Lloyds TSB Group plc

2001 Interim Results

PRESENTATION OF RESULTS

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 41, note 5).

In addition there were other items affecting the Group's results in the first half of 2001 when compared to the two previous half-years. In the first half of 2001 there were exceptional restructuring costs in support of the Group's extensive efficiency programme (page 43, note 8) and acquisition costs relating to the proposed acquisition of Abbey National (page 43, note 9). During 2000, the impact of a provision for redress to past purchasers of pension policies ('pension provision'), changes in the economic assumptions applied to our long-term assurance business (page 42, note 6) and a one-off charge relating to stakeholder pensions (page 42, note 7) was also significant. To facilitate comparisons of the results, certain financial information and commentaries have been presented on a 'business as usual operating profit' basis, which excludes the effect of these exceptional items.

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PROFIT BEFORE TAX BY MAIN BUSINESSES

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
	£m	£m	£m
UK Retail Banking	**330**	372	404
Mortgages	**423**	441	448
Insurance and Investments*	**792**	591	834
UK Retail Financial Services	**1,545**	1,404	1,686
Wholesale Markets	**445**	377	369
International Banking	**276**	261	216
Central group items	**(29)**	7	(125)
Business as usual operating profit	**2,237**	2,049	2,146
Short-term fluctuations in investment returns (page 41, note 5)	**(329)**	(38)	(56)
Exceptional restructuring costs (page 43, note 8)	**(54)**	(74)	(114)
Abbey National offer costs (page 43, note 9)	**(16)**	-	-
Changes in economic assumptions (page 42, note 6)	**-**	127	-
Pension provision (page 18)	**-**	-	(100)
Stakeholder pension related charge (page 42, note 7)	**-**	-	(80)
Statutory profit before tax	**1,838**	2,064	1,796

* Insurance and Investments includes 'normalised' investment returns based on long-term rates of investment return (page 41, note 5)

2000 figures have been restated to take account of the implementation of Financial Reporting Standard 18 'Accounting Policies' (page 40, note 1) and changes in internal transfer pricing. In addition, the Group's calculation of short-term fluctuations in investment returns has been modified, and comparatives restated, following experience.

LLOYDS TSB GROUP 2001 INTERIM RESULTS

PERFORMANCE HIGHLIGHTS

Results – business as usual basis

- Total revenue increased by 12 per cent to £4,711 million.
- UK Retail Financial Services profit up £141 million, or 10 per cent, to £1,545 million.
- Operating profit up 9 per cent to £2,237 million from £2,049 million.
- Efficiency ratio 43.8 per cent compared with 42.8 per cent in the first half of 2000, and 43.9 per cent in the second half.
- Profit attributable to shareholders increased by 10 per cent to £1,600 million.
- Earnings per share increased by 9 per cent to 29.0p.
- Economic profit increased by 9 per cent to £1,129 million.
- Post-tax return on average shareholders' equity 30.6 per cent.

Results – statutory basis

- Profit before tax decreased 11 per cent to £1,838 million from £2,064 million.
- Earnings per share decreased by 13 per cent to 23.4p.
- Total capital ratio 9.8 per cent, tier 1 capital ratio 9.0 per cent.
- Interim dividend increased by 10 per cent to 10.2p per share.

Other significant achievements during the period include:

- In the first half of 2001, the Group sold more products to more people than in any previous half-year.
- Over the last 12 months customer lending grew by 12 per cent to £119.7 billion and customer deposits increased by 8 per cent to £104.6 billion.
- On a proforma basis new business premiums in the life, pensions and unit trust businesses increased by 20 per cent.
- The Group has 1.6 million internet banking customers and *LloydsTSB.com* is now the most visited financial website in Europe.
- The Group has improved market share in many key product areas.

Commenting on the results Lloyds TSB Group chairman, Maarten van den Bergh, said:-

"This is another satisfactory set of results from the Group, allowing the Board to increase the interim dividend by 10 per cent to 10.2p per share. We anticipate further progress in the second half of the year."

GROUP CHIEF EXECUTIVE'S STATEMENT

These are satisfactory results with business as usual profit before tax up by 9 per cent to £2,237 million, in part building on the various investments we have made to grow our businesses. However, we are under no illusion that we will need to do even better to achieve our objective of first quartile performance in terms of total shareholder return and in so doing underpin our Governing Objective of maximising value for shareholders. Overall, business as usual income was up by 8 per cent, and business as usual costs were up by 7 per cent, after adjusting for acquisitions. Excluding our revenue generative investment programme, underlying costs increased by only 2 per cent. Against the second half of 2000, which benefited from the full year-end actuarial review and one-off provision releases, business as usual pre-tax profits increased by 4 per cent.

We were naturally disappointed by the decision of the Secretary of State to block our proposed acquisition of Abbey National. We will not contest the decision but we do not agree with it as competition in financial services has never been more fierce. We were absolutely right to pursue Abbey National when they put themselves in play as the transaction would have delivered additional value for shareholders and integrating companies is something we do very well. Whilst the acquisition of Abbey National would have complemented our Group, it was never going to be a transformational deal, nor has it sidetracked us from growing and building our business.

For a service company to prosper, to grow, to create value, its management has to recognise, accept and embrace the concept that shareholder value creation starts with the customer. Financial services is no exception to this rule. We believe that if we can create true value for our customers we will maximise value for our shareholders. Our vision is to create an organisation that understands and looks after the needs of our customers, both retail and corporate, so well that they give us the privilege of looking after more of their financial affairs.

There is no doubt that retail financial services is changing at a pace never previously experienced. The winners will be those who have the best information about their customers and who build the most trusted relationships with them. We believe that our investments in better understanding the needs of our customers will enable us to continue to be one of the winners.

In order to bring this about we must excel in a number of related areas, namely service, distribution, product offering, segmentation and customer relationship management and, of course, in the management and performance of our staff because in a service-based business it is the staff who ultimately make the difference. It is in all these areas of our business that we have invested significantly in recent years.

Our service delivery to our customers will be enhanced considerably by the completion in a few weeks' time of our massive IT integration programme which will give all our personal customers on-line real-time banking 7 days a week, 24 hours a day. This will enable customers to get up-to-the-minute information with their cashpoint balances, mini statements and internet statements, all including transactions that occurred just minutes earlier. It will allow immediate clearance of Lloyds TSB cheques and immediate transfer of funds between Lloyds TSB accounts. On-line banking is an essential ingredient for the fast moving world of the 21st century, and its introduction creates a real competitive advantage for the Group as no other major player offers this service.

Our distribution capability is second to none. Customers demand multi-channel access; they want to do business when and where it suits them. We have, therefore, invested further in extending our capacity; we have the biggest branch network in the country which over 70 per cent of our customers visit frequently, our telephone banking business is the biggest in the UK with over 2 million customers regularly using this service, and our Internet site is the most visited financial services website in Europe with over 1.6 million customers registered.

We have improved our product range to one which is more innovative and attractive than it has ever been. We are the clear market leader in fee based value added accounts. In the first half of this year we added almost 0.5 million new accounts of this type and we are well on track to achieving our target of 1 million additional accounts this year. This will give us a total of 3 million customers who choose to pay for the benefits inherent in these accounts. Our new to bank current account base is growing significantly; we recruited a record number of new current account customers in the first half of the year. Independent research confirms that we have better cross-sell rates than any of our peers, and levels of customer attrition remain low and well below the industry average. We are increasing the average number of products our customers hold with us and are on track to achieve our target of 2.5 products per customer by 2002, against an industry average today of less than 1.9.

One of the key elements of our retail growth strategy has been the investment in Customer Relationship Management (CRM). Our CRM programme is now fully operative and independent benchmarking has confirmed that we are now truly world class in the deployment of CRM throughout the Group. Our CRM systems are beginning to generate substantially more sales leads than ever before and our in-branch information systems have materially enhanced the ability of our staff to identify individual customers' needs and to fulfil those needs.

In addition, we continue to follow a strategy of differentiation through segmentation. We have developed our retail strategy around four principal customer segments and we are now beginning to tailor our products and services to meet the specific needs of these segments. By way of example, our Personal Choice service for high value customers is now meeting the individual needs of over 1 million customers.

Another segment where we have significant growth opportunities is Wealth Management. Some 18 months ago we restructured our businesses to create a Wealth Management division and new strategies have been developed which are now being introduced on a phased basis. In October our new Wealth Management brand, Create, will be launched. Create aims to meet the differing needs of the Group's 1 million affluent customers by offering choices which reflect their individual preferences.

A strategy of segmentation has also been adopted successfully in our business banking and mid-corporate businesses. In business banking our offers have been based around four different types of relationship support from a telephone only relationship, to a fee-based business partner relationship offering a high level of advice and support to the customer. This form of segmentation, derivatives of which are also on offer to our mid-corporate clients, is proving popular and is reflective of our philosophy of treating our customers on an increasingly individual basis and, as a consequence, we are confident of achieving further growth in these important markets.

We have increased retail banking staff numbers by over 2,000 in the first half in support of our drive to increase sales and improve service. All our branch staff have undergone extensive training to enable them to better meet the needs of our customers and to help deliver the strategies which we are confident will lead to us gaining much more of our customers' business.

So, in all these areas we have made sound progress which is now beginning to be reflected in our performance. Our overall sales volumes increased by 15 per cent over the first half of last year and the equivalised annual premiums of life, pensions and unit trusts increased by 20 per cent.

The business as usual pre-tax profits from UK Retail Financial Services increased by £141 million, or 10 per cent, to £1,545 million from £1,404 million in the first half of 2000. However, within that figure the profits of UK Retail Banking were down on previous periods as this division has incurred much of the brunt of the additional investment expenditure. But it is important to look at the totality of Retail Financial Services as the banking, mortgage and insurance businesses are so interrelated. For instance, approximately two-thirds of sales from general insurance, where we are the UK's leading distributor of home insurance, are delivered through our UK Retail Banking outlets.

Our Wholesale Markets and International businesses increased pre-tax profits by 13 per cent to £721 million in the first half of the year in comparison with the first half of 2000. In the first 6 months we were the number one arranger of syndicated loans for large UK companies, and we are the UK market leader in big-ticket leasing. Our development capital business continues to grow market share and profitability, and some 650,000 customers entrust us with their business accounts. Wholesale Markets and International Banking account for 32 per cent of Group profit.

Over the last 12 months the Group has grown its customer lending by 12 per cent and customer deposits by 8 per cent. However, we have not grown the business at the expense of quality, indeed we remain the only AAA bank in the world in comparison with other major commercially owned banking groups. The quality of our income has also improved with 49 per cent now representing non-interest income rather than the more vulnerable net interest income. This figure is up from 41 per cent 2 years ago and 47 per cent last year.

Our charge for bad and doubtful debts was higher than in the first half of 2000, largely as a result of volume growth and the acquisition of Chartered Trust, and at 0.55 per cent of average lending it compares very favourably with our peers. Our lending portfolio is heavily influenced by our mortgage business and we are well positioned for any economic slowdown.

Whilst income generation is critical to our success, so is cost management. Our focus on maintaining and improving our efficiency has continued unabated and, as a consequence, we expect that our business as usual costs in the second half will grow significantly more slowly than in the first half. Going forward we expect business as usual costs to grow at a slower rate than business as usual revenues.

Finally, our focus on growing our Group through acquisitions that complement our organic strategies and help provide new opportunities for growth, remains a key priority. We have made no secret of our desire to achieve an overseas deal. We have talked with our counterparts from many financial services companies, particularly in Europe, and there is no doubt that Lloyds TSB is highly regarded for our considerable selling skills and our ability to manage change effectively.

We have a great deal we can contribute to any cross-border merger or acquisition, and we do expect that potential opportunities will arise in due course as consolidation throughout Europe accelerates. We believe a successful transaction can be achieved and we will continue to pursue all opportunities with vigour.

In summary, the Lloyds TSB Group is in good shape. We have three very strong business divisions; UK Retail Banking and Mortgages, Insurance and Investments, and Wholesale Markets and International Banking, all of which continue to make a very significant contribution to the Group's overall earnings. We have developed the building blocks on which to grow our business and we will continue to maximise value for our shareholders by creating value for our customers. This philosophy is at the heart of all our strategies. It is, we believe, a winning formula.

Peter Ellwood
Group Chief Executive

SUMMARY OF RESULTS

	Half-year to 30 June		Increase (Decrease)	Half-year to 31 December
	2001	2000*	%	2000*
Results (business as usual basis)**	**£m**	£m		£m
Total income	**4,711**	4,206	**12**	4,465
Operating expenses	**2,063**	1,802	**14**	1,962
Trading surplus	**2,648**	2,404	**10**	2,503
Provisions for bad and doubtful debts	**323**	265	**22**	276
Operating profit	**2,237**	2,049	**9**	2,146
Profit attributable to shareholders	**1,600**	1,455	**10**	1,497
Economic profit (page 40, note 2)	**1,129**	1,037	**9**	1,044
Earnings per share (pence)	**29.0**	26.6	**9**	27.2
Post-tax return on average shareholders' equity (%)	**30.6**	31.3		29.8
Results (statutory basis)				
Profit before tax	**1,838**	2,064	**(11)**	1,796
Earnings per share (pence)	**23.4**	26.8	**(13)**	22.5
Post-tax return on average shareholders' equity (%)	**25.0**	31.7		24.8
Shareholder value				
Closing market price per share	**711p**	624p	**14**	708p
Total market value of shareholders' equity	**£39.5bn**	£34.3bn	**15**	£39.0bn
Dividends per share	**10.2p**	9.3p	**10**	21.3p
Balance sheet	**£m**	£m		£m
Shareholders' equity	**10,885**	9,943	**9**	10,024
Total assets	**229,576**	210,455	**9**	218,393
Net assets per share (pence)	**194**	178	**9**	180
Risk asset ratios	**%**	%		%
Total capital	**9.8**	9.8		9.4
Tier 1 capital	**9.0**	9.6		8.5

* restated for the effect of FRS 18 (page 40, note 1)

** excluding the impact of short-term fluctuations in investment returns, exceptional restructuring costs and Abbey National offer costs and, during 2000, changes in the economic assumptions applied to our long-term assurance business, pension provision and a stakeholder pension related charge.

REVIEW OF FINANCIAL PERFORMANCE

The Group's profit before tax on a business as usual basis rose by £188 million, or 9 per cent, to £2,237 million from £2,049 million in the first half of 2000. The statutory results were lower at £1,838 million driven by adverse short-term fluctuations in investment earnings caused by the overall fall in stockmarket values. Total income on a business as usual basis increased by 12 per cent and even after allowing for the acquisition of businesses last year, the underlying growth in income was a very satisfactory 8 per cent. Total costs increased by 14 per cent but acquisitions accounted for 7 per cent of this increase. Of the underlying increase in costs of 7 per cent, the incremental investment in growth businesses accounted for 5 per cent and the remaining increase of 2 per cent primarily financed the increased sales volumes achieved in the first half of the year. Overall product sales were 15 per cent higher than in the first half of 2000.

Customer lending and deposits continue to grow satisfactorily with increases in market shares being achieved in many of our core retail markets. The net interest margin, excluding the impact of the funding costs of Scottish Widows, was 3.68 per cent, compared with 3.71 per cent in the first half of 2000. This reduction was more than compensated for by increased volumes and fee based revenues. The efficiency ratio was 43.8 per cent compared with 42.8 per cent in the first half of 2000 reflecting the incremental investment in the Group's revenue growth opportunities and the impact of the Chartered Trust acquisition. Profit attributable to shareholders increased by 10 per cent, earnings per share increased by 9 per cent to 29.0p and economic profit increased by 9 per cent to £1,129 million. The post-tax return on average shareholders' equity was 30.6 per cent. The post-tax return on average assets was 1.92 per cent, and the post-tax return on average risk-weighted assets was 3.34 per cent.

Our bancassurance strategy continues to deliver positive results. Profit before tax, on a business as usual basis, from **UK Retail Financial Services** (page 11), which encompasses UK Retail Banking, Mortgages, and Insurance and Investments, increased by £141 million, or 10 per cent, to £1,545 million from £1,404 million in the first half of 2000.

- Pre-tax profit from **UK Retail Banking** (page 13) fell by £42 million, or 11 per cent, to £330 million. This reduction in profitability largely reflects the substantial investments that have been made to support future growth including the introduction of improved products and services. These investments will help to increase cross sales and improve customer loyalty in recognition that the retail banking business is a key recruitment vehicle for the sale of all our extensive range of bancassurance products, much of the profitability of which is reflected in other divisions.

- Competition in the mortgage market remained intense and pre-tax profit from **Mortgages** (page 15) decreased by £18 million, or 4 per cent, to £423 million from £441 million in the first half of 2000. Gross new lending increased by 13 per cent to £6.1 billion, compared with £5.4 billion a year ago. Net new lending was £1.8 billion resulting in an estimated market share of net new lending of 8.0 per cent. Business levels improved significantly towards the end of the half-year with mortgage applications and the pipeline of new business reaching record levels. This provides a strong platform for an improved market share position in the second half of the year.

Mortgages are also a key recruitment product for other retail products and services as we typically sell over 3.5 additional products, primarily insurance related, alongside the sale of a mortgage. One in four of all our customers with a mortgage now have their mortgage with the Group. The Group continues to be one of the most efficient mortgage providers in the United Kingdom.

- Operating profit from **Insurance and Investments** (page 16) increased by 34 per cent to £792 million from £591 million. The Group has now started to see material benefits from the acquisition of Scottish Widows with a 20 per cent growth in half-year pro-forma weighted sales in life, pension and unit trusts to £395.8 million in the first half of 2001, compared with £331.2 million in the first half of 2000 and £379.8 million in the second half of 2000. Pre-tax profit from general insurance operations, comprising underwriting and broking, rose by £54 million, or 19 per cent, to £341 million, mainly as a result of continued strong sales growth. The Group has maintained its position as the leading distributor of home insurance in the United Kingdom.

Wholesale Markets (page 21) pre-tax profit increased by £68 million, or 18 per cent, to £445 million. Total assets increased by 23 per cent and risk-weighted assets grew by 31 per cent, partly as a result of the Chartered Trust acquisition in September 2000. All businesses performed strongly. There was good customer lending growth in Corporate and Commercial Banking, and increased contributions from Corporate and Commercial Banking, Treasury Division, Lloyds TSB Asset Finance and Lloyds TSB Registrars.

International Banking (page 23) pre-tax profit was £15 million higher at £276 million compared with the first half of 2000. Profits from New Zealand in local currency terms increased by 20 per cent, but after the effect of exchange rate movements profits from The National Bank of New Zealand increased by 10 per cent to £88 million. Our consumer finance business in Brazil, Losango Consumer Finance, made a pre-tax profit of £22 million, unchanged from the first half of 2000 and the Group’s international private banking and offshore banking operations continued to perform well despite falling stockmarkets.

The total Group charge for bad and doubtful debts (page 32) was 22 per cent higher at £323 million, compared with £265 million in the first half of 2000. The domestic charge increased to £266 million from £231 million, again largely as a result of the Chartered Trust acquisition, and provisions overseas increased to £57 million from £34 million. The Group’s charge for bad and doubtful debts, expressed as a percentage of average lending, was 0.55 per cent compared to 0.50 per cent in the first half of 2000. At the end of the half-year specific provisions for bad and doubtful debts for the Group totalled £1,116 million, representing over 90 per cent of non-performing loans (2000 first half: 95 per cent). Our lending portfolio is heavily influenced by our mortgage business and we are well positioned for any economic slowdown.

The total capital ratio was 9.8 per cent and the tier 1 capital ratio was 9.0 per cent. Balance sheet assets increased by £11.2 billion, or 5 per cent, to £229.6 billion from £218.4 billion at the end of 2000. Over the last 12 months, loans and advances to customers increased by £13.1 billion, or 12 per cent. Risk-weighted assets increased by 17 per cent to £102.3 billion from £87.4 billion at the end of June 2000.

RESULTS – BUSINESS AS USUAL

	Half-year to 30 June 2001 £m	Half-year to 30 June 2000* £m	Half-year to 31 December 2000* £m
Interest receivable:			
Interest receivable and similar income arising from debt securities	**202**	240	203
Other interest receivable and similar income	**5,647**	5,116	5,495
Interest payable	**3,467**	3,045	3,422
Net interest income	**2,382**	2,311	2,276
Other income			
Fees and commissions receivable	**1,469**	1,348	1,420
Fees and commissions payable	**(271)**	(223)	(256)
Dealing profits (before expenses)	**131**	114	111
Income from long-term assurance business	**402**	268	467
General insurance premium income	**206**	200	199
Other operating income	**392**	188	248
	2,329	1,895	2,189
Total income	**4,711**	4,206	4,465
Operating expenses			
Administrative expenses	**1,785**	1,642	1,736
Depreciation	**259**	154	210
Amortisation of goodwill	**19**	6	16
Depreciation and amortisation	**278**	160	226
Total operating expenses	**2,063**	1,802	1,962
Trading surplus	**2,648**	2,404	2,503
General insurance claims	**77**	71	71
Provisions for bad and doubtful debts			
Specific	**327**	264	283
General	**(4)**	1	(7)
	323	265	276
Amounts written off fixed asset investments	**6**	22	10
Operating profit	**2,242**	2,046	2,146
Income from associated undertakings and joint ventures	**(5)**	3	-
Business as usual operating profit	**2,237**	2,049	2,146
Short-term fluctuations in investment returns	**(329)**	(38)	(56)
Exceptional restructuring costs	**(54)**	(74)	(114)
Abbey National offer costs	**(16)**	-	-
Changes in economic assumptions	**-**	127	-
Pension provision	-	-	(100)
Stakeholder pension related charge	-	-	(80)
Statutory profit before tax	**1,838**	2,064	1,796

* restated for the effect of FRS 18 (page 40, note 1)

PERFORMANCE BY SECTOR

UK Retail Financial Services

	Half-year to 30 June 2001 £m	Half-year to 30 June 2000 £m	Half-year to 31 December 2000 £m
Net interest income	**1,549**	1,505	1,534
Other income	**1,601**	1,367	1,619
Total income	**3,150**	2,872	3,153
Operating expenses	**1,325**	1,203	1,261
Trading surplus	**1,825**	1,669	1,892
General insurance claims	**77**	71	71
Provisions for bad and doubtful debts	**198**	197	135
Income from associated undertakings and joint ventures	**(5)**	3	-
Profit before tax	**1,545**	1,404	1,686

Total profit before tax on a business as usual basis from UK Retail Financial Services, which encompasses UK Retail Banking, Mortgages, and Insurance and Investments, increased by £141 million, or 10 per cent, to £1,545 million from £1,404 million in the first half of 2000.

Over the last few years, a substantial amount of investment has been made to develop our revenue growth initiatives and underpin the future profitability of our core retail financial services business. Much of this investment has been completed, all initiatives have clearly defined payback periods and strong volume growth across all areas of UK Retail Financial Services is now beginning to be seen. We are very confident that our retail strategies will deliver superior growth in the future.

One of the key elements of our retail growth strategy has been our investment in Customer Relationship Management (CRM). Our CRM programme is now fully operative and independent benchmarking has confirmed that we are now truly world class in the deployment of CRM throughout the Group. Our CRM systems are beginning to generate substantially more sales leads than ever before and our in-branch information systems have materially enhanced the ability of our staff to identify individual customers' needs and to fulfil those needs.

We continue to follow a strategy of differentiation through segmentation and we have developed our retail strategy around four principal customer segments. We are now beginning to tailor our products and services to meet the specific needs of these segments and have improved our product range to one which is more innovative and attractive than it has ever been.

UK Retail Banking and Mortgages

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
	£m	£m	£m
Net interest income	**1,505**	1,467	1,484
Other income	**571**	557	586
Total income	**2,076**	2,024	2,070
Operating expenses	**1,120**	1,015	1,084
Trading surplus	**956**	1,009	986
Provisions for bad and doubtful debts	**198**	197	135
Income from associated undertakings and joint ventures	**(5)**	1	1
Profit before tax	**753**	813	852
Profit before tax			
Retail Banking	**330**	372	404
Mortgages	**423**	441	448
	753	813	852
Efficiency ratio	**53.9%**	50.1%	52.4%
Total assets (period-end)	**£74.1bn**	£68.4bn	£71.3bn
Total risk-weighted assets (period-end)	**£45.7bn**	£42.0bn	£44.0bn

Total profit before tax from UK Retail Banking and Mortgages decreased by £60 million, or 7 per cent, to £753 million, largely as a result of the Group’s investment programme in e-commerce, customer relationship management and wealth management. In the first half of 2001 these costs totalled £132 million, compared with £77 million in the first half of last year. Total income increased by 3 per cent as good volume growth was offset by margin pressure. Bad debt provisions were flat at £198 million.

The majority of the Group’s revenue growth investment programmes have been taking place within UK Retail Banking, which is now well positioned to take advantage of these opportunities. In addition, UK Retail Banking has the responsibility for managing the core relationship with our current account customers and, therefore, acts as the principal gateway for the cross-sale of our full range of bancassurance products and services. As such it contributes significantly to the profitability of other businesses.

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** decreased by £42 million, or 11 per cent, to £330 million. This reduction in profitability largely reflects the substantial investments that have been made to support future growth and improved products and services. These investments will help to increase cross sales and improve customer loyalty in recognition that the retail banking business is a key recruitment vehicle for the sale of our extensive range of bancassurance products, much of the profitability of which is reflected in other divisions.

Personal loans and credit card lending increased by 15 per cent since the end of June 2000 and balances on current accounts and savings and investment accounts grew by 11 per cent over the same period, 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 2.5 million customers now using these accounts. The Group also continues to maintain market-leading positions in most of its core markets, including personal current accounts, savings and business banking.

We have continued to develop our distribution channels in order to offer the broadest possible range of access points for our customers to improve service and to enhance revenue growth. Our branch network of over 2,100 branches provides a comprehensive base for the recruitment and the servicing of existing, and potential, customer needs through the provision of a wide range of innovative products. This is underpinned by our new online real-time banking and customer relationship management systems designed to meet the needs of our customers in the fast changing environment in which we operate.

LloydsTSB.com our internet banking system continues to grow rapidly and now has 1.6 million registered customers. It is consistently the most visited financial website in Europe. In addition to being able to conduct banking transactions over the internet, our customers can purchase products and services at a time more convenient to them.

PhoneBank, our telephone banking operation, is one of the largest in Europe with 1.3 million customers. In addition, PhoneBank Express, our leading edge interactive voice recognition system, now has some 0.9 million registered users. PhoneBank and PhoneBank Express handled 12 million calls during the half-year. Our extensive range of distribution channels was further extended in April this year with the launch of iTV, our digital television service.

UK Retail Banking (continued)

Business Banking continues to increase its customer base and, during the first half of 2001, began to roll-out an innovative new customer proposition designed to help businesses become more successful. As part of this our small business portal, *success4business.com*, now has over 40,000 registered users. Customer deposit balances have increased by 9 per cent and lending is up 3 per cent. This growth has been accompanied by increased sales of insurance, mortgages and investment products, helped increasingly by a close working relationship with Scottish Widows.

UK Private Banking continued to perform well despite difficult stockmarket conditions. Profit before tax however decreased to £40 million, from £53 million in the first half of 2000, primarily due to lower stockmarket levels, on which portfolio management revenues are generally based. During the half-year, revenues in the Group's wealth management businesses were reduced by some £20 million as a result of lower stockmarket levels.

Our new Wealth Management brand, Create, will be launched in October. The Create offer aims to meet the differing needs of the Group's 1 million affluent customers by offering choices that reflect their preferences. These range from those who seek only minimal advice with efficient execution, to those who seek a financial partner to help manage their assets, and to those who want discretionary management of their total financial affairs. In October 2001, the core elements of the programme will be launched and these will include our funds hypermarket, Create Financial Market, a new Wealth Management Account that will allow consolidation of all financial products into a single account, and the Create Relationship Unit which will provide clients with a high level of professional support and investment assistance.

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

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
Profit before tax	**£423m**	£441m	£448m
Efficiency ratio	**21.9%**	21.6%	21.7%
Gross new mortgage lending	**£6.1bn**	£5.4bn	£6.1bn
Market share of gross new mortgage lending	**8.7%**	9.5%	9.7%
Net new mortgage lending	**£1.8bn**	£2.1bn	£2.5bn
Market share of net new mortgage lending	**8.0%**	10.5%	12.3%
Mortgages outstanding (period-end)	**£54.5bn**	£50.2bn	£52.7bn
Market share of mortgages outstanding	**9.7%**	9.7%	9.8%

Intense competition in the mortgage market created continuing pressure on interest margins and pre-tax profit from **Mortgages** decreased by £18 million, or 4 per cent, to £423 million from £441 million in the first half of 2000. Gross new lending increased by 13 per cent to £6.1 billion, compared with £5.4 billion a year ago, and net new lending was £1.8 billion resulting in an estimated market share of net new lending of 8.0 per cent. Mortgages are also a key recruitment product for other retail products and services as we typically sell over 3.5 additional products, primarily insurance, alongside the sale of a mortgage. One in four of all our customers with a mortgage now have their mortgage with the Group.

Business levels improved significantly towards the end of the half-year with mortgage applications and the pipeline of new business reaching record levels. This provides a strong platform for an improved market share position in the second half of the year.

The efficiency ratio of the Group's total mortgage business was 21.9 per cent compared with 21.6 per cent in the first half of 2000. The Group continues to be one of the most efficient mortgage providers in the United Kingdom.

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. In addition C&G Teledirect, its internet and telephone operation, continued to perform strongly. Business levels sourced from intermediaries remain strong.

A relatively stable arrears position and the beneficial effect of house price increases have meant that bad debt provisions remained at very low levels. New provisions were largely offset by releases and recoveries resulting in a net charge of £2 million for the half-year, compared with a net credit of £5 million in the first half of 2000. 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
	2001	2000	2000
	£m	£m	£m
Life, pensions and unit trusts			
Scottish Widows	**335**	211	418
Abbey Life	**100**	73	96
	435	284	514
General insurance	**341**	287	300
Operating profit from Insurance*	**776**	571	814
Scottish Widows Investment Partnership	**16**	20	20
Total operating profit*	**792**	591	834
Short-term fluctuations in investment returns (page 41, note 5)	**(329)**	(38)	(56)
Changes in economic assumptions (page 42, note 6)	**-**	127	-
Pension provision/stakeholder pension related charge (page 42, note 7)	**-**	-	(180)

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

Operating profit, including investment returns based on long-term rates of investment return, from Insurance and Investments increased by 34 per cent to £792 million from £591 million.

Profit before tax from our life and pensions business increased by £151 million, or 53 per cent, to £435 million, largely as a result of the inclusion of Scottish Widows for the full half-year, compared with only 4 months in the first half of 2000, and a benefit of £22 million largely as a result of the planned harmonisation of actuarial models between Scottish Widows and other Group life companies.

Pre-tax profit from general insurance operations, comprising underwriting and broking, rose by £54 million, or 19 per cent, to £341 million, mainly as a result of continued strong revenue growth. The Group has maintained its position as the leading distributor of home insurance in the United Kingdom.

Insurance and Investments (continued)

Life, pensions and unit trusts

	Half-year to 30 June **2001** **£m**	Half-year to 30 June 2000 £m	Half-year to 31 December 2000 £m
New business	**149**	100	181
Existing business	**245**	168	314
Investment earnings	**123**	90	122
Life and pensions distribution costs	**(116)**	(88)	(137)
	401	270	480
Unit trusts	**96**	73	84
Unit trust distribution costs	**(62)**	(59)	(50)
	34	14	34
Operating profit*	**435**	284	514

* including 'normalised' investment returns based on long-term rates of investment return (page 41, note 5)

Over the last 12 months the growth in sales of Scottish Widows products has significantly exceeded overall market growth, and we expect to continue to grow market share for the remainder of 2001 and beyond. Scottish Widows are well on course to achieve the full synergy savings and financial projections identified following their acquisition in March 2000.

On a pro-forma basis, including Scottish Widows sales figures for the full 6 months in the first half of last year, total sales from the Group's life, pensions and unit trust businesses were £2,501 million, an increase of 21 per cent compared with £2,072 million in the first half of 2000. Weighted sales were £395.8 million compared to £331.2 million in the first half of 2000. This 20 per cent increase reflects strong product sales increases in each of the distribution channels.

There was strong growth in regular premium pension sales, boosted by the launch of stakeholder pensions. This contributed to a 47 per cent increase in overall regular premium product sales. Single premium life and pension product sales increased by 37 per cent and 48 per cent respectively and, despite a general decline in the unit trusts and Individual Savings Account (ISA) market, sales increased by 2 per cent. Scottish Widows was recently confirmed by the Association of Unit Trusts and Investment Funds providers (AUTIF) as the leading ISA provider in the UK.

New business profits increased by 49 per cent and existing business profits rose by 46 per cent, partly as a result of the inclusion of Scottish Widows for the full half-year, compared with only 4 months in the first half of 2000.

Insurance and Investments (continued)

Existing business profits also benefited by £22 million, largely as a result of the planned harmonisation of actuarial models between Scottish Widows and other Group life companies. New business performance in the second half of 2000 was helped by the reinvestment of some demutualisation proceeds into company pension schemes. In addition, it is standard practice for life companies to regularly review the underlying assumptions that support the embedded value calculations, taking into account the latest experience in respect of customer lapse rates, expense inflation, investment mix, mortality rates and other similar items. It is our normal practice to undertake a full review in December each year, which has historically led to some profit and loss account benefit. In 2000 the review, together with some tax related adjustments, resulted in a benefit of some £100 million, on combined policyholders funds of over £50 billion. These issues broadly accounted for the decrease in profitability in the first half of 2001, compared to the second half of 2000, however the underlying profitability of Scottish Widows in the first half of 2001 improved by 3 per cent, compared to the second half of last year.

Scottish Widows is well placed to take advantage of the opportunities in the stakeholder pensions market and has been designated as the stakeholder pensions provider for a number of associations and employers. This gives Scottish Widows access to more than 37,000 employers and 1,230,000 employees.

Over the last 12 months the integration of Scottish Widows Investment Management and Hill Samuel Asset Management has been completed. The principal focus of Scottish Widows Investment Partnership (SWIP) is the delivery of consistent superior investment performance. Having recently completed a review of the investment philosophy, processes and systems, SWIP is now creating a strong platform from which to deliver this. Confidence in SWIP's ability to achieve this has been demonstrated by the gain in recent months of more than 25 new mandates covering a range of market sectors. Pre-tax profits from SWIP for the half-year were £16 million compared with £20 million in the first half of 2000, the reduction in profitability being driven by lower stockmarket levels and the loss of a number of mandates during the early period of business integration. At the end of the half-year SWIP had £84 billion of funds under management.

In the second half of 2000, the Group's results were adversely affected by an increase in the pension provision of £100 million for redress to past purchasers of pension policies, which raised the total provisions made for this purpose to £902 million. At 30 June 2001 £776 million of the £902 million provision had been used. We remain satisfied that no further provision is required at this stage.

In 1998, a provision was made within Abbey Life for liabilities under certain unit linked products with guaranteed annuity options written in the mid-1960s to the mid-1980s and at 30 June 2001 this provision was £122 million. As part of the acquisition of Scottish Widows by the Group in 2000, certain measures were taken to protect shareholders from any likely potential exposure to this issue. Scottish Widows has assets to match its liabilities in respect of guaranteed annuity options. Assets are held in such a way that should a change in interest rates cause the guaranteed liabilities to increase then the assets will also increase to reflect this. We continually review the position and are satisfied that no further provision is necessary.

Insurance and Investments (continued)

	Half year to 30 June 2001 £m	Half year to 30 June 2000* £m	Pro-forma Half-year to 30 June 2000* £m	Half-year to 31 December 2000 £m
Total new business premium income				
Regular premiums:				
Life - mortgage related	**11.3**	11.1	12.4	12.5
- non-mortgage related	**8.8**	8.4	11.2	10.8
Pensions	**104.0**	46.5	59.4	58.7
Health	**2.4**	2.7	2.8	2.9
Total regular premiums	**126.5**	68.7	85.8	84.9
Single premiums:				
Life	**721.0**	437.8	524.6	758.7
Annuities	**140.6**	126.1	151.5	201.0
Pensions	**383.0**	140.3	202.4	690.5
Total single premiums	**1,244.6**	704.2	878.5	1,650.2
External unit trust sales:				
Regular payments	**35.4**	50.6	52.0	40.3
Single amounts	**1,094.6**	1,003.8	1,055.8	895.3
Total external unit trust sales	**1,130.0**	1,054.4	1,107.8	935.6
Weighted sales (regular + $^{1}/_{10}$ single)				
Life, pensions and unit trusts	**395.8**	290.1	331.2	379.8
Weighted sales by distribution channel:				
Branch network	**206.0**	177.1	177.1	176.2
Independent financial advisers	**140.2**	85.8	111.6	169.1
Direct	**49.6**	27.2	42.5	34.5
Life, pensions and unit trusts	**395.8**	290.1	331.2	379.8
Group funds under management	**£bn**	£bn		£bn
Scottish Widows Investment Partnership	**84**	89		87
UK Private Banking	**12**	12		12
International	**21**	25		23
	117	126		122

* The Group disposed of the new business capability of Abbey Life on 1 February 2000, weighted sales totalling £5.9 million are excluded from first half of 2000 comparatives.

Insurance and Investments (continued)

General Insurance

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
	£m	£m	£m
Premium income from underwriting			
Creditor	**56**	69	57
Home	**132**	108	120
Health	**22**	26	24
Re-insurance premiums	**(4)**	(3)	(2)
	206	200	199
Commissions from insurance broking			
Creditor	**149**	105	120
Home	**18**	17	17
Health	**9**	10	9
Other	**84**	59	61
	260	191	207
Operating profit*	**341**	287	300

* including 'normalised' investment returns based on long-term rates of investment return (page 41, note 5)

Operating profit, excluding short-term fluctuations in investment returns, from general insurance operations, comprising underwriting and broking, rose by £54 million, or 19 per cent, to £341 million.

Income from creditor insurance increased by 18 per cent, reflecting higher personal sector loan volumes. Sales of household policies increased by 17 per cent.

The overall increase in sales, together with renewal business, produced a 36 per cent increase in commission income from broking and a 3 per cent increase in earned premium income from underwriting. Investment income increased by 7 per cent to £32 million.

Claims were £6 million, or 8 per cent, higher at £77 million than in the first half of last year and the overall claims ratio of 37 per cent was slightly higher than in the first half of 2000 (35 per cent). This reflected higher property claims in line with rising volumes of new business, partly offset by 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 TSB Asset Finance).

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
	£m	£m	£m
Net interest income	**503**	425	475
Other income	**447**	277	344
Total income	**950**	702	819
Operating expenses	**431**	287	380
Trading surplus	**519**	415	439
Provisions for bad and doubtful debts	**68**	34	60
Amounts written off fixed asset investments	**6**	4	10
Profit before tax	**445**	377	369
Efficiency ratio	**45.4%**	40.9%	46.4%
Total assets (period-end)	**£75.9bn**	£61.7bn	£65.7bn
Total risk-weighted assets (period-end)	**£41.9bn**	£32.1bn	£36.5bn

Wholesale Markets pre-tax profit increased by £68 million, or 18 per cent, to £445 million. Provisions for bad and doubtful debts increased by £34 million to £68 million. Total assets increased by 23 per cent and risk-weighted assets grew by 31 per cent as a result of strong asset growth in Corporate and Commercial Banking and the inclusion of Chartered Trust from September 2000. The acquisition of Chartered Trust had a significant impact on the results of Wholesale Markets. In the first half of 2001 Chartered Trust contributed £53 million net interest income, after funding costs of £13 million, £89 million other income, £116 million operating expenses, provisions for bad and doubtful debts of £20 million and £6 million profit before tax.

Corporate and Commercial Banking's continuing focus on quality income growth ensured another strong performance. The charge for bad and doubtful debt provisions remained at a low level but was higher than in the first half of last year, which benefited from a number of releases and recoveries. In the first half of 2001 Lloyds TSB was the number one arranger of syndicated loans for large UK companies. Lloyds TSB Leasing maintained its position as the largest 'big ticket' leasing company in the UK and Lloyds TSB Registrars had another very successful half-year with income growing by 18 per cent and pre-tax profit by 16 per cent to £29 million. At the end of the half-year our registration market share of FTSE 100 companies stood at 60 per cent and market leadership has been established in the fast growing and important market for employee share administration services.

Wholesale Markets (continued)

Lloyds TSB Development Capital had a good half-year, higher realisations of venture capital investment gains contributed to an increase in pre-tax profits from £8 million in the first half of 2000 to £32 million in the first half of 2001. The Agricultural Mortgage Corporation continued to expand its activity in the provision of long-term finance to farmers.

Our Treasury achieved good income growth compared with the first half of 2000 when higher short-dated funding costs reduced income opportunities. The Group's activity in the derivative markets continues to remain focused on straight cash based products, but increasingly we are participating in equity linked and interest rate options markets in support of other areas of the Group, to assist risk management and product development.

On 1 September 2000 Chartered Trust joined the Group and has now combined with Lloyds UDT to create Lloyds TSB Asset Finance and consolidate the Group's position as market leader in the independent provision of motor finance with a growing market share. Lloyds TSB is also one of the leading contract hire providers in the UK. In addition, we are now beginning to sell new and used cars to our 16 million retail customers. After a difficult period during 2000 and early 2001, the motor market has started to show signs of recovery and we anticipate higher levels of market activity in the second half of 2001 and beyond. Trading conditions have been in line with our expectations at the time of the acquisition and we are on track to achieve our financial projections and anticipated cost synergies.

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
	2001	2000*	2000*
	£m	£m	£m
Net interest income	**384**	380	373
Other income	**234**	226	218
Total income	**618**	606	591
Operating expenses	**285**	293	294
Trading surplus	**333**	313	297
Provisions for bad and doubtful debts	**57**	34	81
Amounts written off fixed asset investments	**-**	18	-
Profit before tax	**276**	261	216
Efficiency ratio	**46.1%**	48.3%	49.7%
Total assets (period-end)	**£21.3bn**	£19.6bn	£19.6bn
Total risk-weighted assets (period-end)	**£13.4bn**	£12.1bn	£12.4bn

* restated for the effect of FRS 18 (page 40, note 1)

International Banking pre-tax profit was £15 million, or 6 per cent, higher at £276 million compared with the first half of 2000. Excluding the EMD portfolio, pre-tax profit from International Banking represented 9 per cent of Group pre-tax profit of which 4 per cent related to our New Zealand business, 4 per cent to our Europe and offshore banking operations and 1 per cent to Latin America.

Profits from New Zealand in local currency terms increased by 20 per cent as a result of asset growth across all business sectors, growth in the number of personal customers and high retail deposits. After adjusting for exchange rate movements, pre-tax profits from The National Bank of New Zealand increased by 10 per cent to £88 million. Our consumer finance business in Brazil, Losango Consumer Finance, made a pre-tax profit of £22 million, unchanged from the first half of 2000.

International private banking and the Group's offshore banking operations continued to perform well despite difficult equity market conditions.

The Emerging Markets Debt portfolio contributed £65 million compared with a contribution of £39 million in the first half of 2000. Following the implementation of Financial Reporting Standard 18 (page 40, note 1) certain holdings of uncollateralised bonds have been reclassified as debt securities. Based on secondary market prices, the surplus of market value over the restated net book value of the Emerging Markets Debt investment portfolio was more than £400 million (December 2000 restated: £400 million).

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

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
	£m	£m	£m
Accrual for payment to Lloyds TSB Foundations	**(19)**	(18)	(16)
Earnings on surplus capital, central costs and other unallocated items	**(10)**	25	(109)
	(29)	7	(125)
Abbey National offer costs	**(16)**	-	-

The four independent Lloyds TSB Foundations support registered charities throughout the UK that enable people, particularly disabled and disadvantaged people, to play a fuller role in society. The Foundations receive 1 per cent of the Group's pre-tax profit, averaged over 3 years, instead of the dividend on their shareholdings, making them the biggest independent grant giving body in the UK. In the first half of 2001 the Group accrued £19 million for payment to the Lloyds TSB Foundations, compared with an accrual of £18 million in the first half of 2000.

Earnings on surplus capital, central costs and other unallocated items, was £35 million lower than the first half of 2000, which benefited from the high levels of surplus capital built up ahead of the Scottish Widows acquisition and a lower funding cost relating to its acquisition midway through the first half of last year. Compared to the second half of 2000 there was an improvement of £99 million partly as a result of surplus capital starting to build up and as Group capital benefited from changes in the interest rate yield curve.

INCOME

Group net interest income

Group net interest income increased by £71 million, or 3 per cent, to £2,382 million, despite a reduction of £14 million caused by a 3 basis point reduction in the underlying net interest margin. Average interest-earning assets increased by 9 per cent to £141 billion. There was further growth in mortgages and other customer lending in the UK. The net interest margin decreased to 3.41 per cent, a reduction of 18 basis points. The impact of the funding cost of Scottish Widows represented 15 basis points of this 18 basis point reduction, with the residual 3 basis point decrease in the margin reflecting the increasingly competitive operating environment.

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
	£m	£m	£m
Net interest income	**2,382**	2,311	2,276
Average balances			
Short-term liquid assets	**3,066**	2,176	1,945
Loans and advances	**130,681**	119,770	124,709
Debt securities	**6,939**	7,548	5,879
Total interest-earning assets	**140,686**	129,494	132,533
Financed by:			
Interest-bearing liabilities	**128,552**	115,909	120,760
Interest-free liabilities	**12,134**	13,585	11,773
Average rates	**%**	%	%
Gross yield on interest-earning assets	**8.38**	8.32	8.55
Cost of interest-bearing liabilities	**5.44**	5.28	5.64
Interest spread	**2.94**	3.04	2.91
Contribution of interest-free liabilities	**0.47**	0.55	0.51
Net interest margin	**3.41**	3.59	3.42
Net interest margin, excluding funding cost of Scottish Widows	**3.68**	3.71	3.68

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 £13 million lower in the first half of 2001 (2000: first half £38 million lower, second half £27 million lower). The deferred element of the expenditure amounting to £255 million at 30 June 2001 (30 June 2000: £215 million, 31 December 2000: £242 million) is included within prepayments and accrued income in the balance sheet.

Domestic net interest income

Domestic net interest income increased by £41 million, or 2 per cent, to £2,031 million, notwithstanding a reduction of £11 million caused by a 5 basis point reduction in the underlying net interest margin. This represents 85 per cent of total group net interest income.

Average interest-earning assets increased by 9per cent to £118 billion. There was further growth in mortgages and other customer lending.

The net interest margin decreased by 21 basis points to 3.47 per cent, again partly reflecting the funding cost of Scottish Widows, which caused a reduction of 16 basis points. In addition, the increasingly competitive operating environment, particularly for retail lending, caused an underlying reduction of 5 basis points in the net interest margin.

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
	£m	£m	£m
Net interest income	**2,031**	1,990	1,966
Average balances			
Short-term liquid assets	**1,597**	820	852
Loans and advances	**113,394**	103,247	108,437
Debt securities	**3,113**	4,783	2,991
Total interest-earning assets	**118,104**	108,850	112,280
Financed by:			
Interest-bearing liabilities	**107,639**	96,599	101,813
Interest-free liabilities	**10,465**	12,251	10,467
Average rates	%	%	%
Gross yield on interest-earning assets	**7.86**	8.02	8.12
Cost of interest-bearing liabilities	**4.82**	4.90	5.12
Interest spread	**3.04**	3.12	3.00
Contribution of interest-free liabilities	**0.43**	0.56	0.48
Net interest margin	**3.47**	3.68	3.48
Net interest margin, excluding funding cost of Scottish Widows	**3.78**	3.83	3.80

International net interest income

Net interest income from international operations increased by £30 million, or 9 per cent, to £351 million. This represents 15 per cent of total group net interest income.

Average interest-earning assets on a local currency basis increased by 13 per cent, helped by growth in our New Zealand mortgage portfolio, but this increase was partly offset by the effect of exchange rate movements.

	Half-year to 30 June **2001** **£m**	Half-year to 30 June 2000 £m	Half-year to 31 December 2000 £m
Net interest income	**351**	321	310
Average balances			
Short-term liquid assets	**1,469**	1,356	1,093
Loans and advances	**17,287**	16,523	16,272
Debt securities	**3,826**	2,765	2,888
Total interest-earning assets	**22,582**	20,644	20,253
Financed by:			
Interest-bearing liabilities	**20,913**	19,310	18,947
Interest-free liabilities	**1,669**	1,334	1,306
Average rates	**%**	%	%
Gross yield on interest-earning assets	**11.10**	9.88	10.93
Cost of interest-bearing liabilities	**8.60**	7.22	8.43
Interest spread	**2.50**	2.66	2.50
Contribution of interest-free liabilities	**0.63**	0.47	0.54
Net interest margin	**3.13**	3.13	3.04

Other income

Other income increased by £434 million, or 23 per cent, to £2,329 million. This represented 49 per cent of total income. Excluding the impact of the Chartered Trust acquisition and a full 6 months of Scottish Widows income compared with 4 months in the first half of 2000, other income increased by £301 million, or 17 per cent, to £2,033 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 8 per cent, as a result of growth in all core UK businesses and the impact of the acquisition of Scottish Widows.

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

Income from long-term assurance business increased by £134 million, as a result of the impact of the acquisition of Scottish Widows. Other operating income increased to £392 million from £188 million in the first half of 2000. This reflects an increase in income from operating lease rentals, partly as a result of the acquisition of Chartered Trust, from £44 million in the first half of 2000 to £156 million in the first half of 2001. There were also increases in the realisation of venture capital gains within Lloyds TSB Development Capital and higher earnings on the sale of Emerging Market Debt investments.

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
	£m	£m	£m
Fees and commissions receivable:			
UK current account fees	**300**	319	310
Other UK fees and commissions	**613**	565	606
Insurance broking	**260**	191	207
Card services	**166**	140	164
International fees and commissions	**130**	133	133
	1,469	1,348	1,420
Fees and commissions payable	**(271)**	(223)	(256)
Dealing profits (before expenses):			
Foreign exchange trading income	**73**	71	70
Securities and other gains	**58**	43	41
	131	114	111
Income from long-term assurance business	**402**	268	467
General insurance premium income	**206**	200	199
Other operating income	**392**	188	248
Total other income	**2,329**	1,895	2,189
Short-term fluctuations in investment returns	**(329)**	(38)	(56)
Changes in economic assumptions	-	127	-
Pension provision/stakeholder pension related charge	-	-	(180)

OPERATING EXPENSES

Operating expenses

	Half-year to 30 June 2001 £m	Half-year to 30 June 2000 £m	Half-year to 31 December 2000 £m
Administrative expenses:			
Staff:			
Salaries and profit sharing	**858**	803	823
National insurance	**71**	65	66
Pensions	**(55)**	(51)	(54)
Restructuring	**7**	13	34
Other staff costs	**92**	86	103
	973	916	972
Premises and equipment:			
Rent and rates	**129**	122	125
Hire of equipment	**9**	13	13
Repairs and maintenance	**58**	53	62
Other	**55**	48	61
	251	236	261
Other expenses:			
Communications and external data processing	**231**	202	192
Advertising and promotion	**89**	87	80
Professional fees	**51**	50	76
Other	**190**	151	155
	561	490	503
Total administrative expenses	**1,785**	1,642	1,736
Depreciation	**259**	154	210
Amortisation of goodwill	**19**	6	16
Total operating expenses	**2,063**	1,802	1,962
Efficiency ratio	**43.8%**	42.8%	43.9%
Exceptional restructuring costs	**54**	74	114
Abbey National offer costs	**16**	-	-

Total operating expenses, on a business as usual basis, increased by £261 million, or 14 per cent compared with the first half of 2000. On a like-for-like basis, excluding increased costs following the acquisitions of Scottish Widows and Chartered Trust of £146 million, operating lease depreciation of £47 million (2000 first half: £29 million), and additional investments in revenue growth businesses, e-commerce and real-time retail banking of £155 million (2000 first half: £79 million), costs increased by 2 per cent to £1,715 million, from £1,677 million in the first half of last year. Much of this increase has funded the 15 per cent growth in sales volumes achieved in the first half of 2001.

Operating expenses (continued)

	Half-year to 30 June		Half-year to 31 December
	2001	2000	2000
	£m	£m	£m
Business as usual operating expenses	**2,063**	1,802	1,962
Acquisitions/Operating lease depreciation	**(193)**	(46)	(136)
	1,870	1,756	1,826
Incremental new revenue investment	**(155)**	(79)	(145)
Underlying operating expenses	**1,715**	1,677	1,681

The management of day-to-day operating costs continues to have a strong emphasis in the Group, whilst at the same time we are investing heavily in many key future growth areas of our business. Our investments in e-commerce, wealth management, and customer relationship management and segmentation programmes will improve the quality of our sales and service and improve our revenue growth prospects in 2001 and beyond. In the first half of 2001, this incremental new revenue investment totalled £155 million and we expect this to be approximately £300 million for the full year 2001. In 2002 and beyond we expect the level of this new revenue investment to reduce.

The exceptional restructuring costs of £54 million in support of the group efficiency programme comprise mainly severance, software and consultancy costs and the write-down of equipment. In 2001 we expect full-year exceptional restructuring costs to total about £200 million. Overall, the individual programmes associated with these costs are expected to achieve payback within 3 years.

Our strict focus on cost management, combined with the group efficiency programme which is now beginning to deliver substantial benefits, means that we expect business as usual costs in the second half will grow significantly more slowly than in the first half. Going forward we expect business as usual costs to grow at a slower rate than our business as usual revenues.

The efficiency ratio was 43.8 per cent, compared with 42.8 per cent in the first half of 2000, primarily as a result of the incremental investments in support of our growth strategies, and the acquisition of Chartered Trust.

Operating expenses (continued)

Number of employees (full-time equivalent)

Staff numbers increased by 2,778 to 80,318 in the first half of the year. Within UK Retail Banking staff numbers increased by 2,438 as we continue planned improvements to customer service, increased call centre capacity and a substantial increase in our branch sales activities. In Wholesale Markets staff numbers increased by 295.

Overall staff numbers are expected to reduce in the second half of 2001 as we continue with the streamlining of back office processing and other efficiency programmes.

	30 June 2001	31 December 2000
UK Retail Banking*	**47,126**	44,688
Mortgages	**3,361**	3,407
Insurance and Investments	**6,337**	6,352
Wholesale Markets	**8,738**	8,443
International Banking	**12,458**	12,403
Other	**2,298**	2,247
Total number of employees (full-time equivalent)	**80,318**	77,540

*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
	2001	2000*	2000*
	£m	£m	£m
Domestic:			
UK Retail Banking	**196**	202	143
Mortgages	**2**	(5)	(8)
Wholesale Markets	**68**	34	60
Total domestic	**266**	231	195
International Banking	**57**	34	81
Total charge	**323**	265	276
Specific provisions	**327**	264	283
General provisions	**(4)**	1	(7)
Total charge	**323**	265	276
Charge as % of average lending (annualised):	**%**	%	%
Domestic	**0.53**	0.51	0.40
International	**0.73**	0.48	1.10
Total charge	**0.55**	0.50	0.49

* restated for the effect of FRS 18 (page 40, note 1)

The total charge for bad and doubtful debts increased to £323 million from £265 million. The domestic charge increased to £266 million from £231 million, largely as a result of the acquisition of Chartered Trust. In the second half of 2000, UK Retail Banking had a one-off benefit of £42 million following the full centralisation of our arrears processing. Provisions overseas increased to £57 million from £34 million, but were lower than in the second half of last year.

Non-performing loans were £1,205 million compared with £1,119 million in June 2000 and £1,259 million in December 2000 and represented 1.0 per cent of total lending, compared with 1.0 per cent in June 2000 and 1.1 per cent in December 2000. Our lending portfolio remains heavily influenced by our mortgage business and we are well positioned for any economic slowdown.

Movements in provisions for bad and doubtful debts

	Half-year to 30 June 2001		Half-year to 30 June 2000*		Half-year to 31 December 2000*	
	Specific £m	**General £m**	Specific £m	General £m	Specific £m	General £m
At beginning of period	**1,069**	**357**	1,053	361	1,064	362
Exchange and other adjustments	**18**	**1**	15	-	(11)	(2)
Adjustment on acquisition	-	-	-	-	45	4
Advances written off	**(399)**	-	(346)	-	(399)	-
Recoveries of advances written off in previous years	**101**	-	78	-	87	-
Charge (release) to profit and loss account:						
New and additional provisions	**610**	**4**	470	7	623	-
Releases and recoveries	**(283)**	**(8)**	(206)	(6)	(340)	(7)
	327	**(4)**	264	1	283	(7)
At end of period	**1,116**	**354**	1,064	362	1,069	357
	1,470		1,426		1,426	
Closing provisions as % of lending (excluding unapplied interest)						
Specific:						
Domestic	**817**	**(0.8%)**	762	(0.8%)	774	(0.8%)
International	**299**	**(1.8%)**	302	(2.1%)	295	(2.0%)
	1,116	**(0.9%)**	1,064	(1.0%)	1,069	(0.9%)
General	**354**	**(0.3%)**	362	(0.3%)	357	(0.3%)
Total	**1,470**	**(1.2%)**	1,426	(1.3%)	1,426	(1.2%)

* restated for the effect of FRS 18 (page 40, note 1)

Following the implementation of FRS 18 (page 40, note 1) uncollateralised bonds previously included in loans and advances have now been reclassified as debt securities. This reduces significantly the level of provisions held. 2000 comparatives have been restated accordingly.

At the end of June 2001 provisions for bad and doubtful debts totalled £1,470 million. This represented 1.2 per cent of total lending. The level of specific provisions increased to £1,116 million. Non-performing lending decreased to £1,205 million from £1,259 million in December 2000. At the end of the half-year, specific provisions represented over 90 per cent of non-performing loans.

CONSOLIDATED PROFIT AND LOSS ACCOUNT (Unaudited)

	Half-year to 30 June		Half-year to 31 December
	2001	2000*	2000*
	£m	£m	£m
Interest receivable:			
Interest receivable and similar income arising from debt securities	**202**	240	203
Other interest receivable and similar income	**5,647**	5,116	5,495
Interest payable	**3,467**	3,045	3,422
Net interest income	**2,382**	2,311	2,276
Other income			
Fees and commissions receivable	**1,469**	1,348	1,420
Fees and commissions payable	**(271)**	(223)	(256)
Dealing profits (before expenses)	**106**	100	98
Income from long-term assurance business:			
Income before pension provision	**98**	371	344
Pension provision	**-**	-	(100)
General insurance premium income	**206**	200	199
Other operating income	**392**	188	248
	2,000	1,984	1,953
Total income	**4,382**	4,295	4,229
Operating expenses			
Administrative expenses	**1,801**	1,642	1,736
Exceptional restructuring costs	**54**	74	114
Total administrative expenses	**1,855**	1,716	1,850
Depreciation	**259**	154	210
Amortisation of goodwill	**19**	6	16
Depreciation and amortisation	**278**	160	226
Total operating expenses	**2,133**	1,876	2,076
Trading surplus	**2,249**	2,419	2,153
General insurance claims	**77**	71	71
Provisions for bad and doubtful debts			
Specific	**327**	264	283
General	**(4)**	1	(7)
	323	265	276
Amounts written off fixed asset investments	**6**	22	10
Operating profit	**1,843**	2,061	1,796
Income from associated undertakings and joint ventures	**(5)**	3	-
Profit on ordinary activities before tax	**1,838**	2,064	1,796
Tax on profit on ordinary activities	**513**	576	529
Profit on ordinary activities after tax	**1,325**	1,488	1,267
Minority interests - equity	**7**	6	7
- non-equity	**26**	16	20
Profit for the period attributable to shareholders	**1,292**	1,466	1,240
Dividends	**566**	511	1,172
Retained profit	**726**	955	68
Earnings per share	**23.4p**	26.8p	22.5p
Diluted earnings per share	**23.2p**	26.5p	22.3p

* restated for the effect of FRS 18 (page 40, note 1)

LLOYDS TSB GROUP – STATUTORY FORMAT INFORMATION

CONSOLIDATED BALANCE SHEET (Unaudited)

	30 June 2001	30 June 2000*	31 December 2000*
Assets	**£m**	£m	£m
Cash and balances at central banks	**688**	729	1,027
Items in course of collection from banks	**1,866**	2,021	1,533
Treasury bills and other eligible bills	**3,303**	1,876	1,709
Loans and advances to banks	**19,320**	16,265	15,290
Loans and advances to customers	**119,926**	106,573	114,543
Non-returnable finance	**(230)**	-	(400)
	119,696	106,573	114,143
Debt securities	**17,749**	15,607	14,605
Equity shares	**240**	201	247
Interests in associated undertakings and joint ventures	**8**	4	9
Intangible assets	**2,573**	2,082	2,599
Tangible fixed assets	**3,125**	2,155	3,037
Own shares	**50**	29	28
Other assets	**3,780**	3,125	3,567
Prepayments and accrued income	**3,051**	3,271	2,965
Long-term assurance business attributable to shareholders	**6,591**	6,607	6,549
	182,040	160,545	167,308
Long-term assurance assets attributable to policyholders	**47,536**	49,910	51,085
Total assets	**229,576**	210,455	218,393
Liabilities			
Deposits by banks	**26,033**	13,385	16,735
Customer accounts	**104,557**	97,001	100,738
Items in course of transmission to banks	**403**	547	420
Debt securities in issue	**19,587**	15,896	17,899
Other liabilities	**6,129**	10,964	6,980
Accruals and deferred income	**3,824**	3,302	4,325
Provisions for liabilities and charges:			
Deferred tax	**1,682**	1,655	1,683
Other provisions for liabilities and charges	**414**	458	442
Subordinated liabilities:			
Undated loan capital	**3,432**	3,389	3,391
Dated loan capital	**4,113**	3,456	4,119
Minority interests:			
Equity	**33**	33	37
Non-equity	**948**	516	515
	981	549	552
Called-up share capital	**1,409**	1,395	1,396
Share premium account	**906**	546	595
Merger reserve	**343**	343	343
Profit and loss account	**8,227**	7,659	7,690
Shareholders' funds (equity)	**10,885**	9,943	10,024
	182,040	160,545	167,308
Long-term assurance liabilities to policyholders	**47,536**	49,910	51,085
Total liabilities	**229,576**	210,455	218,393

* restated for the effect of FRS 18 (page 40, note 1)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (Unaudited)

	Half-year to 30 June **2001** **£m**	Half-year to 30 June 2000 £m	Half-year to 31 December 2000 £m
Profit attributable to shareholders	**1,292**	1,466	1,240
Currency translation differences on foreign currency net investments	**(37)**	30	(41)
Total recognised gains and losses relating to the period	**1,255**	1,496	1,199
Prior period adjustment (page 40, note 1)	**248**	-	
Prior period adjustment in respect of the adoption of FRS 15	**-**	(112)	
Total gains and losses recognised during the period	**1,503**	1,384	

HISTORICAL COST PROFITS AND LOSSES

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 **2001** **£m**	Half-year to 30 June 2000 £m	Half-year to 31 December 2000 £m
Profit attributable to shareholders	**1,292**	1,466	1,240
Dividends	**(566)**	(511)	(1,172)
Retained profit	**726**	955	68
Currency translation differences on foreign currency net investments	**(37)**	30	(41)
Issue of shares	**172**	40	34
Goodwill written back on sale and closure of businesses	**-**	89	20
Net increase in shareholders' funds	**861**	1,114	81
Shareholders' funds at beginning of period	**10,024**	8,581	9,943
Prior period adjustment (page 40, note 1)	**-**	248	-
Shareholders' funds at end of period	**10,885**	9,943	10,024

CONSOLIDATED CASH FLOW STATEMENT (Unaudited)

	Half-year to 30 June 2001 £m	Half-year to 30 June 2000* £m	Half-year to 31 December 2000* £m
Net cash inflow from operating activities	**5,261**	4,889	2,585
Dividends received from associated undertakings	**2**	2	-
Returns on investments and servicing of finance:			
Dividends paid to equity minority interests	**(11)**	(6)	(6)
Payments made to non-equity minority interests	**(26)**	(16)	(20)
Interest paid on subordinated liabilities (loan capital)	**(256)**	(210)	(232)
Interest element of finance lease rental payments	**(1)**	-	(1)
Net cash outflow from returns on investments and servicing of finance	**(294)**	(232)	(259)
Taxation:			
UK corporation tax	**(213)**	(194)	(529)
Overseas tax	**(80)**	(63)	(78)
Total taxation	**(293)**	(257)	(607)
Capital expenditure and financial investment:			
Additions to fixed asset investments	**(21,327)**	(12,812)	(10,752)
Disposals of fixed asset investments	**19,465**	12,485	12,365
Additions to tangible fixed assets	**(380)**	(306)	(700)
Disposals of tangible fixed assets	**53**	26	52
Net cash (outflow) inflow from capital expenditure and financial investment	**(2,189)**	(607)	965
Acquisitions and disposals:			
Acquisition of group undertakings	**(117)**	(19)	(5,091)
Disposal of group undertakings and businesses	**-**	80	3
Net cash (outflow) inflow from acquisitions and disposals	**(117)**	61	(5,088)
Equity dividends paid	**(1,172)**	(1,011)	(511)
Net cash inflow (outflow) before financing	**1,198**	2,845	(2,915)
Financing:			
Issue of subordinated liabilities (loan capital)	**29**	278	674
Issue of perpetual capital securities by subsidiary undertakings	**456**	509	-
Issue of ordinary share capital net of £152 million (2000: first half £105m; second half £19m) contribution to the QUEST	**172**	40	34
Repayments of subordinated liabilities (loan capital)	**(26)**	(51)	(4)
Capital element of finance lease rental payments	**(16)**	(1)	(3)
Net cash inflow from financing	**615**	775	701
Increase (decrease) in cash	**1,813**	3,620	(2,214)

* restated for the effect of FRS 18 (page 40, note 1)

CAPITAL RATIOS

Risk asset ratios

	30 June 2001 £m	31 December 2000* £m
Capital		
Tier 1 (page 44, note 11)	**9,243**	7,949
Tier 2	**7,704**	7,722
	16,947	15,671
Supervisory deductions	**(6,928)**	(6,862)
Total capital	**10,019**	8,809
	£bn	£bn
Risk-weighted assets		
UK Retail Banking	**18.1**	17.4
Mortgages	**27.6**	26.6
Insurance and Investments	**0.2**	0.2
UK Retail Financial Services	**45.9**	44.2
Wholesale Markets	**41.9**	36.5
International Banking	**13.4**	12.4
Central group items	**1.1**	0.9
Total risk-weighted assets	**102.3**	94.0
Risk asset ratios		
Total capital	**9.8%**	9.4%
Tier 1	**9.0%**	8.5%
	Half-year to 30 June 2001	Half-year to 31 December 2000
Post-tax return on average risk-weighted assets	**2.71%**	2.76%

* restated for the effect of FRS 18 (page 40, note 1)

At the end of June 2001 the risk asset ratios were 9.8 per cent for total capital and 9.0 per cent for tier 1 capital. The 9.0 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 significant investment in life assurance.

In the first half of 2001, total capital for regulatory purposes increased by £1,210 million to £10,019 million. Tier 1 capital increased by £1,294 million, mainly from retained profits and the issue of tax efficient capital instruments. Tier 2 capital decreased by £18 million and supervisory deductions increased by £66 million.

Risk-weighted assets increased to £102 billion and the post-tax return on average risk-weighted assets, a key measure of efficient use of capital, was 2.71 per cent.

BALANCE SHEET INFORMATION

Total assets

Total assets increased by £11 billion, or 5 per cent, from the end of 2000. Over the last 12 months, loans and advances to customers increased by £13 billion, or 12 per cent, to £120 billion.

	30 June 2001 £m	30 June 2000* £m	31 December 2000* £m
Deposits – customer accounts			
Sterling:			
Non-interest bearing current accounts	**5,774**	5,860	5,504
Interest bearing current accounts	**19,449**	18,368	18,221
Savings and investment accounts	**47,844**	43,376	45,972
Other customer deposits	**16,119**	15,621	16,682
Total sterling	**89,186**	83,225	86,379
Currency	**15,371**	13,776	14,359
Total deposits – customer accounts	**104,557**	97,001	100,738
Loans and advances to customers			
Domestic:			
Agriculture, forestry and fishing	**2,097**	2,161	2,026
Manufacturing	**3,444**	3,395	3,357
Construction	**1,257**	943	1,016
Transport, distribution and hotels	**4,465**	3,804	3,836
Property companies	**2,680**	2,183	2,470
Financial, business and other services	**9,962**	7,698	9,295
Personal : mortgages	**54,477**	50,153	52,659
: other	**11,908**	10,311	11,138
Lease financing	**7,681**	8,020	8,070
Hire purchase	**5,326**	3,535	5,172
Other	**2,405**	1,803	2,237
Total domestic	**105,702**	94,006	101,276
International:			
Latin America	**2,410**	1,863	2,222
New Zealand	**7,730**	7,437	7,368
Rest of the world	**5,399**	4,776	4,787
Total international	**15,539**	14,076	14,377
	121,241	108,082	115,653
Provisions for bad and doubtful debts**	**(1,465)**	(1,417)	(1,420)
Interest held in suspense**	**(80)**	(92)	(90)
Total loans and advances to customers	**119,696**	106,573	114,143

* restated for the effect of FRS 18 (page 40, note 1)
** 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 18 'Accounting Policies'. On implementation of this new standard, the Group has taken the opportunity to review the appropriateness of accounting policies in a number of areas and the following change has been made as a result. Debt securities acquired in exchange for advances to countries experiencing payment difficulties which are not (nor due to be) collateralised by US Treasury securities ('uncollateralised bonds') were, like the original debt, previously included in loans and advances, at their written down value at date of exchange as adjusted for any subsequent movements in bad debt provisions. This treatment is no longer considered to be the most appropriate and the uncollateralised bonds have been reclassified as debt securities where they are carried at an amount based on the market value at the date of the original exchange as adjusted for the amortisation of the discount on acquisition. A prior year adjustment, increasing reserves by £248 million, has been made to reflect the revised policy.

The effect of this change on the profit and loss account for the half-year ended 30 June 2001 has been to increase other operating income by £39 million, increase the charge for bad and doubtful debts by £64 million, and to reduce profit before tax by £25 million. Loans and advances have been reduced by £323 million, debt securities have increased by £731 million and shareholders' funds have increased by £286 million. 2000 comparatives have been restated. In the first half of 2000, other operating income increased by £32 million, amounts written off fixed asset investments increased by £18 million and the charge for bad and doubtful debts increased by £18 million. Profit before tax has been reduced, therefore, by £4 million. In the second half of 2000, other operating income increased by £26 million and the provisions charge increased by £48 million, causing a reduction in pre-tax profits of £22 million.

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 (2000: 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

	Half-year to 30 June		Half-year to 31 December
Business as usual	**2001**	2000*	2000*
Profit attributable to shareholders	**£1,600m**	£1,455m	£1,497m
Weighted average number of ordinary shares in issue	**5,517m**	5,476m	5,499m
Earnings per share	**29.0p**	26.6p	27.2p
Basic - statutory			
Profit attributable to shareholders	**£1,292m**	£1,466m	£1,240m
Weighted average number of ordinary shares in issue	**5,517m**	5,476m	5,499m
Earnings per share	**23.4p**	26.8p	22.5p
Fully diluted			
Profit attributable to shareholders	**£1,292m**	£1,466m	£1,240m
Weighted average number of ordinary shares in issue	**5,574m**	5,536m	5,554m
Earnings per share	**23.2p**	26.5p	22.3p

* restated for the effect of FRS 18 (page 40, note 1)

4. Tax

The effective rate of tax was 28 per cent (2000 first half: 28 per cent). The lower effective rate of tax, compared with the standard tax rate of 30 per cent, is largely due to tax relief on payments to the QUEST to satisfy Save As You Earn options, and gains on disposals of investments and properties sheltered by capital losses.

5. 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. In addition, the movement in the embedded value in the balance sheet includes experience variances related to movements in the market value of the funds. 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, including investment earnings calculated using longer-term investment rates of return, and a profit before tax, separately identifying the effect of short-term fluctuations in investment returns. This approach is already established practice amongst listed insurance companies in the UK.

5. **Short-term fluctuations in investment returns** (continued)

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.

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

6. **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 was carried out, to ensure that these assumptions remained 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 were amended, including the risk-adjusted discount rate which was reduced from 10 per cent to 8.5 per cent. The revised assumptions, which were used with effect from 1 January 2000 for Abbey Life and the bancassurance operation of Lloyds TSB Life, resulted in a one-off credit to the profit and loss account of £127 million for the half-year to 30 June 2000. The same assumptions were used for the Scottish Widows business from the date of acquisition.

7. **Stakeholder pensions**

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

8. **Exceptional restructuring costs**

Exceptional restructuring costs totalling £54 million were charged to the 2001 interim profit and loss account. The majority of these costs related to an efficiency programme announced in February 2000.

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

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

During the first half of 2001, the restructuring costs relating to the efficiency programme comprised mainly severance, consultancy costs, and the write-down of equipment. During 2001 we expect restructuring costs relating to the efficiency programme to be approximately £200 million, reducing to approximately £130 million in 2002 and £60 million in 2003. Annualised cost benefits resulting from these investments are expected to total approximately £75 million in 2001 rising to £410 million in 2004. Overall, the individual programmes associated with these costs are expected to achieve average payback within 3 years.

9. **Abbey National offer costs**

These relate to costs incurred in connection with the proposed acquisition of Abbey National plc prior to the announcement by the Secretary of State for Trade and Industry that Lloyds TSB would not be permitted to proceed with an offer.

10. **Dividend**

The interim dividend for 2001 will be 10.2p per share (2000: 9.3p), an increase of 10 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	8 August
Record date. Shareholders on the register on this date are entitled to the dividend	10 August
Final date for joining or leaving the dividend reinvestment plan	12 September
Interim dividend paid	10 October

11. **Review of interim profits**

The interim profits in 2001 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 38.

12. **Other information**

The results for the half-year ended 30 June 2001 were approved by the directors on 26 July 2001.

Statutory accounts for the year ended 31 December 2000 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 2001 will be announced on 15 February 2002.

CONTACTS

For further information please contact:-

Kent Atkinson
Group Finance Director
Lloyds TSB Group plc
020 7356 1436
E-mail: kent.atkinson@ltsb-finance.co.uk

Michael Oliver
Director of Investor Relations
Lloyds TSB Group plc
020 7356 2167
E-mail: michael.oliver@ltsb-finance.co.uk

Terrence Collis
Director of Group Corporate Communications
Lloyds TSB Group plc
020 7356 2078
E-mail: terrence.collis@lloydstsb.co.uk

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 on 28 July 2001.

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

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