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2000 Results
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Lloyds TSB



OUTLOOK FOR THE FINANCIAL SERVICES SECTOR

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



LLOYDS TSB - DELIVERING VALUE TO SHAREHOLDERS

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



BUSINESS AS USUAL RESULTS - 2000

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

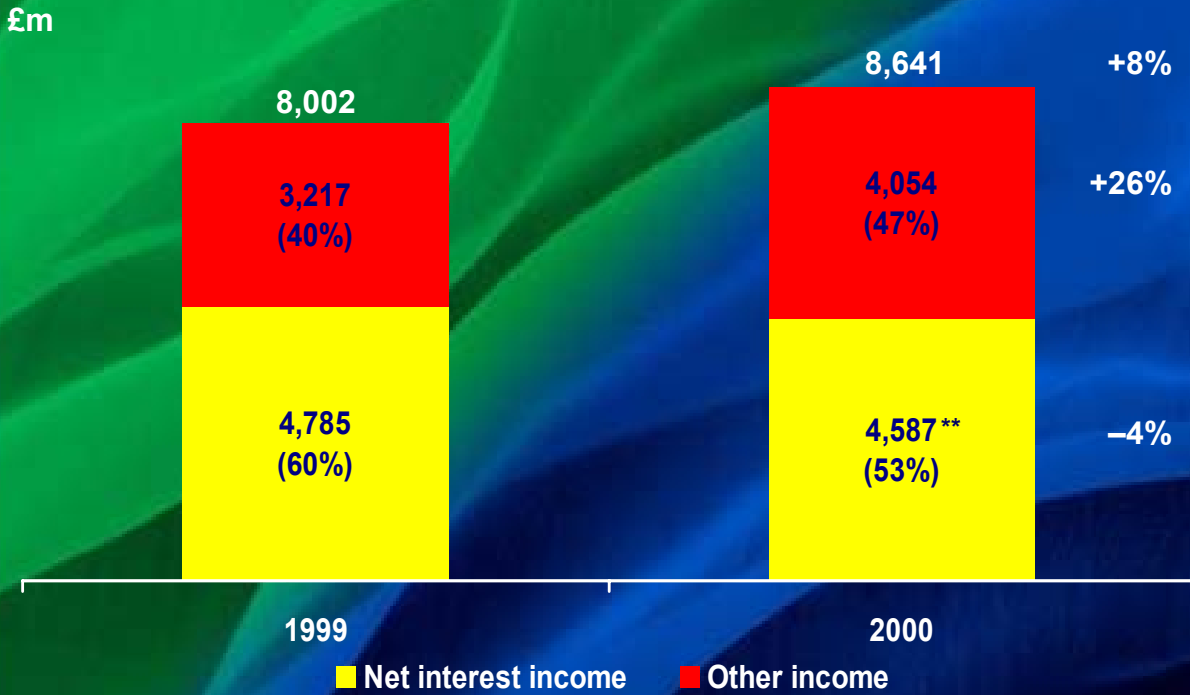


BUSINESS VOLUMES - 2000

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



REVENUE GROWTH*



* business as usual basis

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

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CHANGES IN GROUP NET INTEREST INCOME

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



UNDERLYING OPERATING EXPENSES REMAIN UNDER TIGHT CONTROL

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



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

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



REVENUE GROWTH - GOOD PROGRESS MADE

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



REVENUE GROWTH - CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

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



REVENUE GROWTH - OUR POLICY OF SEGMENTATION IS WORKING

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



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

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

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



REVENUE GROWTH - SCOTTISH WIDOWS IS PERFORMING WELL

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



REVENUE GROWTH - WEALTH MANAGEMENT

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



REVENUE GROWTH - E-COMMERCE STRATEGY

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



MERGERS & ACQUISITIONS STRATEGY - OFFER FOR ABBEY NATIONAL

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



MERGERS AND ACQUISITIONS STRATEGY

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



SHORT TERM OUTLOOK - 2001

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



LLOYDS TSB - DELIVERING VALUE TO SHAREHOLDERS

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



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