



**Kent Atkinson**  
**Group Finance Director**

**2000 Results**  
**16 February 2001**





## PROFIT BEFORE TAX

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	1999 £m	2000 £m	Increase %
Business as usual operating profit	3,821	4,246	11
Short-term fluctuations in investment returns	28	(119)	
Changes in economic assumptions	-	127	
Exceptional restructuring costs	-	(188)	
Pension provisions	(102)	(100)	
Stakeholder pension related charge	-	(80)	
Loss on sale and closure of businesses	(126)	-	
Statutory profit before tax	3,621	3,886	7



## SHORT-TERM FLUCTUATIONS IN INVESTMENT RETURNS

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<u>Investment returns</u>	<u>2000 £m</u>
Normalised earnings on £4.7bn estate (based on 8.0% return on equities and 5.25% return on gilts)	272
Actual earnings	153
Short-term fluctuations in investment returns	(119)



## SCOTTISH WIDOWS - P&L IMPACT

March - December 2000

	<u>Reported</u> <u>£m</u>	<u>Adjustments</u> <u>£m</u>	<u>Adjusted</u> <u>£m</u>
Net interest income	23		23
Funding cost	(258)		(258)
	(235)	-	(235)
Other income	317	109	426
Total income	82	109	191
Operating expenses	105	(59)	46
(Loss)Profit before tax	(23)	168	145

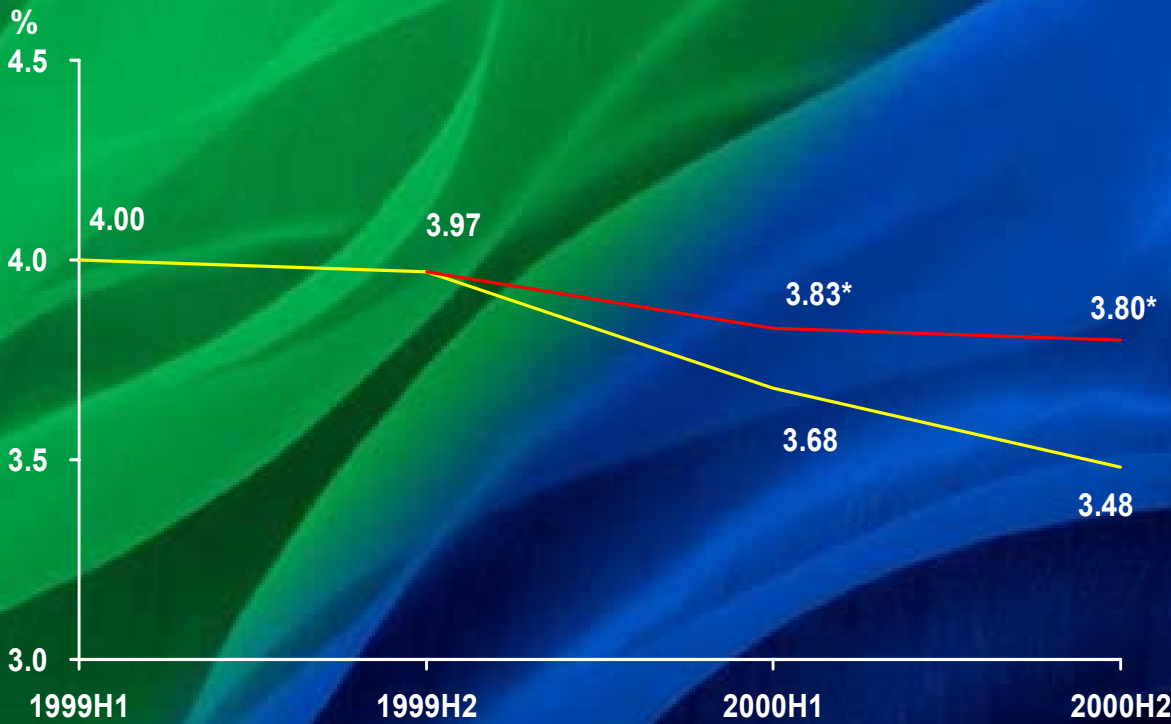


## SCOTTISH WIDOWS - IMPACT ON GROUP MARGIN

	2000 Net Interest Income £m	2000 Net Interest Margin %	1999 Net Interest Margin %
Group	4,587	3.49	3.86
Scottish Widows Bank	(23)	-	-
Funding cost of Scottish Widows	258	0.20	-
Group excluding Scottish Widows	4,822	3.69	3.86



## DOMESTIC NET INTEREST MARGIN



\*excluding Scottish Widows funding cost



## CHARGE FOR BAD AND DOUBTFUL DEBTS

	2000 £m	Average Lending £bn	% of Average Lending	
			1999	2000
UK Retail Banking	345	15.2	2.94	2.27
Mortgages	(13)	50.1	(0.01)	(0.03)
Wholesale Markets	94	29.3	0.27	0.32
Total domestic	426	94.6	0.57	0.45
International Banking	49	15.5	0.60	0.32
Total charge	475	110.1	0.57	0.43



## PROFIT BEFORE TAX BY MAIN BUSINESS

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	1999	2000	Increase
	£m	£m	%
UK Retail Banking	789	817	4
Mortgages	868	865	
Insurance and Investments	873	1,447	66
UK Retail Financial Services	2,530	3,129	24
Wholesale Markets	728	749	3
International Banking	444	501	13
Central group items	119	(133)	
Business as usual operating profit	3,821	4,246	11





## INVESTING TO IMPROVE EFFICIENCY – RESTRUCTURING COSTS: COST/BENEFIT

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	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Investment costs	(188)	(200)	(130)	(60)	-
Benefits, annualised	38	75	145	320	410

Average payback period for these investments is three years



## **INVESTING TO IMPROVE EFFICIENCY – GROUP EFFICIENCY PROGRAMME**

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- **Centralisation of computer operations**
- **Consolidation of large scale processing operations and support functions**
- **Further streamlining of the branch network and expansion of lower cost delivery channels**
- **The further reduction of purchasing costs**
- **The rationalisation of non–personal banking activities**



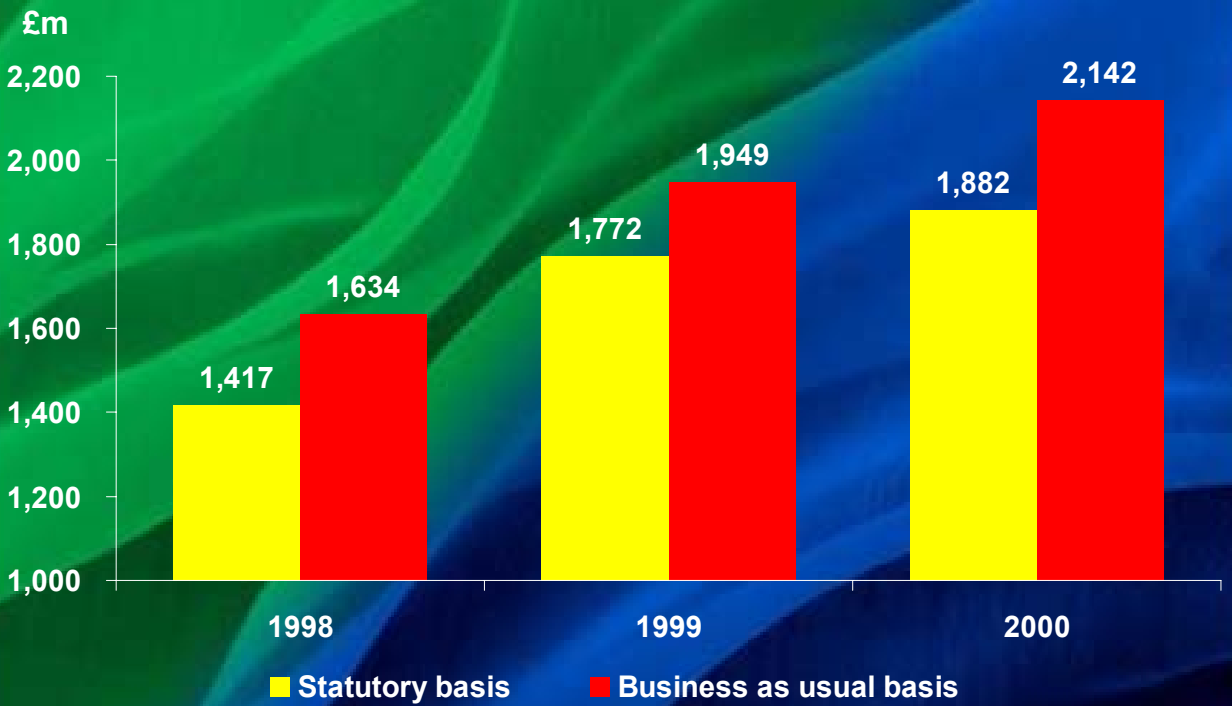
## RATIOS TO AVERAGE RISK-WEIGHTED ASSETS\*

	1998	1999	2000
	%	%	%
Net interest income	5.51	5.74	5.19
Other income	3.90	3.86	4.59
Total income	9.41	9.60	9.78
Operating expenses	4.34	4.10	4.26
Trading surplus	5.07	5.50	5.52
General insurance claims	0.19	0.20	0.16
Provisions for bad and doubtful debts	0.68	0.71	0.55
Profit before tax	4.20	4.59	4.81
Average risk-weighted assets (£bn)	79.8	83.3	88.3

\* business as usual basis



## ECONOMIC PROFIT





**Peter Ellwood**  
**Group Chief Executive**

**2000 Results**  
**16 February 2001**



Lloyds TSB



## OUTLOOK FOR THE FINANCIAL SERVICES SECTOR

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- **2000 was a watershed year for the financial services sector:**
  - dramatic change in use of technology, driven by the internet
  - significant increase in competition
  - greater consumer empowerment
  - strong Government interest
- **These forces will continue to shape our industry**
- **Against this background we have had another successful year**



## LLOYDS TSB - DELIVERING VALUE TO SHAREHOLDERS

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- **Our Governing Objective remains to maximise shareholder value and we seek to double value every three years over time**
- **Our immediate target is based on delivering total shareholder returns in the top quartile of a group of 17 major financial services companies over the next 3 years**
- **Our 3 strategic aims continue to be**
  - **leadership in our chosen markets**
  - **first choice for our customers, and**
  - **driving down our day-to-day operating costs**



## BUSINESS AS USUAL RESULTS - 2000

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- Revenue growth of 8%
- Costs increased by 10%, largely as a result of acquisitions, additional e-commerce expenditure and investments in growth markets
- Efficiency ratio of under 44%, one of the lowest ratios in the world for a financial services group of our size
- Asset quality maintained
- Profit before tax rose 11% to £4,246 million, a post-tax return on equity of 31.8%, and economic profit increased by 10%
- Since the merger of Lloyds and TSB in 1995, revenues and economic profit have increased by 6% and 26% compound per annum respectively, whilst costs, excluding restructuring, have been flat





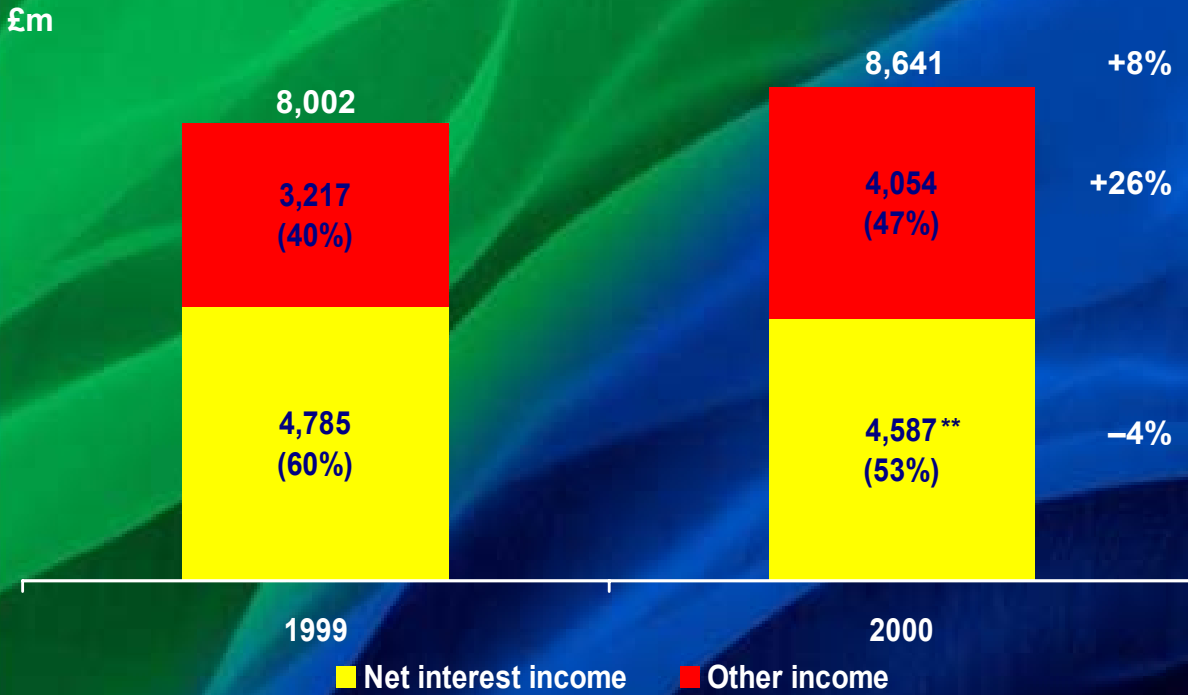
## **BUSINESS VOLUMES - 2000**

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- **We increased our total customer lending by 12% to £114 billion**
  - **strong growth in mortgage balances, up 11% to £53 billion**
  - **strong growth in consumer credit, up 10% to £11 billion**
  - **strong growth in commercial lending, up 16% to £38 billion**
- **We increased our savings balances by 8% to £101 billion**
  - **strong growth in savings and investment account balances, up 11% to £46 billion**



## REVENUE GROWTH\*



\* business as usual basis

\*\* after deduction of £258m of funding costs of Scottish Widows



## CHANGES IN GROUP NET INTEREST INCOME

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	2000 v 1999
	<u>£m</u>
Change due to volume growth	276
Change due to margin reduction	(200)
Net benefit	<u>76</u>
Change due to exchange rate movements	(16)
Change due to Scottish Widows funding	(258)
Reduction in Group net interest income	<u>(198)</u>



## UNDERLYING OPERATING EXPENSES REMAIN UNDER TIGHT CONTROL

	1999 £m	2000 £m	
Total operating expenses (statutory)	3,417	3,952	16%
Exceptional restructuring costs	-	(188)	
Business as usual expenses	3,417	3,764	10%
Acquisitions	-	(117)	
	3,417	3,647	7%
Incremental new revenue investment	(44)	(224)	
Underlying operating expenses	3,373	3,423	1%



## INVESTING FOR GROWTH – INCREMENTAL INVESTMENT EXPENDITURE IN E-COMMERCE AND GROWTH BUSINESSES

	<u>2000</u> £m	<u>2001</u> £m	<u>Payback</u> <u>Years</u>
E-commerce	150	150	4
Wealth Management	34	100	3
Customer Relationship Management	<u>40</u>	<u>75</u>	3
	<u>224</u>	<u>325</u>	



## REVENUE GROWTH - GOOD PROGRESS MADE

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- **Leadership in our chosen markets and implementation of customer focused strategies underpin our revenue growth ambitions:**
  - **Customer Relationship Management and segmentation programmes**
  - **Scottish Widows acquisition completed**
  - **Wealth Management programme launched**
  - **rapid development of a leadership position in e-commerce**



## **REVENUE GROWTH - CUSTOMER RELATIONSHIP MANAGEMENT (CRM)**

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- **We have developed an enhanced model of CRM, involving the real time delivery of detailed customer information to our front line staff**
- **In an extensive pilot this new model delivered a 12% increase in sales, as well as an improvement in customer satisfaction**
- **The high quality of our CRM systems and programme, underpins many of the Group's revenue growth strategies**
- **We are launching new added value current accounts, improving our pricing and enhancing our service delivery**
- **We are increasing our sales and service staff by approximately 1,500 during 2001**



## **REVENUE GROWTH - OUR POLICY OF SEGMENTATION IS WORKING**

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- Value added fee based accounts increased from 1.4m to 2m
- Telephone banking customers increased from 1.6m to 2m
- Growth in Personal Choice customers from 600,000 to 850,000
- Growth in commercial and business banking segmented offers
- We achieved a substantial increase in net product sales of 700,000 and made market share gains in most of our core markets
- We remain on track to achieve our targeted 3 million net new product sales by 2002. Average customer product holdings are targeted to increase from 2.3 products per customer to 2.5





## REVENUE GROWTH - WE HAVE MAINTAINED AND BUILT ON OUR STRONG MARKET POSITION

	Market share 1999*	Market share 2000H1*	Market share 2000*
Mortgages (stock)	9.5%	9.7%	9.8%
Mortgages (new)	7.4%	10.7%	11.4%
Household insurance	7.2%	7.4%	7.4%
Personal savings	8.2%	8.3%	8.4%
Business Banking	19.0%	20.0%	20.0%
Personal lending (stock)	10.9%	10.6%	12.8%
Personal lending (new)	6.4%	7.3%	7.5%
<b>Pensions (regular)</b>	<b>6.6%</b>	<b>5.5%</b>	<b>5.6%</b>
<b>Credit cards</b>	<b>9.7%</b>	<b>9.0%</b>	<b>8.7%</b>

\* estimates based on internal data and a range of external sources



## **REVENUE GROWTH - SCOTTISH WIDOWS IS PERFORMING WELL**

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- **Proforma new business premium income in the second half of 2000 was 19% ahead of the second half of 1999**
- **We remain on track to deliver the £60 million cost synergies by 2003**
- **We have successfully launched our stakeholder pension product range. Our scale means that we will be able to compete aggressively in this market**
- **Excluding short term fluctuations in investment returns and restructuring costs, Scottish Widows contributed £403 million pre-tax profit in 2000, before funding costs of £258 million**
- **We anticipate sales growth will outperform expected market growth in 2001**



## REVENUE GROWTH - WEALTH MANAGEMENT

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- We have a substantial number of customers within our core franchise who meet our new Wealth Management criteria
- *Create* - our new wealth management offer - will provide a range of tailored services to high net worth customers from summer 2001
- The offer will be supported by a relationship with Goldman Sachs
- We plan to invest £100 million in 2001 to double pre-tax profit from £300 million to over £600 million per annum within four years



## REVENUE GROWTH - E-COMMERCE STRATEGY

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- *LloydsTSB.com* has in excess of 1.2 million registered customers, and is now consistently one of Europe's most visited financial websites
- Our online customers have a better risk profile, hold 30% more products, have household income levels that are 25% higher and are more profitable
- We are selling some 2,500 general insurance products online every month
- C&G's website is already its busiest "branch" in terms of sales volume
- Our standalone internet joint venture with Goldfish will launch in summer 2001
- Demand for our range of business-to-business online services is building steadily



## **MERGERS & ACQUISITIONS STRATEGY - OFFER FOR ABBEY NATIONAL**

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- **The proposed acquisition is consistent with our UK strategy and creates value for shareholders through:**
  - **strengthening our position in our chosen markets**
  - **improving the offer to Abbey National customers**
  - **increasing income**
  - **driving down unit costs**
- **We are confident of delivering an estimated £900 million per annum of cost savings and revenue benefits, as previously announced, by 2005**
- **We believe this deal is in the interests of customers, staff and shareholders of both Lloyds TSB and Abbey National**



## MERGERS AND ACQUISITIONS STRATEGY

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- **The intense competition in retail financial services means that further industry consolidation is inevitable over time**
- **We believe the combination of Lloyds TSB and Abbey National will create a stronger partner for an overseas alliance**
- **We continue to explore value enhancing overseas merger opportunities**



## SHORT TERM OUTLOOK - 2001

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- **Our business as usual costs will continue to be tightly controlled**
- **We will continue to exercise strict control over asset quality**
- **We anticipate strong sales growth**
- **We will continue to invest to reduce costs and increase revenue**



## LLOYDS TSB - DELIVERING VALUE TO SHAREHOLDERS

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- 2000 was a watershed year for the financial services sector
- The only companies which will survive, prosper and win will be those with a strong focus on the customer, integrated multi-channel distribution capability, unit cost leadership and trusted brands
- Lloyds TSB will continue to be a winner





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