

# 2001 Interim Results

27 July 2001

Kent Atkinson  
Group Finance Director



Lloyds TSB

## Profit before tax

	2000H1 £m	2000H2 £m	2001H1 £m
Business as usual operating profit	2,049	2,146	2,237
Short-term fluctuations in investment returns	(38)	(56)	(329)
Exceptional restructuring costs	(74)	(114)	(54)
Abbey National offer costs	-	-	(16)
Changes in economic assumptions	127	-	-
Pension provision	-	(100)	-
Stakeholder pension related charge	-	(80)	-
<b>Statutory profit before tax</b>	<b>2,064</b>	<b>1,796</b>	<b>1,838</b>



# Impact of FRS 18

- Uncollateralised EMD bond portfolio, previously in loans and advances, now reclassified as debt securities
- Prior year adjustment reduces 2000 profit before tax by £26 million. PBT in 2001H1 reduces by £25 million
- Reserves increase by £286 million, loans and advances reduce by £323 million, provisions balance reduces by £722 million
- Profit from future asset sales/restructurings will be treated as 'other operating income'

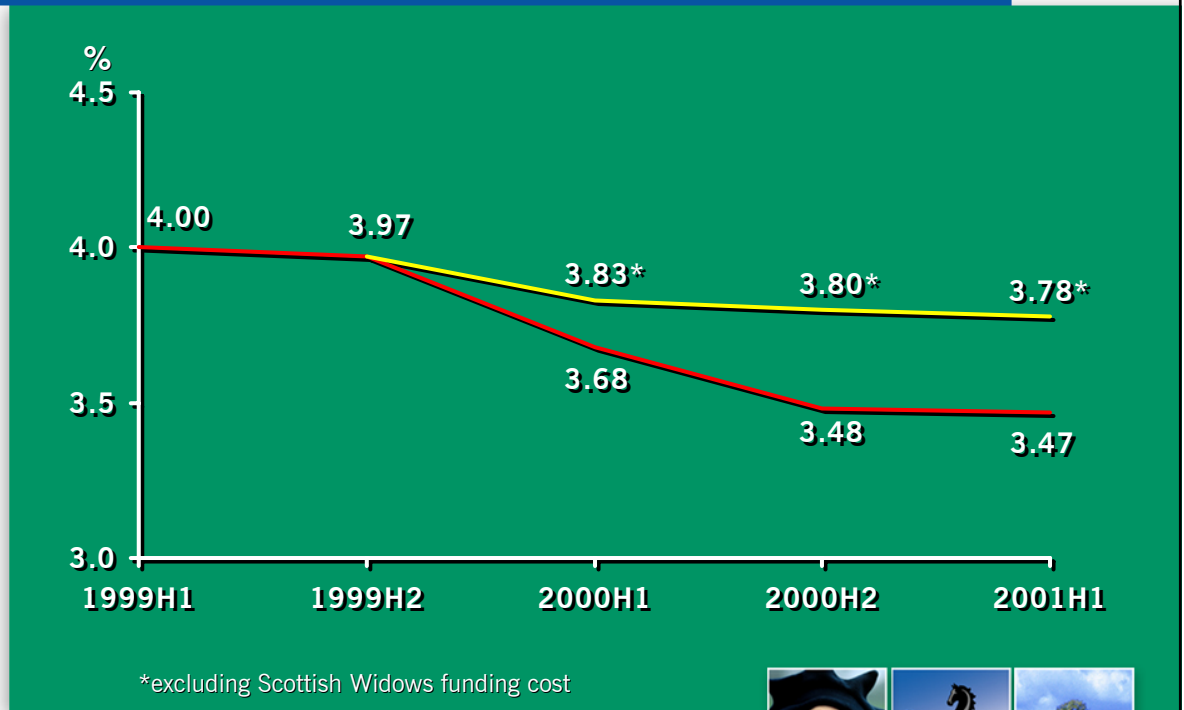


# Domestic net interest income

	2001H1 v 2000H1 £m
Change due to volume growth	154
Change due to margin reduction	(11)
Net benefit	143
Scottish Widows funding cost	(102)
Increase in domestic net interest income	41



# Domestic net interest margin



## Underlying revenue growth

	<u>2000H1</u> £m	<u>2000H2</u> £m	<u>2001H1</u> £m
Total income (bau)	4,206	4,465	4,711
Acquisitions/operating leases	(12)	(120)	(189)
Underlying income	<u>4,194</u>	<u>4,345</u>	<u>4,522</u>



# Scottish Widows

- Gross premiums £2.5 billion, up 21%
- 20% growth in pro-forma weighted sales
- Underlying profits increased by 3% on 2000H2
- Acquisition projections on track
- We expect to continue to grow market share in the second half of 2001 and beyond
- Successful integration of SWIP; new management team in place, new mandates now being gained



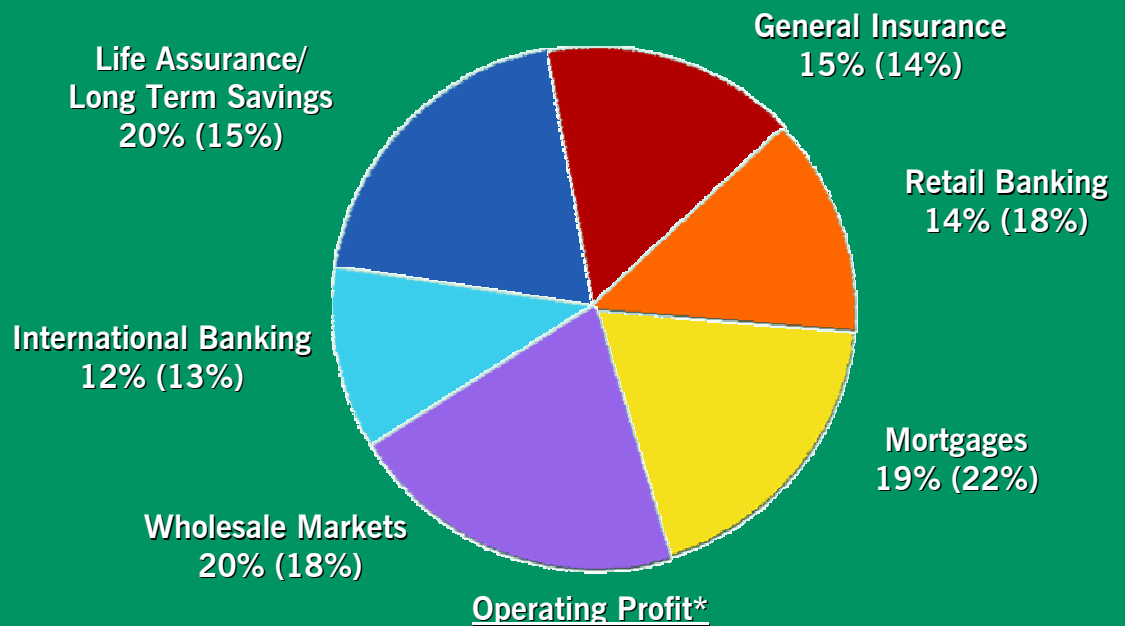
## Underlying operating expenses

	2000H1 £m	2000H2 £m	2001H1 £m
Total operating expenses (statutory)	1,876	2,076	2,133
Exceptional restructuring costs	(74)	(114)	(54)
Abbey National offer costs	-	-	(16)
Acquisitions/operating lease depreciation	(46)	(136)	(193)
	<u>1,756</u>	<u>1,826</u>	<u>1,870</u>
Incremental new revenue investment	(79)	(145)	(155)
Underlying operating expenses	<u>1,677</u>	<u>1,681</u>	<u>1,715</u>





# Quality of earnings



Operating Profit\*

\* business as usual basis, excluding central group items



## Charge for bad and doubtful debts

	2001H1 £m	Average Lending £bn	% of Average Lending	
			2000H1	2001H1
UK Retail Banking	196	16.3	2.75	2.43
Mortgages	2	51.2	(0.02)	0.01
Insurance & Investments	-	1.1	-	-
Wholesale Markets	68	33.4	0.23	0.41
<b>Total domestic</b>	<b>266</b>	<b>102.0</b>	<b>0.51</b>	<b>0.53</b>
International Banking	57	15.7	0.48	0.73
<b>Total charge</b>	<b>323</b>	<b>117.7</b>	<b>0.50</b>	<b>0.55</b>

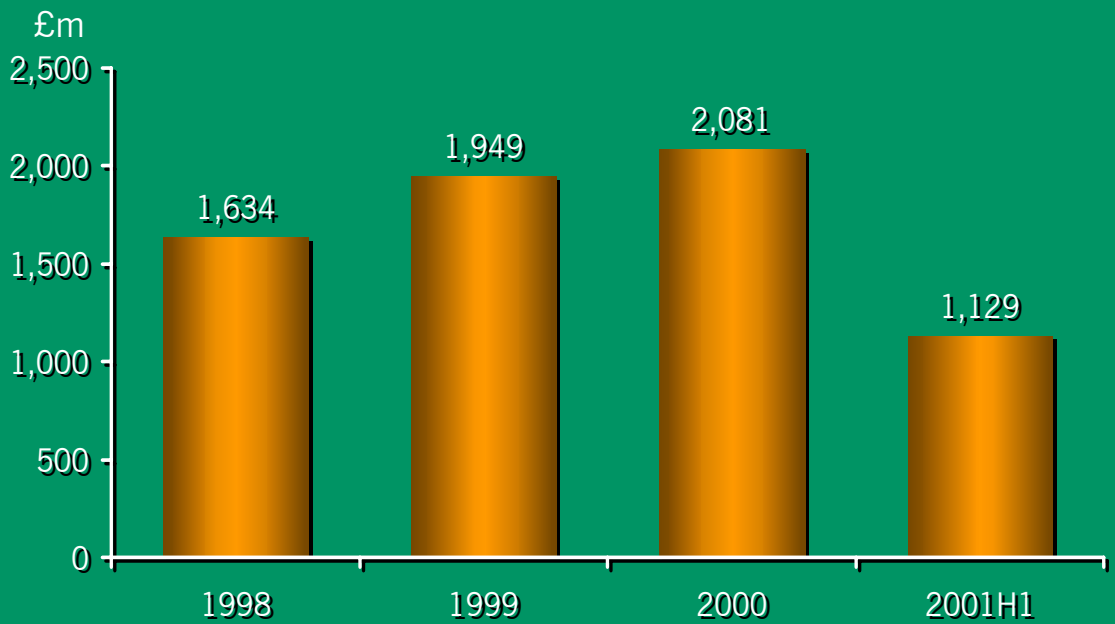


## Profit before tax by main business

	2000H1 £m	2000H2 £m	2001H1 £m
UK Retail Banking	372	404	330
Mortgages	441	448	423
Insurance and Investments	591	834	792
UK Retail Financial Services	1,404	1,686	1,545
Wholesale Markets	377	369	445
International Banking	261	216	276
Central group items	7	(125)	(29)
<b>Business as usual operating profit</b>	<b>2,049</b>	<b>2,146</b>	<b>2,237</b>



# Economic profit



business as usual basis



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**Peter Ellwood**

Group Chief Executive



Lloyds TSB

# The future Lloyds TSB



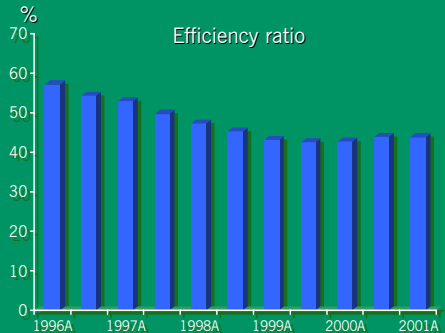
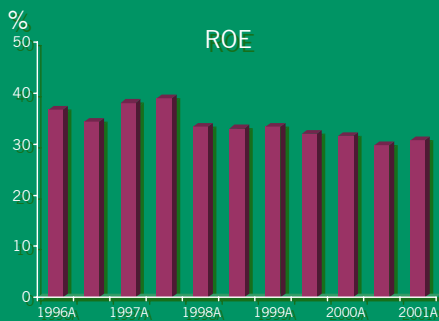
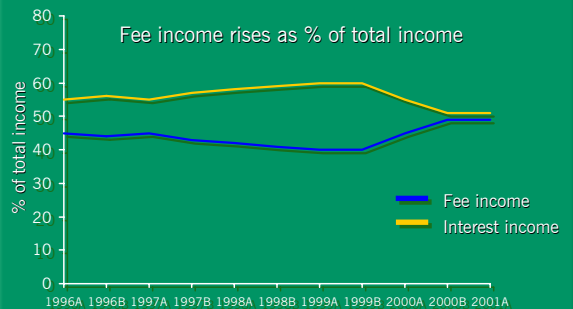
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## Satisfactory Results

- Business as usual profit before tax up 9%
- Income up 8% (adjusting for acquisitions)
- Costs up 7% (adjusting for acquisitions), reducing to 2% after revenue investment
- ROE 30.6%
- Efficiency ratio 43.8%
- Fee and non-interest income 49% (47%)



# Continuing a Long Record of Successful Delivery





## The New Environment

Customer demands are increasing

Relationships will capture value

Only one route for sustainable growth

Create value for customers

Maximise shareholder value



## Key Drivers for Growth

Service  
Distribution  
Product offering  
Segmentation  
Motivated staff

= Income growth



# Customer Service

On-line real time banking 7 days a week,  
24 hours a day

Over 2,000 more staff in branches

New systems to identify customer needs

World class Customer Relationship Management



# Distribution

Largest branch network

Largest telephone banking service

Most visited financial services website

Customer recruitment at record levels



# Product Offering

Improved product range

Record current account sales

500,000 added value accounts sold

Best cross-sell rate



## Product Offering

Market share increase

**Sales** up + 15%

Scottish Widows + 20%

Customer lending + 12%

Customer deposits + 8%



# Creating a More Balanced Business

	Market share 2000A*	Market share 2001A*
Personal lending (stock)	10.6%	13.1%
Current accounts balances outstanding	23.8%	25.2%
Unit Trusts & ISAs	5.5%	5.6%
Pensions regular	5.66%	7.07%
Personal savings (stock)	8.3%	8.2%
Mortgages (net new lending)	10.5%	8.0%

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



# Customer Segmentation

1m Personal Choice customers

Wealth Management – potential 1m affluent customers

Business & Commercial Banking





## Highly Motivated Staff

Over 2,000 more staff

Intensive training programme

Certificate in Customer Service accreditation

Flexible working package



## Key Drivers for Growth

Service  
Distribution  
Product offering  
Segmentation  
Motivated staff

= Income growth



## Quality of Business

- Good spread of sustainable earnings
- UK Retail Financial Services increased by 10%
- Wholesale and International increased by 13%
- Asset quality maintained - AAA rated
- Well positioned for any economic downturn



# Creating a More Balanced Business

	UK Retail Banking & Mortgages	Insurance & Investments	Wholesale & International
Profit before tax	£ 753 m	£792 m	£721 m
As % of total*	33%	35%	32%

\*excluding Central Group Items



# Cost Management

- Continue vigorous focus on costs
- Cost growth in H2 will be lower than in H1
- The Group Efficiency Programme is delivering
- Exploring all opportunities to further increase productivity
- Incremental investment costs have peaked



# Growth

- Organic growth prospects are good
- Cross border transactions inevitable
- We have considerable transportable skills to support overseas growth



# Conclusion

Satisfactory results

Strong growth opportunities

Strong focus on efficiency

Strong future





# Lloyds TSB

Delivering Value to Shareholders

