with generally accepted accounting practice in the UK, it is the Group’s accounting policy to carry the investments comprising the reserves held by its life companies at market value. In the past, this has not had a significant impact upon the Group’s results because of the limited reserves necessary to support the predominantly unit linked business of Lloyds TSB Life Assurance and Abbey Life. However, the reserves held to support the with-profits business of Scottish Widows are substantial and changes in market values will result in significant volatility in the Group’s embedded value earnings. Consequently, in order to provide a clearer representation of the underlying performance, the results of the life and pensions business have been analysed between an operating profit, which includes investment earnings calculated using longer-term rates of investment return, and a profit before tax, separately identifying the short-term fluctuations in investment returns and other one-off items. This approach is already established practice amongst listed insurance companies in the UK.

The longer-term rates of return for the period are consistent with those used by the Group in the calculation of the embedded value at the beginning of the period, which were 8.00 per cent for equities and 5.25 per cent for gilts. These are based upon a long-term view of economic activity and are therefore not adjusted for market movements which are considered to be short term. This approach is considered the most appropriate given the long-term nature of the portfolio of products and achieves consistency in reporting from one period to the next.

Lloyds TSB General Insurance also holds investments to support its underwriting business; these are carried at market value and gains and losses included within dealing profits. Consistent with the approach adopted for the life and pensions business, an operating profit for the general insurance business has been calculated including investment earnings normalised using the same long-term rates of return.

9. Changes in the economic assumptions applied to our long-term assurance business

The shareholders’ interest in the long-term assurance business (‘embedded value’) is calculated on the basis of a series of economic and actuarial assumptions. Following the acquisition of the business of Scottish Widows, a detailed review of the economic 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 revised assumptions, which have been used with effect from 1 January 2000 for Abbey Life and the bancassurance operation of Lloyds TSB Life, have resulted in a one-off 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.

10. Exceptional restructuring costs

Exceptional restructuring costs totalling £188 million were charged to the 2000 profit and loss account. The majority of these costs related to an efficiency programme announced in February 2000 but there was also a £21 million restructuring provision to cover the costs of integrating Chartered Trust and Lloyds UDT.

The main features of the efficiency programme, which is primarily focused on non-customer facing activities, are: -

- the centralisation of computer operations
- the further consolidation of all our 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 our purchasing costs
- the rationalisation of non-personal banking activities, through the progressive sharing and consolidation of operational functions.

During 2000, the restructuring costs relating to the efficiency programme comprised mainly severance, consultancy costs, and the write-down of equipment. During 2001 we 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 approximately £75 million in 2001 rising to £410 million in 2004. Overall, the individual programmes associated with these costs are expected to achieve average payback within three years.

11. Dividend

A final dividend for 2000 of 21.3p per share (1999: 18.5p) will be paid on 2 May, making a total for the year of 30.6p (1999: 26.6p), an increase of 15 per cent.

Shareholders who have already joined the dividend reinvestment plan will automatically receive shares instead of the cash dividend. Shareholders who have not joined the plan and wish to do so may obtain an application form from Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA (telephone 0870 6003990). Key dates for the payment of the final dividend are:

Shares quoted ex-dividend. Shares purchased before this date qualify for the dividend	28 February
Record date. Shareholders on the register on this date are entitled to the dividend	2 March
Final date for joining or leaving the dividend reinvestment plan for the final dividend	4 April
Dividend paid	2 May

12. Other information

The financial information included in this news release does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2000 were approved by the directors on 15 February 2001 and will be delivered to the registrar of companies following publication on 10 March 2001. The auditors' report on these accounts was unqualified and did not include a statement under sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

Results for the half-year to 30 June 2001 will be announced on 27 July 2001.

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Copies of this news release may be obtained from Investor Relations, Lloyds TSB Group plc, 71 Lombard Street, London EC3P 3BS (telephone 020 7356 1273).

Information about the Group’s role in the community and copies of the Group’s code of business conduct and its environmental report may be obtained by writing to Public Affairs, Lloyds TSB Group plc, 71 Lombard Street, London EC3P 3BS.

The full news release can also be found on the internet at www.lloydstsb.com.