Lloyds TSB Group plc

Results for half-year

to 30 June 2000

CONTENTS

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 life and pensions business have been separately analysed between an operating profit, which includes investment earnings calculated using longer-term investment rates of return, and a profit before tax, separately identifying the short-term fluctuations in investment returns (page 36, note 7).

Other items are also having a significant impact on the Group's 2000 results: changes in the economic assumptions applied to our long-term assurance business (page 36, note 8) and exceptional restructuring costs (page 37, note 9). In the second half of 1999, the impact of a provision for redress to past purchasers of pension policies ('pension provision') and the sale and closure of businesses was also significant (page 12). To facilitate comparisons of the results, certain financial information and commentaries have been presented excluding the effect of these items.

LLOYDS TSB GROUP 2000 INTERIM RESULTS

Results – statutory basis

Highlights

- Profit before tax up 12 per cent to £2,068 million from £1,853 million.
- Income up 8 per cent to £4,266 million.
- Economic profit increased by 11 per cent to £1,064 million.
- Earnings per share increased by 11 per cent to 26.8p.
- Shareholders' funds up by 16 per cent to £9,651 million.
- Post-tax return on average shareholders' equity 32.7 per cent.
- Total capital ratio 9.5 per cent, tier 1 capital ratio 9.3 per cent.
- Interim dividend increased by 15 per cent to 9.3p per share.

	Half-year to 30 June		Increase (Decrease)	Half-year to 31 December
	2000	1999	%	1999
Results	**£m**	£m		£m
Total income	**4,266**	3,950	8	3,978
Operating expenses	**1,876**	1,694	11	1,723
Trading surplus	**2,390**	2,256	6	2,255
Provisions for bad and doubtful debts	**247**	315	(22)	273
Profit before tax	**2,068**	1,853	12	1,768
Profit attributable to shareholders	**1,469**	1,315	12	1,199
Economic profit (page 34, note 2)	**1,064**	962	11	810
Earnings per share (pence)	**26.8**	24.2	11	22.0
Post-tax return on average shareholders' equity (%)	**32.7**	33.5		27.7
Shareholder value				
Closing market price per share	**624p**	860p	(27)	774p
Total market value of shareholders' equity	**£34.3bn**	£46.8bn	(27)	£42.4bn
Dividends per share	**9.3p**	8.1p	15	18.5p
Balance sheet	**£m**	£m		£m
Shareholders' equity	**9,651**	8,305	16	8,581
Total assets	**210,037**	173,249	21	175,979
Net assets per share (pence)	**173**	151	15	155
Risk asset ratios	**%**	%		%
Total capital	**9.5**	12.1		15.0
Tier 1 capital	**9.3**	9.8		9.9

LLOYDS TSB GROUP 2000 INTERIM RESULTS

Results – excluding the impact of short-term fluctuations in investment returns, changes in the economic assumptions applied to our long-term assurance business and exceptional restructuring costs in the first half of 2000, and other one-off items in the second half of 1999 (page 12)

Highlights

- Total revenue increased by 7 per cent to £4,198 million.
- Operating profit up 13 per cent to £2,074 million from £1,841 million.
- Efficiency ratio improved to 42.9 per cent from 43.0 per cent in the first half of 1999.
- Earnings per share increased by 12 per cent to 26.9p.
- Post-tax return on average shareholders' equity 32.6 per cent.
- UK Retail Financial Services profit up £206 million, or 17 per cent, to £1,432 million.
- Customer lending grew by 8 per cent to £107 billion and customer deposits increased by 3 per cent to £97 billion.
- Nearly 500,000 internet banking customers; on target for 1 million by the end of 2000.
- 10.7 per cent estimated market share of net new mortgage lending.
- Funds under management throughout the Group now total £126 billion.

	Half-year to 30 June		Increase (Decrease)	Half-year to 31 December
	2000	1999	%	1999
Results	**£m**	£m		£m
Total income	**4,198**	3,938	7	4,064
Operating expenses	**1,802**	1,694	6	1,723
Trading surplus	**2,396**	2,244	7	2,341
Provisions for bad and doubtful debts	**247**	315	(22)	273
Operating profit	**2,074**	1,841	13	1,980
Profit attributable to shareholders	**1,473**	1,307	13	1,384
Economic profit (page 34, note 2)	**1,066**	954	12	995
Earnings per share (pence)	**26.9**	24.1	12	25.3
Post-tax return on average shareholders' equity (%)	**32.6**	33.4		32.0

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

"I am pleased to report both record half-year profits and earnings per share. At the same time, we are investing heavily in e-commerce and restructuring to enhance future earnings. This continuing good performance enabled the board to increase the interim dividend by 15 per cent.

We expect further progress in the second half of the year".

GROUP CHIEF EXECUTIVE'S STATEMENT

Our statutory results for the first half of 2000 were good, with an 8 per cent growth in income, profit before tax up 12 per cent, customer lending up 8 per cent, and customer deposits up by 3 per cent. Our efficiency ratio remained low at 44.0 per cent despite an increase in investment expenditure, asset quality improved and we maintained our strong position in all our core markets. We are delighted to welcome Scottish Widows to the Group; they bring to us a powerful and leading brand, expertise, and access to the important Independent Financial Adviser market.

But the financial services sector in the UK, as in many other parts of the world, is at a watershed created by a rapid change in technology, principally driven by the internet, a dramatic increase in competition, and the increasing requirements of consumers who are rightly becoming more aware and more demanding. We believe that the organisations which will survive and prosper in this changed 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 all their financial affairs.

So, our Governing Objective to maximise shareholder value over time remains unchanged, and our strategy to deliver real value to our customers will be achieved by meeting 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, but must press on with a great sense of urgency to meet all our strategic aims.

Essentially we need to grow quality income and continue to reduce unit costs. On the income side we are focusing on three key areas. First, the further development and implementation of a segmented, relationship driven, approach to customers. Second, developing and implementing an improved wealth management strategy and, third, maximising the competitive advantage of our brand and distribution capability, including e-commerce.

On segmentation, we have increased the number of customers in our higher value personal choice portfolio to over 650,000, with a further 200,000 increase planned for the second half. In the first half, total product holdings increased by a net 325,000, and we expect this rate of growth to be exceeded in the second half, taking us towards our commitment to increase our total product holdings by a net 3 million by the end of 2002. We are also experiencing success with the segmentation of our non-personal businesses where we have a range of offers from which our commercial customers can choose. In terms of Customer Relationship Management (CRM), we have been further developing this vital component of our future income growth strategy. CRM is about bringing all customer information that we hold as a Group together so that we can build on our relationship with individual customers by providing them with products, service and access suited to their individual requirements. We are already piloting an enhanced model of CRM which has increased the volume and quality of leads, and demonstrated a greater awareness of individual customer needs.

Segmentation also features strongly in our new wealth management strategy which represents a significant revenue growth opportunity for us. We currently make some £300 million per annum pre-tax profit from wealth management and believe that this contribution can be doubled within 4 years. We will capitalise on this market by investing in improved products and service, launching a new wealth management offer towards the end of 2000 that will include a sophisticated cash management account, a financial hypermarket offering products manufactured within the Lloyds TSB stable and complemented by others manufactured elsewhere, a dedicated service centre and highly trained personal managers to deal professionally with the high net worth market.

The third way by which we will capitalise on our competitive strength in order to maximise quality income is to leverage our distribution capability. Lloyds TSB has one of the most powerful brands in the UK and excellent distribution capability, including e-commerce. We have a comprehensive network of branches together with the largest telephone banking business in the UK with 1.8 million customers, and we are a market leader in internet banking, with nearly 500,000 customers rising to 1 million by the end of the year, giving us an estimated 20 per cent market share. Distribution over the internet will also generate additional revenue in the important business to business market, and we are engaged in a number of areas of trade facilitation. Our overall distribution capability will also be much improved within the next 12 months as we complete our IT integration as planned, giving us online real time technology for our retail banking customers, a facility offered by no other bank of our size, and a facility which will become increasingly important in the internet world.

Turning from income generation to cost management, we are confident of achieving major efficiency improvements by applying internet and intranet technology throughout our own business. In addition, our restructuring programme, which we announced earlier this year, is now 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.

Going forward, the thrust of our strategy is about organic revenue growth through customer relationship management, leveraging the strength of our brand and our multi-channel distribution capability, reducing our day-to-day unit costs and driving forward our e-commerce strategy. We continue to develop new strategies which will use our distribution capability, our enhanced understanding of what our customers want, and our cost advantage to deliver greater value to customers. We also intend to participate in the further consolidation of financial services, both in the UK and overseas, where our focus remains in Europe and the USA.

The implementation of our strategies will ensure that, through profitable top line revenue growth and a strong grip on our day-to-day 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 competence and the determination to continue to succeed even more in the future than we have in the past.

Peter Ellwood
Group Chief Executive

REVIEW OF FINANCIAL PERFORMANCE

Profit before tax on a statutory basis rose by £215 million, or 12 per cent, to £2,068 million from £1,853 million in the first half of 1999. Economic profit increased by 11 per cent to £1,064 million, earnings per share increased by 11 per cent to 26.8p, shareholders' equity increased by 16 per cent and the post-tax return on average shareholders' equity was 32.7 per cent.

2000 figures however contain a number of items which have a significant impact on the Group's results; short-term fluctuations in investment returns (page 36, note 7), changes in the economic assumptions applied to our long-term assurance business (page 36, note 8) and exceptional restructuring costs (page 37, note 9). Excluding the impact of these items, profit before tax rose by £233 million, or 13 per cent, to £2,074 million from £1,841 million in the first half of 1999. Total income increased by 7 per cent, operating expenses increased by 6 per cent and there was a 7 per cent increase in the trading surplus. Customer lending and deposits continued to grow, however the net interest margin decreased by 29 basis points to 3.58 per cent, partly as a result of the impact of the funding cost of the purchase of Scottish Widows and lower interest rates in Latin America reducing the contribution of interest-free liabilities. The efficiency ratio was 42.9 per cent compared with 43.0 per cent in the first half of 1999.

Profit attributable to shareholders increased by 13 per cent, earnings per share increased by 12 per cent to 26.9p and economic profit increased by 12 per cent. The post-tax return on average shareholders' equity was 32.6 per cent, compared with 33.4 per cent in the first half of 1999. The post-tax return on average assets increased to 1.92 per cent from 1.80 per cent in the first half of 1999, and the post-tax return on average risk-weighted assets increased to 3.51 per cent from 3.17 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. The impact on Group figures of Scottish Widows' incorporation has been to reduce net interest income by £76 million, as a result of the funding cost of the acquisition, increase other income by £112 million, increase operating expenses by £45 million and decrease profit before tax by £9 million. These include adverse short-term fluctuations in investment returns of £51 million and restructuring costs of £28 million, £15 million of which relate to Scottish Widows integration costs. Excluding these two issues Scottish Widows contributed £70 million since 3 March 2000, after taking into account funding costs of £80 million.

Total profit before tax, excluding short-term fluctuations in investment returns, changes in the economic assumptions applied to our long-term assurance business and exceptional restructuring costs, from **UK Retail Financial Services** which encompasses UK Retail Banking, Mortgages, and Insurance and Investments, increased by £206 million, or 17 per cent, to £1,432 million from £1,226 million in the first half of 1999.

- Pre-tax profit from **UK Retail Banking** rose by £23 million, or 6 per cent, to £391 million. Total income increased by 4 per cent, costs increased by 5 per cent largely as a result of e-commerce investment costs, and there was a reduction of 2 per cent in bad debt provisions.

- Competition in the mortgage market was evident throughout the half-year leading, as anticipated, to a lower net interest margin which resulted in pre-tax profit from **Mortgages** decreasing by £16 million, or 4 per cent, to £429 million from the first half of 1999, but increasing by £6 million, or 1 per cent, compared to the second half of 1999. In comparison to the second half of last year margins were stable. Gross new lending increased by 15 per cent to £5.4 billion, compared with £4.7 billion a year ago, and net new lending was £2.1 billion, significantly higher than £1.1 billion in the first half of last year. This represented an estimated market share of net new lending of 10.7 per cent, higher than our 9.7 per cent share of mortgages outstanding. The Group continues to be one of the most efficient mortgage providers in the United Kingdom.

- Operating profit, including investment returns based on long-term rates of investment return, from **Insurance and Investments** increased by 48 per cent to £612 million from £413 million, largely as a result of the inclusion, since 3 March 2000, of Scottish Widows within our life and pensions business. Pre-tax profit from general insurance operations, comprising underwriting and broking, rose by £71 million, or 33 per cent, to £289 million, mainly as a result of continued strong revenue growth and an improvement in our claims experience. The Group has maintained its position as the leading distributor of personal lines insurance in the United Kingdom.

Wholesale Markets pre-tax profit increased by £24 million, or 7 per cent, to £380 million. Provisions for bad and doubtful debts fell by £16 million to £34 million. Total assets were flat and risk-weighted assets grew by 2 per cent.

International Banking pre-tax profit was £40 million higher at £263 million compared with the first half of 1999. Profits from New Zealand in local currency terms increased by 19 per cent. International private banking and the Group’s offshore banking operations both showed improvements over the first half of 1999. Our consumer finance business in Brazil, Losango Consumer Finance, made a pre-tax profit of £22 million, compared with a profit of £13 million in the first half of 1999.

The total Group charge for bad and doubtful debts was 22 per cent lower at £247 million, compared with £315 million in the first half of 1999. The domestic charge decreased to £231 million from £260 million, and provisions overseas decreased to £16 million from £55 million mainly as a result of a lower provisions charge from the Losango consumer finance business in Brazil and higher Emerging Market Debt provision releases. The Group’s charge for bad and doubtful debts, expressed as a percentage of average lending, was 0.46 per cent compared to 0.63 per cent in the first half of 1999. At the end of the half-year specific provisions for bad and doubtful debts for the Group totalled £1,839 million, representing over 160 per cent of non-performing loans (1999 first half: 160 per cent).

The total capital ratio was 9.5 per cent and the tier 1 capital ratio was 9.3 per cent. Balance sheet assets increased by £34 billion, or 19 per cent, to £210 billion from £176 billion at the end of 1999. £23 billion of this growth was represented by an increase in long-term assurance liabilities to policyholders following the acquisition of Scottish Widows. Over the last 12 months, loans and advances to customers increased by £8 billion, or 8 per cent. Risk-weighted assets increased by 5 per cent to £87.0 billion from £82.9 billion at the end of June 1999.

CONSOLIDATED PROFIT AND LOSS ACCOUNT (Unaudited)

	Half-year to 30 June		
	Group (excl. Scottish Widows) **2000** **£m**	Scottish Widows (from 3 March)* **2000** **£m**	Total **2000** **£m**
Interest receivable:			
Interest receivable and similar income arising from debt securities	**240**	**-**	**240**
Other interest receivable and similar income	**5,099**	**17**	**5,116**
Interest payable	**2,952**	**93**	**3,045**
Net interest income	**2,387**	**(76)**	**2,311**
Other income			
Fees and commissions receivable	**1,324**	**24**	**1,348**
Fees and commissions payable	**(215)**	**(8)**	**(223)**
Dealing profits (before expenses)	**97**	**3**	**100**
Income from long-term assurance business	**278**	**93**	**371**
General insurance premium income	**200**	**-**	**200**
Other operating income	**159**	**-**	**159**
	1,843	**112**	**1,955**
Total income	**4,230**	**36**	**4,266**
Operating expenses			
Administrative expenses	**1,583**	**17**	**1,600**
Exceptional restructuring costs	**46**	**28**	**74**
E-commerce investment costs	**42**	**-**	**42**
Total administrative expenses	**1,671**	**45**	**1,716**
Depreciation	**154**	**-**	**154**
Amortisation of goodwill	**6**	**-**	**6**
Depreciation and amortisation	**160**	**-**	**160**
Total operating expenses	**1,831**	**45**	**1,876**
Trading surplus (deficit)	**2,399**	**(9)**	**2,390**
General insurance claims	**71**	**-**	**71**
Provisions for bad and doubtful debts			
Specific	**246**	**-**	**246**
General	**1**	**-**	**1**
	247	**-**	**247**
Amounts written off fixed asset investments	**4**	**-**	**4**
Profit (loss) on ordinary activities before tax	**2,077**	**(9)**	**2,068**
Tax on profit on ordinary activities			**577**
Profit on ordinary activities after tax			**1,491**
Minority interests - equity			**6**
- non-equity			**16**
Profit for the period attributable to shareholders			**1,469**
Dividends			**511**
Retained profit			**958**

* including funding costs of £80 million, adverse short-term fluctuations in investment returns of £51 million and exceptional restructuring costs of £28 million.

CONSOLIDATED PROFIT AND LOSS ACCOUNT (Unaudited)

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Interest receivable:			
Interest receivable and similar income arising from debt securities	**240**	217	213
Other interest receivable and similar income	**5,116**	5,231	4,791
Interest payable	**3,045**	3,093	2,576
Net interest income	**2,311**	2,355	2,428
Other income			
Fees and commissions receivable	**1,348**	1,237	1,260
Fees and commissions payable	**(223)**	(214)	(212)
Dealing profits (before expenses)	**100**	107	108
Income from long-term assurance business:			
Income before pension provision	**371**	161	168
Pension provision	**-**	-	(102)
General insurance premium income	**200**	190	200
Other operating income	**159**	114	128
	1,955	1,595	1,550
Total income	**4,266**	3,950	3,978
Operating expenses			
Administrative expenses	**1,600**	1,561	1,579
Exceptional restructuring costs	**74**	-	-
E-commerce investment costs	**42**	-	-
Total administrative expenses	**1,716**	1,561	1,579
Depreciation	**154**	127	138
Amortisation of goodwill	**6**	6	6
Depreciation and amortisation	**160**	133	144
Total operating expenses	**1,876**	1,694	1,723
Trading surplus	**2,390**	2,256	2,255
General insurance claims	**71**	84	85
Provisions for bad and doubtful debts			
Specific	**246**	315	273
General	**1**	-	-
	247	315	273
Amounts written off fixed asset investments	**4**	4	3
Operating profit	**2,068**	1,853	1,894
Loss on sale and closure of businesses	**-**	-	126
Profit on ordinary activities before tax	**2,068**	1,853	1,768
Tax on profit on ordinary activities	**577**	536	565
Profit on ordinary activities after tax	**1,491**	1,317	1,203
Minority interests - equity	**6**	2	4
- non-equity	**16**	-	-
Profit for the period attributable to shareholders	**1,469**	1,315	1,199
Dividends	**511**	437	1,014
Retained profit	**958**	878	185
Earnings per share	**26.8p**	24.2p	22.0p

CONSOLIDATED BALANCE SHEET (Unaudited)

	30 June 2000	30 June 1999*	31 December 1999*
Assets	**£m**	£m	£m
Cash and balances at central banks	**729**	689	1,276
Items in course of collection from banks	**2,021**	2,111	1,743
Treasury bills and other eligible bills	**1,876**	1,776	2,065
Loans and advances to banks	**16,265**	21,508	16,963
Loans and advances to customers	**106,876**	99,296	102,149
Debt securities	**14,886**	11,999	14,184
Equity shares	**201**	216	213
Intangible assets	**2,082**	233	231
Tangible fixed assets	**2,155**	1,829	2,035
Own shares	**29**	11	35
Other assets	**3,129**	3,661	3,641
Prepayments and accrued income	**3,271**	2,523	2,628
Long-term assurance business attributable to shareholders	**6,607**	2,317	2,274
	160,127	148,169	149,437
Long-term assurance assets attributable to policyholders	**49,910**	25,080	26,542
Total assets	**210,037**	173,249	175,979
Liabilities			
Deposits by banks	**13,385**	15,606	17,694
Customer accounts	**97,001**	94,499	92,851
Items in course of transmission to banks	**547**	902	757
Debt securities in issue	**15,896**	13,957	12,260
Other liabilities	**10,964**	5,731	5,526
Accruals and deferred income	**3,302**	3,223	3,309
Provisions for liabilities and charges:			
Deferred tax	**1,529**	1,261	1,459
Other provisions for liabilities and charges	**458**	482	474
Subordinated liabilities:			
Undated loan capital	**3,389**	1,577	3,294
Dated loan capital	**3,456**	2,584	3,199
Minority interests			
Equity	**33**	42	33
Non-equity	**516**	-	-
	549	42	33
Called-up share capital	**1,395**	1,381	1,389
Share premium account	**546**	151	404
Merger reserve	**343**	343	343
Profit and loss account	**7,367**	6,430	6,445
Shareholders' funds (equity)	**9,651**	8,305	8,581
	160,127	148,169	149,437
Long-term assurance liabilities to policyholders	**49,910**	25,080	26,542
Total liabilities	**210,037**	173,249	175,979

* restated (page 34, note 1)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (Unaudited)

	Half-year to 30 June 2000 £m	Half-year to 30 June 1999 £m	Half-year to 31 December 1999 £m
Profit attributable to shareholders	**1,469**	1,315	1,199
Currency translation differences on foreign currency net investments	**(17)**	12	(45)
Total recognised gains and losses relating to the period	**1,452**	1,327	1,154
Prior period adjustment (page 34, note 1)	**(112)**		
Total gains and losses recognised during the period	**1,340**		

HISTORICAL COST PROFITS AND LOSSES

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Half-year to 30 June 2000 £m	Half-year to 30 June 1999 £m	Half-year to 31 December 1999 £m
Profit attributable to shareholders	**1,469**	1,315	1,199
Dividends	**(511)**	(437)	(1,014)
Retained profit	**958**	878	185
Currency translation differences on foreign currency net investments	**(17)**	12	(45)
Issue of shares	**40**	52	56
Goodwill written back on sale of businesses	**89**	-	80
Net increase in shareholders' funds	**1,070**	942	276
Shareholders' funds at beginning of period	**8,581**	7,475	8,305
Prior period adjustment (page 34, note 1)	**-**	(112)	-
Shareholders' funds at end of period	**9,651**	8,305	8,581

CONSOLIDATED CASH FLOW STATEMENT (Unaudited)

	Half-year to 30 June 2000 £m	Half-year to 30 June 1999 £m	Half-year to 31 December 1999 £m
Net cash inflow (outflow) from operating activities	**4,928**	6,765	(5,504)
Returns on investments and servicing of finance:			
Dividends paid to equity minority interests	**(6)**	(4)	(7)
Payments made to non-equity minority interests	**(16)**	-	-
Interest paid on subordinated liabilities (loan capital)	**(210)**	(142)	(128)
Net cash outflow from returns on investments and servicing of finance	**(232)**	(146)	(135)
Taxation:			
UK corporation tax	**(194)**	(122)	(548)
Overseas tax	**(63)**	(72)	(65)
Total taxation	**(257)**	(194)	(613)
Capital expenditure and financial investment:			
Additions to fixed asset investments	**(12,811)**	(11,944)	(11,203)
Disposals of fixed asset investments	**12,447**	12,717	9,204
Additions to tangible fixed assets	**(306)**	(168)	(427)
Disposals of tangible fixed assets	**26**	12	71
Capital injection to life fund	**-**	(220)	-
Net cash (outflow) inflow from capital expenditure and financial investment	**(644)**	397	(2,355)
Acquisitions and disposals:			
Acquisition of group undertakings	**(19)**	(11)	(16)
Disposal of group undertakings and businesses	**80**	3	-
Net cash inflow (outflow) from acquisitions and disposals	**61**	(8)	(16)
Equity dividends paid	**(1,011)**	(841)	(444)
Net cash inflow (outflow) before financing	**2,845**	5,973	(9,067)
Financing:			
Issue of subordinated liabilities (loan capital)	**278**	330	2,439
Issue of preferred securities by subsidiary undertakings	**509**	-	-
Issue of ordinary share capital net of £105 million (1999:first half £ nil; second half £205m) contribution to the QUEST	**40**	52	56
Repayments of subordinated liabilities (loan capital)	**(51)**	(228)	-
Capital element of finance lease rental payments	**(1)**	(1)	(2)
Net cash inflow from financing	**775**	153	2,493
Increase (decrease) in cash	**3,620**	6,126	(6,574)

PERFORMANCE BY SECTOR

Profit before tax by main businesses

	Half-year to 30 June **2000** **£m**	Half-year to 30 June 1999 £m	Half-year to 31 December 1999 £m
UK Retail Banking	**391**	368	421
Mortgages	**429**	445	423
Insurance and Investments*	**612**	413	460
UK Retail Financial Services	**1,432**	1,226	1,304
Wholesale Markets	**380**	356	372
International Banking	**263**	223	221
Central group items	**(1)**	36	83
Operating profit – excluding short-term fluctuations in investment returns, changes in economic assumptions, exceptional restructuring costs, pension provision and loss on sale and closure of businesses	**2,074**	1,841	1,980
Short-term fluctuations in investment returns (page 36, note 7)	**(59)**	12	16
Changes in economic assumptions (page 36, note 8)	**127**	-	-
Exceptional restructuring costs (page 37, note 9)	**(74)**	-	-
Pension provision	**-**	-	(102)
Loss on sale and closure of businesses	**-**	-	(126)
Profit before tax	**2,068**	1,853	1,768

* including 'normalised' investment returns based on long-term rates of investment return (page 36, note 7)

1999 figures have been restated to take account of a number of organisational changes and changes in internal cost allocation.

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 first half figures, which have been restated, is an increase in central group items of £53 million offset by a commensurate reduction in business unit earnings.

UK Retail Financial Services

Total profit before tax, excluding short-term fluctuations in investment returns, changes in the economic assumptions applied to our long-term assurance business and exceptional restructuring costs, from UK Retail Financial Services which encompasses UK Retail Banking, Mortgages, and Insurance and Investments, increased by £206 million, or 17 per cent, to £1,432 million from £1,226 million in the first half of 1999.

UK Retail Banking and Mortgages

Total profit before tax from UK Retail Banking and Mortgages rose by £7 million, or 1 per cent, to £820 million. Total income increased by 2 per cent and costs increased by 5 per cent, largely as a result of e-commerce investment costs totalling £40 million. Bad debt provisions decreased by £13 million, or 6 per cent, to £197 million.

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Net interest income	**1,477**	1,452	1,491
Other income	**557**	542	548
Total income	**2,034**	1,994	2,039
Operating expenses	**1,017**	971	980
Trading surplus	**1,017**	1,023	1,059
Provisions for bad and doubtful debts	**197**	210	215
Profit before tax	**820**	813	844
Profit before tax			
Retail Banking	**391**	368	421
Mortgages	**429**	445	423
	820	813	844
Efficiency ratio	**50.0%**	48.7%	48.1%
Total assets (period-end)	**£68.4bn**	£62.3bn	£64.3bn
Total risk-weighted assets (period-end)	**£42.0bn**	£38.6bn	£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 £23 million, or 6 per cent, to £391 million. Total income increased by 4 per cent, costs increased by 5 per cent largely as a result of e-commerce investment costs, and there was a reduction of 2 per cent in bad debt provisions.

Personal loans and credit card lending increased by 8 per cent since the end of June 1999 and balances on current accounts and savings and investment accounts grew by 11 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 market leadership in this area with over 1.7 million accounts in operation. The Group also continues to maintain market-leading positions in all 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 the broadest possible range of access points for our customers in order to improve service and to enhance revenue growth. PhoneBank, our telephone banking operation, is one of the largest in Europe with 1.2 million customers. It handled some 7 million calls during the half-year. PhoneBank Express, our leading edge interactive voice recognition system, now has some 630,000 registered users. Our supermarket banking operation, branded 'easibank', continues to expand and we now have 18 branches in ASDA stores or large shopping centres.

We continue to make substantial progress in the four main areas of focus in our e-commerce strategy. We are on target for 1 million online customers of *LloydsTSB.com* by the end of this year and we now have nearly 500,000 customers registered to use our online banking service, 62 per cent of whom are using the service at least once a week. We will launch our standalone internet bank, *evolvebank.com* later this year in both Spain and the UK.

We have also made substantial progress on a number of initiatives for business customers. The Group has recently launched *Success4business.com*, an internet portal designed to help small business customers maximise opportunities in e-commerce and *LloydsTSBMarketplace*, a trade facilitation web service, which is currently being piloted, that allows suppliers and buyers access to a secure e-enabled environment to conduct business with a wide variety of companies within their specific market place.

Major efficiency improvements are being achieved by using internet and intranet technology throughout our business. Our new e-procurement system has recently been launched throughout the Group and staff can now make purchases from their desktop PCs, saving substantial time and money as all purchases are made using the Group's preferred suppliers with whom discounts have been negotiated.

UK Retail Banking (continued)

Internet customers generally tend to be high value customers and, because access via the internet is so easy and offers new ways of managing their finances, internet customers tend to contact their bank more often once on the internet. We believe that within 3-4 years we will see more customer contact via the internet than via branches, even if only a minority of our customers are banking on the internet by then. This will enable us to understand much better, and interact more often with, our most valuable customers. We are thus committed to being the leader in this market – the latest step in this process being the launch of a greatly enhanced website in July 2000.

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, from November 2000. The unique package will also include a free mobile banking handset, a discounted mobile call tariff, free fixed line off peak PC internet access and online shopping services. It is anticipated that over the next two years a significant number of customers will take advantage of this offer which forms a key part of the Group’s commitment to enable its customers to do their banking where, when and how they choose.

On 24 July 2000 the Group announced that it is launching 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.

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 62,000 new business customers chose Lloyds TSB during the half-year. Revenue growth and profitability has again improved and bad debts continued at a very low level.

UK Private Banking had another successful half-year. Profit before tax increased by 15 per cent to £53 million, from £46 million in the first half of 1999. £0.7 billion of new funds were gained in the first half and total funds managed and administered now stand at some £12.1 billion.

Lloyds TSB Stockbrokers, one of the largest retail stockbrokers in the UK, continued to perform well as a result of high transaction levels and efficiency gains. Pre-tax profit increased to £12 million compared with £10 million in the first half of last year.

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

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
Profit before tax	**£429m**	£445m	£423m
Efficiency ratio	**23.7%**	22.0%	23.1%
Gross new mortgage lending	**£5.4bn**	£4.7bn	£6.0bn
Market share of gross new mortgage lending	**9.5%**	9.4%	9.3%
Net new mortgage lending	**£2.1bn**	£1.1bn	£1.7bn
Market share of net new mortgage lending	**10.7%**	7.0%	7.8%
Mortgages outstanding (period-end)	**£50.2bn**	£45.8bn	£47.5bn
Market share of mortgages outstanding	**9.7%**	9.6%	9.5%

Competition in the mortgage market was evident throughout the half-year leading, as anticipated, to a lower net interest margin which resulted in pre-tax profit from Mortgages decreasing by £16 million, or 4 per cent, to £429 million from the first half of 1999, but increasing by £6 million, or 1 per cent, compared to the second half of 1999. In comparison to the second half of last year margins were stable. The efficiency ratio of the Group's total mortgage business was 23.7 per cent compared with 22.0 per cent in the first half of 1999. The Group continues to be one of the most efficient mortgage providers in the United Kingdom.

Against the competitive background, the Group achieved in excess of its natural market share of net new lending. Gross new lending increased by 15 per cent to £5.4 billion, compared with £4.7 billion a year ago, and net new lending was £2.1 billion, significantly higher than £1.1 billion in the first half of last year. This represented an estimated market share of net new lending of 10.7 per cent, higher than our 9.7 per cent share of mortgages outstanding. Our pipeline of new business continues at high levels and we are confident that this will translate into strong gross lending over the next few months.

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 fifth consecutive 5-star rating in the 1999 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 £5 million for the half-year, compared with a charge of £4 million in the first half of 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)

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Life and pensions			
Scottish Widows (including bancassurance)	**230**	103	131
Abbey Life	**73**	80	76
	303	183	207
General insurance	**289**	218	243
Operating profit from Insurance*	**592**	401	450
Scottish Widows Investment Partnership	**20**	12	10
Total operating profit*	**612**	413	460
Short-term fluctuations in investment returns (page 36, note 7)	**(59)**	12	16
Changes in economic assumptions (page 36, note 8)	**127**	-	-

* 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

Operating profit, including investment returns based on long-term rates of investment return, from Insurance and Investments increased by 48 per cent to £612 million from £413 million, largely as a result of the inclusion, since 3 March 2000, of Scottish Widows within our life and pensions business.

Profit before tax from our life and pensions business increased by £120 million, or 66 per cent, to £303 million. Weighted sales of life, pensions and unit trusts increased by 28 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 £71 million, or 33 per cent, to £289 million, mainly as a result of continued strong revenue growth and an improvement in our claims experience. The Group has maintained its position as the leading distributor of personal lines insurance in the United Kingdom.

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 in excess of £89 billion of funds under management, will enable the Group to become a leading player in the asset management industry. Pre-tax profit from investment management for the half-year was £20 million, up 67 per cent from £12 million in the first half of 1999.

Insurance and Investments (continued)

Life and pensions (including unit trusts)

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
New business	**100**	67	67
Existing business	**187**	127	133
Investment earnings	**90**	16	22
Life and pensions distribution costs	**(88)**	(48)	(51)
	289	162	171
Unit trusts	**73**	57	81
Unit trust distribution costs	**(59)**	(36)	(45)
	14	21	36
Operating profit*	**303**	183	207

* including 'normalised' investment returns based on long-term rates of investment return (page 36, note 7)

Weighted sales of life, pensions and unit trusts increased by 28 per cent to £352.5 million from £275.2 million in the first half of 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.

Scottish Widows is now the sole assurance brand in the Group and we expect to see a significant improvement in both branch sales and in sales derived via independent financial advisers, in the second half of the year.

In the second half of 1999, the Group's results were adversely affected by an increase in the pension provision of £102 million for redress to past purchasers of pension policies, which raised the total provisions made for this purpose to £802 million. At 30 June 2000 £543 million of the £802 million provision had been used. We remain satisfied that no further provision should be made at this stage but will continue to review the adequacy of this provision.

In addition, a £114 million provision was made within Abbey Life in 1998 for liabilities under certain unit-linked products with guaranteed annuity options written in the mid-1960s to the mid-1980s. We continually review the adequacy of the provision at Abbey Life and remain satisfied that no further provision is necessary at this stage. Scottish Widows' approach to pensions with the option of a guaranteed annuity rate is fully in accordance with the contract terms of those policies and Scottish Widows has assets to match its liabilities in respect of guaranteed annuity options. Moreover, the assets are held in such a way that should the liabilities increase then the assets will also increase to reflect this.

Insurance and Investments (continued)

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Total new business premium income and unit trust sales:			
Regular premiums	**71.2**	69.5	59.9
Single premiums	**1,298.8**	790.2	1,085.5
Unit trusts	**1,057.7**	911.9	858.3
Weighted sales (regular + $^{1}/_{10}$ single)	**352.5**	275.2	290.0
Scottish Widows (including bancassurance)			
Regular premiums:			
Life - mortgage related	**11.1**	16.5	14.9
- non-mortgage related	**8.4**	4.7	5.1
Pensions	**44.4**	17.3	10.9
Fund management	**1.3**	-	-
Health	**2.7**	2.6	2.3
Total regular premiums	**67.9**	41.1	33.2
Single premiums:			
Life	**437.8**	198.4	131.2
Annuities	**126.1**	47.7	54.0
Pensions	**140.3**	34.5	44.8
Fund management	**572.9**	382.0	697.0
Total single premiums	**1,277.1**	662.6	927.0
External unit trust sales:			
Regular payments	**50.6**	38.5	38.2
Single amounts	**1,003.8**	832.0	792.5
Total external unit trust sales	**1,054.4**	870.5	830.7
Abbey Life			
Regular premiums:			
Life - mortgage related	**0.4**	4.2	5.1
- non-mortgage related	**0.7**	5.7	6.8
Pensions	**2.2**	17.7	14.4
Health	**-**	0.8	0.4
Total regular premiums	**3.3**	28.4	26.7
Single premiums:			
Life	**3.5**	14.8	32.2
Annuities	**8.4**	58.9	50.0
Pensions	**9.8**	53.9	76.3
Total single premiums	**21.7**	127.6	158.5
External unit trust sales:			
Regular payments	**0.1**	0.9	1.5
Single amounts	**3.2**	40.5	26.1
Total external unit trust sales	**3.3**	41.4	27.6
Total life funds under management	**49,910**	25,080	26,542

Insurance and Investments (continued)

General Insurance

	Half-year to 30 June **2000** **£m**	Half-year to 30 June 1999 £m	Half-year to 31 December 1999 £m
Premium income from underwriting			
Creditor	**69**	65	71
Home	**108**	98	105
Health	**26**	28	27
Other	**-**	1	-
Re-insurance premiums	**(3)**	(2)	(3)
	200	190	200
Commissions from insurance broking			
Creditor	**105**	80	95
Home	**17**	18	17
Health	**10**	10	11
Other	**59**	42	54
	191	150	177
Operating profit*	**289**	218	243

* including ‘normalised’ investment returns based on long-term rates of investment return (page 36, note 7)

Operating profit, excluding short-term fluctuations in investment returns, from general insurance operations, comprising underwriting and broking, rose by £71 million, or 33 per cent, to £289 million.

Income from creditor insurance increased by 20 per cent, reflecting higher personal sector loan values and higher sales of business loan protection. Sales of household policies increased by 8 per cent.

The overall increase in sales, together with renewal business, produced a 27 per cent increase in commission income from broking and a 5 per cent increase in earned premium income from underwriting. Investment income increased by 7 per cent to £30 million.

The overall claims ratio of 35.0 per cent was lower than in the first half of 1999 (43.8 per cent). Claims were £13 million, or 15 per cent, lower at £71 million than in the first half of last year. This reflected lower weather related claims following a mild winter, and lower unemployment claims.

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)

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Net interest income	**426**	469	461
Other income	**277**	216	228
Total income	**703**	685	689
Operating expenses	**285**	275	289
Trading surplus	**418**	410	400
Provisions for bad and doubtful debts	**34**	50	25
Amounts written off fixed asset investments	**4**	4	3
Profit before tax	**380**	356	372
Efficiency ratio	**40.5%**	40.1%	41.9%
Total assets (period-end)	**£61.7bn**	£62.3bn	£61.5bn
Total risk-weighted assets (period-end)	**£32.1bn**	£31.4bn	£31.6bn

Wholesale Markets pre-tax profit increased by £24 million, or 7 per cent, to £380 million. Provisions for bad and doubtful debts fell by £16 million to £34 million. Total assets were flat and risk-weighted assets grew by 2 per cent.

Our Corporate and Financial Institutions' businesses, serving the larger corporate market and financial institutions, achieved record results. Corporate Banking's continuing focus on quality income growth ensured another strong performance. Bad debt provisions remained at a relatively low level. Lloyds TSB Leasing maintained its position as the largest 'big ticket' leasing company in the UK and Lloyds TSB Registrars further consolidated its market leadership position and continued to perform strongly as a result of higher corporate activity.

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 half-year. Agricultural Mortgage Corporation continued to expand its activity in the provision of long-term finance to farmers.

Higher short-dated funding costs resulted in slightly lower income from Treasury sterling money market operations. The Group's activity in the derivative markets continues to remain focused on straight cash based products.

International Banking

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

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Net interest income	**379**	368	366
Other income	**194**	199	179
Total income	**573**	567	545
Operating expenses	**294**	289	291
Trading surplus	**279**	278	254
Provisions for bad and doubtful debts	**16**	55	33
Profit before tax	**263**	223	221
Efficiency ratio	**51.3%**	51.0%	53.4%
Total assets (period-end)	**£19.2bn**	£19.3bn	£19.4bn
Total risk-weighted assets (period-end)	**£11.7bn**	£11.7bn	£11.6bn

International Banking pre-tax profit was £40 million, or 18 per cent, higher at £263 million compared with the first half of 1999. Excluding the Emerging Markets Debt portfolio, pre-tax profit increased by £19 million, or 9 per cent, to £220 million. Excluding the EMD portfolio, pre-tax profit from International Banking represented 11 per cent of Group pre-tax profit of which 4 per cent related to our New Zealand business, 5 per cent to our Europe and offshore banking operations and 2 per cent to Latin America.

Profits from New Zealand in local currency terms increased by 19 per cent. International private banking and the Group's offshore banking operations both showed improvements over the first half of 1999.

Our consumer finance business in Brazil, Losango Consumer Finance, made a pre-tax profit of £22 million, compared with a profit of £13 million in the first half of 1999.

The Emerging Markets Debt portfolio contributed £43 million, which included a release of provisions of £36 million following the repayment of debt by certain borrowers and some asset sales. This compared with a contribution of £22 million in the first half of 1999, which included a release of provisions of £15 million.

At the end of June 2000 the Group's provisionable exposure to Emerging Market economies which is included in loans and advances was £1,350 million (December 1999: £1,328 million) against which provisions of £849 million (December 1999: £799 million) were held, giving cover of 63 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 £700 million (December 1999: £700 million).

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

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Accrual for payment to Lloyds TSB Foundations	**(18)**	(15)	(16)
Earnings on surplus capital, central costs and other unallocated items	**17**	51	99
	(1)	36	83

The reduction in earnings on surplus capital, central costs and other unallocated items in the first half of 2000 reflects the incorporation, for the first time, of the funding cost of the purchase of Scottish Widows (page 12).

INCOME

Group net interest income

Group net interest income decreased by £44 million, or 2 per cent, to £2,311 million reflecting the £80 million funding cost of Scottish Widows. Average interest-earning assets increased by 6 per cent to £130 billion. There was further growth in mortgages and other customer lending in the UK. The net interest margin decreased to 3.58 per cent, a reduction of 29 basis points. The impact of the funding cost of Scottish Widows represented 12 basis points of this 29 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.

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Net interest income	**2,311**	2,355	2,428
Average balances			
Short-term liquid assets	**2,176**	2,050	1,921
Loans and advances	**120,832**	116,239	117,680
Debt securities	**6,838**	4,553	5,515
Total interest-earning assets	**129,846**	122,842	125,116
Financed by:			
Interest-bearing liabilities	**115,909**	106,471	108,772
Interest-free liabilities	**13,937**	16,371	16,344
Average rates	**%**	%	%
Gross yield on interest-earning assets	**8.30**	8.94	7.93
Cost of interest-bearing liabilities	**5.28**	5.86	4.70
Interest spread	**3.02**	3.08	3.23
Contribution of interest-free liabilities	**0.56**	0.79	0.62
Net interest margin	**3.58**	3.87	3.85

Note: Payments made under cash gift and discount mortgage schemes are amortised over the early redemption charge period, being a maximum of 5 years. If these incentives had been fully written off as incurred, group and domestic net interest income would have been £38 million lower in the first half of 2000 (1999: first half £16 million higher, second half £27 million lower). The deferred element of the expenditure amounting to £214 million at 30 June 2000 (30 June 1999: £149 million, 31 December 1999: £176 million) is included within prepayments and accrued income in the balance sheet.

Domestic net interest income

Domestic net interest income decreased by £47 million, or 2 per cent, to £1,990 million, largely reflecting the £80 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 £109 billion. There was further growth in mortgages and other customer lending.

The net interest margin decreased by 32 basis points to 3.68 per cent, again partly reflecting the funding cost of Scottish Widows, which caused a reduction of 15 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. The first half of 1999 benefited from a higher number of base rate changes.

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Net interest income	**1,990**	2,037	2,117
Average balances			
Short-term liquid assets	**820**	915	1,054
Loans and advances	**103,247**	98,870	101,082
Debt securities	**4,783**	2,844	3,693
Total interest-earning assets	**108,850**	102,629	105,829
Financed by:			
Interest-bearing liabilities	**96,599**	87,862	91,141
Interest-free liabilities	**12,251**	14,767	14,688
Average rates	**%**	%	%
Gross yield on interest-earning assets	**8.02**	7.81	7.57
Cost of interest-bearing liabilities	**4.90**	4.45	4.18
Interest spread	**3.12**	3.36	3.39
Contribution of interest-free liabilities	**0.56**	0.64	0.58
Net interest margin	**3.68**	4.00	3.97

International net interest income

Net interest income from international operations increased by 1 per cent to £321 million, representing 14 per cent of total group net interest income.

Average interest-earning assets on a local currency basis increased by 6 per cent, helped by strong 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 10 basis points to 3.07 per cent. The gross yield on interest-earning assets and the cost of interest-bearing liabilities both fell significantly, from the first half of 1999, as a result of lower interest rates in Latin America which also caused the 41 basis point reduction in the contribution of interest-free liabilities.

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Net interest income	**321**	318	311
Average balances			
Short-term liquid assets	**1,356**	1,135	867
Loans and advances	**17,585**	17,369	16,598
Debt securities	**2,055**	1,709	1,822
Total interest-earning assets	**20,996**	20,213	19,287
Financed by:			
Interest-bearing liabilities	**19,310**	18,609	17,631
Interest-free liabilities	**1,686**	1,604	1,656
Average rates	**%**	%	%
Gross yield on interest-earning assets	**9.71**	14.69	9.93
Cost of interest-bearing liabilities	**7.22**	12.51	7.36
Interest spread	**2.49**	2.18	2.57
Contribution of interest-free liabilities	**0.58**	0.99	0.63
Net interest margin	**3.07**	3.17	3.20

Other income

Other income increased by £360 million, or 23 per cent, to £1,955 million. This represented 46 per cent of total income. Scottish Widows contributed £112 million of this increase. Excluding short-term fluctuations in investment returns in our insurance businesses and changes in the economic assumptions applied to our long-term assurance business, other income increased by £304 million, or 19 per cent, to £1,887 million.

Fees and commissions receivable increased by 9 per cent reflecting increased business volumes and strong growth in income from insurance broking. Other UK fees and commissions increased by 16 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 5 per cent.

Fees and commissions payable increased by £9 million against the first half of 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 £210 million, as a result of the impact of the acquisition of Scottish Widows and the one-off benefit arising from changes in the economic assumptions applied to our long-term assurance business offset by a reduction caused by short-term fluctuations in investment returns. General insurance premium income increased by £10 million, or 5 per cent, against the first half of 1999.

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Fees and commissions receivable:			
UK current account fees	**319**	338	325
Other UK fees and commissions	**565**	485	493
Insurance broking	**191**	150	177
Card services	**140**	137	142
International fees and commissions	**133**	127	123
	1,348	1,237	1,260
Fees and commissions payable	**(223)**	(214)	(212)
Dealing profits (before expenses):			
Foreign exchange trading income	**71**	66	67
Securities and other gains	**29**	41	41
	100	107	108
Income from long-term assurance business			
Income before pension provision	**371**	161	168
Pension provision	**-**	-	(102)
	371	161	66
General insurance premium income	**200**	190	200
Other operating income	**159**	114	128
Total other income	**1,955**	1,595	1,550

OPERATING EXPENSES

Operating expenses

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Administrative expenses:			
Staff:			
Salaries and profit sharing	**799**	729	771
National insurance	**65**	63	62
Pensions	**(51)**	(56)	(52)
Restructuring	**13**	13	7
Other staff costs	**84**	85	95
	910	834	883
Premises and equipment:			
Rent and rates	**121**	130	120
Hire of equipment	**13**	16	17
Repairs and maintenance	**53**	57	50
Other	**47**	52	48
	234	255	235
Other expenses:			
Communications and external data processing	**199**	210	196
Advertising and promotion	**77**	57	56
Professional fees	**30**	46	44
Other	**150**	159	165
	456	472	461
Administrative expenses	**1,600**	1,561	1,579
Exceptional restructuring costs	**74**	-	-
E-commerce investment costs	**42**	-	-
Total administrative expenses	**1,716**	1,561	1,579
Depreciation	**154**	127	138
Amortisation of goodwill	**6**	6	6
Total operating expenses	**1,876**	1,694	1,723
Efficiency ratio	**44.0%**	42.9%	43.3%
Efficiency ratio*	**42.9%**	43.0%	42.4%

* excluding short-term fluctuations in investment returns, changes in economic assumptions, exceptional restructuring costs and pension provision.

Total operating expenses increased by £182 million, or 11 per cent, compared with the first half of 1999. Exceptional restructuring costs in the first half of the year totalled £74 million and e-commerce investment costs were £42 million. On a like-for-like basis, excluding exceptional restructuring costs, additional e-commerce investment costs and the increased costs following the acquisition of Scottish Widows, costs increased by £49 million against the first half of 1999 and increased by £20 million against the second half of 1999. Reduced costs in many areas were offset by higher staff costs, partly

Operating expenses (continued)

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 £74 million comprise mainly severance, software and consultancy costs and the write-down of equipment. In 2000 we expect these restructuring costs to be about £200 million. Overall, the individual programmes associated with these costs are expected to achieve payback within three years.

The efficiency ratio was 44.0 per cent compared to 42.9 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 and pension provision, the efficiency ratio improved slightly to 42.9 per cent, from 43.0 per cent in the first half of 1999.

Number of employees (full-time equivalent)

Staff numbers increased by 2,038 to 78,094 in the first half of the year. Within UK Retail Banking staff numbers increased by 134 as we continue planned improvements to customer service and increase our call centre capacity. In Insurance and Investments numbers of staff increased to reflect the acquisition of Scottish Widows, in Wholesale Markets staff numbers decreased by 85 and in International Banking there were lower staff numbers in Brazil and New Zealand. Excluding an increase of 3,061 staff following the acquisition of Scottish Widows and a reduction of 584 on the disposal of the new business capacity of Abbey Life, staff numbers decreased by 439.

Since the merger of Lloyds Bank and TSB Group at the end of 1995, there has been an underlying reduction of 17,747 staff of which 5,407 relate to staff employed in businesses sold and 12,340 to reductions in our ongoing businesses.

	30 June 2000	31 December 1999
UK Retail Banking*	**45,893**	45,759
Mortgages	**3,709**	3,669
Insurance and Investments	**7,558**	5,204
Wholesale Markets	**6,988**	7,073
International Banking	**12,816**	13,223
Other	**1,130**	1,128
Total number of employees (full-time equivalent)	**78,094**	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.

CREDIT QUALITY

Charge for bad and doubtful debts

	Half-year to 30 June		Half-year to 31 December
	2000	1999	1999
	£m	£m	£m
Domestic:			
UK Retail Banking	**202**	206	222
Mortgages	**(5)**	4	(7)
Wholesale Markets	**34**	50	25
Total domestic	**231**	260	240
International Banking	**16**	55	33
Total charge	**247**	315	273
Specific provisions	**246**	315	273
General provisions	**1**	-	-
Total charge	**247**	315	273
Charge as % of average lending (annualised):	**%**	%	%
Domestic	**0.51**	0.61	0.53
International	**0.21**	0.75	0.44
Total charge	**0.46**	0.63	0.52

The total charge for bad and doubtful debts decreased to £247 million from £315 million. The domestic charge decreased to £231 million from £260 million, and provisions overseas decreased to £16 million from £55 million, mainly as a result of a reduced provisions charge from the Losango Consumer Finance business in Brazil and higher Emerging Market Debt provision releases.

Non-performing loans were £1,143 million compared with £1,151 million in June 1999 and £1,088 million in December 1999 and represented 1.0 per cent of total lending, compared with 1.1 per cent in June 1999 and 1.0 per cent in December 1999.

Movements in provisions for bad and doubtful debts

	Half-year to 30 June 2000		Half-year to 30 June 1999		Half-year to 31 December 1999	
	Specific £m	**General £m**	Specific £m	General £m	Specific £m	General £m
At beginning of period	**1,762**	**361**	1,792	365	1,864	365
Exchange and other adjustments	**99**	**-**	38	-	(42)	(4)
Advances written off	**(346)**	**-**	(342)	-	(402)	-
Recoveries of advances written off in previous years	**78**	**-**	61	-	69	-
Charge (release) to profit and loss account:						
New and additional provisions	**470**	**8**	543	-	544	7
Releases and recoveries	**(224)**	**(7)**	(228)	-	(271)	(7)
	246	**1**	315	-	273	-
At end of period	**1,839**	**362**	1,864	365	1,762	361
	2,201		2,229		2,123	
Closing provisions as % of lending (excluding unapplied interest)						
Specific:						
Domestic	**762**	**(0.8%)**	795	(0.9%)	773	(0.9%)
International	**1,077**	**(6.8%)**	1,069	(7.0%)	989	(6.6%)
	1,839	**(1.7%)**	1,864	(1.8%)	1,762	(1.7%)
General	**362**	**(0.3%)**	365	(0.4%)	361	(0.3%)
Total	**2,201**	**(2.0%)**	2,229	(2.2%)	2,123	(2.0%)

At the end of June 2000 provisions for bad and doubtful debts totalled £2,201 million. This represented 2.0 per cent of total lending.

The level of specific provisions decreased to £1,839 million. Non-performing lending increased to £1,143 million from £1,088 million in December 1999. At the end of the half-year, specific provisions represented over 160 per cent of non-performing loans.

CAPITAL RATIOS

Risk asset ratios

	30 June 2000 £m	31 December 1999* £m
Capital		
Tier 1 (page 38, note 11)	**8,089**	8,348
Tier 2	**7,101**	6,838
	15,190	15,186
Supervisory deductions	**(6,881)**	(2,588)
Total capital	**8,309**	12,598
	£bn	£bn
Risk-weighted assets		
UK Retail Banking	**16.7**	15.7
Mortgages	**25.3**	24.0
Insurance and Investments	**0.2**	0.1
UK Retail Financial Services	**42.2**	39.8
Wholesale Markets	**32.1**	31.6
International Banking	**11.7**	11.6
Central group items	**1.0**	1.1
Total risk-weighted assets	**87.0**	84.1
Risk asset ratios		
Total capital	**9.5%**	15.0%
Tier 1	**9.3%**	9.9%
	Half-year to 30 June 2000	Half-year to 31 December 1999
Post-tax return on average risk-weighted assets	**3.50%**	2.86%

* restated (page 34, note 1)

At the end of June 2000 the risk asset ratios were 9.5 per cent for total capital and 9.3 per cent for tier 1 capital. The 9.3 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 the first half of 2000, following the acquisition of Scottish Widows, total capital for regulatory purposes fell by £4,289 million to £8,309 million. Tier 1 capital was reduced by £259 million, as retained profits and the raising of the necessary capital required to complete the purchase of Scottish Widows was offset by the £1.8 billion goodwill arising on the acquisition of Scottish Widows. Tier 2 capital increased by £263 million and supervisory deductions increased by £4,293 million, largely resulting from the acquisition of the Scottish Widows insurance business.

Risk-weighted assets increased to £87.0 billion and the post-tax return on average risk-weighted assets, a key measure of efficient use of capital, improved to 3.50 per cent, from 3.19 per cent in the first half of 1999 and 2.86 per cent in the second half of 1999.

BALANCE SHEET INFORMATION

Total assets

Total assets increased by £34 billion, or 19 per cent, from the end of 1999 of which £23 billion represented an increase in long-term assurance liabilities to policyholders following the acquisition of Scottish Widows (page 9). Over the last 12 months, loans and advances to customers increased by £8 billion, or 8 per cent, to £107 billion.

Deposits – customer accounts	**30 June 2000 £m**	30 June 1999 £m	31 December 1999 £m
Sterling:			
Non-interest bearing current accounts	**5,860**	6,199	6,012
Interest bearing current accounts	**18,368**	16,618	17,461
Savings and investment accounts	**43,376**	40,741	41,330
Other customer deposits	**15,621**	17,080	14,696
Total sterling	**83,225**	80,638	79,499
Currency	**13,776**	13,861	13,352
Total deposits – customer accounts	**97,001**	94,499	92,851
Loans and advances to customers			
Domestic:			
Agriculture, forestry and fishing	**2,161**	2,101	2,183
Manufacturing	**3,395**	3,142	3,262
Construction	**943**	764	754
Transport, distribution and hotels	**3,804**	3,422	3,540
Property companies	**2,183**	2,242	2,303
Financial, business and other services	**7,698**	6,361	6,614
Personal : mortgages	**50,153**	45,755	47,451
: other	**10,311**	9,763	10,092
Lease financing	**8,020**	8,136	8,369
Hire purchase	**3,535**	3,741	3,674
Other	**1,803**	1,553	1,698
Total domestic	**94,006**	86,980	89,940
International:			
Latin America	**2,672**	2,850	2,558
New Zealand	**7,437**	7,921	7,659
Rest of the world	**4,995**	3,822	4,159
Total international	**15,104**	14,593	14,376
	109,110	101,573	104,316
Provisions for bad and doubtful debts*	**(2,142)**	(2,168)	(2,067)
Interest held in suspense*	**(92)**	(109)	(100)
Total loans and advances to customers	**106,876**	99,296	102,149

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

NOTES

1. Accounting policies and presentation

During the first half of 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 the first half of 2000 by £5 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 £630 million and reduce loans and advances to customers by an equivalent amount (30 June 1999: £324 million; 31 December 1999: £479 million). Comparative figures have been restated.

2. Economic profit

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

Economic profit instils a rigorous financial discipline in determining investment decisions throughout the Group. It enables us to evaluate alternative strategies objectively, with a clear understanding of the value created by each strategy, and then to select the strategy which creates the greatest value.

3. **Earnings per share**

Basic	Half-year to 30 June **2000**	Half-year to 30 June 1999	Half-year to 31 December 1999
Profit attributable to shareholders	**£1,469m**	£1,315m	£1,199m
Weighted average number of ordinary shares in issue	**5,476m**	5,429m	5,460m
Earnings per share	**26.8p**	24.2p	22.0p

Fully diluted	Half-year to 30 June **2000**	Half-year to 30 June 1999	Half-year to 31 December 1999
Profit attributable to shareholders	**£1,469m**	£1,315m	£1,199m
Weighted average number of ordinary shares in issue	**5,536m**	5,544m	5,549m
Earnings per share	**26.5p**	23.7p	21.6p

4. **Tax**

The effective rate of tax was 28 per cent (1999 first half: 29 per cent). The lower effective rate of tax, compared with the standard tax rate of 30 per cent, is largely due to: tax relief claimed in respect of the group's vacant property provisions where previously no relief has been claimed, tax relief on payments to the QUEST to satisfy Save As You Earn options, and gains on disposals of investments and properties sheltered by capital losses.

5. **Sale and closure of businesses**

	Half-year to 30 June **2000** **£m**	Half-year to 30 June 1999 £m	Half-year to 31 December 1999 £m
Provision for closure of Lloyds TSB Securities Services (tax: nil)	-	-	(28)
Provision for sale of Abbey Life new business capability (tax: nil) (including £80 million in respect of goodwill previously written off to reserves, and other asset write-offs)	-	-	(98)
	-	-	(126)

6. **Scottish Widows**

On 3 March 2000, the Group completed the transfer of the business of Scottish Widows' Fund and Life Assurance Society to its wholly owned subsidiaries Scottish Widows plc and Scottish Widows Annuities Limited. The consideration for the transfer of £5.8 billion will be paid to policyholders in August. Goodwill of £1.8 billion has been capitalised and included in the Group's balance sheet. In view of the strength of the Scottish Widows brand and the position of the business as one of the leading providers of life, pensions, unit trust and fund management products, in the opinion of the directors the useful economic life of the goodwill is indefinite and, consequently, no amortisation charge has been included in the Group's results.

7. **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 investment rates of 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.

8. **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.

9. Efficiency programme

In February 2000 the Group announced that additional opportunities have been identified that will enable the Group to reduce its overall cost base. The cost reductions, together with the expected revenue growth, are such that by 2002 we expect that the Group's efficiency ratio will be below 35 per cent, and we forecast further progress thereafter. The start of this efficiency programme will require a restructuring charge of about £200 million in 2000. Overall, the individual programmes associated with these costs are expected to achieve payback within three years. The extensive programme will result in lower overall staffing levels, but the impact of this will be mitigated by our natural staff turnover.

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 all our large scale processing operations and support functions including the complete removal of all back office processing from branches
- the introduction of internet and intranet technology to further automate processing activities
- 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.

10. Dividend

The interim dividend for 2000 will be 9.3p per share (1999: 8.1p), an increase of 15 per cent.

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

Shares quoted ex-dividend. Shares purchased before this date qualify for the dividend	7 August
Record date. Shareholders on the register on this date are entitled to the dividend	11 August
Final date for joining or leaving the dividend reinvestment plan	13 September
Interim dividend paid	11 October

11. **Review of interim profits**

The interim profits in 2000 were reviewed and reported upon, without qualification, by the Company's auditors PricewaterhouseCoopers, in accordance with the conditions set out in the Financial Services Authority's Guide to Banking Supervisory Policy (chapter CA Definition of Capital, section 5) thereby enabling the retained profit to be included in tier 1 capital shown on page 32.

12. **Other information**

The results for the half-year ended 30 June 2000 were approved by the directors on 27 July 2000.

Statutory accounts for the year ended 31 December 1999 were delivered to the registrar of companies. The auditors' report on these accounts was unqualified and did not include a statement under sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

Results for the year ending 31 December 2000 will be announced on 16 February 2001.

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Copies of this news release may be obtained from Investor Relations, Lloyds TSB Group plc, 71 Lombard Street, London EC3P 3BS (telephone 020 7356 1273). A summary will appear as an advertisement in The Times and The Scotsman on 29 July 2000.

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

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