



Lloyds TSB Group

new products and services  
building customer relationships

# e-empowering customers

easier access to financial services  
real time banking  
banking by telephone and internet

**annual report & accounts 2000**



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OUR GOVERNING OBJECTIVE IS TO  
MAXIMISE SHAREHOLDER VALUE  
OVER TIME

TO MEET OUR GOVERNING  
OBJECTIVE WE AIM:

- TO BE A LEADER IN OUR CHOSEN  
MARKETS
- TO BE THE FIRST CHOICE FOR  
OUR 16 MILLION CUSTOMERS
- TO REDUCE DAY-TO-DAY  
OPERATING COSTS THROUGH  
INCREASED EFFECTIVENESS

## 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 28).

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 29), exceptional restructuring costs (page 27), the impact of provisions for redress to past purchasers of pension policies (page 17) and a one-off charge relating to stakeholder pensions (page 17). In 1999 the sale and closure of businesses was also significant (page 58). 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.

## PROFIT BEFORE TAX BY MAIN BUSINESSES

	2000 £ million	1999 £ million
UK Retail Banking	817	789
Mortgages	865	868
Insurance and Investments*	1,447	873
UK Retail Financial Services	3,129	2,530
Wholesale Markets	749	728
International Banking	501	444
Central group items	(133)	119
<b>Business as usual operating profit</b>	<b>4,246</b>	<b>3,821</b>
Short-term fluctuations in investment returns	(119)	28
Changes in economic assumptions	127	–
Exceptional restructuring costs	(188)	–
Pension provisions	(100)	(102)
Stakeholder pension related charge	(80)	–
Loss on sale and closure of businesses	–	(126)
<b>Statutory profit before tax</b>	<b>3,886</b>	<b>3,621</b>

\*Insurance and Investments includes 'normalised' investment returns based on long-term rates of investment return (page 28).

2000

# 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.

### 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.



## 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.

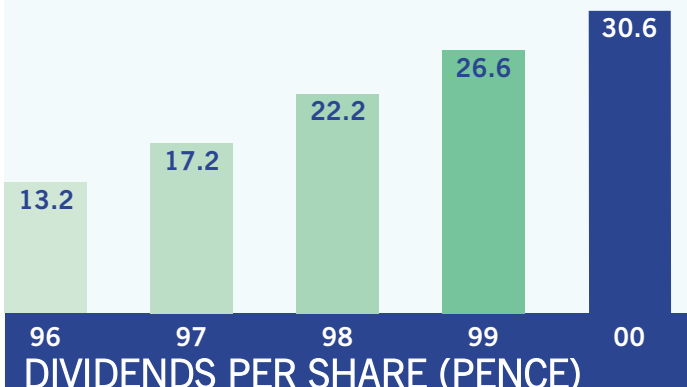
**Earnings per share** increased by 7 per cent to 49.6p.

**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.

**A final dividend** of 21.3p per share will be paid on 2 May 2001. This makes a total of 30.6p for the year, an increase of 15 per cent.



# statement

OUR GOVERNING OBJECTIVE IS TO MAXIMISE  
SHAREHOLDER VALUE OVER TIME



Sir Brian Pitman

2000 was another successful year for the Lloyds TSB Group. We continued to grow our business organically and we made two important acquisitions, Scottish Widows and Chartered Trust.

We earned record profits and earnings per share; and the dividend was increased by 15 per cent. At the same time, we are investing heavily in e-commerce and restructuring to enhance future earnings.

Over the five years since the merger between Lloyds Bank and TSB at the end of 1995 our share price rose by 114 per cent

and gross dividends increased by 140 per cent. An investment of £1,000 in Lloyds TSB shares on 1 January 1996, with dividends reinvested, was worth £2,500 at the end of 2000, a compound growth rate of over 20 per cent per annum and more than 30 per cent better than an investment in the FTSE All Share index over the same period.

We have no illusions. We have to continue to produce favourable results. If we can do that, our share price should follow.

## A CHANGING ENVIRONMENT

Few would deny that financial services is an industry in ferment. It is being transformed by increased competition, technology and consumer demand.

The scale of competition has changed dramatically in recent years. Consumers have more financial choices than ever.

Everybody seems to want to be in the money business. New competitors are popping up all over the place.

Yet, the basic financial needs of our customers do not change that much.

They want to save, borrow, invest, transact and be insured. They want value, convenience, security and trust.

They want sound financial advice. They want access to financial services when, where and how it is most convenient for them. If the value they are offered is clear and compelling, if the service and advice they receive is good, they will give us more of their business.

We have risen to the challenges which the increasingly competitive environment presents by widening our product range, greatly expanding our distribution capabilities and by offering our customers more value.

Although some new entrants in retail financial services have particularly low cost structures, we have the advantage of multi-channel distribution, which is what most people want. We can now offer more choice and greater accessibility and few can match the personal service many of our customers prefer.

In little more than a year, we have become one of the UK's leading e-commerce providers of financial services, which is a considerable achievement.

The arrival of stakeholder pensions in the UK in 2001 is a further change that will benefit people who traditionally have had difficulty accessing a suitable pension. The internet will also grow in its reach and effect. It is already bringing transparency to all markets. Our task is to respond to customer needs more readily than ever.



# OUR STRATEGY

For years, we have been working to be more than just a bank and, in doing so, we have built one of the UK's most diversified financial services companies. Not only is the market for financial services much bigger than the banking market, it is also growing much faster. We want to continue to grow our share of banking business in the UK, but our biggest opportunity for growth lies in increasing our share of total financial assets. So, there is plenty of room for growth. Our aim is to attract more of the business that our 16 million customers have with other financial companies. In pursuit of this strategy, in the year 2000, we sold more products to more people than ever before.

Today, market segmentation has assumed even greater importance. We

believe that over time competition on price alone is a losing strategy. The key to success is to find new, different and, of course, better ways of serving each customer group – services that our customers value highly and that command a price reflecting that value. Ultimately, enhancing customer value for target customers is the primary means of delivering superior shareholder returns.

Because it remains highly fragmented, the financial services industry is ripe for further consolidation. It is not a question of whether restructuring is necessary, but how it will be achieved. The acquisition of Scottish Widows and Chartered Trust are further examples of our participation in the continuing industry consolidation.

Scottish Widows – one of the most highly regarded names in life and pensions –

will greatly strengthen our hand in the rapidly growing long-term savings market. It will enhance not only the quantity but also the quality of our earnings by reducing our dependence on net interest income, where pressure on margins is growing. Chartered Trust will reinforce our leadership in motor vehicle finance. Both of these acquisitions have been successfully integrated with our existing business and we will realise substantial synergies over the next few years.

So, our basic strategy remains unchanged. We want to be the best and most successful company in the financial services industry. There is plenty of scope for organic growth in our chosen markets, but we shall also continue to seek growth by acquisition.

# OUR PEOPLE

We are at heart a service company. More sales do not always lead to better service, but better service almost always leads to better sales. Even in the age of the internet, the most critical constituency in our success is our people. The scale and pace of change and the success of the company would not have been possible without the professionalism, dedication and sheer energy of our staff at home and overseas.



# OUR FUTURE

We have a strong balance sheet, with a Triple A rating, and we are one of the most profitable banks in the world. Strategically, we are well placed in all key areas of UK retail financial services.

We aim to continue to be a leader in creating value for shareholders by offering superior customer value, both in products and service, whether in the branch, on the telephone or via the web.

Our current heavy investment in e-commerce and restructuring is planned to produce substantial productivity gains, which will enable us further to enhance customer value and hence shareholder value. Price competition is increasing, but we expect margin erosion to be offset by volume growth.

# BOARD CHANGES

This year we shall bid farewell to Paddy Linaker, a director since 1994. He leaves with our thanks and best wishes.

I will retire at this year's annual general meeting in April and I am delighted that Maarten van den Bergh, formerly President of Royal Dutch Petroleum Company, has agreed to succeed me as Chairman. I have every confidence that the company is in safe hands and that it is well equipped to meet the challenges of the future. I thank you, our owners, for your support over many years and I especially thank our great team of talented people for being the best at what they do.

**Sir Brian Pitman**  
*Chairman*

15 February 2001

# group chief executive's

# review



WE AIM TO LOOK AFTER OUR CUSTOMERS SO WELL THAT THEY WILL WANT US TO HANDLE MORE OF THEIR FINANCIAL AFFAIRS

**Peter Ellwood**

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.

## CUSTOMER RELATIONSHIP MANAGEMENT

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

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.



## WEALTH MANAGEMENT

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 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.

## E-COMMERCE

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.

## BUSINESS BANKING

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 roll out 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.



## COST MANAGEMENT

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.

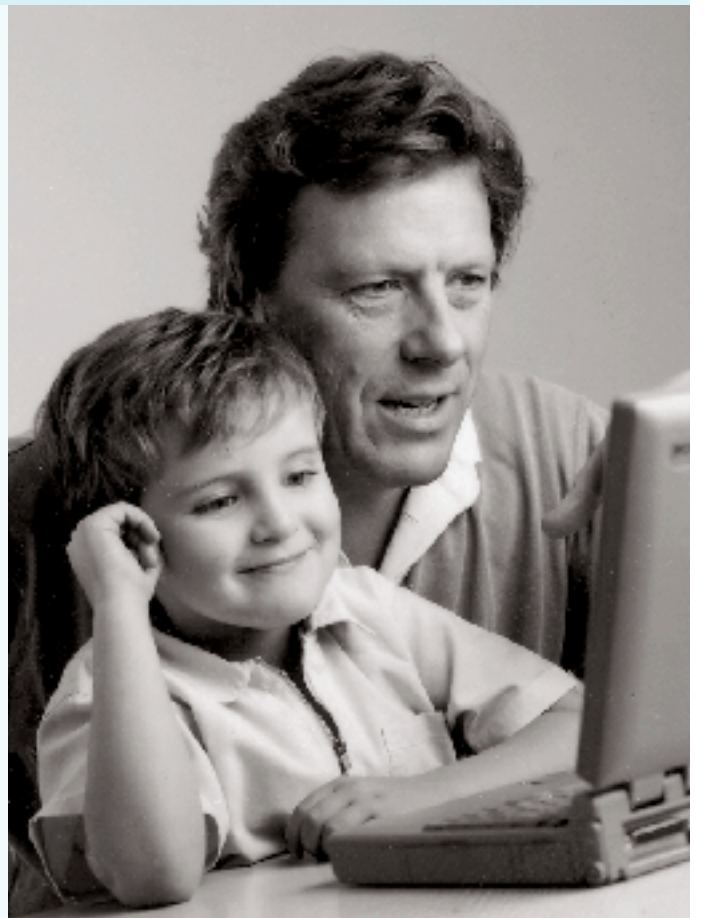
In August 2000 the Group announced

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

## RESULTS

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.

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.





# GROWTH

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.

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.



SCOTTISH WIDOWS IS THE GROUP'S PROVIDER OF LONG-TERM SAVINGS AND INVESTMENT PRODUCTS. IN THE SECOND HALF OF 2000, SALES FROM THE COMBINED LLOYDS TSB AND SCOTTISH WIDOWS LIFE, PENSIONS AND UNIT TRUST BUSINESSES INCREASED BY 19 PER CENT, COMPARED TO THE SECOND HALF OF 1999.



A TAILOR-MADE SERVICE GIVING VALUE TO CUSTOMERS

## LOOKING AHEAD

Given the increasing competition and unprecedented level of change within our industry, the quality of our staff will be absolutely crucial to the success of our organisation. During 2000, Lloyds TSB staff at every level have responded with vigour and commitment to the challenges we face and they can be justly proud of their achievements. Our staff are our greatest asset, and I am confident that they have the talent to ensure our continued success. I am most grateful for their tremendous contribution.

It gives me great pleasure to close by paying tribute to Sir Brian Pitman, our Chairman, who will retire in April, not only for the significant help and guidance

he has given to me during my four years as Group Chief Executive, but also for his unique contribution to the Lloyds TSB Group and to British banking over the past forty years. His retirement will indeed mark the end of an era and we wish him every happiness and success in the next stage of his life. Maarten van den Bergh succeeds Sir Brian in April and I look forward to working equally closely with him, over the next few years.

**Peter Ellwood**  
*Group Chief Executive*  
15 February 2001

# our role in the

# community

Strong communities form the building blocks of business success and, with the largest community programme in the UK, Lloyds TSB has taken a leading role in making a positive difference to local communities.

To help tackle financial exclusion and promote regeneration, we have launched a new Bank Account for low-income customers, developed a package of support for community credit unions and extended our support for money advice services. Working in partnership with voluntary and public organisations, we have also helped to create a blueprint for a new community-based financial service to bring mainstream financial services to deprived communities. And to ensure that no community where we are currently represented is left without access to a bank, we will no longer close any Lloyds TSB branch where, as of 1 May 2000, we are the last bank in town.

We play an active role in education too. Lloyds TSB Live! has provided more than 900,000 secondary school children with opportunities to take part in drama, music and sport. Through 'Quality in

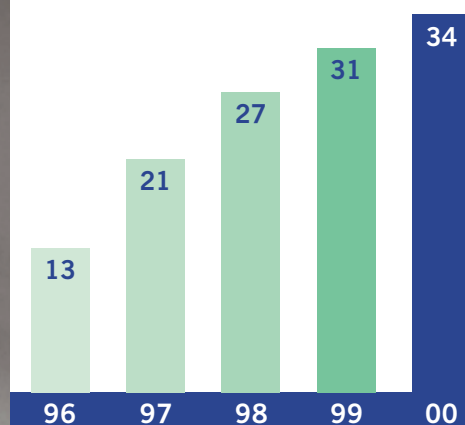
Education' we are working with 2,750 schools and 50 local education authorities to promote quality in school management and more than 600 members of staff receive training and support for their school governor responsibilities.

We continue to support those charitable organisations that are the lifeblood of local communities through the Lloyds TSB Foundations. The four independent Foundations receive one per cent of Lloyds TSB Group's pre-tax profits, averaged over three years, in lieu of their shareholder dividend. In 2001, they will receive more than £34 million to support registered charities and make £1.2 million available to match funds raised, and time given, by staff to charities through the Matched Giving Scheme.

Since the merger of Lloyds Bank and TSB in 1995, including the £34 million to be paid in respect of 2000, the four Foundations will have received more than £120 million to distribute to charities, placing the Lloyds TSB Foundations amongst the largest independent grant-giving trusts in the UK.



WE AIM TO SUPPORT THOSE COMMUNITIES THAT WE ALSO SERVE AS A BUSINESS



DISTRIBUTION TO THE LLOYDS TSB FOUNDATIONS (£M)

# the businesses of Lloyds TSB

Lloyds TSB is one of the leading UK-based financial services groups, whose businesses provide a comprehensive range of banking and financial services in the UK and overseas. At the end of 2000 total group assets were £218 billion and there were over 77,000 employees. Market capitalisation was £39 billion.

The main businesses and activities of the Group during 2000 are described below:

**UK Retail Financial Services** encompasses three of the main businesses – UK Retail Banking, Mortgages, and Insurance and Investments – and provides a full range of banking and financial services to 16 million customers. With more than 2,400 branches of Lloyds TSB Bank, Lloyds TSB Scotland and Cheltenham & Gloucester (C&G), the Group provides comprehensive geographic coverage in England, Scotland and Wales.

## **UK Retail Banking**

- *Current accounts, savings and investment accounts, and consumer lending.* The retail branches of Lloyds TSB Bank offer a broad range of branded products and C&G provides retail investments through its branch network and a postal investment centre.

- *Card Services* provides a range of card-based products and services, including credit and debit cards and card processing services for retailers. The Group is a member of both the VISA and MasterCard payment systems and is the third largest credit card issuer in the UK.

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

- *Telephone Banking.* Telephone Banking continues to grow and the Group provides one of the largest telephony services in Europe. At the end of 2000 over 2.0 million customers had registered to use the services of PhoneBank and the automated voice response service PhoneBank Express.

- *Internet Banking.* Internet Banking provides online banking facilities for personal and business customers and enables them to conduct their financial affairs without using the branch network. Over 1.2 million customers have registered to use the Group's internet banking services.

- *Business Banking.* Small businesses are served by dedicated business managers based in over 450 locations throughout the UK. Customers have access to a full range of tailored business services including money transmission, lending and deposits, asset finance, factoring, mortgages, insurance and investments, as well as *success4business*, an internet portal for business customers. Lloyds TSB is the leading bank for new business start-ups with around one in four opening accounts with the Group.

- *Private Banking and Stockbroking.* Private Banking provides a range of tailor-made wealth management services and products to individuals from 40 offices throughout the UK. In addition to asset management, these include tax and estate planning, executor and trustee services, deposit taking and lending, insurance, and personal equity plan and ISA products. At the end of 2000, funds managed and administered totalled some £12 billion.

Lloyds TSB Stockbrokers undertakes retail stockbroking through its Sharedeal Direct telephone service.

## **Mortgages**

Cheltenham & Gloucester is the Group's specialist residential mortgage provider, selling its mortgages through branches of C&G and Lloyds TSB Bank in England and Wales, as well as through the telephone, internet and postal service, C&G TeleDirect. The Group is the third largest residential mortgage lender in the UK, with a market share of 9.8 per cent, loans outstanding at the end of 2000 of £52.7 billion and over 980,000 borrowers.

## **Insurance and Investments**

- *Scottish Widows* is the Group's specialist provider of life assurance, pensions and investment products, which are distributed through the Lloyds TSB branch network, through independent financial advisers and directly via the telephone and the internet.

- *General insurance.* Lloyds TSB General Insurance provides general insurance and broking services through the retail branches of Lloyds TSB Bank and C&G, and through a direct telephone operation and the internet. The business is the market leader in the distribution of household insurance in the UK.
- *Scottish Widows Investment Partnership* manages funds for the Group's retail life, pensions and investment products. Clients also include corporate pension schemes, local authorities and other institutions in the UK and overseas. At the end of 2000 funds under management totalled some £87 billion.

### Wholesale Markets

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

- *Treasury* is a leading participant in foreign exchange, money and certain derivatives markets to meet the needs of customers, and as part of the Group's trading activities, including liquidity management.
- *Corporate and Commercial* provides a full range of banking and related services, including electronic banking, large value lease finance, share registration, venture capital, correspondent banking and capital markets services to major UK and multinational companies, financial institutions and, through a network of dedicated offices, to medium-sized businesses in the UK. The Agricultural Mortgage Corporation provides long-term finance for the agricultural sector.
- *Asset finance* provides leasing, hire purchase and loan products to the corporate and personal sectors through the Lloyds UDT, Chartered Trust and Lloyds TSB Autolease brands. Lloyds TSB Commercial Finance and Alex Lawrie Factors are leading invoice discounting and factoring companies, providing finance to developing companies.

### International Banking

- *The Americas.* The Group has operated in The Americas for over 130 years and has offices in Argentina, Brazil, Colombia and 6 other countries. In addition there are private banking and investment operations in the United States and the Bahamas.
- *New Zealand.* The National Bank of New Zealand is the country's second largest bank and provides a full range of banking services through some 160 outlets.
- *Europe.* International Private Banking covers services to wealthy individuals outside their country of residence. The business is conducted through Switzerland and through 4 other countries overseas. There are additional private and corporate banking operations in Spain and France.
- *Offshore Banking* comprises all the Group's offices in the Channel Islands and Isle of Man, as well as its operations in Hong Kong, Singapore and Malaysia and representation in Belgium, Dubai and in the USA. It provides a full range of retail banking, private banking and financial services to overseas residents and islanders, together with deposit services offshore for UK residents.

# financial review

## ACCOUNTING POLICIES AND PRESENTATION

Accounting policies are set out on pages 55 to 57. 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.

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 28).

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 29), exceptional restructuring costs (page 27), the impact of provisions for redress to past purchasers of pension policies (page 17) and a one-off charge relating to stakeholder pensions (page 17). In 1999, the sale and closure of businesses was also significant (page 58). 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.

## SUMMARY OF GROUP RESULTS

As mentioned above, 2000 figures contain a number of items which had a significant impact on the Group's results. 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.

**SUMMARY OF GROUP RESULTS (CONTINUED)**

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.

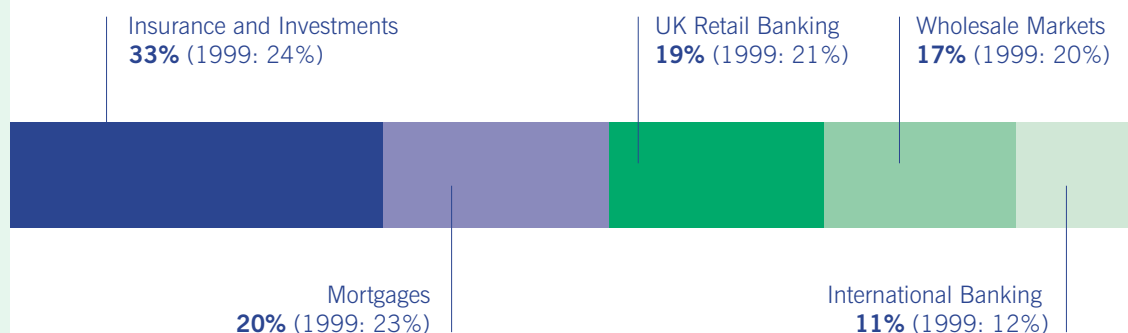
As previously anticipated, we incurred £188 million exceptional restructuring costs in 2000. E-commerce investment costs totalled approximately £150 million. Cost control will remain very important but a core element of our strategies is to continue to increase investment to underpin further our competitiveness 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.

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).

## QUALITY OF EARNINGS



excluding central group items

for the year ended 31 December 2000

## PROFIT BEFORE TAX BY MAIN BUSINESSES

## 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
<b>Total income</b>	<b>4,105</b>	4,033
Operating expenses	2,091	1,951
<b>Trading surplus</b>	<b>2,014</b>	2,082
Provisions for bad and doubtful debts	332	425
<b>Profit before tax</b>	<b>1,682</b>	1,657
Profit before tax:		
UK Retail Banking	817	789
Mortgages	865	868
<b>Total</b>	<b>1,682</b>	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.

### UK Retail Banking (continued)

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.

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.



**UK Retail Banking (continued)**

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.

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	<b>£865m</b>	£868m
Efficiency ratio	<b>23.9%</b>	22.6%
Gross new mortgage lending	<b>£11.5bn</b>	£10.7bn
Market share of gross new mortgage lending	<b>9.6%</b>	9.4%
Net new mortgage lending	<b>£4.6bn</b>	£2.8bn
Market share of net new mortgage lending	<b>11.4%</b>	7.4%
Mortgages outstanding (year-end)	<b>£52.7bn</b>	£47.5bn
Market share of mortgages outstanding	<b>9.8%</b>	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.

## Mortgages (continued)

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
	<b>816</b>	390
General insurance	591	461
	<b>1,407</b>	851
Operating profit from Insurance*		
Scottish Widows Investment Partnership:		
Scottish Widows	10	–
Hill Samuel Asset Management	30	22
	<b>40</b>	22
Total operating profit*	<b>1,447</b>	873
Short-term fluctuations in investment returns	(119)	28
Changes in economic assumptions	127	–
Pension provisions	(100)	(102)
Stakeholder pension related charge	(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.

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 in 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)
	<b>768</b>	333
Unit trusts	157	138
Unit trust distribution costs	(109)	(81)
	<b>48</b>	57
Operating profit*	<b>816</b>	390

\* including 'normalised' investment returns based on long-term rates of investment return

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.

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 & 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 1 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.

## Life and pensions (including unit trusts) (continued)

	2000 £m	1999 £m
<i>Total new business premium income and unit trust sales:</i>		
Regular premiums	<b>158.1</b>	129.4
Single premiums	<b>3,501.4</b>	1,875.7
Unit trusts	<b>1,993.3</b>	1,770.2
Weighted sales (regular + ½ single)	<b>789.5</b>	565.2
Weighted sales by distribution channel:		
Branch network	<b>353.3</b>	355.2
Independent financial advisers	<b>253.0</b>	92.8
Direct	<b>69.5</b>	9.3
Fund management	<b>113.7</b>	107.9
	<b>789.5</b>	565.2
<i>Scottish Widows (including bancassurance):</i>		
Regular premiums:		
Life – mortgage related	<b>23.6</b>	31.4
– non-mortgage related	<b>19.2</b>	9.8
Pensions	<b>105.2</b>	28.2
Fund management	<b>1.2</b>	–
Health	<b>5.6</b>	4.9
Total regular premiums	<b>154.8</b>	74.3
Single premiums:		
Life	<b>1,196.5</b>	329.6
Annuities	<b>327.1</b>	101.7
Pensions	<b>830.8</b>	79.3
Fund management	<b>1,125.3</b>	1,079.0
Total single premiums	<b>3,479.7</b>	1,589.6
External unit trust sales:		
Regular payments	<b>90.9</b>	76.7
Single amounts	<b>1,899.1</b>	1,624.5
Total external unit trust sales	<b>1,990.0</b>	1,701.2
<i>Abbey Life:*</i>		
Single premiums	<b>21.7</b>	286.1
Regular premiums	<b>3.3</b>	55.1
External unit trust sales:		
Regular payments	<b>0.1</b>	2.4
Single amounts	<b>3.2</b>	66.6
Total life funds under management	<b>51,085</b>	26,542

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

**General Insurance**

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

\* including 'normalised' investment returns based on long-term rates of investment return

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	<b>1,522</b>	<b>1,374</b>
Operating expenses	665	564
Trading surplus	<b>857</b>	<b>810</b>
Provisions for bad and doubtful debts	94	75
Amounts written off fixed asset investments	14	7
Profit before tax	<b>749</b>	<b>728</b>
Efficiency ratio	<b>43.7%</b>	41.0%
Total assets (year-end)	<b>£65.7bn</b>	£61.5bn
Total risk-weighted assets (year-end)	<b>£36.5bn</b>	£31.6bn

## Wholesale Markets (continued)

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 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 remain 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.

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

**International Banking (continued)**

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.

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
	<b>(133)</b>	<b>119</b>

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.

**NET INTEREST INCOME**

	2000	1999
<i>Group:</i>		
Net interest income £m	<b>4,587</b>	4,783
Average interest-earning assets £m	<b>131,369</b>	123,988
Gross yield on interest-earning assets %	<b>8.41</b>	8.43
Interest spread %	<b>2.95</b>	3.16
Net interest margin %	<b>3.49</b>	3.86
<i>Domestic:</i>		
Net interest income £m	<b>3,956</b>	4,154
Average interest-earning assets £m	<b>110,574</b>	104,242
Gross yield on interest-earning assets %	<b>8.07</b>	7.69
Interest spread %	<b>3.06</b>	3.38
Net interest margin %	<b>3.58</b>	3.98
<i>International:</i>		
Net interest income £m	<b>631</b>	629
Average interest-earning assets £m	<b>20,795</b>	19,746
Gross yield on interest-earning assets %	<b>10.23</b>	12.34
Interest spread %	<b>2.41</b>	2.36
Net interest margin %	<b>3.03</b>	3.19

*Notes:*

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

b) Interest spread is the difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities.

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

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

For details of payments made under cash gift and discount mortgage schemes, see page 65, note 31.

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.

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.

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.



## 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
	<b>2,768</b>	2,497
Fees and commissions payable	<b>(479)</b>	(426)
Dealing profits (before expenses):		
Foreign exchange trading income	141	133
Securities and other gains	57	82
	<b>198</b>	215
Income from long-term assurance business:		
Income before pension provisions	715	329
Pension provisions	(100)	(102)
	<b>615</b>	227
General insurance premium income	399	390
Other operating income	381	242
Total other income	<b>3,882</b>	3,145

**OPERATING EXPENSES**

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

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 capability 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 capacity. 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.

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

**CHARGE FOR BAD AND DOUBTFUL DEBTS**

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.

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

## TOTAL PROVISIONS FOR BAD AND DOUBTFUL DEBTS

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. (*Movements in provisions during the year are shown on page 61 in note 16.*)

Total provisions for bad and doubtful debts as % of lending (excluding unapplied interest)	31 December 2000 £m		31 December 1999 £m	
Specific:				
Domestic	774	(0.8%)	773	(0.9%)
International	1,042	(6.5%)	989	(6.6%)
	<b>1,816</b>	<b>(1.6%)</b>	1,762	(1.7%)
General	357	(0.3%)	361	(0.3%)
Total	<b>2,173</b>	<b>(1.9%)</b>	2,123	(2.0%)

## 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.

## CAPITAL RATIOS

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

## CAPITAL RATIOS (CONTINUED)

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

\* restated (page 55, note 1)

## Notes:

- a) Tier 1 capital comprises mainly shareholders' funds and minority interests.  
b) Tier 2 capital comprises loan capital and the general provision for bad and doubtful debts.  
c) Supervisory deductions comprise mainly the investment in the insurance businesses.

## 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.

### INVESTMENT FOR THE FUTURE

In 2000, we invested £499 million in premises and equipment, compared with £352 million in 1999. Expenditure on premises and equipment over the past 5 years has totalled £1,650 million. This investment has been mainly in support of UK operations, in the retail businesses and in new technology to enhance future profitability. It has been wholly financed by a combination of internally generated funds and disposals. At the end of 2000, there were further capital expenditure commitments of £5 million in respect of premises and equipment.

In addition, we incur significant costs each year on improving systems and on staff training programmes to enhance customer service and efficiency, as well as on the continuing refurbishment and maintenance of premises; these costs are charged to the profit and loss account.

### SHAREHOLDER RETURNS

Dividends of £1,683 million (an increase of 15 per cent per share) are covered 1.6 times by earnings. Profit of £1,041 million will be retained in the business. Total shareholders' funds grew by £1,156 million, or 13 per cent, to £9,737 million (174p per share) from £8,581 million (155p per share) at the end of 1999.

Since the merger between Lloyds Bank and TSB five years ago, the Group's share price has risen by 114 per cent. An investment of £1,000 in Lloyds TSB shares on 1 January 1996, with dividends reinvested in each year, was worth £2,500 at the end of 2000, a compound annual growth rate of over 20 per cent. On the same basis, an investment of £1,000 in the FTSE All-Share Index would be worth £1,916.

### ECONOMIC PROFIT

We continue to use economic profit as a measurement of performance, which is the best way to understand the true value being created for shareholders. Economic profit represents the profit attributable to shareholders less a notional charge for the equity invested in the business. In 2000 economic profit increased by 6 per cent to £1,882 million from £1,772 million in 1999. Our calculation of economic profit uses average equity for the year and was based on a cost of equity of 9 per cent in 2000 (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.

### 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.

## 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.

## FINANCIAL INSTRUMENTS

The Group's activities can be divided into three broad categories: banking and mortgages, insurance and investments, and trading activities.

Banking and mortgage activities represent the most significant element of the Group's business in terms of profit, assets and exposure to risk. These activities are entered into in both the UK and overseas and principally comprise the Group's core business of lending and deposit taking, involving a full range of personal and corporate customers. In entering into this business, the Group's objective is to secure a margin between the interest paid to customers on their deposits and interest received on amounts advanced. In order to do this, more complex financial instruments, such as derivatives, are used as a means of reducing risk by hedging exposures to movements in exchange rates, interest rates or other market variables.

Within its banking activities, the Group has a number of treasury operations that are responsible for utilising surplus funds and meeting funding shortfalls by entering into transactions in the money markets. Portfolios of debt securities and treasury bills are held to provide a source of liquidity; it is the Group's intention to hold these investments until maturity although in certain circumstances they may be disposed of before then where, for example, the need to hold the investment no longer applies. Any profits or losses arising from a sale of this kind are recognised immediately.

Insurance and investment businesses provide general insurance and market savings and investment products both within and outside the banking customer bases. Fund management services are also provided although, whilst involving external clients, this activity is currently dominated by the management of internal group funds.

Trading activities are restricted to a few highly specialist authorised trading centres, the principal one being the Group's Treasury department in London. Most of the Group's trading activity is to meet the requirements of customers for foreign exchange and interest rate products, from which the Group is able to earn a spread on the rates charged. However, interest rate and exchange rate positions are taken out using derivatives (forward foreign exchange contracts, interest rate swaps and forward rate agreements) and on-balance sheet instruments (mainly debt securities). The objective of these positions is to earn a profit from favourable movements in market rates. Accordingly, these transactions are reflected in the accounts at their fair value and gains and losses shown in the profit and loss account as dealing profits.

## MANAGEMENT OF RISK

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

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

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

At an operating level, the Group promotes sound internal risk management practices through the directors of its separate business units, who are primarily responsible for measuring, monitoring and controlling the range of portfolio and operating risks within their specific area of accountability. The directors and management of the business units, as the primary risk

### MANAGEMENT OF RISK (CONTINUED)

managers, are responsible for establishing proper control frameworks within their businesses to ensure that the Group's activities are conducted effectively but prudently, and within the parameters defined by Group Risk Management and Compliance. They are responsible for ensuring that the risks within their business are identified, assessed, controlled and monitored, and that the controls and procedures implemented comply with Group policies and standards, which are extensively documented in rule books and procedures manuals.

#### Credit risk

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

The Director of Group Risk Management and Compliance heads Group Risk and reports to the Group Chief Executive. Group Risk's responsibilities in respect of credit risk include the following:

- Formulation of high level credit policies designed to ensure a balanced and managed approach to the identification and mitigation of credit risk. These policies provide a standard framework within which Group businesses structure their individual policies and rules. Group Risk reviews, approves and monitors credit policy documents established for individual businesses.
- Provision of lending guidelines. These define the responsibilities for lending officers and provide a disciplined and focused benchmark for sound credit decisions. Clear guidance is provided on the Group's attitude towards and appetite for credit exposure on different market sectors, industries and products.
- Provision of a group rating system. All business units are required to operate an authorised rating system that complies with the Group's standard methodology. The Group uses a 'Master Scale' rating structure with nine ratings, each corresponding to a probability of future default.
- Establishment and maintenance of the Group's large exposure policy. Exposure to individual counterparties or groups of counterparties is controlled through a tiered hierarchy of delegated sanctioning authorities. Approval requirements for each decision are based on the transaction amount, the customer's aggregate facilities, credit risk ratings and the nature of the risk. Regular reports on significant credit exposures are provided to the group executive committee and board.
- Control of bank exposures. In-house proprietary rating systems are used to approve bank facilities on a group basis.
- Monitoring of scorecards. The Group utilises statistically-based decisioning techniques (primarily credit scoring and performance scoring) for its main consumer lending portfolios. Authorisations are determined by scorecards tailored to meet the needs of the particular business. Group Risk reviews and monitors new and material changes to scorecards.
- Control of cross-border exposures. Country limits are authorised and managed by a dedicated unit, using an in-house rating system which takes into account economic and political factors.
- Maintenance of a centralised facilities database. Group Risk operates a centralised database of large corporate, sovereign and bank facilities designed to ensure that a consistent aggregation policy is maintained throughout the Group.
- Formulation of concentration limits on certain industries and sectors. Group Risk sets limits and monitors exposures to prevent over-concentration of risk.
- Portfolio analysis. In conjunction with Group Risk, group businesses identify and define portfolios of credit and related risk exposures and the key benchmarks, behaviours and characteristics by which those portfolios are managed in terms of credit risk exposure. This entails the production and analysis of regular portfolio monitoring reports for review by Group Risk.
- Communication and provision of general guidance on all credit-related risk issues, including regulatory changes and environmental risk policy, to promote consistent and best practice throughout the Group.

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

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



**Credit risk (continued)**

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

**Market risk**

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

The Group's trading activities expose it to the risk of adverse movements in interest rates or exchange rates. Trading activities are restricted to a few highly specialist trading centres and the level of exposure is strictly controlled and monitored within approved limits locally and centrally by Group Risk.

These are supplemented by a range of value at risk techniques in use in individual businesses, where suitable methodologies have been developed in consultation with Group Risk to meet the specific requirements of each centre. At Group level, global positions are incorporated into a central value at risk model, taking into account natural offset positions between different trading centres, and stress tests are carried out to simulate extreme conditions.

Various parameters are used to calculate the value at risk on a given portfolio of positions, thus avoiding undue reliance on a single measure. Based on the commonly quoted 95 per cent confidence level, assuming positions are held overnight and using observation periods of the preceding 3 years, during 2000 the value at risk on the Group's global trading averaged £1.28 million (1999: £1.16 million) with a maximum of £1.67 million (1999: £1.78 million) and a minimum of £0.98 million (1999: £0.77 million). The figure at 31 December 2000 was £1.17 million (1999: £1.04 million).

Group Balance Sheet Management (GBSM) specifically focuses on the management of interest rate risk in the Group's retail portfolios, including mortgages, and in the Group's capital funds. GBSM reports to an Asset and Liability Committee under the chairmanship of the Group Finance Director; other members include the Director of Group Risk Management and Compliance and the managing directors of the Group's principal business units. The Group's policy is to optimise the stability of future net interest income, which is achieved by entering into hedging transactions using interest rate swaps and other financial instruments.

The table shown on page 73 in note 48b) provides an indication of the Group's interest rate repricing profile at 31 December 2000, excluding the Group's trading and insurance activities and after taking into account the off-balance sheet hedging transactions referred to above. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date. It should be noted that retail assets are sometimes repaid before their contractual maturity dates, and GBSM's hedging transactions take into account the likelihood of such prepayments.

**Structural foreign exchange risk**

Structural foreign exchange risk arises from the Group's investments in its overseas operations. The structural position is managed after having regard to the currency composition of the Group's risk-weighted assets, the objective being to limit the effect of exchange rate movements on the published risk asset ratio.

The Group's structural position at 31 December 2000 is set out on page 74 in note 48d). The position implies that a hypothetical increase of 10 per cent in the value of sterling against all other currencies would lead to a £170 million reduction in reserves. There would be no material impact upon the Group's risk asset ratio.

**Liquidity risk**

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

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

### **Liquidity risk (continued)**

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

### **Operational risk**

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

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

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

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

### **Insurance risk**

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

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

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

### **Environmental risk**

The Group has a dedicated environmental risk unit which is responsible for the development of environmental policies and procedures, and provides practical advice and guidance on environmental issues to business units. Significant progress has been made in developing the Group's environmental management system, and this is detailed in the environmental report contained in the information pack 'Lloyds TSB: the community and our business' (see page 77 for details).

### **Compliance risk**

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

The Group Compliance Director retains full day-to-day responsibility for Group Compliance, including routine contact with the regulators. He also has access to the Chairman, Group Chief Executive and other members of senior management.

## DERIVATIVES

Derivatives are used to meet the financial needs of customers, as part of the Group's trading activities and to reduce its own exposure to fluctuations in interest and exchange rates. The principal derivatives used by the Group are interest rate and exchange rate contracts; particular attention is paid to the liquidity of the markets and products in which the Group trades to ensure that there are no undue concentrations of activity and risk.

Interest rate related contracts include interest rate swaps, forward rate agreements and options. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts. Forward rate agreements are contracts for the payment of the difference between a specified rate of interest and a reference rate, applied to a notional principal amount at a specific date in the future. At 31 December 2000 the total notional principal amount of interest rate related contracts outstanding was £380.9 billion (1999: £518.3 billion) of which £292.6 billion (1999: £385.0 billion) were interest rate swaps and £48.1 billion (1999: £85.6 billion) were forward rate agreements.

Exchange rate related contracts include forward foreign exchange contracts, currency swaps and options. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal can be notional or actual. At 31 December 2000 the total notional principal amount of exchange rate related contracts outstanding was £95.1 billion (1999: £95.1 billion) of which £86.7 billion (1999: £86.1 billion) related to futures and forward foreign exchange contracts.

The volume of notional principal amounts does not, however, represent the Group's real exposure to credit risk, which is limited to the current cost of replacing contracts with a positive value to the Group, should the counterparty default. At the end of 2000 the total potential loss (or net replacement cost) on interest rate contracts was £1.0 billion (1999: £1.0 billion) and on exchange rate contracts was £1.3 billion (1999: £1.1 billion). To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure.

Equity derivatives are also used by the Group as part of its equity based retail product activity, whereby index-linked equity options are purchased to eliminate the Group's exposure to fluctuations in various international stock exchange indices. At 31 December 2000 the total notional principal amount of equity contracts was £2.8 billion (1999: £2.4 billion).

# five year financial summary

	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m
<b>Profit and loss account</b>					
Net interest income	3,795	4,144	4,398	4,783	<b>4,587</b>
Other operating income	3,070	3,136	2,726	3,145	<b>3,882</b>
Total income	6,865	7,280	7,124	7,928	<b>8,469</b>
Operating expenses	(3,947)	(4,119)	(3,504)	(3,417)	<b>(3,952)</b>
Trading surplus	2,918	3,161	3,620	4,511	<b>4,517</b>
General insurance claims	(120)	(145)	(146)	(169)	<b>(142)</b>
Provisions	(332)	(424)	(543)	(595)	<b>(489)</b>
Profit (loss) on sale and closure of businesses	(35)	154	84	(126)	–
Profit on ordinary activities before tax	2,431	2,746	3,015	3,621	<b>3,886</b>
Profit on ordinary activities after tax	1,655	2,014	2,133	2,520	<b>2,773</b>
Profit for the year attributable to shareholders	1,511	2,000	2,120	2,514	<b>2,724</b>
Economic profit	1,032	1,427	1,417	1,772	<b>1,882</b>
<b>Results excluding special items</b>					
Total income excluding special items	6,902	7,376	7,509	8,002	<b>8,641</b>
Operating expenses excluding special items	3,798	3,768	3,466	3,417	<b>3,764</b>
Operating profit excluding special items	2,652	3,039	3,354	3,821	<b>4,246</b>
Special items:					
Short-term fluctuations in investment returns	2	4	6	28	<b>(119)</b>
Changes in economic assumptions applied to long-term assurance business	–	–	123	–	<b>127</b>
Exceptional restructuring costs	(149)	(351)	(38)	–	<b>(188)</b>
Pension provisions	(39)	(100)	(400)	(102)	<b>(100)</b>
Stakeholder pension related charge	–	–	–	–	<b>(80)</b>
Guaranteed annuity provision	–	–	(114)	–	–
Profit (loss) on sale and closure of businesses	(35)	154	84	(126)	–
Statutory profit before tax	2,431	2,746	3,015	3,621	<b>3,886</b>

*Note*

Figures for 1999 and earlier years have been restated to reflect the implementation of FRS12 and FRS15 (relating to provisions and tangible fixed assets) and other minor adjustments.



	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m
<b>Balance sheet and capital ratios</b>					
Loans and advances to banks and customers	100,957	108,402	113,739	119,112	<b>129,745</b>
Investments	10,825	12,755	12,632	14,397	<b>14,129</b>
Other assets	17,216	16,791	17,822	15,928	<b>23,023</b>
	128,998	137,948	144,193	149,437	<b>166,897</b>
Long-term assurance assets attributable to policyholders	18,139	20,046	23,692	26,542	<b>51,085</b>
Total assets	147,137	157,994	167,885	175,979	<b>217,982</b>
Deposits by banks and customers and debt securities in issue	107,429	114,000	118,678	122,805	<b>135,372</b>
Other liabilities	12,502	13,557	14,089	11,525	<b>13,726</b>
Subordinated liabilities (loan capital)	3,919	4,209	4,021	6,493	<b>7,510</b>
Minority interests (equity and non-equity)	34	40	42	33	<b>552</b>
Shareholders' funds (equity)	5,114	6,142	7,363	8,581	<b>9,737</b>
	128,998	137,948	144,193	149,437	<b>166,897</b>
Long-term assurance liabilities to policyholders	18,139	20,046	23,692	26,542	<b>51,085</b>
Total liabilities	147,137	157,994	167,885	175,979	<b>217,982</b>
Risk asset ratio : total capital	9.7%	10.7%	11.2%	15.0%	<b>9.0%</b>
: tier 1 capital	6.6%	7.8%	8.6%	9.9%	<b>8.2%</b>
<b>Share information</b>					
Earnings per share	29.9p	37.4p	39.3p	46.2p	<b>49.6p</b>
Dividends per share (net)	13.2p	17.2p	22.2p	26.6p	<b>30.6p</b>
Dividend cover (times)	2.3	2.2	1.8	1.7	<b>1.6</b>
Market price (year-end)	430p	789p	855p	774p	<b>708p</b>
Net assets per share	95p	113p	134p	155p	<b>174p</b>
Number of shareholders (thousands)	1,099	1,047	1,028	1,024	<b>1,026</b>
Average shares in issue (millions)	5,054	5,341	5,400	5,445	<b>5,487</b>
<b>Performance measures</b>					
Post-tax return on average shareholders' equity	31.6%	34.9%	30.2%	30.5%	<b>29.1%</b>
Post-tax return on average assets*	1.24%	1.49%	1.53%	1.70%	<b>1.75%</b>
Post-tax return on average risk-weighted assets*	2.06%	2.49%	2.67%	3.02%	<b>3.14%</b>
Efficiency ratio	57.5%	56.6%	49.2%	43.1%	<b>46.7%</b>

\* Assets exclude long-term assurance assets attributable to policyholders.

*Note*

Figures for 1999 and earlier years have been restated to reflect the implementation of FRS12 and FRS15 (relating to provisions and tangible fixed assets) and other minor adjustments.

# STATUTORY ACCOUNTS

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# the board

## **Sir Brian Pitman**◆

*(retiring at the annual general meeting on 18 April 2001)*

### **Chairman**

Joined Lloyds Bank in 1952. After a number of senior and general management appointments in Lloyds Bank and Lloyds Bank International, appointed a director and group chief executive of Lloyds Bank in 1983. Following the merger with TSB Group in 1995, became group chief executive of Lloyds TSB Group and then chairman in February 1997. Chairman of NEXT PLC and a non-executive director of Carlton Communications, The Carphone Warehouse Group and Tomkins. Aged 69.

## **Maarten A van den Bergh**§

*(succeeding Sir Brian Pitman as Chairman)*

### **Deputy Chairman**

Joined Lloyds TSB Group in 2000 as deputy chairman. Will succeed Sir Brian Pitman as chairman when Sir Brian retires at the annual general meeting in April 2001. Joined the Royal Dutch/Shell Group of companies in 1968. After a number of senior and general management appointments in that group, became group managing director in July 1992. Appointed president of Royal Dutch Petroleum Company and vice chairman of the committee of managing directors of the Royal Dutch/Shell Group in July 1998 and continued in these roles until June 2000. A non-executive director of Royal Dutch Petroleum Company and British Telecommunications. Aged 58.

## **Alan E Moore** CBE\*§

### **Deputy Chairman**

Joined Lloyds Bank International in 1980. Held a number of senior and general management appointments in that company and in Lloyds Bank before becoming a director of Lloyds Bank in 1989 and deputy chief executive and treasurer in 1994. Following the merger with TSB Group in 1995, became deputy group chief executive of Lloyds TSB Group and then deputy chairman in August 1998. Joined Glyn Mills & Co in 1953, holding senior appointments there until his secondment, as director general, to the Bahrain Monetary Agency from 1974 to 1979. Aged 64.

## **EXECUTIVE DIRECTORS**

### **Peter B Ellwood**

#### **Group Chief Executive**

Joined TSB Bank in 1989 as chief executive, retail banking. Appointed a director of TSB Group in 1990 and became group chief executive in 1992. Following the merger with Lloyds Bank in 1995, became deputy group chief executive of Lloyds TSB Group and then group chief executive in February 1997. Joined Barclays Bank in 1961 and after a number of senior and general management appointments, became chief executive of Barclaycard in 1985. Former chairman of Visa International. Aged 57.

### **Michael E Fairey**

#### **Deputy Group Chief Executive**

Joined TSB Group in 1991 and held a number of senior and general management appointments in the Group before being appointed to the board in 1997 and deputy group chief executive in March 1998. Joined Barclays Bank in 1967 and held a number of senior and general management appointments before becoming managing director of Barclays Direct Lending Services in 1990. Aged 52.

### **Michael D Ross**

#### **Deputy Group Chief Executive**

Joined the board in 2000. Joined Scottish Widows in 1964 and following a number of senior and general management appointments became group chief executive of that company in 1991. Aged 54.

### **M Kent Atkinson**

#### **Group Finance Director**

Joined Bank of London & South America in 1964, which became a Lloyds Bank subsidiary in 1971, and held a number of senior and general management appointments in the Group, including positions in Latin America and the Middle East, before being appointed to the board in 1997. A non-executive director of Coca-Cola HBC SA. Aged 55.

### **Dennis Holt**

#### **Group Executive Director, Retail Distribution**

Joined Lloyds Bank in 1970 and held a number of senior and general management appointments in the Group before being appointed to the board in 2000. Aged 52.

### **Archie G Kane**

#### **Group Executive Director, IT and Operations**

Joined TSB Commercial Holdings in 1986 and held a number of senior and general management appointments in the Group before being appointed to the board in 2000. After some 10 years in the accountancy profession, joined General Telephone & Electronics Corporation in 1980, serving as finance director in the UK from 1983 to 1985. Aged 48.

### **David P Pritchard**

#### **Group Executive Director, Wholesale and International Banking**

Joined TSB Group in 1995 as group treasurer. Seconded to the Securities and Investments Board as head of supervision & standards, markets & exchanges, from 1996 to 1998. Appointed to the board in 1998. Held senior and general management appointments with Citicorp from 1978 to 1986 and Royal Bank of Canada from 1986 to 1995. Aged 56.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

### **Ewan Brown** CBE\*

*(\*\* succeeding Mr Linaker)*

#### **Chairman of Lloyds TSB Scotland**

A director since 1999. A non-executive director of Lloyds TSB Scotland since 1997. Executive director of Noble Grossart since 1971. Chairman of Dunedin Income Growth Investment Trust and the Court of Heriot-Watt University, and a non-executive director of Stagecoach Holdings. Aged 58.

### **A Clive Butler**‡§▲

A director of TSB Group since 1993. Joined Unilever in 1970 and following a number of senior and general management appointments was appointed an executive director of Unilever in 1992. Aged 54.

### **Sheila M Forbes**†

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

### **Christopher S Gibson-Smith**†

A director since 1999. Joined the British Petroleum Company in 1970 and held senior and general management appointments in the UK, USA, Canada and Europe. Became a managing director of BP in 1997 and managing director and executive vice president of BP Amoco in 1998. Aged 55.

### **L E (Paddy) Linaker**\*\*§

*(retiring at the annual general meeting on 18 April 2001)*

A director of TSB Group since 1994.

A non-executive director of Wolverhampton and Dudley Breweries. Joined M&G Group in 1963 and held a number of senior and general management appointments, including deputy chairman and group managing director from 1988 to 1994. Chairman of Fisons from 1994 to 1995. Aged 66.

### **Thomas F W McKillop**\*†

A director since 1999. Joined ICI in 1969 and held a number of senior and general management appointments there before the demerger in 1993, when Zeneca was created. Chief executive of Zeneca Pharmaceuticals from 1994 to 1999 and chief executive of AstraZeneca from 1999. Pro-chancellor of Leicester University. Aged 57.

### **The Earl of Selborne** KBE FR§

#### **Chairman of The Agricultural Mortgage Corporation**

A director since 1995, having been a director of Lloyds Bank since 1994. Managing director of The Blackmoor Estate, his family business. Chancellor of Southampton University since 1996. President of the Royal Geographical Society from 1997 to 2000. Aged 60.

### **Lawrence M Urquhart**\*

#### **Chairman of Scottish Widows**

Joined the board in 2000. Chairman of BAA and a non-executive director of Imerys SA. Joined Burmah Castrol in 1977 and held a number of senior and general management appointments in that company before becoming chief executive in 1985 until 1993 and chairman in 1990 until 1998. Former chairman of English China Clays. Aged 65.

#### **Company Secretary**

### **Alastair J Michie** FCIS FCIBS

\* Member of the audit committee

\*\* Chairman of the audit committee

† Member of the remuneration committee

‡ Chairman of the remuneration committee

§ Member of the nomination committee

◆ Chairman of the nomination committee

▲ Senior independent director

# directors' report

## Results and dividends

The consolidated profit and loss account on page 49 shows a profit attributable to shareholders for the year ended 31 December 2000 of £2,724 million.

An interim dividend of 9.3p per ordinary share was paid on 11 October 2000 and a final dividend of 21.3p per ordinary share will be paid on 2 May 2001. The dividends for 2000 will absorb £1,683 million.

## Principal activities

The Company is a holding company and its subsidiaries provide a comprehensive range of banking and financial services through branches and offices in the UK and overseas.

## Group structure

The transfer of the business of Scottish Widows' Fund and Life Assurance Society to the Group's wholly-owned subsidiaries Scottish Widows plc and Scottish Widows Annuities Limited was completed on 3 March 2000. Following this acquisition, the Group is bringing together its life, pensions, unit trust and fund management businesses.

On 1 September 2000, the Group's subsidiary, Lloyds UDT Finance Limited, completed the acquisition of the whole of the issued share capital of Chartered Trust Group plc and ACL Autolease Holdings Limited, the UK consumer finance and contract hire subsidiaries of Standard Chartered Bank.

## Business review and future developments

A review of the business and an indication of future developments are given on pages 2 to 33.

## Authority to purchase shares

The authority for the Company to purchase, in the market, up to 555 million of its shares, representing some 10 per cent of the issued ordinary share capital, expires at the annual general meeting. It was not used during the year and shareholders will be asked to give a similar authority at the annual general meeting. Details are contained in the accompanying notice of meeting.

## Directors

Biographical details of directors are shown on page 37. Particulars of their emoluments and interests in shares in the Company are given on pages 42 to 45.

Mr Pell left the board on 7 January 2000 and Sir Nicholas Goodison, Mr Nicholson and Dame Bridget Ogilvie left the board at the annual general meeting in April 2000. Mr Linaker and Sir Brian Pitman will retire at the annual general meeting in 2001.

Mr Ross and Mr Urquhart joined the board on 3 March 2000.

Mr van den Bergh joined the board on 1 October 2000 and under the articles of association offers himself for election at the annual general meeting.

Mr Atkinson, Professor Brown, Mr Ellwood and Mr Pritchard retire by rotation at the annual general meeting and offer themselves for re-election.

No director had a material interest at any time during the year in any contract of significance with the Company or its subsidiaries.

## Employees

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

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

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions.

Profit sharing and share option schemes are available for most staff, to encourage their financial involvement in the Group.



**Donations**

The profit and loss account includes a charge for charitable donations totalling £34,790,000 (1999: £31,581,000) including £34,483,333 (1999: £31,336,667) under deeds of covenant to the four Lloyds TSB Foundations, which will be paid during 2001. No payments were made to political parties.

**Policy and practice on payment of creditors**

The Company follows 'The Better Payment Practice Code' published by the Department of Trade and Industry regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the address shown on page 77.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the Company owed no amounts to trade creditors at 31 December 2000, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is nil. The equivalent figure for the Lloyds TSB Group in the UK is 23. This bears the same proportion to the number of days in the year as the aggregate of the amounts owed to trade creditors at 31 December 2000 bears to the aggregate of the amounts invoiced by suppliers during the year.

**Auditors**

Resolutions concerning the re-appointment of PricewaterhouseCoopers as auditors and authorising the directors to set their remuneration will be proposed at the annual general meeting.

On behalf of the board

A J Michie  
*Secretary*

15 February 2001

# directors' remuneration

## **The remuneration committee**

The remuneration committee, comprising Mr Butler (chairman), Miss Forbes, Dr Gibson-Smith and Dr McKillop, makes recommendations to the board on the framework of executive directors' remuneration and its cost, and determines, on the board's behalf, specific remuneration packages for each of the chairman, the deputy chairmen and the executive directors. Additionally, all the non-executive directors receive the minutes of remuneration committee meetings and have the opportunity to comment and have their views taken into account before the committee's decisions are implemented.

## **Executive directors' remuneration policy**

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

## **The reward package**

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

### ***Basic salary***

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

### ***Annual bonus***

The annual bonus scheme was designed to reflect specific goals linked to the performance of the business.

Each executive director was eligible to earn an incentive award equal to 50 per cent of salary. The awards for the group chief executive and group finance director were entirely based on group performance. Other executive directors had part of their award based on group performance and the rest linked to the performance of the sector of the business for which they had responsibility. The awards were based on the attainment of predetermined targets relating to economic profit, revenue growth, expenses and customer service.

The remuneration committee reviewed the attainment of targets and agreed the bonus payments.

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

## ***Medium-term incentive plan***

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

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

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

For the year 2000, the group's efficiency ratio was 46.7 per cent and return on equity was 29.1 per cent.

#### **Long-term rewards**

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

In 2000 options were granted to executive directors and senior executives within limits set by the rules of the schemes. These limits relate to the number of shares under option and the price payable on the exercise of options. Normally, the limit for the grant of options to an executive in any one year would be equal to one year's remuneration. Performance conditions are set when the grant of options is made. To meet the performance conditions under the current schemes the Company's ranking, based on total shareholder return (calculated by reference to both dividends and growth in share price) over the relevant period, should be in the top fifty companies in the FTSE 100. There must also have been growth in earnings per share that is at least equal to the aggregate percentage change in the retail price index, plus three percentage points for each complete year of the relevant period. These are the performance conditions which were confirmed by the shareholders at the annual general meeting in 2000.

Proposals will be made to shareholders at the annual general meeting relating to the executive share option scheme, and will include recommendations regarding performance conditions and the time over which options may vest. Details are contained in the accompanying notice of meeting.

#### **Pensions**

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

#### **Other benefits**

Other benefits include the use of a car, medical and other insurance and participation in the staff profit sharing scheme.

#### **Service agreements**

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

The remuneration committee has considered the provisions of the UK listing authority's corporate governance code relating to compensation in the event of early termination of directors' service contracts and a departing director's duty to mitigate loss. The committee reviewed the wording of the executive directors' contracts and felt that as the notice period did not exceed one year, except in the case of Mr Ross as mentioned above, there was no need to provide explicitly for compensation payments on early termination.

## Directors' emoluments

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

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

The total for the highest paid director (Mr Ellwood) was £856,000. (The total for the highest paid director in 1999 (Sir Brian Pitman), including the gain of £3,025,000 on the exercise of share options, mentioned in the table on page 44, was £3,465,000).

The gains on the exercise of share options arise from increases in the share price since the options were granted. Shareholders who held shares for the same periods would have gained similarly from these increases.

**Directors' pensions**

Pension benefits earned by the directors:

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

Column (a) above is the increase in pension built up during the year. It recognises (i) the accrual rate for the additional year's service based on the pensionable salary in force at the year end and (ii) the effect of pay changes in 'real' (inflation adjusted) terms on the pension already earned at the start of the year.

Column (b) is the additional capital value of column (a) which would arise if the pension were to be transferred to another pension scheme on the director's leaving the company, based on factors supplied by the actuary of the relevant Group pension scheme in accordance with actuarial guidance note GN11, less (where paid) the director's contributions.

Column (c) is the aggregate pension entitlement based on pensionable service with the Company to 31 December 2000 but payable at normal retirement age.

Members of the Group's pension schemes have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

\* Includes additional benefits from the separate fund, mentioned in previous annual reports, established to cover pension obligations of those who joined the Group after 1 June 1989 and who are subject to the Inland Revenue earnings cap relating to pensions, introduced by the Finance Act 1989.

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

## Directors' interests

The directors' interests, all beneficial, in shares in Lloyds TSB Group were:

### Shares:

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

### Options to acquire shares:

	At 1 January 2000 (or date of appointment if later)	Granted during the year	Exercised/ lapsed during the year	At 31 December 2000	Weighted average exercise price at 31 December 2000	Exercise price of options granted, exercised or lapsed during the year	Market price at date of exercise	Amount of gain on exercise** 2000 £000	1999 £000
M K Atkinson	350,875	59,144 26,136 916		436,433	441p	549.5p 615.5p 442p 718p 580p			8
P B Ellwood*	490,486	80,364 61,714	282† 356†	632,564	533p	549.5p 615.5p			
M E Fairey*	330,982	85,896 10,931		427,809	501p	549.5p 615.5p			43
Dennis Holt	53,237	42,038 10,889		102,830	626p	549.5p 615.5p			
			419 682 352 206 237† 269† 218† 187† 376† 136† 127† 125†			164.57p 253p 288p 416p 580p 768p 632p 719p 718p 253p 288p 416p	642p 642p 642p	2 3 1 1	
A G Kane*	253,806	64,786 11,841 4,157	3,682 1,015† 562†	329,331	505p	549.5p 615.5p 442p 178p 768p 719p	640.5p	20	
A E Moore	62,984			62,984	251p				8
Sir Brian Pitman	4,374			4,374	309p				3,025
D P Pritchard	94,687	71,519 10,385		176,591	698p	549.5p 615.5p			
M D Ross	–	265,696 3,245		268,941	549p	549.5p 520p			

Gain made by Sir Nicholas Goodison, who retired on 11 April 2000

Gain made by S A Maran, who served during 1999

Gain made by G F Pell, who left the board on 7 January 2000

	172
	27
	815
	<b>27</b>
	<b>4,098</b>

**Directors' interests (continued)****Options to acquire shares (continued)**

Options outstanding are exercisable between 2001 and 2010.

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

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

†During the year these share options lapsed following termination of savings contracts linked to the staff sharesave option scheme, in accordance with the rules of the scheme.

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

None of the other directors at 31 December 2000 had options to acquire shares in the Company or its subsidiaries.

**Scottish Widows loan capital**

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

**Non-beneficial interests**

Directors had non-beneficial interests as follows:

1. Mr Atkinson, Mr Ellwood, Mr Fairey, Mr Holt, Mr Kane, Mr Moore, Sir Brian Pitman, Mr Pritchard, Mr Ross and Mr van den Bergh together with some 70,000 other employees, were potential beneficiaries in the 749,896, 66,536 and 3,100,000 shares held at the end of the year by the Lloyds TSB qualifying employee share ownership trust, the TSB Group employee trust and the Lloyds TSB Group employee share ownership trust, respectively. 1,888,211, 2,574,721 and 3,100,000 shares, respectively, were held by these trusts at the beginning of the year. These holdings were 195,941, 18,489 and 3,100,000, respectively, on 15 February 2001.

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

None of those who were directors at the end of the year had any other interest in the capital of the Company or its subsidiaries and there were no changes in their beneficial interests between 31 December 2000 and 15 February 2001.

The register of directors' interests, which is open to inspection, contains full particulars of directors' shareholdings and options to acquire shares in the Company.

# corporate governance

The UK listing authority's rules require companies to make statements on corporate governance in their annual reports. The following comments are, therefore, included to comply with these rules.

## **Corporate governance principles**

The board considers that good governance is central to achieving the Group's governing objective of maximising shareholder value. That has been uppermost in directors' minds when applying the governance principles contained in the code annexed to the UK listing authority's listing rules.

The following remarks demonstrate how the board has applied these principles.

The information on page 37 shows that the Company is led and controlled by a board comprising executive and non-executive directors with wide experience. The appointment of directors is considered by the board and, following the provisions in the articles of association, they must retire by rotation, and may stand for re-election by the shareholders, at least every three years.

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

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

The board has a chairman's committee, comprising the chairman, the two deputy chairmen, the group chief executive and his deputy. The chairman's committee meets to discuss current issues and strategy, examine and test proposals and prepare for board meetings. It also has power to deal with routine matters between board meetings.

The board has audit, nomination and remuneration committees which comply with the provisions of the code. Additionally, all the non-executive directors receive copies of the minutes of the remuneration committee's meetings and have the opportunity to comment and have their views taken into account before the committee's decisions are implemented.

More information about directors' remuneration is given in the directors' remuneration report on pages 40 to 45 and details of how the board reviews financial and operational controls and risk management generally are shown on page 47 and in the financial review on pages 11 to 33.

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

## **Compliance with the code**

The directors believe that the Company complies with the provisions of the code and that it has complied throughout the year with the provisions where the requirements are of a continuing nature.

## **Directors' responsibilities**

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the year and of the profit or loss for the year. Following discussions with the auditors, the directors consider that in preparing the financial statements on pages 49 to 76, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## **Going concern**

The directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future and are financially sound. For this reason, they continue to adopt the going concern basis in preparing the accounts.



**Internal control**

The board of directors is responsible for the Group's system of internal control, which is designed to ensure effective and efficient operations, internal control, including financial reporting, and compliance with laws and regulations. In establishing and reviewing the system of internal control the directors have regard to the materiality of relevant risks, the likelihood of a loss being incurred and the costs of control. It follows, therefore, that the system of internal control can only provide reasonable but not absolute assurance against the risk of material loss.

The directors and senior management of the Group are committed to maintaining a control conscious culture across all areas of operation. This is communicated to all employees by way of procedures manuals and regular management briefings. Key business risks are identified, and these are controlled by means of procedures such as physical controls, credit, trading and other authorisation limits and segregation of duties. There are well established budgeting and forecasting procedures in place and reports are presented regularly to the board detailing the results of each principal business unit, variances against budget and prior year, and other performance data. Internal controls contain procedures which assist the board in identifying new and emerging risks.

The effectiveness of the internal control system is reviewed regularly by the board and the audit committee which also receives reports of reviews undertaken around the Group by the Group's risk management function, including internal audit and compliance. The audit committee also receives reports from the Company's auditors, PricewaterhouseCoopers, which include details of significant internal control matters that they have identified and has a discussion with the auditors at least once a year without executives present, to ensure that there are no unresolved issues of concern.

# auditors' report

## **To the members of Lloyds TSB Group plc**

We have audited the financial statements on pages 42 to 45 and 49 to 76.

## **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the annual report. As described on page 46 this includes responsibility for preparing the financial statements in accordance with applicable UK Accounting Standards. Our responsibilities, as independent auditors, are established in the UK by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the UK Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 46 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

## **Basis of audit opinion**

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

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

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
London

15 February 2001

# consolidated profit and loss account

for the year ended 31 December 2000

	Note	Group (excluding Scottish Widows) 2000 £ million	Scottish Widows (from 3 March) (note 49) 2000 £ million	Total 2000 £ million	1999* £ million
Interest receivable:					
Interest receivable and similar income arising from debt securities		443	–	443	430
Other interest receivable and similar income		10,511	100	10,611	10,022
Interest payable		6,132	335	6,467	5,669
<b>Net interest income</b>		<b>4,822</b>	<b>(235)</b>	<b>4,587</b>	4,783
<b>Other income</b>					
Fees and commissions receivable		2,706	62	2,768	2,497
Fees and commissions payable		(461)	(18)	(479)	(426)
Dealing profits (before expenses)	2	193	5	198	215
Income from long-term assurance business:	32				
Income before pension provisions		447	268	715	329
Pension provisions		(100)	–	(100)	(102)
General insurance premium income		399	–	399	390
Other operating income		381	–	381	242
		<b>3,565</b>	<b>317</b>	<b>3,882</b>	3,145
<b>Total income</b>		<b>8,387</b>	<b>82</b>	<b>8,469</b>	7,928
<b>Operating expenses</b>					
Administrative expenses	3	3,332	46	3,378	3,140
Exceptional restructuring costs	4	129	59	188	–
Total administrative expenses		3,461	105	3,566	3,140
Depreciation	26	364	–	364	265
Amortisation of goodwill	25	22	–	22	12
Depreciation and amortisation		386	–	386	277
Total operating expenses		<b>3,847</b>	<b>105</b>	<b>3,952</b>	3,417
<b>Trading surplus (deficit)</b>		<b>4,540</b>	<b>(23)</b>	<b>4,517</b>	4,511
General insurance claims		142	–	142	169
<b>Provisions for bad and doubtful debts</b>	16				
Specific		481	–	481	588
General		(6)	–	(6)	–
		475	–	475	588
Amounts written off fixed asset investments	5	14	–	14	7
<b>Operating profit (loss)</b>		<b>3,909</b>	<b>(23)</b>	<b>3,886</b>	3,747
Loss on sale and closure of businesses	6			–	(126)
<b>Profit on ordinary activities before tax</b>	7			<b>3,886</b>	3,621
Tax on profit on ordinary activities	9			1,113	1,101
<b>Profit on ordinary activities after tax</b>				<b>2,773</b>	2,520
Minority interests: equity				13	6
: non-equity	43			36	–
<b>Profit for the year attributable to shareholders</b>	10			<b>2,724</b>	2,514
Dividends	11			1,683	1,451
<b>Retained profit</b>	45			<b>1,041</b>	1,063
<b>Earnings per share</b>	12			<b>49.6p</b>	46.2p
<b>Diluted earnings per share</b>	12			<b>49.1p</b>	45.3p

\* restated (note 1)

# consolidated balance sheet

at 31 December 2000

	Note	2000 £ million	1999* £ million
<b>Assets</b>			
Cash and balances at central banks		1,027	1,276
Items in course of collection from banks		1,533	1,743
Treasury bills and other eligible bills	13	1,709	2,065
Loans and advances to banks	14	15,290	16,963
Loans and advances to customers		114,855	102,149
Non-returnable finance		(400)	–
	15	114,455	102,149
Debt securities	20	13,882	14,184
Equity shares	21	247	213
Intangible fixed assets	25	2,599	231
Tangible fixed assets	26	3,037	2,035
Own shares	29	28	35
Other assets	30	3,576	3,641
Prepayments and accrued income	31	2,965	2,628
Long-term assurance business attributable to shareholders	32	6,549	2,274
		<b>166,897</b>	149,437
Long-term assurance assets attributable to policyholders	32	51,085	26,542
Total assets		<b>217,982</b>	175,979

\* restated (note 1)

The directors approved the accounts on 15 February 2001.

**Sir Brian Pitman**  
Chairman

**P B Ellwood**  
Group Chief Executive

**M K Atkinson**  
Group Finance Director

	Note	2000 £ million	1999* £ million
<b>Liabilities</b>			
Deposits by banks	34	16,735	17,694
Customer accounts	35	100,738	92,851
Items in course of transmission to banks		420	757
Debt securities in issue	36	17,899	12,260
Other liabilities	38	6,980	5,526
Accruals and deferred income	39	4,325	3,309
Provisions for liabilities and charges:			
Deferred tax	40	1,559	1,459
Other provisions for liabilities and charges	41	442	474
Subordinated liabilities:			
Undated loan capital	42	3,391	3,294
Dated loan capital	42	4,119	3,199
Minority interests:			
Equity		37	33
Non-equity	43	515	–
		552	33
Called-up share capital	44	1,396	1,389
Share premium account	45	595	404
Merger reserve	45	343	343
Profit and loss account	45	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
<b>Memorandum items</b>			
47			
Contingent liabilities:			
Acceptances and endorsements		357	459
Guarantees and assets pledged as collateral security		3,249	2,485
Other contingent liabilities		1,541	1,479
		5,147	4,423
Commitments:			
Commitments arising out of sale and option to resell transactions		3	14
Other commitments		42,586	27,862
		42,589	27,876

\* restated (note 1)

## balance sheet

at 31 December 2000

	Note	2000 £ million	1999 £ million
<b>Fixed assets</b>			
Investments			
Shares in group undertakings	23	11,152	10,197
Loans to group undertakings	23	759	759
Own shares	29	24	35
		<b>11,935</b>	10,991
<b>Current assets</b>			
Debtors falling due within one year			
Amounts owed by group undertakings		1,233	860
Other debtors		42	47
Tax recoverable		16	34
Cash balances with group undertakings		66	262
		<b>1,357</b>	1,203
<b>Current liabilities</b>			
Amounts falling due within one year			
Short-term borrowings	37	1	1
Amounts owed to group undertakings		1,811	1,918
Other creditors		62	60
Dividend payable		1,172	1,011
		<b>3,046</b>	2,990
<b>Net current liabilities</b>		<b>(1,689)</b>	(1,787)
<b>Total assets less current liabilities</b>		<b>10,246</b>	9,204
<b>Creditors</b>			
Amounts falling due after more than one year			
Dated loan capital	42	512	511
<b>Net assets</b>		<b>9,734</b>	8,693
<b>Capital and reserves</b>			
Called-up share capital	44	1,396	1,389
Share premium account	45	595	404
Revaluation reserve	45	5,086	4,131
Profit and loss account	45	2,657	2,769
<b>Shareholders' funds (equity)</b>		<b>9,734</b>	8,693

The directors approved the accounts on 15 February 2001.

**Sir Brian Pitman**  
Chairman

**P B Ellwood**  
Group Chief Executive

**M K Atkinson**  
Group Finance Director

# other statements

## Statement of total recognised gains and losses

for the year ended 31 December 2000

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

## Historical cost profits and losses

for the year ended 31 December 2000

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

## Reconciliation of movements in shareholders' funds

for the year ended 31 December 2000

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

# consolidated cash flow statement

for the year ended 31 December 2000

	2000 £ million	1999* £ million
<b>Net cash inflow from operating activities</b> (note 50a)	<b>7,558</b>	1,261
<i>Returns on investments and servicing of finance:</i>		
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)
<i>Taxation:</i>		
UK corporation tax	(723)	(670)
Overseas tax	(141)	(137)
Total taxation	(864)	(807)
<i>Capital expenditure and financial investment:</i>		
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)
<i>Acquisitions and disposals:</i>		
Acquisition of group undertakings (note 50e)	(5,110)	(27)
Disposal of group undertakings and businesses (note 50g)	83	3
Net cash outflow from acquisitions and disposals	(5,027)	(24)
<i>Equity dividends paid</i>	(1,522)	(1,285)
<b>Net cash outflow before financing</b>	<b>(70)</b>	<b>(3,094)</b>
<i>Financing:</i>		
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: £205 million) contribution to the QUEST (note 29)	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
<b>Increase (decrease) in cash</b> (note 50c)	<b>1,406</b>	<b>(448)</b>

\* restated (note 1)



# notes to the accounts

## 1 Accounting policies

Accounting policies are unchanged from 1999, except that the Group has implemented the requirements of Financial Reporting Standard 15 'Tangible Fixed Assets'; this has resulted in two changes. The Group's freehold and long leasehold premises were previously included in the balance sheet at the last valuation on the basis of existing use value; they will now no longer be revalued, and a prior year adjustment has been made to restate the carrying value to historical cost. This has resulted in the carrying value of tangible fixed assets as at 1 January 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.

In addition, the Group has implemented the Finance & Leasing Association's Statement of Recommended Accounting Practice 'Accounting Issues in the Asset Finance and Leasing Industry'. As a result, the presentation of assets held for leasing to customers under operating lease agreements has been changed. These assets are now included within tangible fixed assets and depreciation charged over their estimated useful economic lives. Rental income received from customers is included within other operating income. Operating lease assets were previously included within loans and advances and the related income within net interest income. This change has no effect on profit before tax. The effect of this change on the balance sheet has been to increase tangible fixed assets by £1,280 million and reduce loans and advances to customers by an equivalent amount (1999: £479 million). Comparative figures have been restated.

The Group has also implemented the requirements of Financial Reporting Standard 16 'Current Tax'; the effect has not been significant.

### a Accounting convention

The consolidated accounts are prepared under the historical cost convention as modified by the revaluation of debt securities and equity shares held for dealing purposes (see g) and assets held in the long-term assurance business, in compliance with Section 255A, Schedule 9 and other requirements of the Companies Act 1985, in accordance with applicable accounting standards, pronouncements of the Urgent Issues Task Force and with the Statements of Recommended Accounting Practice issued by the British Bankers' Association.

The accounts of the Company are prepared under the historical cost convention as modified by the revaluation of shares in group undertakings (see h), in compliance with Section 226, Schedule 4 and other requirements of the Companies Act 1985 and in accordance with applicable accounting standards and pronouncements of the Urgent Issues Task Force.

The Group has taken advantage of the dispensation in the Urgent Issues Task Force's Abstract 17 'Employee Share Schemes' not to apply that Abstract to the Group's Inland Revenue approved SAYE schemes.

### b Basis of consolidation

Assets, liabilities and results of group undertakings and joint ventures are included in the consolidated accounts on the basis of accounts made up to 31 December. In order to reflect the different nature of the shareholders' and policyholders' interests in the long-term assurance business, the value of long-term assurance business attributable to shareholders and the assets and liabilities attributable to policyholders are classified under separate headings in the consolidated balance sheet.

### c Goodwill

Goodwill arising on acquisitions of or by group undertakings is capitalised. For acquisitions prior to 1 January 1998, goodwill was taken direct to reserves in the year of acquisition. As permitted by the transitional arrangements of Financial Reporting Standard 10, this goodwill was not reinstated when the Group adopted the standard in 1998.

The useful economic life of the goodwill arising on each acquisition is determined at the time of the acquisition. In the case of the acquisition of Scottish Widows in 2000, in view of the strength of the Scottish Widows brand and the position of the business as one of the leading providers of life, pensions, unit trust and fund management products, the directors consider that it is appropriate to assign an indefinite life to the goodwill. This goodwill is not being amortised through the profit and loss account; however it is subjected to annual impairment reviews in accordance with Financial Reporting Standard 11 'Impairment of Fixed Assets and Goodwill'. Should any impairment be identified, it would be charged to the profit and loss account immediately.

Paragraph 28 of Schedule 9 to the Companies Act 1985 requires that all goodwill carried on the balance sheet should be amortised. In the case of the goodwill arising on the acquisition of Scottish Widows, the directors consider that it is appropriate to depart from this requirement in order to comply with the over-riding requirement for the accounts to show a true and fair view. If this goodwill was amortised over a period of 20 years, profit before tax for the year ended 31 December 2000 would be £78 million lower, with a corresponding reduction in reserves; intangible assets on the balance sheet would also be £78 million lower.

Goodwill arising on all other acquisitions is amortised on a straight line basis over its estimated useful economic life, which does not exceed 20 years.

At the date of the disposal of group or associated undertakings, any unamortised goodwill, or goodwill taken directly to reserves prior to 1 January 1998, is included in the Group's share of the net assets of the undertaking in the calculation of the profit or loss on disposal.

### d Income recognition

Interest income is recognised in the profit and loss account as it accrues, with the exception of interest on non-performing lending which is taken to income when received (see e).

Fees receivable from customers to reimburse the Group for costs incurred are taken to income when due. Fees relating to the ongoing provision of a service or risk borne for a customer are taken to income in proportion to the service provided or risk borne in each accounting period. Fees charged in lieu of interest are taken to income on a level yield basis over the period of the loan. Other fees receivable are accounted for as they fall due.

### e Provisions for bad and doubtful debts and interest in suspense

Provisions for bad and doubtful debts are based on the year-end appraisal of advances. The specific element relates to identified risk advances, whereas the general element relates to latent bad and doubtful debts which are present in any portfolio of bank advances but have not been specifically identified.

Advances are written down to estimated realisable value when the normal banking relationship with the customer has ceased; where it is doubtful that interest earned on loans and advances will be collectable, it is credited to an interest in suspense account and is only released to the profit and loss account when its collectability is no longer subject to significant doubt.

## 1 Accounting policies (continued)

### f Mortgage incentives

Payments made under cash gift and discount mortgage schemes, which are recoverable from the customer in the event of early redemption, are amortised as an adjustment to net interest income over the early redemption charge period. Payments cease to be deferred and are charged to the profit and loss account in the event that the related loan is redeemed or becomes impaired.

### g Debt securities and equity shares

Debt securities, apart from those held for dealing purposes, are stated at cost as adjusted for the amortisation of any premiums and discounts arising on acquisition, which are amortised from purchase to maturity in equal annual instalments. Debt securities acquired in exchange for advances to countries experiencing payment difficulties, either collateralised or due to be collateralised by US Treasury securities, are included in the Group's portfolio of investment securities at an amount based on the market value at the date of exchange as adjusted for the amortisation of discount on acquisition. Equity shares, apart from those held for dealing purposes, are stated at cost less amounts written off. Debt securities and equity shares held for dealing purposes are included at market value. Investments held within the long-term assurance fund are included on the following basis: stocks, shares, fixed interest securities and unit trusts held for unit linked funds are valued in accordance with policy conditions at market prices; other stocks and shares and fixed interest securities are valued at middle market price and other unit trusts at bid price; investment properties are included at valuation by independent valuers at existing use value at 31 December 2000, and mortgages and loans are at cost less amounts written off.

### h Shares in group undertakings

Shares in group undertakings are stated in the balance sheet of the Company at its share of net tangible assets, with the exception of the life assurance group undertakings which are stated on the basis described in o. Attributable goodwill is included, where this has not been written off directly to reserves.

### i Tangible fixed assets

Tangible fixed assets are included at cost less depreciation.

Land is not depreciated. Leasehold premises with unexpired lease terms of 50 years or less are depreciated by equal annual instalments over the remaining period of the lease. Freehold and long leasehold buildings are depreciated over 50 years. The costs of adapting premises for the use of the Group are separately identified and depreciated over 10 years, or over the term of the lease if less; such costs are included within premises in the balance sheet total of tangible fixed assets. Equipment is depreciated by equal annual instalments over the estimated useful lives of the assets, which for fixtures and furnishings are 10-20 years and for computer hardware, operating software and application software relating to separable new systems, motor vehicles and other equipment are 3-8 years.

Premises and equipment held for letting to customers under operating leases are depreciated over the life of the lease to give a constant rate of return on the net investment, taking into account anticipated residual values.

### j Vacant leasehold property

When a leasehold property ceases to be used in the business or a commitment is entered into which would cause this to occur, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease.

### k Leasing and instalment credit transactions

Income from both finance and operating leases is credited to the profit and loss account in proportion to the net cash invested so as to give a constant rate of return over each period after taking account of tax.

Unguaranteed residual values in respect of both finance lease and operating lease assets are reviewed regularly and any impairments identified are charged to the profit and loss account.

### k Leasing and instalment credit transactions (continued)

Income from instalment credit transactions is calculated by the sum of the digits method.

In those cases where the Group is the lessee, operating lease costs are charged to the profit and loss account in equal annual instalments over the life of the lease.

### l Deferred tax

Deferred tax is provided at the appropriate rates of tax where there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

### m Pensions and other post-retirement benefits

Contributions to the Group's pension schemes are charged to the profit and loss account so as to spread the expected cost of pensions, calculated in accordance with actuarial advice, on a systematic basis over employees' working lives. Pension arrangements for most of the staff in the UK and for the majority of those overseas are operated through defined benefit schemes funded by Group companies. The pension cost relating to these schemes is assessed in accordance with the advice of qualified actuaries, using the projected unit method. Variations from the regular cost are allocated by equal annual instalments over the average remaining service lives of current employees. Pension arrangements for staff joining Lloyds TSB Group Pension Scheme No. 1 (formerly the Lloyds Bank pension scheme) after 1 January 1996 and Lloyds TSB Group Pension Scheme No. 2 (formerly the TSB Group pension scheme) after 1 January 1998 are through money purchase elements of these schemes. Arrangements for pensions of certain staff employed overseas who are not included in funded schemes are made in accordance with local regulations and custom.

The cost of providing post-retirement benefits other than pensions is charged to the profit and loss account on a systematic basis over employees' working lives. The unfunded liability is included in provisions in the balance sheet.

### n Foreign currency translation

Assets, liabilities and results in foreign currencies are expressed in sterling at the rates of exchange ruling on the dates of the respective balance sheets. Exchange adjustments on the translation of opening net assets held overseas are taken direct to reserves. All other exchange profits or losses, which arise from normal trading activities, are included in the profit and loss account.

### o Long-term assurance business

The value placed on the Group's long-term assurance business attributable to shareholders represents a prudent valuation of future earnings of policies in force, together with the net worth of the business, being the net tangible assets and the surplus retained after allocation within the long-term assurance funds. This value is determined annually in consultation with independent actuaries and is included separately in the balance sheet.

Changes in the value placed on long-term assurance business attributable to shareholders, which are determined on a post-tax basis, are included in the profit and loss account. For the purpose of presentation, the change in this value is grossed up at the underlying rate of corporation tax.

### p General insurance business

The underwriting result of the general insurance business is determined annually and included in profit before tax after taking into account premiums, outstanding claims and deferred acquisition costs. Premiums are included net of refunds and a provision for the proportion of premiums written in the year which relate to cover provided for future periods. The provision for claims includes the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date.

**1 Accounting policies (continued)**

**q Derivatives**

Derivatives are used in the Group's trading activities to meet the financial needs of customers, for proprietary purposes and to manage risk in the Group's trading portfolios. Such instruments include exchange rate forwards and futures, currency swaps and options together with interest rate swaps, forward rate agreements, interest rate options and futures. These derivatives are carried at fair value and all changes in fair value are reported within dealing profits in the profit and loss account. Fair values are normally determined by reference to quoted market prices; internal models are used to determine fair value in instances where no market price is available. The unrealised gains and losses on trading derivatives are included within other assets and other liabilities respectively; these items are reported gross except in instances where the Group has entered into legally binding netting agreements, where the Group has a right to insist on net settlement that would survive the insolvency of the counterparty; in these cases the positive and negative fair values of trading derivatives with the relevant counterparties are offset within the balance sheet totals.

Derivatives used in the Group's non-trading activities are taken out to reduce exposures to fluctuations in interest and exchange rates and include exchange rate forwards and futures, currency options together with interest rate swaps, forward rate agreements and options. These derivatives are accounted for on an accruals basis, in line with the treatment of the underlying items which they are hedging. Interest receipts and payments on hedging interest derivatives are included in the profit and loss account so as to match the interest payable or receivable on the hedged item.

A derivative will only be classified as a hedge in circumstances where there was adequate evidence of the intention to hedge at the outset of the transaction and the derivative substantially matches or eliminates the exposure being hedged.

Where a hedge transaction is superseded, ceases to be effective or is terminated early the derivative is measured at fair value. Any profit or loss arising is then amortised to the profit and loss account over the remaining life of the item which it was originally hedging. When the underlying asset, liability or position that was being hedged is terminated, the hedging derivative is measured at fair value and any profit or loss arising is recognised immediately.

**2 Dealing profits (before expenses)**

	2000 £m	1999 £m
Foreign exchange trading income	141	133
Securities and other gains	57	82
	<b>198</b>	<b>215</b>

Dealing profits include the profits and losses arising both on the purchase and sale of trading instruments and from the year-end revaluation to market value, together with the interest income earned from these instruments and the related funding cost.

**3 Administrative expenses**

	2000 £m	1999 £m
Salaries and profit sharing	1,862	1,700
Social security costs	131	125
Other pension costs	(105)	(108)
Staff costs	<b>1,888</b>	<b>1,717</b>
Other administrative expenses	<b>1,490</b>	<b>1,423</b>
	<b>3,378</b>	<b>3,140</b>

**3 Administrative expenses (continued)**

	2000	1999
The average number of persons on a headcount basis employed by the Group during the year was as follows:		
UK	<b>67,848</b>	67,576
Overseas	<b>11,847</b>	12,599
	<b>79,695</b>	<b>80,175</b>

The above staff numbers exclude 6,152 (1999: 4,938) staff employed in the long-term assurance business. Costs of £199 million (1999: £141 million) in relation to those staff are reflected in the valuation of the long-term assurance fund.

Details of directors' emoluments, pensions and interests are given on pages 42 to 45.

During the year PricewaterhouseCoopers earned the following fees:

	2000 £m	1999 £m
Statutory audit	4	4
Due diligence and other audit-related work	7	4
Audit and similar services	<b>11</b>	8
Consultancy and advisory services	<b>25</b>	25
Total fees	<b>36</b>	<b>33</b>

The auditors' remuneration for the holding company was £50,000 (1999: £50,000).

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, principally tax advice and due diligence reporting on acquisitions, or where they are awarded assignments on a competitive basis.

It is the Group's policy to seek competitive tenders for all consultancy projects.

There was a net credit in respect of pension costs for the Group in 2000 of £105 million (1999: credit of £108 million), which included a credit of £121 million (1999: credit of £121 million) relating to Lloyds TSB Group Pension Schemes No's 1 and 2.

Full actuarial valuations of the Lloyds TSB Group Pension Schemes No's 1 and 2 are carried out every three years with interim reviews in the intervening years. At 30 June 1999, the date of the latest full actuarial valuations, the principal actuarial assumptions adopted were that, over the long term, the annual real rate of return on new investments would be 3 per cent higher than the annual increase in pensionable remuneration, 4 per cent higher than the annual increase in present and future pensions in payment, and 3 per cent higher than the annual increase in dividends receivable. The market value of the assets of the schemes at this date was £11,748 million. The actuarial value of the assets represented 125 per cent of the accrued liabilities allowing for future increases in pensions and pensionable remuneration. For funding purposes, the surpluses in the two schemes are being eliminated by means of a contribution holiday.

Contribution rates to other schemes have been adjusted to take account of surpluses and deficiencies. The pensions prepayment of £768 million (1999: £647 million) for the Group is included in prepayments and accrued income.

The Group operates a number of schemes which provide post-retirement health care benefits to certain employees, retired employees and their dependent relatives. The total cost for the Group in 2000 was £3 million (1999: £17 million). For the principal scheme, the latest actuarial valuation of the liability was carried out at 31 December 2000. This valuation showed the Group's liability to be £72 million, which had been fully provided for at that date. The principal actuarial assumptions adopted were that, over the long term, the valuation discount rate and the rate of increase in medical costs would be 4 per cent and 3 per cent respectively higher than annual price inflation.

**4 Exceptional restructuring costs**

In February 2000 the Group announced a new efficiency programme aimed at reducing its overall cost base. The main features of the efficiency programme, which is primarily focused on non-customer facing activities, will be the centralisation of computer operations; the further consolidation of large scale processing operations and support functions including the complete removal of all back office processing from branches; the further streamlining of the branch network, combined with the expansion of lower cost delivery channels such as telephone banking and internet operations; the further reduction of purchasing costs; and the rationalisation of non-personal banking activities, through the progressive sharing and consolidation of operational functions. The programme is expected to be completed by 2003. During 2000 costs of £108 million were incurred, mainly comprising severance and consultancy costs.

Following completion of the acquisition of Scottish Widows in March 2000, the Group has been integrating its businesses with the Group's existing insurance and investments activities. During 2000 costs of £59 million have been incurred on this integration. In addition, a provision of £21 million has been made to cover the cost of integrating Chartered Trust Group plc and ACL Autolease Holdings Limited following their acquisition in September 2000.

**5 Amounts written off fixed asset investments**

	2000 £m	1999 £m
Debt securities	9	7
Equity shares	5	–
	<b>14</b>	<b>7</b>

**6 Loss before tax on 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 (including £80 million in respect of goodwill previously written off to reserves) (tax: nil)	–	(98)
	<b>–</b>	<b>(126)</b>

During 1999 the Group announced its decision to withdraw from the global custody and unit trust trusteeship business and the consequential run-down and closure of Lloyds TSB Securities Services. A provision was raised in 1999 for the expected operating losses up to the date of closure and this provision has been released as the operating losses have been incurred over 2000; the closure of Lloyds TSB Securities Services has now been completed.

The new business capability of Abbey Life was sold on 1 February 2000. A provision of £98 million was made for the loss on sale in 1999; this loss included £80 million in respect of goodwill previously written off to reserves and other asset write-downs.

**7 Profit on ordinary activities before tax**

	2000 £m	1999 £m
Profit on ordinary activities before tax is stated after taking account of:		
<i>Income from:</i>		
Aggregate amounts receivable in respect of assets leased to customers and banks under:		
Finance leases and hire purchase contracts	<b>3,295</b>	3,578
Operating leases	<b>151</b>	62
Profit less losses on disposal of investment securities	<b>109</b>	59
Share of results of associated undertakings and joint ventures	<b>3</b>	12
<i>Charges:</i>		
Rental of premises	<b>193</b>	195
Hire of equipment	<b>26</b>	33
Interest on subordinated liabilities (loan capital)	<b>490</b>	362

**8 Segment analysis**

	Profit on ordinary activities before tax 2000 £m	1999* £m
Class of business:		
UK Retail Banking and Mortgages		
Profit before exceptional restructuring costs	<b>1,682</b>	1,657
Exceptional restructuring costs	<b>(99)</b>	–
	<b>1,583</b>	1,657
Insurance and Investments		
Operating profit	<b>1,447</b>	873
Short-term fluctuations in investment returns	<b>(119)</b>	28
Changes in economic assumptions	<b>127</b>	–
Exceptional restructuring costs	<b>(59)</b>	–
Pension provisions	<b>(100)</b>	(102)
Stakeholder pension related charge	<b>(80)</b>	–
	<b>1,216</b>	799
UK Retail Financial Services	<b>2,799</b>	2,456
Wholesale Markets and International Banking		
Profit before exceptional restructuring costs	<b>1,250</b>	1,172
Exceptional restructuring costs	<b>(30)</b>	–
	<b>1,220</b>	1,172
Central group items	<b>(133)</b>	119
Loss on sale and closure of businesses	–	(126)
	<b>3,886</b>	3,621

8 Segment analysis (continued)

Operating profit from Insurance and Investments is further analysed as follows:

	2000 £m	1999 £m
Life and pensions		
Scottish Widows	386	–
Other	382	333
	<b>768</b>	333
Unit trusts		
Scottish Widows	7	–
Other	41	57
	<b>48</b>	57
Asset management		
Scottish Widows	10	–
Other	30	22
	<b>40</b>	22
General insurance	591	461
	<b>1,447</b>	873

The operating profit for the life and pensions business shown above reconciles to the income from long-term assurance business shown in the profit and loss account as follows:

	2000 £m	1999 £m
Life and pensions segmental profit	768	333
Items separately disclosed:		
Short-term fluctuations in investment returns	(92)	6
Changes in economic assumptions	127	–
Stakeholder pension related charge	(80)	–
Pension provisions	(100)	(102)
	<b>(145)</b>	(96)
Other items	(8)	(10)
	<b>615</b>	227

Income from long-term assurance business is further analysed as follows:

	2000 £m	1999 £m
Income net of claims and technical provisions	937	621
Pension provisions	(100)	(102)
Operating expenses	(471)	(291)
Tax charged to technical account	(191)	(159)
	<b>175</b>	69
Surplus emerging	175	69
Value of in-force business	266	89
	<b>441</b>	158
Embedded value after tax	441	158
Tax gross up	174	69
	<b>615</b>	227

8 Segment analysis (continued)

Geographical area:\*\*

	Domestic 2000 £m	Inter- national 2000 £m	Total 2000 £m
Interest receivable	8,927	2,127	11,054
Fees and commissions receivable	2,480	288	2,768
Dealing profits (before expenses)	149	49	198
Income from long-term assurance business	607	8	615
General insurance premium income	399	–	399
Other operating income	270	111	381
	<b>12,832</b>	<b>2,583</b>	<b>15,415</b>
Total gross income	12,832	2,583	15,415
Profit on ordinary activities before tax	3,427	459	3,886

	Domestic 1999 £m	Inter- national 1999 £m	Total 1999 £m
Interest receivable	8,015	2,437	10,452
Fees and commissions receivable	2,227	270	2,497
Dealing profits (before expenses)	154	61	215
Income from long-term assurance business	219	8	227
General insurance premium income	390	–	390
Other operating income	141	101	242
	<b>11,146</b>	<b>2,877</b>	<b>14,023</b>
Total gross income	11,146	2,877	14,023
Profit on ordinary activities before tax	3,201	420	3,621

	Net assets†		Assets‡	
	2000 £m	1999 £m	2000 £m	1999 £m
Class of business:				
UK Retail Banking and Mortgages	2,235	2,127	71,292	64,347
Insurance and Investments				
Scottish Widows	3,555	–	6,203	–
Other businesses	2,953	2,846	3,234	3,032
	<b>6,508</b>	2,846	<b>9,437</b>	3,032
UK Retail Financial Services	8,743	4,973	80,729	67,379
Wholesale Markets and International Banking	3,090	2,625	84,899	80,851
Central group items	(2,059)	1,016	1,269	1,207
	<b>9,774</b>	8,614	<b>166,897</b>	149,437
Geographical area:**				
Domestic	9,129	8,269	144,178	128,105
International	645	345	22,719	21,332
	<b>9,774</b>	8,614	<b>166,897</b>	149,437

\*1999 figures have been restated to take account of changes in internal cost allocation, a number of organisational changes, and a change in treatment of certain central income items, which were previously allocated to business units but are now reported within central group items.

\*\*The geographical distribution of gross income sources, profit on ordinary activities before tax and assets by domestic and international operations is based on the location of the office recording the transaction, except for lending by the international business booked in London.

†Net assets represent shareholders' funds plus equity minority interests. Disclosure of information on net assets is an accounting standard requirement (SSAP25); it is not appropriate to relate it directly to the segmental profits above because the business is not managed by the allocation of net assets to business units.

‡Assets exclude long-term assurance assets attributable to policyholders.

As the business of the Group is mainly that of banking and insurance, no segment analysis of turnover is given.

**9 Tax on profit on ordinary activities**

	2000 £m	1999 £m
UK corporation tax		
Current tax on profits for the year	942	768
Adjustments in respect of prior years	3	21
	945	789
Double taxation relief	(72)	(45)
	873	744
Foreign tax		
Current tax on profits for the year	137	114
Adjustments in respect of prior years	(5)	8
	132	122
Current tax charge	1,005	866
Deferred tax	108	235
	1,113	1,101

The charge for tax on the profit for the year is based on an average UK corporation tax rate of 30 per cent (1999: 30.25 per cent).

The UK corporation tax charge includes £171 million (1999: £67 million) in respect of notional tax on the shareholders' interest in the increase in the value of the long-term assurance business.

**10 Profit for the financial year attributable to shareholders**

The profit attributable to shareholders includes a profit of £1,699 million (1999: £1,344 million) dealt with in the accounts of the parent company, for which no profit and loss account is shown as permitted by Section 230 of the Companies Act 1985.

**11 Ordinary dividends**

	2000 pence per share	1999 pence per share	2000 £m	1999 £m
Interim: paid	9.3	8.1	511	440
Final: proposed	21.3	18.5	1,172	1,011
	30.6	26.6	1,683	1,451

**12 Earnings per share**

	2000	1999
Profit attributable to shareholders*	£2,724m	£2,514m
Weighted average number of ordinary shares in issue during the year**	5,487m	5,445m
Dilutive effect of options outstanding	58m	101m
Diluted weighted average number of ordinary shares in issue during the year	5,545m	5,546m
Earnings per share	49.6p	46.2p
Diluted earnings per share	49.1p	45.3p

\*No adjustment was made to profit attributable to shareholders in calculating diluted earnings per share.

\*\*The weighted average number of shares for the year has been calculated after deducting 9 million (1999: 11 million) ordinary shares held by TSB Group Holdings (Jersey) Limited, and the trustees of the TSB Group Employee Trust, the Lloyds TSB Group Employee Share Ownership Trust and the Lloyds TSB Qualifying Employee Share Ownership Trust, on which dividends have been waived (note 29).

**13 Treasury bills and other eligible bills**

	2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Investment securities:				
Treasury bills and similar securities	121	119	515	514
Other eligible bills	509	508	683	683
	630	627	1,198	1,197
Other securities:				
Treasury bills and similar securities	1,032		857	
Other eligible bills	47		10	
	1,079		867	
	1,709		2,065	

Included above:  
Unamortised discounts net of premiums on investment securities

2 12

Movements in investment securities comprise:

	Cost £m	Premiums and discounts £m	Total £m
--	------------	------------------------------------	-------------

At 1 January 2000	1,189	9	1,198
Exchange and other adjustments	3	-	3
Additions	7,766	-	7,766
Bills sold or matured	(8,332)	(50)	(8,382)
Amortisation of premiums and discounts	-	45	45
At 31 December 2000	626	4	630

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for dealing purposes.

The difference between the cost of other securities and market value, where the market value is higher than the cost, is not disclosed as its determination is not practicable.

**14 Loans and advances to banks**

	2000 £m	1999 £m
Lending to banks	615	721
Deposits placed with banks	14,731	16,298
Total loans and advances to banks	15,346	17,019
Provisions for bad and doubtful debts	(56)	(56)
	15,290	16,963
Repayable on demand	2,794	1,132
Other loans and advances by residual maturity repayable:		
3 months or less	10,352	12,266
1 year or less but over 3 months	1,365	2,780
5 years or less but over 1 year	478	490
Over 5 years	357	351
Provisions for bad and doubtful debts	(56)	(56)
	15,290	16,963

15 Loans and advances to customers	2000 £m	1999 £m
Lending to customers	103,368	92,194
Hire purchase debtors	5,172	3,674
Equipment leased to customers	8,122	8,448
Total loans and advances to customers	116,662	104,316
Provisions for bad and doubtful debts	(2,117)	(2,067)
Interest held in suspense	(90)	(100)
	<b>114,455</b>	<b>102,149</b>
Loans and advances by residual maturity repayable:		
3 months or less	20,980	17,689
1 year or less but over 3 months	8,286	6,935
5 years or less but over 1 year	24,408	19,342
Over 5 years	62,988	60,350
Provisions for bad and doubtful debts	(2,117)	(2,067)
Interest held in suspense	(90)	(100)
	<b>114,455</b>	<b>102,149</b>
Of which repayable on demand or at short notice	9,342	8,549

The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts amounted to £2,754 million (1999: £3,193 million).

#### Securitisations

Certain instalment credit receivables have been securitised and are subject to non-returnable financing arrangements. In accordance with Financial Reporting Standard 5, these items have been shown under the linked presentation method.

As detailed in note 49b), the Group acquired Chartered Trust Group plc and ACL Autolease Holdings Limited on 1 September 2000. Prior to joining the Group, Chartered Trust plc, a subsidiary undertaking of Chartered Trust Group plc, had entered into transactions whereby it disposed of its interest in portfolios of motor vehicle and caravan instalment credit agreements for a total of £813 million to Cardiff Automobile Receivables Securitisation (UK) No 4 plc (CARS 4). The arrangement relating to these disposals of agreements contained an option to offer further amounts for sale up until 10 December 2000; a further £167 million of receivables were sold between 1 September 2000 and this date.

CARS Trustee (UK) No 4 Limited is responsible for the collection and onward payment of all amounts falling due under the terms of the receivables sold to CARS 4. Principal receipts are used either to redeem floating rate notes or to purchase further receivables; to date all principal receipts have been used to purchase further receivables. Income receipts are applied in the following order of priority: interest due on the floating rate notes; credit manager fees; payments under swaps; amounts due to third parties; dividends; and residual income to Chartered Trust plc. Chartered Trust plc has been appointed by CARS Trustee (UK) No 4 Limited as credit manager and receives a fee for fulfilling this function. It has no liability to the noteholders or any creditor of CARS 4 or CARS Trustee (UK) No 4 Limited other than through failure to meet its obligations as credit manager or for breach of warranties given. Chartered Trust plc has no interest in the share capital of CARS 4 or CARS Trustee (UK) No 4 Limited.

Chartered Trust plc and CARS 4 have also entered into interest rate swaps in respect of this transaction, the interest rates payable and receivable under these swaps are set by reference to market rates of interest on an arm's length basis.

16 Provisions for bad and doubtful debts	2000 Specific £m	2000 General £m	1999 Specific £m	1999 General £m
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
	<b>2,173</b>		<b>2,123</b>	
In respect of:				
Loans and advances to banks		56		56
Loans and advances to customers	2,117		2,067	
	<b>2,173</b>		<b>2,123</b>	

17 Interest held in suspense and non-performing lending	2000 £m	1999 £m
At 1 January	100	145
Exchange and other adjustments	-	(5)
Interest written off	(20)	(77)
Interest taken to income	(8)	(9)
Interest suspended during the year	18	46
At 31 December	90	100

All interest held in suspense relates to loans and advances to customers.

	2000 £m	1999 £m
Non-performing lending comprises:		
Loans and advances – category 1	879	719
Loans and advances – category 2	404	369
	1,283	1,088
Provisions	(831)	(613)
Interest held in suspense	(90)	(100)
	<b>362</b>	<b>375</b>

#### Category 1:

This comprises lending where the customer continues to operate the account, but where there is doubt about the payment of interest. Interest continues to be charged to the customer's account, but it is not applied to income; it is placed on a suspense account and only taken into income if there ceases to be significant doubt about its being paid.

#### Category 2:

This comprises lending where the operation of the customer's account has ceased. The lending is managed by specialist recovery departments and has been written down to its estimated realisable value. Interest is not added to the lending nor placed on a suspense account as its recovery is considered unlikely; it is only taken to income if it is received.

**18 Concentrations of exposure**

	2000 £m	1999 £m
Loans and advances to customers		
<i>Domestic:</i>		
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
<i>International:</i>		
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)
	114,455	102,149

\*Includes staff mortgages.

\*\*Figures exclude provisions and interest held in suspense relating to loans and advances to banks.

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

**19 Residual value exposure on leased assets**

The Group's residual value exposure in respect of leased assets, all of which are expected to be disposed of at the end of the lease terms, was as follows:

	2000 £m	1999 £m
On operating lease assets where the residual value is expected to be recovered in:		
1 year or less	134	37
2 years or less but over 1 year	108	31
5 years or less but over 2 years	367	45
Over 5 years	301	193
Total exposure	910	306

**20 Debt securities**

	2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Investment securities:				
Government securities	1,006	1,204	1,196	1,349
Other public sector securities	1	1	4	4
Bank and building society certificates of deposit	3,034	3,034	4,153	4,145
Other debt securities	1,631	1,631	679	678
	5,672	5,870	6,032	6,176
Other securities:				
Government securities	3,060	3,060	3,861	3,861
Other public sector securities	131	131	65	65
Bank and building society certificates of deposit	105	105	286	286
Other debt securities	4,914	4,914	3,940	3,940
	13,882	14,080	14,184	14,328
Due within 1 year	5,340		7,095	
Due 1 year and over	8,542		7,089	
	13,882		14,184	
Unamortised discounts net of premiums on investment securities	409		771	
Listed: collateralised bonds	711	880	869	1,028
: other	8,499	8,528	7,907	7,901
Unlisted	4,672	4,672	5,408	5,399
	13,882	14,080	14,184	14,328

Movements in investment securities comprise:

	Cost £m	Premiums and discounts £m	Provisions £m	Total £m
At 1 January 2000	5,829	220	17	6,032
Exchange and other adjustments	113	(2)	3	108
Additions	15,773	-	-	15,773
Securities sold or matured	(16,238)	(23)	-	(16,261)
Charge for the year	-	-	9	(9)
Amortisation of premiums and discounts	-	29	-	29
At 31 December 2000	5,477	224	29	5,672

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for dealing purposes.

The difference between the cost of other securities and market value, where the market value is higher than the cost, is not disclosed as its determination is not practicable.



**21 Equity shares**

	2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Investment securities:				
Listed	7	45	10	23
Unlisted	34	57	33	56
	<b>41</b>	<b>102</b>	43	79
Other securities:				
Listed	204		168	
Unlisted	2		2	
	<b>206</b>		170	
	<b>247</b>		213	

Movements in investment securities comprise:	Cost £m	Provisions £m	Total £m
At 1 January 2000	55	12	43
Exchange and other adjustments	-	(1)	1
Additions	13	-	13
Disposals	(14)	(3)	(11)
Charge for the year	-	5	(5)
At 31 December 2000	<b>54</b>	<b>13</b>	<b>41</b>

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for dealing purposes.

The difference between the cost of other securities and market value, where the market value is higher than the cost, is not disclosed as its determination is not practicable.

**22 Assets transferred under sale and repurchase transactions**

Included in the Group's balance sheet are assets subject to sale and repurchase agreements as follows:

	2000 £m	1999 £m
Treasury bills and other eligible bills	546	429
Debt securities	3,543	3,496
	<b>4,089</b>	<b>3,925</b>

These investments have been sold to third parties but, since the Group is committed to reacquire them at a future date and at a predetermined price, they are shown in the balance sheet.

**23 Interests in group undertakings**

	Company	
	Shares £m	Loans £m
At 1 January 2000	10,197	759
Revaluation	955	-
At 31 December 2000	<b>11,152</b>	<b>759</b>

The Company's shareholding in a group undertaking is comprised of an investment in an unlisted bank.

On an historical cost basis, shares in group undertakings would have been included as follows:

	Cost £m	Provisions £m	Book value £m
At 1 January 2000 and 31 December 2000	<b>6,066</b>	-	<b>6,066</b>

**23 Interests in group undertakings (continued)**

The principal group undertakings, all of which have prepared accounts to 31 December and whose results are included in the consolidated accounts of Lloyds TSB Group plc, are:

	Country of registration/ incorporation	Percentage of equity share capital and voting rights held	Nature of business
Lloyds TSB Bank plc	England	100%	Banking and financial services
Cheltenham & Gloucester plc	England	†100%	Mortgage lending and retail investments
Lloyds Bank (BLSA) Limited	England	†100%	Banking and financial services
Lloyds TSB Commercial Finance Limited	England	†100%	Credit factoring
Lloyds TSB Leasing Limited	England	†100%	Financial leasing
Lloyds TSB Private Banking Limited	England	†100%	Private banking
The Agricultural Mortgage Corporation Plc	England	†100%	Long-term agricultural finance
The National Bank of New Zealand Limited	New Zealand	†100%	Banking and financial services
Lloyds TSB Bank (Jersey) Limited	Jersey	†100%	Banking and financial services
Lloyds TSB Scotland plc	Scotland	†100%	Banking and financial services
Lloyds TSB General Insurance Limited	England	†100%	General insurance
Scottish Widows Investment Partnership Group Limited	England	†100%	Investment management
Abbey Life Assurance Company Limited	England	†100%	Life assurance
Lloyds TSB Insurance Services Limited	England	†100%	Insurance broking
Lloyds TSB Life Assurance Company Limited	England	†100%	Life assurance and other financial services
Lloyds UDT Finance Limited	England	†100%	Consumer credit, leasing and related services
Chartered Trust plc	England	†100%	Consumer credit, leasing and related services
Scottish Widows plc	Scotland	†100%	Life assurance
Scottish Widows Annuities Limited	Scotland	†100%	Life assurance

†Indirect interest.

The country of registration/incorporation is also the principal area of operation for each of the above group undertakings except as follows:

Lloyds TSB Bank plc operates principally in the UK but also through branches in Argentina, Belgium, Brazil, Dubai, Gibraltar, Guatemala, Hong Kong, Honduras, Japan, Luxembourg, Malaysia, Monaco, Netherlands, Panama, Paraguay, Singapore, Spain, Switzerland, Uruguay, the USA and a representative office in Iran. Lloyds Bank (BLSA) Limited operates in Ecuador. The National Bank of New Zealand Limited also operates through a representative office in Hong Kong.

**24 Joint venture**

During 2000 the Group was party to the creation of a new payments processing company, Intelligent Processing Solutions Limited ('iPSL'), in conjunction with Unisys and Barclays Bank. This new company began operating in December 2000 and now handles all of the Group's UK cheque processing activities, for which fees are charged by iPSL to the Group. The staff previously employed by the Group in its UK cheque processing activities have been transferred to the employment of iPSL.

The Group's investment in iPSL, which comprises 24.5 per cent of the issued ordinary share capital of the company, is being accounted for as a joint venture. The carrying value of the investment at 31 December 2000 was £4 million, which has been included within other assets on the balance sheet.

In the year ended 31 December 2000 £4 million of fees payable to iPSL have been included in the Group's administrative expenses. The Group has also prepaid £7 million of fees in respect of 2001 and this amount is included in prepayments and accrued income; in addition at 31 December 2000 iPSL owed £2 million to the Group, which is included in other assets.

**25 Intangible fixed assets**

	Cost £m	Amortisation £m	Net book value £m
Goodwill			
At 1 January 2000	247	16	231
Exchange and other adjustments	(17)	(2)	(15)
Acquisitions	2,405	–	2,405
Charge for the year	–	22	(22)
At 31 December 2000	<b>2,635</b>	<b>36</b>	<b>2,599</b>

**26 Tangible fixed assets**

	Premises £m	Equipment £m	Operating lease assets £m
Cost or valuation:			
At 1 January 2000 – before prior year adjustment	1,133	2,208	561
Prior year adjustment (note 1)	(112)	–	–
Amended balance at 1 January 2000	<b>1,021</b>	<b>2,208</b>	<b>561</b>
Exchange and other adjustments	(22)	(8)	(1)
Adjustments on acquisition	11	13	351
Additions	70	429	583
Disposals	(28)	(299)	(83)
At 31 December 2000	<b>1,052</b>	<b>2,343</b>	<b>1,411</b>
Depreciation:			
At 1 January 2000	250	1,423	82
Exchange and other adjustments	(13)	(1)	(1)
Charge for the year	58	204	102
Disposals	(11)	(272)	(52)
At 31 December 2000	<b>284</b>	<b>1,354</b>	<b>131</b>
Balance sheet amount at 31 December 2000	<b>768</b>	<b>989</b>	<b>1,280</b>
		<b>3,037</b>	
Balance sheet amount at 31 December 1999	771	785	479
		2,035	
		<b>2000 £m</b>	1999 £m
Balance sheet amount of premises comprises:			
Freeholds		490	500
Leaseholds 50 years and over unexpired		22	23
Leaseholds less than 50 years unexpired		256	248
		<b>768</b>	771
Land and buildings occupied for own activities	<b>691</b>		679

**27 Lease commitments**

Annual commitments under non-cancellable operating leases were:

	2000 Premises £m	2000 Equipment £m	1999 Premises £m	1999 Equipment £m
Leases on which the commitment is due to expire in:				
1 year or less	3	1	14	7
5 years or less but over 1 year	18	2	41	3
Over 5 years	184	–	191	2
	<b>205</b>	<b>3</b>	<b>246</b>	<b>12</b>

Obligations under finance leases were:

	2000 Equipment £m	1999 Equipment £m
Amounts payable in:		
1 year or less	20	2
5 years or less but over 1 year	3	2
	<b>23</b>	<b>4</b>

**28 Capital commitments**

Capital expenditure contracted but not provided for at 31 December 2000 amounted to £33 million (1999: £41 million), of which £28 million (1999: £33 million) relates to assets to be leased to customers under operating leases.

In December 2000 the Group announced that it had agreed to form a joint venture between Goldfish, Centrica's financial services brand, and *evolvebank.com*, Lloyds TSB's standalone internet banking operation. Although the amounts are not yet determined, the Group is committed to invest capital into the venture equivalent to 30 per cent of its initial regulatory capital requirement and to provide funds to the venture to cover its lending for the first two years of operation.

**29 Own shares**

Lloyds TSB Group plc sponsors the TSB Group Employee Trust and the Lloyds TSB Group Employee Share Ownership Trust, two discretionary trusts for the benefit of employees and former employees of the Lloyds TSB Group. The Company has lent £44 million to the trustees, interest free, to enable them to purchase Lloyds TSB Group plc ordinary shares, which are used to satisfy options granted by the Company or to meet commitments arising under other employee share schemes. Under the terms of the trusts, the trustees have waived all but a nominal dividend on the shares they hold. The cost of providing these shares is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit. At 31 December 2000, 3 million shares were held by the trustees with a book value of £24 million and a market value of £22 million. (1999: 6 million shares with a book value of £30 million and a market value of £44 million).

The Group has also established the Lloyds TSB Qualifying Employee Share Ownership Trust ('the QUEST') for the purpose of delivering shares on the exercise of options under certain of the Group's Save As You Earn (SAYE) share option schemes. During 2000, Lloyds TSB Group plc contributed £122 million to the QUEST, and the trustees subscribed for 30 million shares in the Company for a consideration of £193 million. (During 1999, Lloyds TSB Group plc contributed £210 million and the trustees subscribed for 30 million shares for a consideration of £257 million). At 31 December 2000, 1 million shares were held by the QUEST with a book value of £4 million, (1999: 2 million shares with a book value of £5 million), reflecting the exercise price of the options the shares are expected to be used to satisfy. Under the terms of the QUEST's trust deed, the trustees have waived all but a nominal dividend on the shares they hold. The difference between the amount contributed by the Company and the book value of the shares held by the QUEST at 31 December 2000 has been charged to profit and loss account reserves.

In addition, a further 1 million ordinary shares were held by TSB Group Holdings (Jersey) Limited at 31 December 2000 (1999: 1 million shares). These shares, on which the dividend entitlement has been waived, were gifted to the Group some years ago at nil cost and are used to satisfy outstanding options or to meet commitments arising under other employee share schemes.

**30 Other assets**

	2000 £m	1999 £m
Foreign exchange and interest rate contracts	2,688	2,742
Other assets	888	899
	<b>3,576</b>	<b>3,641</b>

**31 Prepayments and accrued income**

	2000 £m	1999 £m
Interest receivable	875	916
Other debtors and prepayments	2,090	1,712
	<b>2,965</b>	<b>2,628</b>

Included within other debtors and prepayments is £242 million (1999: £176 million) relating to the deferred element of the expenditure incurred under cash gift and discount mortgage schemes. If these incentives had been written off as incurred net interest income would have been £65 million lower in 2000 (1999: £11 million lower).

**32 Long-term assurance business**

	2000 £m	1999 £m
The value of long-term assurance business attributable to shareholders included in the consolidated balance sheet comprises:		
Net tangible assets of life companies including surplus	4,128	723
Value of other shareholders' interests in long-term assurance funds	2,421	1,551
	<b>6,549</b>	<b>2,274</b>

The shareholders' interest in the long-term assurance business has been 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 principal assumptions are shown below, together with those used in 1999:

	2000 %	1999 %
Risk-adjusted discount rate (net of tax)	8.50	10.00
Return on equities (gross of tax)	8.00	8.50
Return on fixed interest securities (gross of tax)	5.25	5.25
Expenses inflation	3.00	3.00

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.

A margin over the long-term risk free rate of return is included within the discount rate to reflect the shareholders' overall risk premium; other margins are not included in the profit recognition method. Allowance for tax is made using models which reflect the different tax regimes affecting different classes of product; no credit is taken in respect of any reduction in taxes deriving from expenses attributable to future business.

The assumptions for mortality and morbidity are derived from published tables adjusted for demographic differences of policyholders; those in respect of lapses are in line with the experience of the companies concerned.

	2000 £m	1999 £m
The income from long-term assurance business is:		
Value of long-term assurance business at 31 December	6,549	2,274
Value of long-term assurance business at 1 January	2,274	1,983
Increase in value of long-term assurance business	4,275	291
Exchange and other adjustments	92	(5)
Acquisitions	(4,052)	–
Capital injections	–	(220)
Dividends accrued	126	92
Income after tax from long-term assurance business	<b>441</b>	<b>158</b>
Income before pension provisions	715	329
Pension provisions	(100)	(102)
Income before tax from long-term assurance business	<b>615</b>	<b>227</b>

**32 Long-term assurance business (continued)**

During 1999, the Financial Services Authority (FSA) published revised assumptions to be incorporated into the calculations of the continuing cost of redress to past purchasers of pension policies. These revised FSA guidelines were based on the assumption that the average life expectancy of pensioners had increased, and lower interest and inflation rates to be assumed in calculating the cost of redress. Applying these revised assumptions, the cost of redress was forecast to increase by £102 million and a further provision of this amount was made in 1999, increasing the total provision made for this purpose to £802 million at 31 December 1999. In 2000 the adequacy of the provision has again 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.

The following is a summarised balance sheet for the long-term assurance funds:

	2000 £m	1999 £m
The long-term assurance assets attributable to policyholders comprise:		
Investments	52,683	27,718
Value of other shareholders' interests in long-term assurance funds	2,421	1,551
Premises and equipment	20	30
Net current assets (liabilities)	2,510	(483)
	<b>57,634</b>	<b>28,816</b>
Long-term assurance business attributable to shareholders	<b>(6,549)</b>	<b>(2,274)</b>
	<b>51,085</b>	<b>26,542</b>
Investments shown above comprise:		
Fixed interest securities	14,512	7,415
Stocks, shares and unit trusts	31,885	16,996
Investment properties	3,098	1,045
Other properties	10	10
Mortgages and loans	117	50
Deposits	3,061	2,202
	<b>52,683</b>	<b>27,718</b>
The liabilities to policyholders comprise:		
Technical provisions:		
Long-term business provision (net of reinsurance)	23,514	3,025
Claims outstanding (net of reinsurance)	172	114
Technical provisions for linked liabilities	24,413	23,372
Fund for future appropriations and other liabilities	2,986	31
	<b>51,085</b>	<b>26,542</b>

<b>33 Assets and liabilities denominated in foreign currencies</b>	<b>2000 £m</b>	<b>1999 £m</b>
Assets: denominated in sterling	<b>126,033</b>	111,076
: denominated in other currencies	<b>40,864</b>	38,361
	<b>166,897</b>	149,437
Liabilities: denominated in sterling	<b>126,136</b>	111,181
: denominated in other currencies	<b>40,761</b>	38,256
	<b>166,897</b>	149,437

<b>34 Deposits by banks</b>	<b>2000 £m</b>	<b>1999 £m</b>
Repayable on demand	<b>4,330</b>	3,594
Other deposits by banks with agreed maturity dates or periods of notice by residual maturity repayable:		
3 months or less	<b>9,712</b>	12,551
1 year or less but over 3 months	<b>1,790</b>	1,153
5 years or less but over 1 year	<b>695</b>	341
Over 5 years	<b>208</b>	55
	<b>16,735</b>	17,694

<b>35 Customer accounts</b>	<b>2000 £m</b>	<b>1999 £m</b>
Repayable on demand	<b>74,404</b>	68,749
Other customer accounts with agreed maturity dates or periods of notice by residual maturity repayable:		
3 months or less	<b>21,064</b>	20,063
1 year or less but over 3 months	<b>3,522</b>	2,544
5 years or less but over 1 year	<b>1,331</b>	1,360
Over 5 years	<b>417</b>	135
	<b>100,738</b>	92,851

<b>36 Debt securities in issue</b>	<b>2000 £m</b>	<b>1999 £m</b>
Bonds and medium-term notes by residual maturity repayable:		
1 year or less	<b>538</b>	309
2 years or less but over 1 year	<b>169</b>	188
5 years or less but over 2 years	<b>472</b>	690
Over 5 years	<b>1,413</b>	407
	<b>2,592</b>	1,594
Other debt securities by residual maturity repayable:		
3 months or less	<b>8,574</b>	7,644
1 year or less but over 3 months	<b>6,476</b>	2,645
5 years or less but over 1 year	<b>241</b>	362
Over 5 years	<b>16</b>	15
	<b>15,307</b>	10,666
	<b>17,899</b>	12,260

### 37 Short-term borrowings

The short-term borrowings of the Company comprise floating rate unsecured loan notes 2001. These notes are not subordinated and bear interest at rates set periodically in advance based on London Interbank rates. They are repayable, at the noteholders' option, at six monthly intervals.

<b>38 Other liabilities</b>	<b>2000 £m</b>	<b>1999 £m</b>
Foreign exchange and interest rate contracts	<b>2,346</b>	1,981
Current tax	<b>631</b>	617
Dividends	<b>1,172</b>	1,011
Other liabilities	<b>2,831</b>	1,917
	<b>6,980</b>	5,526

<b>39 Accruals and deferred income</b>	<b>2000 £m</b>	<b>1999 £m</b>
Interest payable	<b>1,670</b>	1,229
Other creditors and accruals	<b>2,655</b>	2,080
	<b>4,325</b>	3,309

<b>40 Deferred tax</b>	<b>2000 £m</b>	<b>1999 £m</b>
Short-term timing differences	<b>(59)</b>	(94)
Pensions prepayment	<b>230</b>	185
Provision for Emerging Markets Debt	<b>(198)</b>	(212)
Accelerated depreciation allowances	<b>1,586</b>	1,580
	<b>1,559</b>	1,459
	<b>£m</b>	
At 1 January 2000	<b>1,459</b>	
Exchange and other adjustments	<b>(5)</b>	
Adjustments on acquisition	<b>(3)</b>	
Tax provided	<b>108</b>	
	<b>1,559</b>	
At 31 December 2000	<b>1,559</b>	

	<b>2000 £m</b>	<b>1999 £m</b>
Potential tax for which no provision has been made relating to accelerated depreciation allowances on equipment leased to customers	<b>72</b>	72

Provision has been made for the liability to tax on overseas earnings which are expected to be remitted to the UK. No provision has been made for the liability to tax which could arise if premises, to the extent that the tax base cost has been reduced by rollover relief, or group undertakings were disposed of at their balance sheet amounts or investments in associated undertakings and trade investments at their valuation. It is expected that the majority of these assets will be retained in the business and that, in view of the substantial number of assets involved and the law relating to rollover relief, the likelihood of any such material tax liability arising is remote; no useful purpose would be served by attempting to quantify it.

## 41 Other provisions for liabilities and charges

	Pension obligations £m	Insurance provisions £m	Post-retirement health care £m	Vacant leasehold property £m	Provision for closure of business £m	Other £m	Total £m
At 1 January 2000	28	201	77	112	28	28	474
Exchange and other adjustments	-	5	-	1	-	-	6
Provisions applied	(1)	(146)	(4)	(15)	(28)	(15)	(209)
Charge for the year	7	142	3	(2)	-	21	171
At 31 December 2000	34	202	76	96	-	34	442

### *Pension obligations*

This represents the Group's obligations in respect of certain overseas pension schemes. Full actuarial valuations are carried out by independent actuaries every three years.

### *Insurance provisions*

The Group's general insurance subsidiaries maintain provisions for outstanding claims which represent the ultimate cost of settling all claims arising from events which have occurred up to the balance sheet date and these include provisions for the cost of claims notified but not settled and for claims incurred but not yet reported. In addition, in line with the requirements of the Insurance Companies (Reserves) Act 1995, claims equalisation provisions are maintained in relation to property, credit and suretyship business. The majority of provisions in respect of claims will be settled in the following year, although new provisions will then be required in respect of claims arising from that year. The level of the claims equalisation provision will be adjusted annually, taking into account the guidelines contained in the legislation, and such provisions will be held for as long as the Group continues to write the relevant types of general insurance business.

### *Post-retirement health care*

The Group operates a number of schemes which provide post-retirement health care benefits to certain employees, retired employees and their dependent relatives. The principal scheme relates to former Lloyds Bank staff and under this scheme the Group has undertaken to meet the cost of post-retirement health care for all eligible former employees (and their dependants) who retired prior to 1 January 1996. For retirements subsequent to this date, the Group will meet a reducing proportion of the cost until 31 December 2004, after which date the only obligation will be in respect of the pre 1 January 1996 retirements. The cost of providing all post-retirement health care benefits is charged to the profit and loss account on a systematic basis over employees' working lives; the provision represents the unfunded obligation and is based on valuations of the Group's liability by qualified actuaries.

### *Vacant leasehold property*

Whenever the Group ceases to occupy a property, or commits itself to doing so, it is the Group's policy to raise a provision to cover any anticipated shortfall when comparing the recoverable amount of its interest in the property to the future rental and other payments that the Group is obligated to make over the remaining term of the lease. These provisions are made by reference to a prudent estimate of expected sub-let income and the possibility of disposing of the Group's interest in the lease, taking into account conditions in the property market. These provisions are reassessed on an annual basis and will normally run off over the remaining life of the leases concerned, currently averaging six years; where a property is disposed of earlier than anticipated, any remaining balance in the provision relating to that property is released.

### *Provision for closure of business*

In July 1999 the Group announced its decision to withdraw from the global custody and unit trust trusteeship business. As a result, a provision of £28 million was raised for the anticipated operating losses to be incurred by Lloyds TSB Securities Services until the business was closed. The provision has been released to match losses as they have been incurred over the period of run down of the business; this was completed by the end of 2000.

42 Subordinated liabilities

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<i>* Undated loan capital:</i>				
† Primary Capital Undated Floating Rate Notes:				
Series 1 (US\$750 million)	502	465		
Series 2 (US\$500 million)	335	310		
Series 3 (US\$600 million)	401	372		
■ 5% Undated Subordinated Step-up Notes callable 2009 (€1,250 million)	774	766		
† Undated Step-up Floating Rate Notes callable 2009 (€150 million)	94	93		
¶ 6% Undated Subordinated Step-up Notes callable 2010	405	405		
❖ Subordinated 5.57% Step-up Coupon Notes callable 2015 (¥20 billion)	117	120		
¶ 6½% Undated Subordinated Step-up Notes callable 2019	266	266		
11% Perpetual Subordinated Bonds	100	100		
† 8% Undated Subordinated Step-up Notes callable 2023	199	199		
¶ 6½% Undated Subordinated Step-up Notes callable 2029	198	198		
	<b>3,391</b>	<b>3,294</b>		
<i>Dated loan capital:</i>				
‡ Eurocurrency Zero Coupon Bonds 2003 (¥3 billion)	15	15	15	15
§ Subordinated Fixed Rate Bonds 2003 (NZ\$165 million)	49	65	–	–
† Subordinated Floating Rate Notes 2004	20	25	–	–
7% Subordinated Bonds 2004	399	399	–	–
†❖ Subordinated Floating Rate Notes 2004	100	100	–	–
† Subordinated Floating Rate Notes 2005	–	25	–	–
§ Subordinated Bonds 2005	–	16	–	–
§ Subordinated Bonds 2006 (NZ\$75 million)	22	24	–	–
† Subordinated Floating Rate Notes 2006	100	100	100	100
8½% Subordinated Bonds 2006	249	248	249	248
7¼% Subordinated Bonds 2007	298	298	–	–
§ Subordinated Fixed Rate Bonds 2007 (NZ\$150 million)	44	49	–	–
5¼% Subordinated Notes 2008 (DM750 million)	240	237	–	–
‡¶ 10% Guaranteed Subordinated Loan Stock 2008	100	100	–	–
9% Subordinated Bonds 2009	99	99	–	–
† Subordinated Step-up Floating Rate Notes 2009 callable 2004 (US\$500 million)	334	309	–	–
▲ 8.36% Subordinated Notes 2010 (NZ\$100 million)	30	–	–	–
⊗ 6¼% Subordinated Notes 2010 (€400 million)	250	–	–	–
†⊗ Subordinated Floating Rate Notes 2010 (US\$400 million)	267	–	–	–
‡ 12% Guaranteed Subordinated Bonds 2011	100	100	–	–
9% Subordinated Bonds 2011	148	148	148	148
4% Subordinated Notes 2011 (€850 million)	508	500	–	–
▲ 6% Subordinated Notes 2015	343	–	–	–
†▲ Subordinated Floating Rate Notes 2020 (€100 million)	62	–	–	–
9% Subordinated Bonds 2023	342	342	–	–
	<b>4,119</b>	<b>3,199</b>	<b>512</b>	<b>511</b>
Total subordinated liabilities	<b>7,510</b>	<b>6,493</b>	<b>512</b>	<b>511</b>

These liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

\* In certain circumstances, these notes and bonds would acquire the characteristics of preference share capital.

† These notes bear interest at rates fixed periodically in advance based on Interbank rates.

‡ Issued by a group undertaking under the Company's subordinated guarantee and, in the case of the Eurocurrency Zero Coupon Bonds 2003, on-lent to the Company on a subordinated basis.

⊗ Issued during 2000 primarily to provide capital resources in connection with the acquisition of Chartered Trust.

¶ At the callable date the coupon on these Notes will be reset by reference to the applicable five year benchmark gilt rate.

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

■ In the event that the Notes are not redeemed at the callable date, the coupon will be reset to a floating rate.

❖ In the event that the Notes are not redeemed at the callable date, the coupon will be reset to a fixed margin over the then 5 year Yen swap rate.

❖ Exchangeable at the election of the Group for further subordinated floating rate notes.

▲ Issued during 2000 primarily to finance the general business of the Group.

**42 Subordinated liabilities (continued)**

Dated subordinated liabilities are repayable as follows:

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
1 year or less	5	5	–	–
2 years or less but over 1 year	5	5	–	–
5 years or less but over 2 years	573	594	15	15
Over 5 years	3,536	2,595	497	496
	<b>4,119</b>	<b>3,199</b>	<b>512</b>	<b>511</b>

**43 Non-equity minority interests**

Non-equity minority interests comprise non-cumulative preferred securities issued by Group undertakings during the year as part of the funding for the Group's acquisition of Scottish Widows (note 49)

	2000 £m	1999 £m
Euro Step-up Non-Voting Non-Cumulative Preferred Securities (€430 million)*	267	–
Sterling Step-up Non-Voting Non-Cumulative Preferred Securities†	248	–
	<b>515</b>	<b>–</b>

\*These securities constitute limited partnership interests in Lloyds TSB Capital 1 L.P., a Jersey limited partnership in which Lloyds TSB (General Partner) Limited, a wholly owned subsidiary of the Group, is the general partner. Non-cumulative income distributions accrue at a fixed rate of 7.375 per cent per annum up to 7 February 2012; thereafter they will accrue at a rate of 2.33 per cent above EURIBOR, to be set annually.

†These securities constitute limited partnership interests in Lloyds TSB Capital 2 L.P., a Jersey limited partnership in which Lloyds TSB (General Partner) Limited, a wholly owned subsidiary of the Group, is the general partner. Non-cumulative income distributions accrue at a fixed rate of 7.834 per cent per annum up to 7 February 2015; thereafter they will accrue at a rate of 3.50 per cent above a rate based on the yield of specified UK government stock.

Both of the above issues were made under the limited subordinated guarantee of Lloyds TSB Bank plc. In certain circumstances these preferred securities will be mandatorily exchanged for preference shares in Lloyds TSB Group plc. Lloyds TSB Group plc has entered into an agreement whereby dividends may only be paid on its ordinary shares if sufficient distributable profits are available for distributions due in the financial year on these preferred securities.

**44 Called-up share capital**

	2000 £m	1999 £m
Authorised:		
Sterling		
Ordinary shares of 25p each	1,728	1,728
Limited voting ordinary shares of 25p each	20	20
Limited voting preference shares of £1 each	–	300
Preference shares of 25p each	44	–
	<b>1,792</b>	<b>2,048</b>
US dollars	US\$m	US\$m
Preference shares of US25 cents each	40	–
Euro	€m	€m
Preference shares of €25 cents each	40	–

**44 Called-up share capital (continued)**

	2000	1999
Authorised:		
Japanese yen	¥m	¥m
Preference shares of ¥25 each	1,250	–

During the year the Company reorganised its authorised preference share capital to provide flexibility for the Company to be able to issue preference shares denominated in sterling, US dollars, euro and yen, principally (but not exclusively) in connection with arrangements for raising additional capital for the Group as and when appropriate.

	Ordinary shares of 25p each £m	Limited voting ordinary shares of 25p each £m	Total £m
Issued and fully paid:			
At 1 January 2000	1,369	20	1,389
Issued to the QUEST (note 29)	7	–	7
At 31 December 2000	<b>1,376</b>	<b>20</b>	<b>1,396</b>

The limited voting ordinary shares are held by the Lloyds TSB Foundations. These shares carry no rights to dividends but rank pari passu with the ordinary shares in respect of other distributions and in the event of winding up. These shares do not have any right to vote at general meetings other than on resolutions concerning acquisitions or disposals of such importance that they require shareholder consent, or for the winding up of the Company, or for a variation in the class rights of the limited voting ordinary shares.

At 31 December 2000, options to acquire 149 million Lloyds TSB Group shares were outstanding under senior executives' and savings-related share option schemes at prices ranging from 124p to 888p per share exercisable up to 2010.

**45 Reserves**

	Group £m	Company £m
Share premium account:		
At 1 January 2000	404	404
Premium arising on issue of shares	191	191
At 31 December 2000	<b>595</b>	<b>595</b>
Revaluation reserve:		
At 1 January 2000 – as previously reported	(206)	4,131
Prior year adjustment (note 1)	206	–
Amended balance at 1 January 2000	–	4,131
Increase in net tangible assets of subsidiary undertakings		955
At 31 December 2000		<b>5,086</b>
Merger reserve:		
At 1 January 2000 and 31 December 2000	343	–
Profit and loss account:		
At 1 January 2000 – as previously reported	6,763	2,769
Prior year adjustment (note 1)	(318)	–
Amended balance at 1 January 2000	6,445	2,769
Exchange and other adjustments	(68)	–
Shares issued to the QUEST (note 29)	(124)	(128)
Goodwill written back on sale and closure of businesses	109	–
Retained profit	1,041	16
At 31 December 2000	<b>7,403</b>	<b>2,657</b>



**45 Reserves (continued)**

The Group profit and loss account reserves at 31 December 2000 include £1,396 million (1999: £1,165 million) not presently available for distribution representing the Group's share of the value of long-term assurance business in force and the surplus retained within the long-term assurance funds.

The cumulative amount of premiums on acquisitions written off against reserves during previous years amounts to £2,271 million of which £1,828 million was within the last 10 years.

**46 Transactions with related parties**

At 31 December 2000, transactions, arrangements and agreements entered into by the Group's banking subsidiaries with directors and connected persons and with officers included:

	2000 Number of persons	2000 Total £000	1999 Number of persons	1999 Total £000
Loans and credit card transactions:				
Directors and connected persons	10	119	13	191
Officers	36	4,993	28	2,986

Details of the principal group undertakings are given in note 22. In accordance with FRS 8, transactions or balances with group entities that have been eliminated on consolidation are not reported.

The Group enters into certain transactions with its long-term assurance businesses which are not eliminated in the consolidated accounts. At 31 December 2000 Group entities owed £2,126 million (1999: £1,775 million) and were owed £1,164 million (1999: £1,337 million). In addition, fees of £68 million (1999: £42 million) were received, and fees of £29 million (1999: £30 million) were paid, in respect of asset management services.

Details of transactions with the Group's joint venture are set out in note 24.

**47 Contingent liabilities and commitments**

	2000 £m	1999 £m
<i>Contingent liabilities:</i>		
Acceptances and endorsements	357	459
Guarantees	3,249	2,485
Other:		
Other items serving as direct credit substitutes	266	273
Performance bonds and other transaction-related contingencies	1,271	1,198
Other contingent liabilities	4	8
	1,541	1,479
	5,147	4,423
<i>Commitments:</i>		
Documentary credits and other short-term trade-related transactions	238	247
Forward asset purchases and forward forward deposits placed	779	986
Undrawn note issuing and revolving underwriting facilities	53	90
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year maturity	33,815	21,314
1 year or over maturity	7,701	5,225
Other commitments	3	14
	42,589	27,876

**48 Derivatives and other financial instruments**

Information about the Group's use of financial instruments and management of the associated risks is given on pages 29 to 33 in the financial review.

**a) Derivatives**

The Group uses derivatives as part of its trading activities and to reduce its own exposure to fluctuations in interest and exchange rates.

*Trading*

The notional principal amounts and fair values (which, after netting, are the carrying values) of trading instruments entered into with third parties were as follows:

	Notional principal amount £m	Fair values	
		Assets £m	Liabilities £m
<b>31 December 2000</b>			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	86,423	1,742	1,940
Currency swaps	6,049	304	206
Options purchased	1,208	23	-
Options written	1,023	-	19
	94,703	2,069	2,165
<i>Interest rate contracts:</i>			
Interest rate swaps	290,129	3,484	3,438
Forward rate agreements	48,002	57	64
Options purchased	3,539	17	-
Options written	2,229	-	8
Futures	34,390	6	-
	378,289	3,564	3,510
Equity contracts	2,768	443	59
Effect of netting		(3,388)	(3,388)
Balances arising from off-balance sheet financial instruments		2,688	2,346
Notional principal amount and Fair values (Assets and Liabilities) £m			
<b>31 December 1999</b>			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	85,939	1,648	1,529
Currency swaps	6,371	261	235
Options purchased	1,265	16	1
Options written	1,220	2	9
	94,795	1,927	1,774
<i>Interest rate contracts:</i>			
Interest rate swaps	382,812	3,939	4,002
Forward rate agreements	85,613	83	67
Options purchased	4,545	97	-
Options written	3,067	-	72
Futures	40,022	-	-
	516,059	4,119	4,141
Equity contracts	2,393	646	16
Effect of netting		(3,950)	(3,950)
Balances arising from off-balance sheet financial instruments		2,742	1,981

48 Derivatives and other financial instruments (continued)

a) Derivatives (continued)

Non-trading

Through intra company and intra group transactions the Group establishes non-trading derivatives positions with the Group's independent trading operations. Similar positions are also established with third parties. The notional principal amounts and fair values of non-trading instruments entered into with third parties were as follows:

31 December 2000

Exchange rate contracts:

Spot, forwards and futures  
Currency swaps

	Notional principal amount £m	Fair values	
		Positive £m	Negative £m
	<b>296</b>	<b>4</b>	<b>4</b>
	<b>78</b>	<b>5</b>	<b>7</b>
	<b>374</b>	<b>9</b>	<b>11</b>
	<b>2,466</b>	<b>96</b>	<b>35</b>
	<b>134</b>	<b>-</b>	<b>-</b>
	<b>2,600</b>	<b>96</b>	<b>35</b>

Interest rate contracts:

Interest rate swaps  
Forward rate agreements

31 December 1999

Exchange rate contracts:

Spot, forwards and futures  
Currency swaps

	Notional principal amount £m	Fair values	
		Positive £m	Negative £m
	187	4	1
	95	11	3
	<b>282</b>	<b>15</b>	<b>4</b>
	2,203	31	23
	20	-	-
	<b>2,223</b>	<b>31</b>	<b>23</b>

Interest rate contracts:

Interest rate swaps  
Forward rate agreements

The Company held non-trading derivatives with a notional principal amount of £400 million (1999: £400 million).

The aggregate carrying value of non-trading derivatives with a positive fair value was an asset of £23 million (1999: an asset of £1 million) and with a negative fair value was a liability of £1 million (1999: an asset of £1 million).

48 Derivatives and other financial instruments (continued)

a) Derivatives (continued)

The maturity of the notional principal amounts and replacement cost of both trading and non-trading instruments entered into with third parties was:

31 December 2000

Exchange rate contracts:

Notional principal amount  
Net replacement cost

Interest rate contracts:

Notional principal amount  
Net replacement cost

Equity contracts:

Notional principal amount  
Net replacement cost

31 December 1999

Exchange rate contracts:

Notional principal amount  
Net replacement cost

Interest rate contracts:

Notional principal amount  
Net replacement cost

Equity contracts:

Notional principal amount  
Net replacement cost

The notional principal amount does not represent the Group's real exposure to credit risk, which is limited to the current cost of replacing contracts at current market rates should the counterparties default.

An analysis of the net replacement cost of both trading and non-trading instruments entered into with third parties by counterparty type is set out below:

	2000 £m	1999 £m
OECD banks	<b>2,244</b>	2,449
Other	<b>549</b>	339
	<b>2,793</b>	2,788

48 Derivatives and other financial instruments (continued)

b) Interest rate sensitivity gap analysis for the non-trading book

The table below summarises the repricing mismatches of the Group's non-trading assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

	3 months or less £m	6 months or less but over 3 months £m	1 year or less but over 6 months £m	5 years or less but over 1 year £m	Over 5 years £m	Non- interest bearing £m	Total £m
<b>As at 31 December 2000</b>							
<i>Assets:</i>							
Treasury bills and other eligible bills	534	40	46	9	1	–	630
Loans and advances to banks	13,034	1,184	392	112	241	135	15,098
Loans and advances to customers	69,266	4,894	6,112	30,391	5,737	(2,075)	114,325
Debt securities and equity shares	2,497	475	340	902	1,448	51	5,713
Other assets	251	22	47	5	22	16,603	16,950
<b>Total assets</b>	<b>85,582</b>	<b>6,615</b>	<b>6,937</b>	<b>31,419</b>	<b>7,449</b>	<b>14,714</b>	<b>152,716</b>
<i>Liabilities:</i>							
Deposits by banks	12,854	1,090	604	396	92	789	15,825
Customer accounts	89,194	1,955	1,508	1,255	394	6,141	100,447
Debt securities in issue	8,519	5,950	1,769	623	82	–	16,943
Other liabilities	159	–	3	91	2	9,127	9,382
Subordinated liabilities – loan capital	1,727	509	–	637	4,637	–	7,510
Minority interests and shareholders' funds	–	–	–	–	–	10,269	10,269
<b>Total liabilities</b>	<b>112,453</b>	<b>9,504</b>	<b>3,884</b>	<b>3,002</b>	<b>5,207</b>	<b>26,326</b>	<b>160,376</b>
	(26,871)	(2,889)	3,053	28,417	2,242	(11,612)	(7,660)
Net balances with group trading books	(148)	982	264	6,188	374	–	7,660
Off-balance sheet items	12,229	(766)	170	(10,612)	(1,021)	–	–
<b>Interest rate repricing gap</b>	<b>(14,790)</b>	<b>(2,673)</b>	<b>3,487</b>	<b>23,993</b>	<b>1,595</b>	<b>(11,612)</b>	<b>–</b>
<b>Cumulative interest rate repricing gap</b>	<b>(14,790)</b>	<b>(17,463)</b>	<b>(13,976)</b>	<b>10,017</b>	<b>11,612</b>	<b>–</b>	<b>–</b>
<b>As at 31 December 1999</b>							
<i>Assets:</i>							
Treasury bills and other eligible bills	896	108	134	60	–	–	1,198
Loans and advances to banks	13,418	1,640	1,074	334	277	71	16,814
Loans and advances to customers	58,410	3,765	4,485	29,451	7,851	(1,864)	102,098
Debt securities and equity shares	3,056	725	675	524	1,041	54	6,075
Other assets	230	–	–	5	27	9,307	9,569
<b>Total assets</b>	<b>76,010</b>	<b>6,238</b>	<b>6,368</b>	<b>30,374</b>	<b>9,196</b>	<b>7,568</b>	<b>135,754</b>
<i>Liabilities:</i>							
Deposits by banks	15,095	852	114	17	–	745	16,823
Customer accounts	81,298	1,586	903	1,321	110	7,387	92,605
Debt securities in issue	6,618	1,446	1,397	1,109	407	–	10,977
Other liabilities	149	–	5	–	2	6,808	6,964
Subordinated liabilities – loan capital	–	46	–	685	5,762	–	6,493
Minority interests and shareholders' funds	–	–	–	–	–	8,524	8,524
<b>Total liabilities</b>	<b>103,160</b>	<b>3,930</b>	<b>2,419</b>	<b>3,132</b>	<b>6,281</b>	<b>23,464</b>	<b>142,386</b>
	(27,150)	2,308	3,949	27,242	2,915	(15,896)	(6,632)
Net balances with group trading books	1,372	272	733	4,051	204	–	6,632
Off-balance sheet items	3,526	527	(1,576)	(4,280)	1,803	–	–
<b>Interest rate repricing gap</b>	<b>(22,252)</b>	<b>3,107</b>	<b>3,106</b>	<b>27,013</b>	<b>4,922</b>	<b>(15,896)</b>	<b>–</b>
<b>Cumulative interest rate repricing gap</b>	<b>(22,252)</b>	<b>(19,145)</b>	<b>(16,039)</b>	<b>10,974</b>	<b>15,896</b>	<b>–</b>	<b>–</b>

The table above does not take into account the effect of interest rate options used by the Group to hedge its exposure; details of options are given on page 71 in note 48a).

**48 Derivatives and other financial instruments (continued)**

**c) Fair value analysis**

The table below shows a comparison by category of book values and fair values of the Group's on-balance sheet financial assets and liabilities.

**As at 31 December 2000**

	Trading book		Non-trading book	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Assets:</b>				
Treasury bills and other eligible bills	<b>1,079</b>	<b>1,079</b>	<b>630</b>	<b>627</b>
Loans and advances to banks and customers	<b>322</b>	<b>322</b>	–	–
Debt securities and equity shares	<b>8,416</b>	<b>8,416</b>	<b>5,713</b>	<b>5,972</b>
<b>Liabilities:</b>				
Deposits by banks and customers	<b>1,201</b>	<b>1,201</b>	–	–
Debt securities in issue	<b>956</b>	<b>956</b>	<b>16,943</b>	<b>16,982</b>
Subordinated liabilities	–	–	<b>7,510</b>	<b>7,692</b>

**As at 31 December 1999**

	Trading book		Non-trading book	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Assets:</b>				
Treasury bills and other eligible bills	867	867	1,198	1,197
Loans and advances to banks and customers	200	200	–	–
Debt securities and equity shares	8,322	8,322	6,075	6,214
<b>Liabilities:</b>				
Deposits by banks and customers	1,116	1,116	–	–
Debt securities in issue	1,283	1,283	10,977	10,971
Subordinated liabilities	–	–	6,493	6,667

The disclosures in this note cover all on-balance sheet financial instruments held in the trading book together with those held in the banking book for which there is a readily obtainable market price.

Fair values of all derivative instruments are disclosed above.

Fair values are determined by reference to quoted market prices or, where no market price is available, using internal models which discount expected future cashflows at prevailing interest rates.

**d) Currency exposures**

*Structural currency exposures*

The Group's main overseas operations are in New Zealand, the Americas and Europe. Details of the Group's structural foreign currency exposures are as follows:

	2000 £m	1999 £m
Functional currency of Group operation		
New Zealand dollar	<b>703</b>	716
Euro (and component former currencies)	<b>289</b>	335
US dollar	<b>194</b>	160
Swiss franc	<b>120</b>	108
Other non-sterling	<b>397</b>	371
<b>Total</b>	<b>1,703</b>	1,690

*Non-structural currency exposures*

All foreign exchange exposures in the non-trading book are transferred to the trading area where they are monitored and controlled.

Information about the management of market risk in the Group's trading activities is given on page 31.

**48 Derivatives and other financial instruments (continued)**

**e) Unrecognised gains and losses on hedging instruments**

The Group uses a variety of financial instruments to hedge exposures in its banking book; these hedges are accounted for on an accruals basis, in line with the underlying instruments being hedged. Any gains or losses that would occur if these instruments were carried at market value are therefore not recognised.

At 31 December 2000, the unrecognised gains on financial instruments used for hedging were £200 million (1999: £161 million) and unrecognised losses were £457 million (1999: £253 million).

The net losses arising in 1999 and earlier years and recognised in 2000 amounted to £32 million. Net losses of £200 million arose in 2000 but were not recognised in the year.

Of the net losses of £257 million at 31 December 2000, £55 million of net losses are expected to be recognised in the year ending 31 December 2001 and £202 million of net losses in later years.

**f) Value at risk in trading activities**

Details of value at risk in the Group's global trading activities are given on page 31 in the financial review.

**49 Acquisitions**

a) On 3 March 2000, the Group completed the transfer of the business of Scottish Widows' Fund and Life Assurance Society to its wholly owned subsidiaries Scottish Widows plc and Scottish Widows Annuities Limited; the results of Scottish Widows have been consolidated in full from that date. The premium on acquisition of £1,870 million has been capitalised and the directors have determined that it has an indefinite useful life (see note 1c).

A summarised profit and loss account for Scottish Widows for the period from 1 January 2000 to 2 March 2000 is set out below:

	£m
Earned premiums (net of reinsurance)	<b>477</b>
Other income and charges	<b>10</b>
Net investment returns	<b>(295)</b>
Claims paid (net of reinsurance)	<b>(419)</b>
Change in technical provisions	<b>(393)</b>
Operating expenses	<b>(57)</b>
Transfer from fund for future appropriations	<b>653</b>
Tax attributable to long-term business account	<b>(12)</b>
<b>Loss after tax for the period to 2 March 2000</b>	<b>(36)</b>
<b>Profit after tax for the year ended 31 December 1999</b>	<b>333</b>

All recognised gains and losses are included in the profit and loss account.

**49 Acquisitions (continued)**

The balance sheet of Scottish Widows at 3 March 2000 was as follows:

	Book value at 3 March £m	Fair value adjustments £m	Fair value at acquisition £m
Investments	23,799	(23,799)	–
Assets held to cover linked liabilities	3,062	(3,062)	–
Other assets	1,250	(1,230)	20
Prepayments and accrued income	189	(155)	34
Loans and advances to banks	160	–	160
Loans and advances to customers	632	–	632
Long-term assurance business attributable to shareholders	–	4,052	4,052
Long-term assurance assets attributable to policyholders	–	24,166	24,166
Fund for future appropriations	(6,541)	6,541	–
Technical provisions	(18,084)	18,084	–
Technical provisions for linked liabilities	(3,062)	3,062	–
Customer accounts	(709)	–	(709)
Accruals and deferred income	(21)	9	(12)
Other liabilities	(675)	575	(100)
Long-term assurance liabilities to policyholders	–	(24,166)	(24,166)
Net assets acquired	–	4,077	4,077
Goodwill			1,870
			5,947
Consideration			5,846
Costs of acquisition			101
			5,947

As a mutual life assurance society, Scottish Widows prepared accounts under the modified statutory solvency basis; this is different to the Lloyds TSB Group accounting policy, which is set out in note 1o). The fair value adjustments above are required to:

- i) show the net assets of Scottish Widows in accordance with the Group's accounting policy; and
- ii) reflect the fair value of assets and liabilities.

The Scottish Widows business is complex and whilst no further fair value adjustments are expected, in accordance with the requirements of paragraph 27 of Financial Reporting Standard 6, it is noted that the fair value of the net assets of Scottish Widows and the goodwill arising shown above are provisional.

Under the terms of the transfer of Scottish Widows' business, as set out in the Policyholder Circular dated 19 November 1999, a separate memorandum account was created within the With Profits Fund on 3 March 2000 called the Additional Account with a balance of £1.7 billion. This account included £1.3 billion which is available to meet any additional costs of meeting guaranteed benefits including annuity benefits on transferred policies allocated to the With Profits Fund and any unexpected liabilities which arise in the future but relate (with certain exceptions) to the operations of Scottish Widows and its subsidiaries prior to 3 March. The assets allocated to the Additional Account include certain hedge assets which are intended to protect the With Profits Fund against the consequences of a future fall in interest rates including increases in the costs of meeting policy guarantees.

**49 Acquisitions (continued)**

b) On 1 September 2000 the Group's subsidiary, Lloyds UDT Finance Limited, completed the acquisition of Chartered Trust Group plc and ACL Autolease Holdings Limited (together 'Chartered Trust'), the UK consumer finance and contract hire subsidiaries of Standard Chartered Bank; the results of these businesses have been consolidated in full from that date. The premium on acquisition of £508 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of 20 years.

A summarised profit and loss account for Chartered Trust for the period from 1 January 2000 to 31 August 2000 is set out below:

	£m
Net interest income	122
Net fees and commissions	(17)
Other income	17
Total income	122
Operating expenses	(84)
Provisions for bad and doubtful debts	(23)
Profit on ordinary activities before tax	15
Tax	(8)
Profit after tax for the period to 31 August 2000	7
Profit after tax for the year ended 31 December 1999	23

All recognised gains and losses are included in the profit and loss account.

The balance sheet of Chartered Trust at 1 September 2000 was as follows:

	Book value at 1 September £m	Fair value adjustments £m	Fair value at acquisition £m
Loans and advances to banks	143	–	143
Loans and advances to customers	1,860	–	1,860
Tangible fixed assets	414	(39)	375
Other assets and prepayments	114	–	114
Deposits by banks	(1,798)	–	(1,798)
Customer accounts	(336)	–	(336)
Other liabilities and accruals	(249)	–	(249)
Minority interests – equity	(3)	–	(3)
Net assets acquired	145	(39)	106
Goodwill			508
Consideration			614

The consideration was settled in cash. The fair value adjustments principally reflect provision for anticipated losses in respect of residual values on certain operating lease assets.

c) On 28 April 2000 the Group's French subsidiary, Lloyds Bank S.A. completed the purchase of the private client business of CPR Gestion Privée for a cash consideration of £27 million. The premium on acquisition of £27 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of 20 years. There were no fair value adjustments made to the assets acquired. The results of this business have been consolidated in full from the date of acquisition, the effect on the results of the Group is not material.

50 Consolidated cash flow statement

a Reconciliation of operating profit to net cash inflow from operating activities	2000 £m	1999 £m
Operating profit	3,886	3,747
Increase in prepayments and accrued income	(121)	(231)
Increase in accruals and deferred income	830	183
Provisions for bad and doubtful debts	475	588
Net advances written off	(583)	(614)
Restructuring costs incurred	-	(62)
General insurance claims	142	169
General insurance claims paid	(146)	(145)
Amounts written off fixed asset investments	14	7
Income from long-term assurance business	(615)	(227)
Interest on subordinated liabilities (loan capital)	490	362
Interest element of finance lease rental payments	1	-
Depreciation and amortisation	386	277
Other non-cash movements	(192)	(186)
Net cash inflow from trading activities	4,567	3,868
Net increase in loans and advances	(6,528)	(6,253)
Net (increase) decrease in investments other than investment securities	(355)	461
Net decrease in other assets	20	1,737
Net (decrease) increase in deposits by banks	(2,794)	827
Net increase in customer accounts	7,081	3,147
Net increase in debt securities in issue	4,738	551
Net increase (decrease) in other liabilities	569	(3,066)
Net increase in items in course of collection/transmission	(126)	(60)
Other non-cash movements	386	49
Net cash inflow from operating activities	7,558	1,261

b Analysis of cash as shown in the balance sheet	2000 £m	1999 £m
Cash and balances with central banks	1,027	1,276
Loans and advances to banks repayable on demand	2,794	1,132
	3,821	2,408

The Group is required to maintain balances with the Bank of England which, at 31 December 2000, amounted to £142 million (1999: £128 million).

c Analysis of changes in cash during the year	2000 £m	1999 £m
At 1 January	2,408	2,856
Net cash inflow (outflow) before adjustments for the effect of foreign exchange movements	1,406	(448)
Effect of foreign exchange movements	7	-
At 31 December	3,821	2,408

d Analysis of changes in financing during the year	2000 £m	1999 £m
At 1 January	2,136	1,823
Cash inflow from financing	198	313
At 31 December	2,334	2,136

Share capital (including premium and merger reserve)

50 Consolidated cash flow statement (continued)

d Analysis of changes in financing during the year (continued)	2000 £m	1999 £m
At 1 January	-	-
Effect of foreign exchange movements	6	-
Cash inflow from financing	509	-
At 31 December	515	-
	2000 £m	1999 £m
At 1 January	6,497	4,028
Effect of foreign exchange movements	120	(69)
Cash inflow from financing	897	2,541
Capital repayments	(4)	(3)
Adjustments on acquisition	23	-
At 31 December	7,533	6,497

e Analysis of the net cash outflow in respect of the acquisition of group undertakings	2000 £m	1999 £m
Cash consideration paid	5,110	27
Cash acquired	-	-
Net cash outflow	5,110	27

f Acquisition of group undertakings	2000 £m	1999 £m
Net assets acquired:		
Loans and advances	2,827	-
Long-term assurance business	4,052	-
Other assets	168	1
Tangible fixed assets	375	-
Deposits by banks, customer accounts and other liabilities	(3,239)	4
	4,183	5
Goodwill arising on consolidation	2,405	22
	6,588	27

Satisfied by:		
Issue of loan notes	1,077	-
Cash	5,110	27
Payments pending settlement	401	-
	6,588	27

g Disposal of group undertakings and businesses	2000 £m	1999 £m
Net assets disposed of:		
Interests in associated undertakings	-	2
Other net assets	2	-
Goodwill written back on disposal	93	-
	95	2
(Loss) profit on sale	(12)	1
Cash consideration received	83	3

# information for shareholders

## ANALYSIS OF SHAREHOLDERS

at 31 December 2000

Size of shareholding	Shareholders		Number of ordinary shares	
	Number	%	Millions	%
1 – 99	65,162	6.35	2.0	0.04
100 – 499	486,383	47.40	163.7	2.97
500 – 999	305,026	29.72	190.0	3.45
1,000 – 4,999	132,401	12.90	254.6	4.62
5,000 – 9,999	19,687	1.92	135.1	2.45
10,000 – 49,999	14,714	1.43	268.0	4.87
50,000 – 99,999	961	0.10	65.8	1.20
100,000 – 999,999	1,345	0.13	434.0	7.88
1,000,000 and over	489	0.05	3,994.2	72.52
	<b>1,026,168</b>	<b>100.00</b>	<b>5,507.4*</b>	<b>100.00</b>

\* Includes 833 million shares (15%) registered in the names of some 882,000 individuals. 190 million shares (3%) are held by over 63,000 staff and Group pensioners, or on their behalf by the trustee of the staff profit sharing schemes.

### Substantial shareholdings

At the date of this report notification had been received that The Capital Group Companies, Inc has an interest in 4% of the nominal value of the issued share capital. No other notification had been received that anyone has an interest in 3% or more of the nominal value of the issued share capital.

### Share price information

In addition to information published in the financial pages of the press, the latest price of Lloyds TSB shares on the London Stock Exchange can be obtained by telephoning 0906 8771515. These telephone calls are charged at 60p per minute, including VAT.

### Share dealing facilities

The Company provides a low cost, execution only, postal dealing service for the purchase and sale of Lloyds TSB shares through Lloyds TSB Registrars. The current rate of commission for purchases is 0.75%, minimum £10, and for sales is 0.75%, no minimum. For full details please contact Lloyds TSB Registrars. Telephone 01903 702321.

The Company also provides a telephone dealing service through Lloyds TSB Stockbrokers for the purchase and sale of Lloyds TSB shares on preferential commission terms. The current rate for both purchases and sales is 0.75%, minimum £18.50 maximum £75, for transactions up to £75,000. For full details please contact Lloyds TSB Stockbrokers. Telephone 0845 7888100.

### American Depositary Receipts (ADRs)

Lloyds TSB shares are traded in the USA through a sponsored ADR facility, with The Bank of New York as the depositary. The ADRs are traded on the over-the-counter market under the symbol LLDY. The CUSIP number is 539439109 and the ratio of ADRs to ordinary shares is 1:4. For details please contact ADR Department, The Bank of New York, 101 Barclay Street, 22nd Floor West, New York, NY 10286. Telephone (1) 888 BNY ADRS (US toll free); outside the US (908) 769 9835.

### Individual Savings Accounts (ISAs)

The Company provides a facility for investing in Lloyds TSB shares through an ISA. For details please contact Lloyds TSB Private Banking, Freeport, PO Box 149, Haywards Heath, West Sussex RH16 3BR. Telephone 0345 418418.

### Lloyds TSB: the community and our business

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. This information is also available on the Group's website (see below).

### The Better Payment Practice Code

A copy of the code and information about it may be obtained from:

The Department of Trade and Industry  
1 Victoria Street  
London SW1H 0ET

### Shareholder enquiries

The Company's share register is maintained by Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 0870 6003990; textphone 0870 6003950. Please contact them if you have enquiries about your Lloyds TSB shareholding, including those concerning the following matters:

- change of name or address
- loss of share certificate, dividend warrant or tax voucher
- to obtain a form for dividends to be paid directly to your bank or building society account (tax vouchers will still be sent to your registered address unless you request otherwise)
- to obtain details of the dividend reinvestment plan which enables you to use your cash dividends to buy Lloyds TSB shares in the market
- request for copies of the report and accounts in alternative formats for shareholders with disabilities.

Lloyds TSB Registrars operates a web based enquiry and portfolio management service for shareholders. Visit [www.shareview.co.uk](http://www.shareview.co.uk) for details.

## FINANCIAL CALENDAR 2001

### 16 February

Results for 2000 announced

### 28 February

Ex-dividend date for 2000 final dividend

### 2 March

Record date for final dividend

### 4 April

Final date for joining or leaving the dividend reinvestment plan for the final dividend

### 18 April

Annual general meeting in Edinburgh

### 2 May

Final dividend paid

### 27 July

Results for half-year to 30 June 2001 announced

### 8 August

Ex-dividend date for 2001 interim dividend

### 10 August

Record date for interim dividend

### 12 September

Final date for joining or leaving the dividend reinvestment plan for the interim dividend

### 10 October

Interim dividend paid

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### Registrar

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