
2006 Interim Results

2 August 2006

Sir Victor Blank
Chairman



Lloyds TSB Group

Chairman's overview

- **Deepening customer relationships to drive earnings growth**
- **High quality, balanced set of businesses with increased trading momentum – widening jaws**
- **Credit quality remains satisfactory**
- **Robust capital position**
- **Interim dividend maintained**

2006 Interim Results

2 August 2006

Helen Weir
Group Finance Director



Lloyds TSB Group

Headline results*

	<u>2005H1</u>	<u>2006H1</u>	<u>% Change</u>
Profit before tax	£1,626m	£1,752m	8
Earnings per share	20.7p	22.1p	7
Economic profit	£725m	£773m	7
Post-tax return on equity	24.1%	24.0%	
Interim dividend per share	10.7p	10.7p	

* excluding volatility

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2006 first half – continued progress

- **Continuing to build earnings momentum...**
...across each of our businesses
- **Sustaining high returns...**
...and driving growth
- **Maintaining a robust capital position...**
...while continuing to deliver returns to shareholders

Headline results*

£m	<u>2005H1</u>	<u>2006H1</u>	<u>% Change</u>
Total income, after claims	4,875	5,162	6
Operating expenses	(2,583)	(2,610)	(1)
Trading surplus	<u>2,292</u>	<u>2,552</u>	11
Impairment	(666)	(800)	(20)
Profit before tax	<u>1,626</u>	<u>1,752</u>	8

* excluding volatility

Lloyds TSB Group

Balanced trading momentum*

£m	UKRB		I&I		W&IB		Group	
	£m	% var	£m	% var	£m	% var	£m	% var
Income	2,577	3	765	8	1,999	8	5,162	6
Costs	(1,232)	3	(312)	(6)	(1,072)	(2)	(2,610)	(1)
Trading surplus	1,345	8	453	9	927	17	2,552	11
Impairment	(632)	(16)	-		(159)	(62)	(800)	(20)
Profit before tax	713	2	453	9	768	11	1,752	8

* excluding volatility, I&I excludes insurance grossing adjustments

Lloyds TSB Group

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Good income growth*

£m	<u>2005H1</u>	<u>2006H1</u>	<u>% Change</u>
Net interest income	2,630	2,807	7
Other income	2,362	2,442	
Insurance claims	(108)	(95)	
Other income, net of claims	2,254	2,347	4
Total income, net of claims	4,884	5,154	6
Insurance grossing adjustments	(9)	8	
	<u>4,875</u>	<u>5,162</u>	6

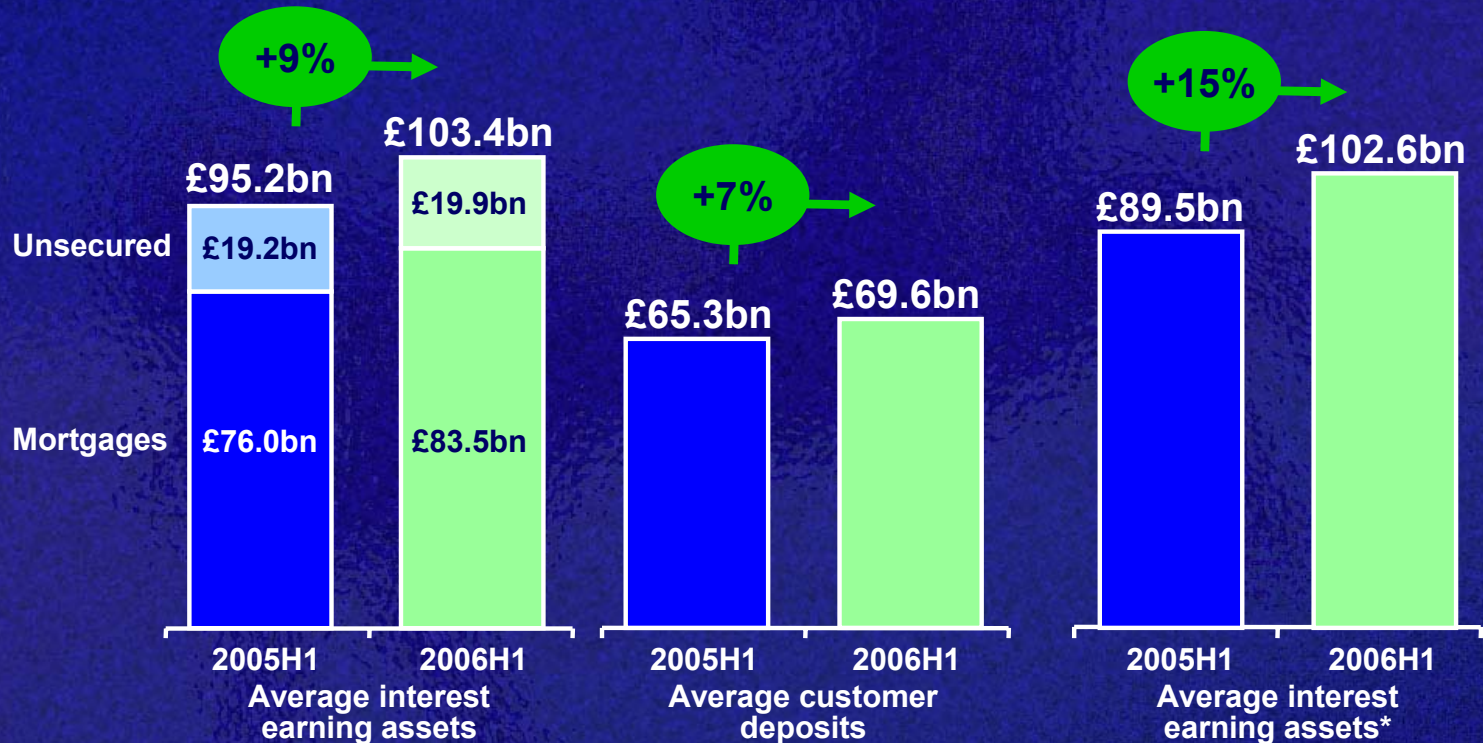
* excluding volatility

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Good asset and deposit growth

UK Retail Banking

Wholesale & International Banking



* excluding reverse repos

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Net interest margin slightly lower*



H1/H1 margin movement

Divisional mix (3)bp

Product mix (6)bp

Other (1)bp

(10)bp

* relating to the Group's banking businesses, excluding volatility and reverse repos

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Net interest income*

£m	<u>2005H1</u>	<u>2006H1</u>	<u>% Change</u>
UK Retail Banking	1,711	1,794	5
Insurance & Investments	35	28	(20)
Wholesale & International Banking	1,084	1,194	10
Central group items	(200)	(209)	
	<u>2,630</u>	<u>2,807</u>	7
Insurance grossing adjustments	159	35	
	<u>2,789</u>	<u>2,842</u>	2

* excluding volatility, I&I excludes insurance grossing adjustments

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Other income, net of insurance claims*

£m	<u>2005H1</u>	<u>2006H1</u>	<u>% Change</u>
UK Retail Banking	801	783	(2)
Insurance & Investments	673	737	10
Wholesale & International Banking	759	805	6
Central group items	21	22	
	<u>2,254</u>	<u>2,347</u>	4
Insurance grossing adjustments	(168)	(27)	
	<u>2,086</u>	<u>2,320</u>	11

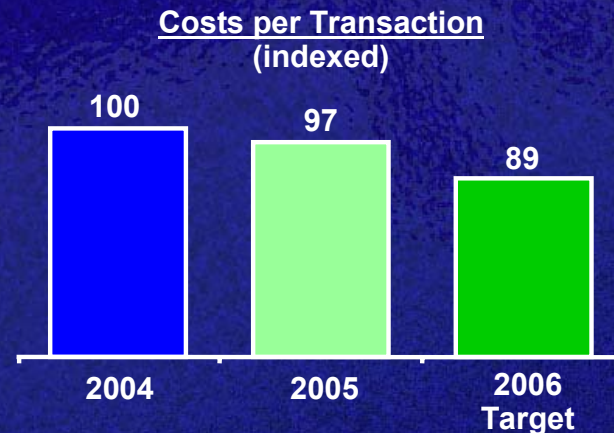
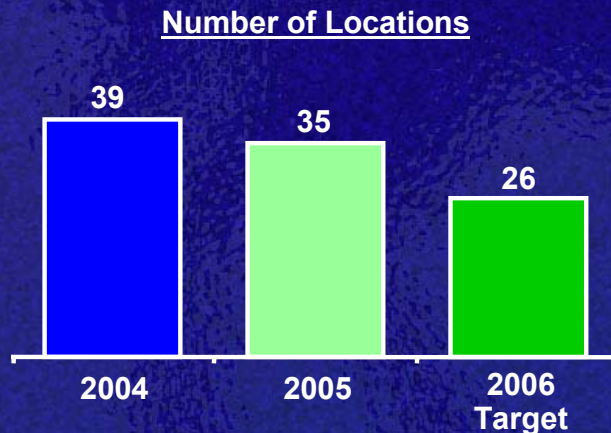
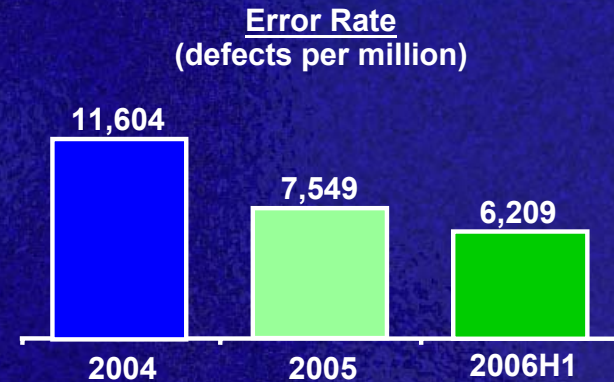
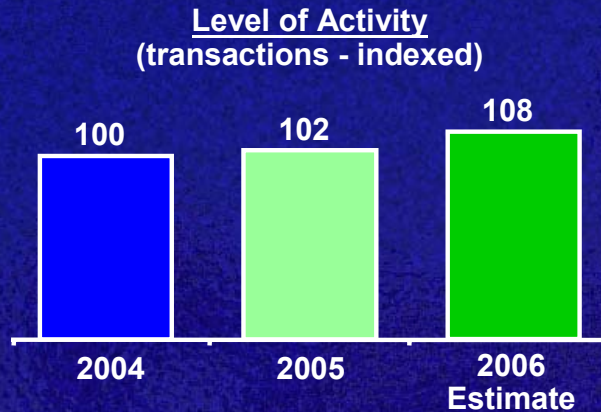
* excluding volatility, I&I excludes insurance grossing adjustments

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Excellent cost control

£m	<u>2005H1</u>	<u>2006H1</u>	<u>% Change</u>
UK Retail Banking	1,267	1,232	3
Insurance & Investments	293	312	(6)
Wholesale & International Banking	1,050	1,072	(2)
Central group items	(8)	(1)	
	<u>2,602</u>	<u>2,615</u>	-
Insurance grossing adjustments	(19)	(5)	
	<u>2,583</u>	<u>2,610</u>	(1)

Improving operational and processing efficiency



Productivity programme - key activities

- Transforming group-wide procurement
- Consolidation of back office processes
- Organisational delayering/simplification



- Centralised procurement activity
- Consolidated Wholesale operations
- Integrating C&G savings system
- Lean Group manufacturing

- Simplified UKRB back office
- Offshoring accounts payable
- IT organisational redesign

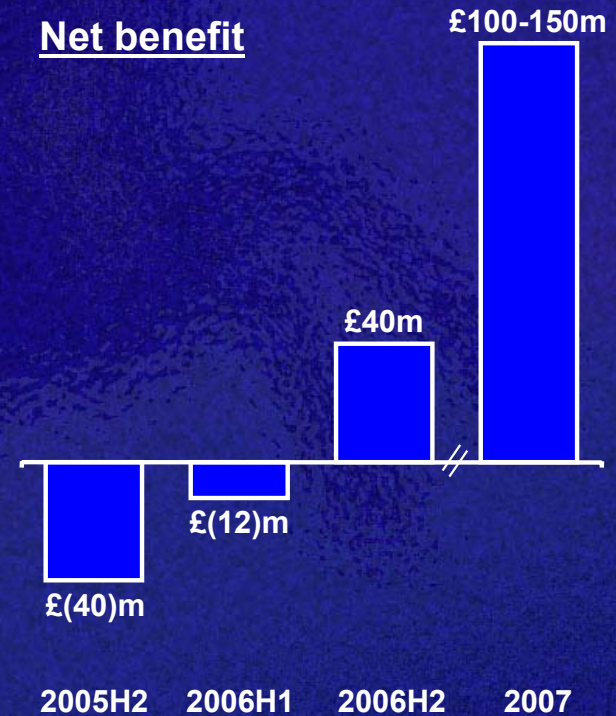
Productivity programme on track

Financial principles

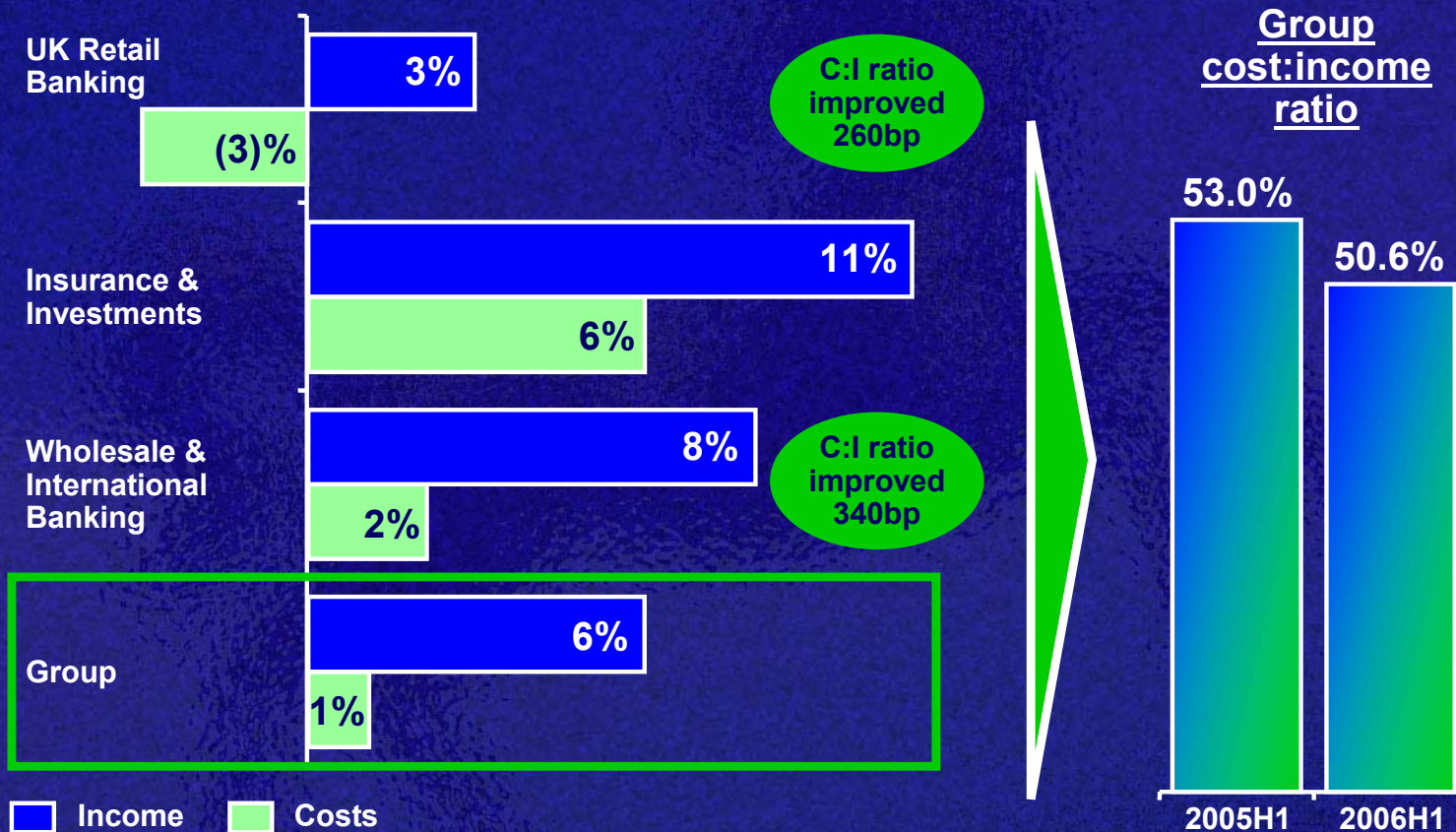
- Self funding
- Payback c. 2 years
- Reinvest c. 50% of benefits



Net benefit



Income growth ahead of costs in all divisions*

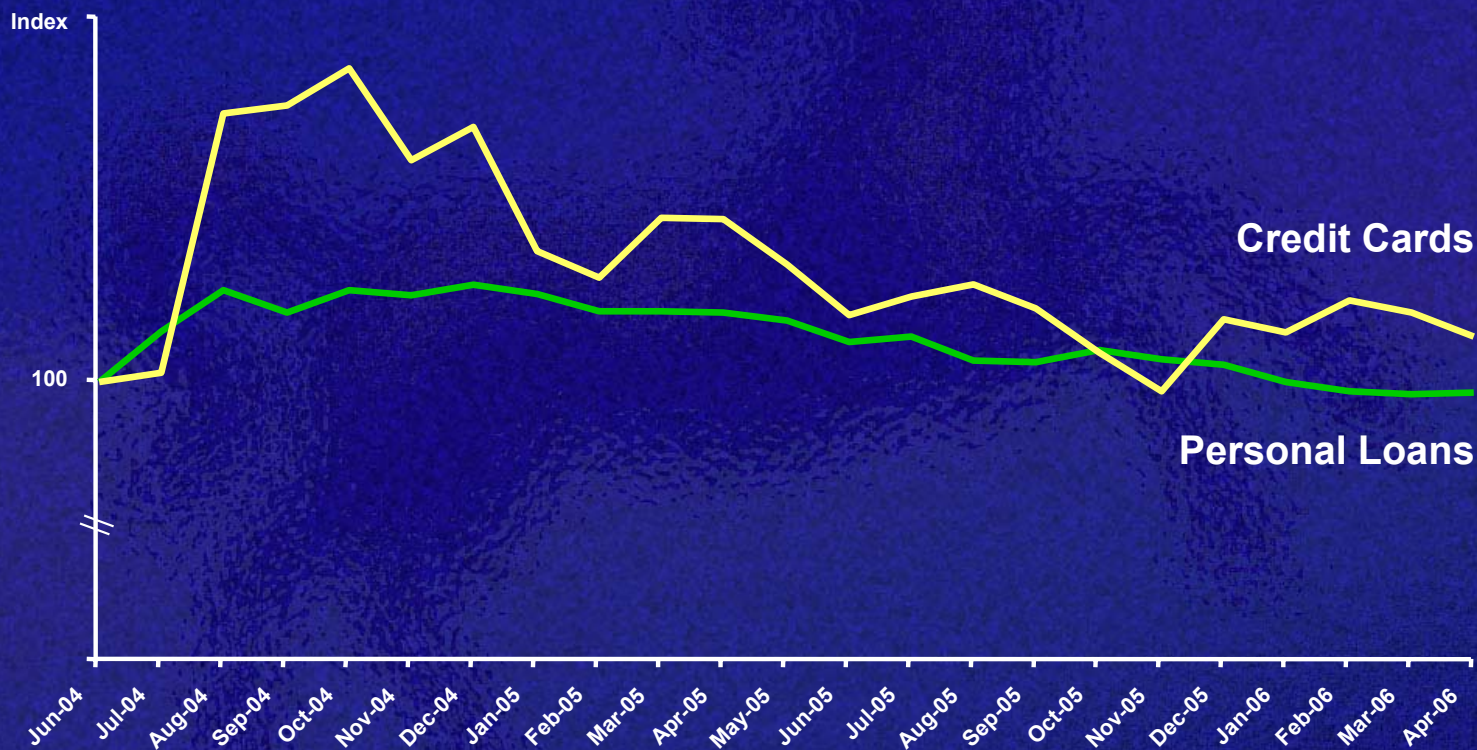


* excluding volatility, I&I excludes insurance grossing adjustments and is adjusted for the impact of the £800 million capital repatriation in December 2005

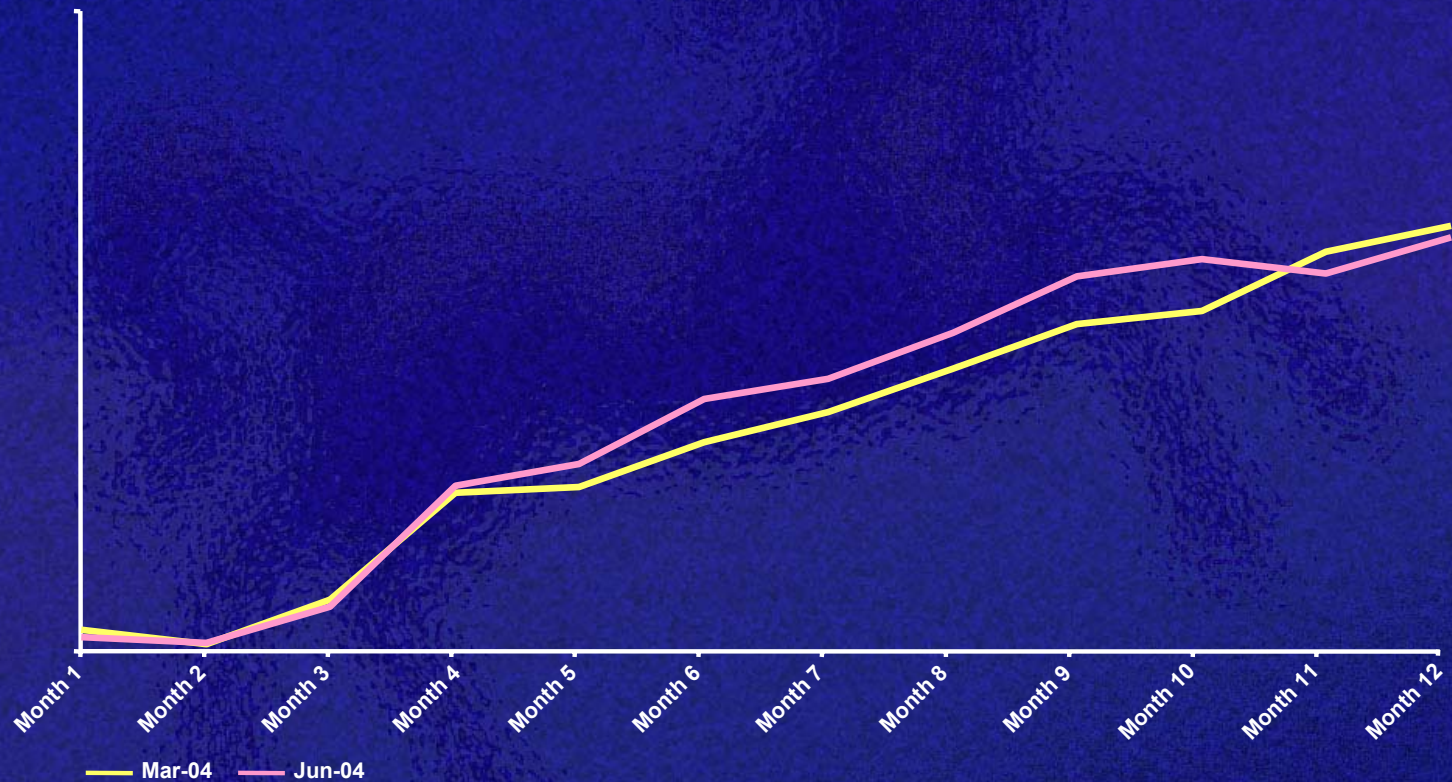
Impairment losses on loans and advances

	2005H1	2006H1	Variance %	% of Average Lending	
	£m	£m		2005H1	2006H1
UK Retail Banking	546	632	(16)	1.16	1.23
- Mortgages	6	6	-	0.02	0.01
- Personal loans/overdrafts	352	387	(10)	5.82	6.18
- Credit cards	188	239	(27)	5.66	6.78
Wholesale & International Banking	98	159	(62)	0.31	0.43
Central group items	22	9			
Total	666	800	(20)	0.80	0.88

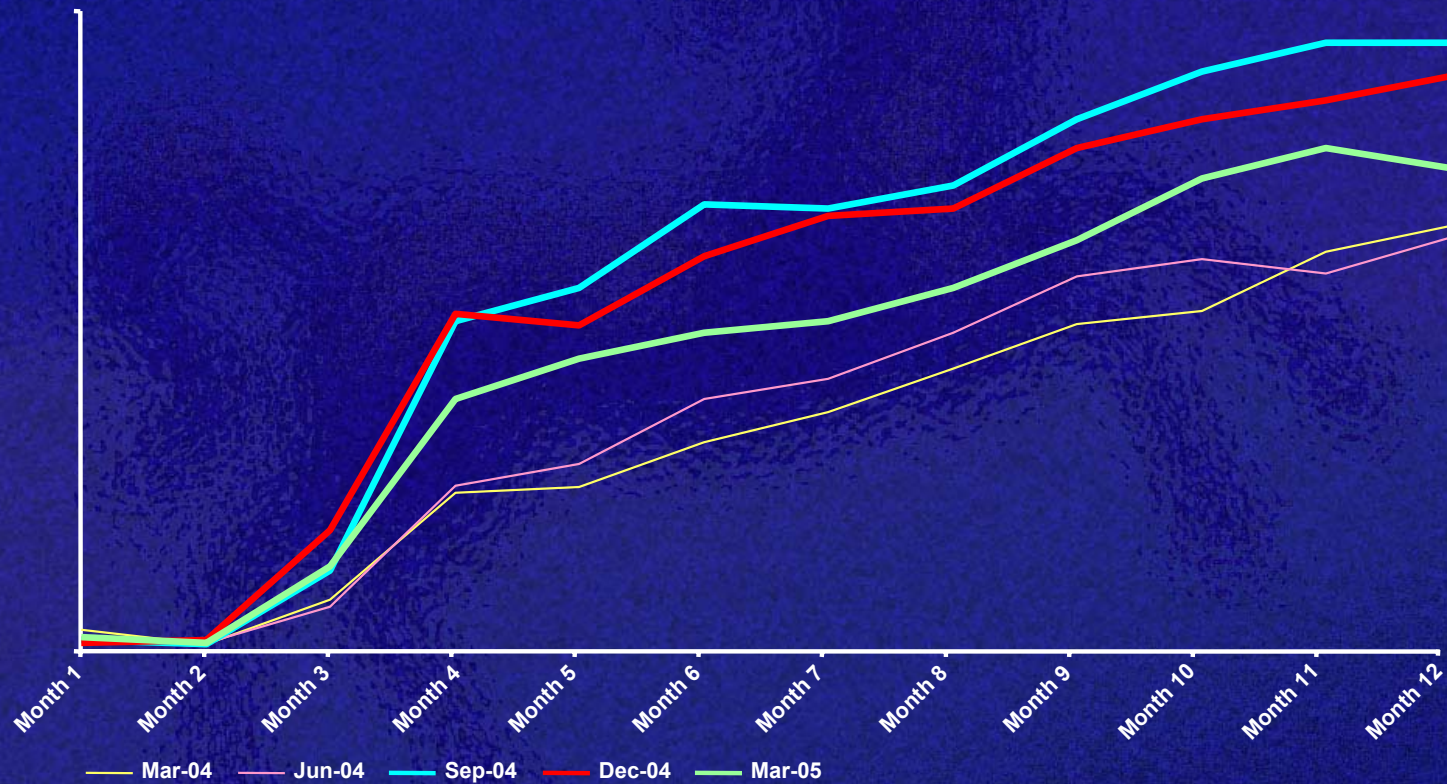
New business – probability of default



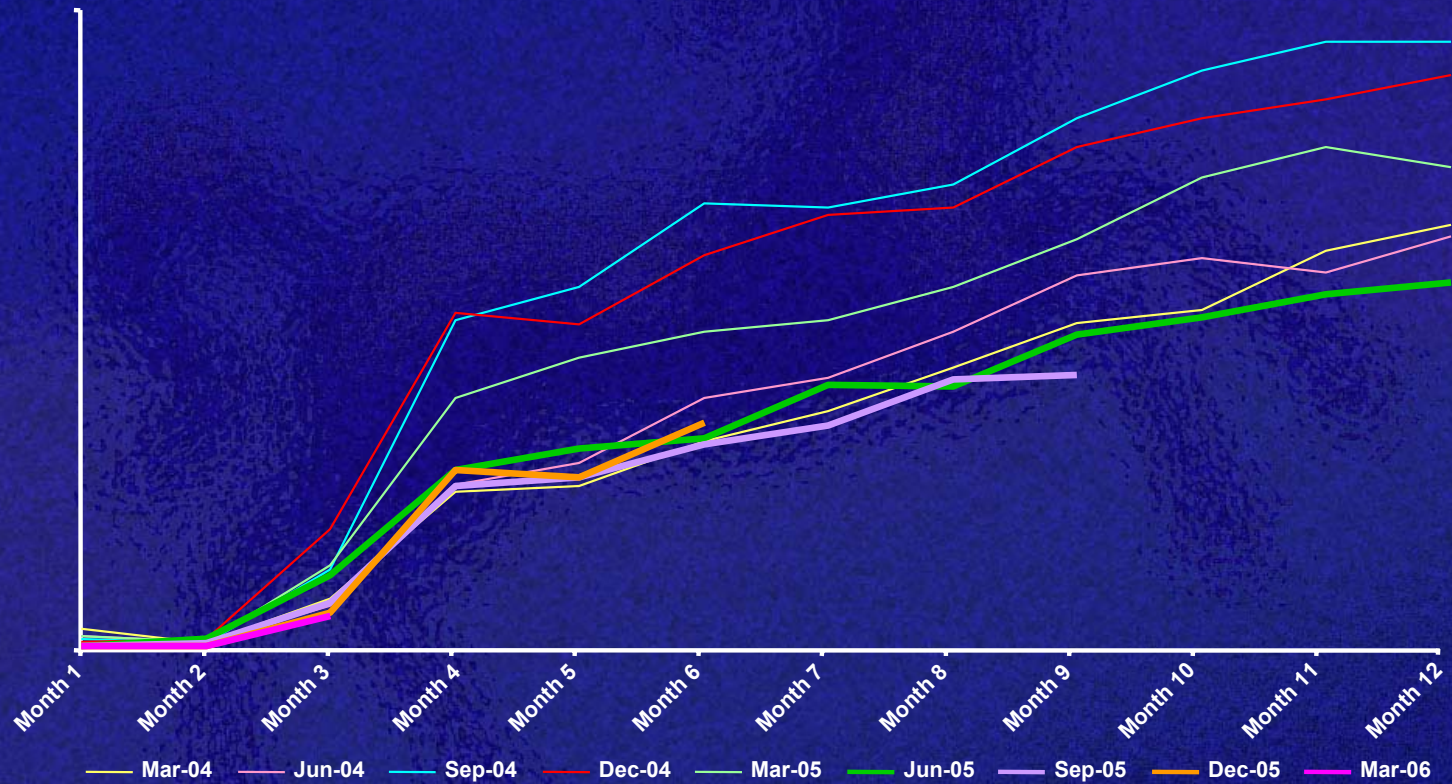
Arrears performance by vintage – credit cards



Arrears performance by vintage – credit cards

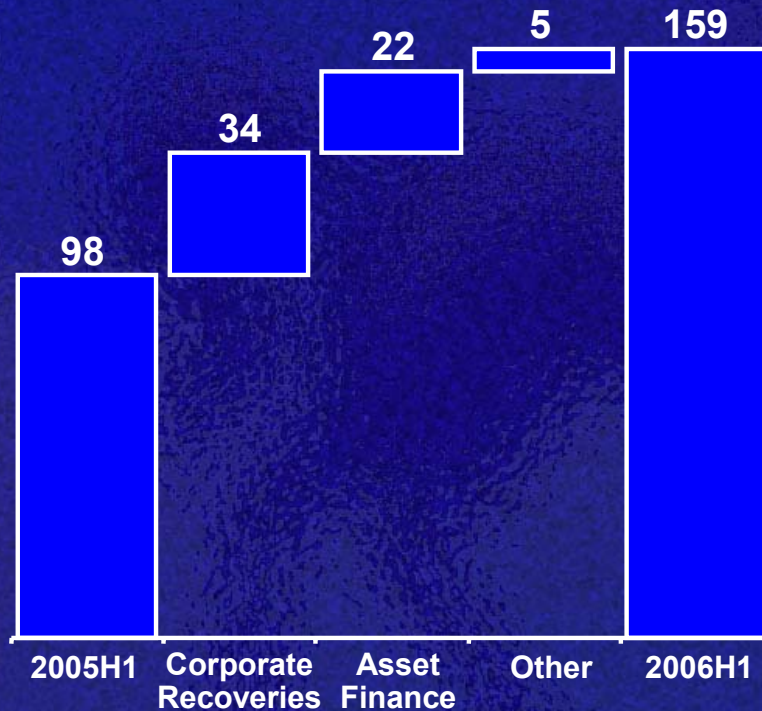


Arrears performance by vintage – credit cards



W&B – strong asset quality

Impairment Charge

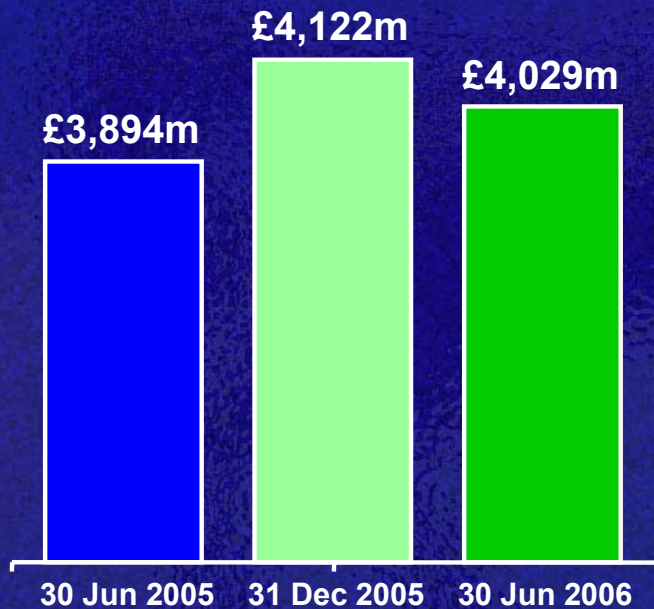


Wholesale Credit Risk Overview

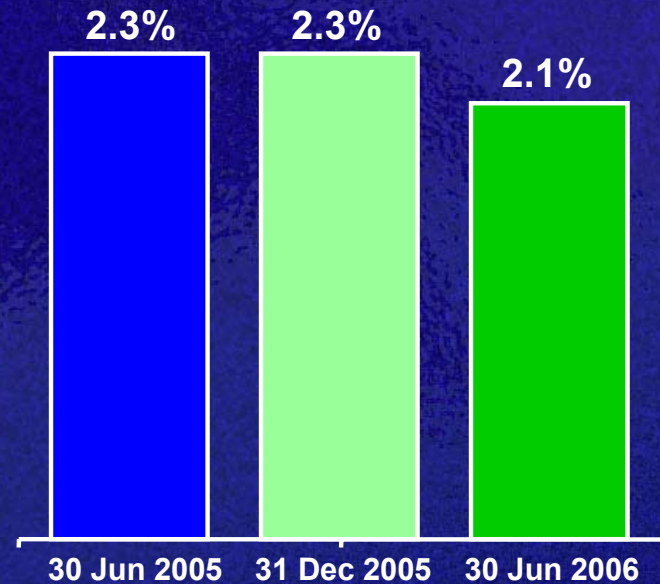
- Stable corporate lending risk profile – 60% of book rated low or very low risk
- Underwriting criteria remain consistent and strong
- Continued benign conditions in Corporate Markets, with low levels of new problem cases
- Reduced opportunities for recoveries
- Business Banking (SME) trends remain good – increased proportion of secured lending

Asset quality remains strong

Impaired Assets

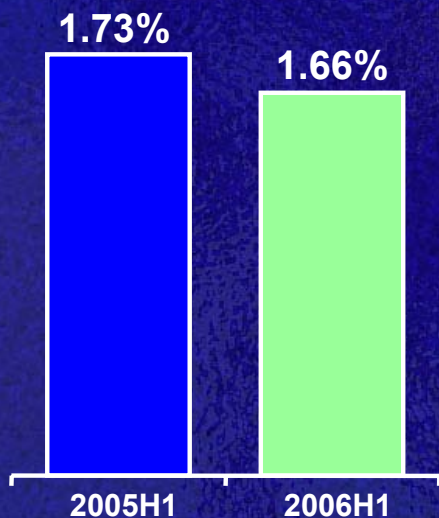


Impaired Assets as a percentage of Total Lending



Maintaining high returns*

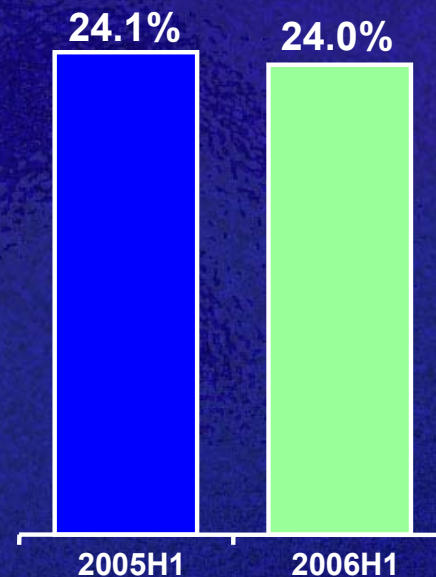
Post-tax Return on Risk-weighted Assets



Economic Profit



Post-tax Return on Equity

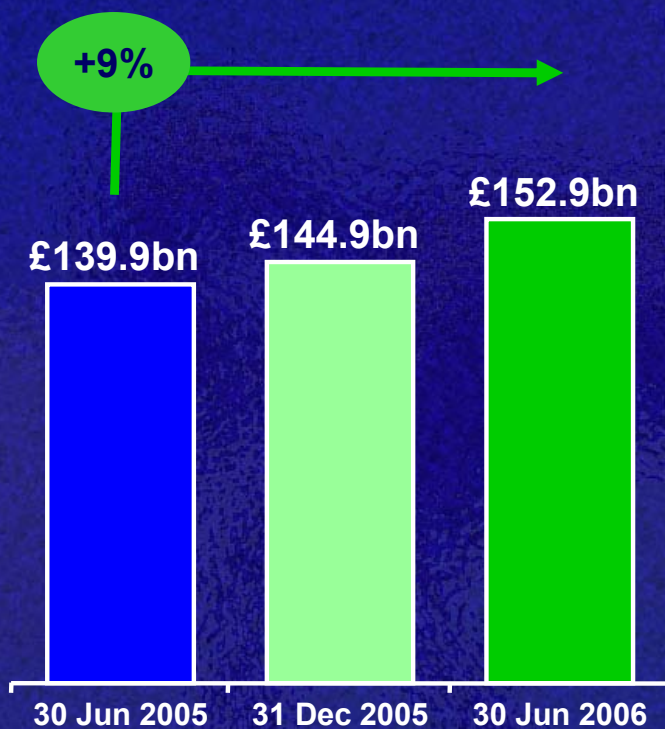


* excluding volatility

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Capital ratios remain robust

Risk-weighted Assets



	<u>31 December 2005</u>	<u>30 June 2006</u>
Total capital ratio	10.9%	10.3%
Tier 1 ratio	7.9%	7.4%

Scottish Widows – strong capital management

<u>Long-Term Fund (£bn)</u>	<u>31 December 2005</u>	<u>30 June 2006 estimated</u>
Available assets, including support account	23.2	22.5
Realistic value of liabilities	(19.1)	(18.1)
Net surplus	4.1	4.4
Working capital ratio	17.7%	19.6%
Risk capital margin cover	11.9x	16.2x

Improving our balance sheet management

- Originate and distribute
- Mortgage securitisation
- Other securitisation
- Insurance capital repatriation



- Increased loan underwriting and syndication
- c. £5 billion tranche in 2006H2
- Other retail asset classes
- Corporate lending options
- c. £400 million in 2006H2

2006 first half – continued earnings momentum*

Continuing to build earnings momentum

- Strong sales growth, improving sales mix
- Widening of positive jaws
- PBT up 8%, economic profit up 7%

Sustaining high returns

- Product margins stable
- Improving cost:income ratio
- Satisfactory asset quality
- ROE of 24.0%

Maintaining a robust capital position and dividend

- Robust capital ratios
- Improving capital efficiency
- Maintained strong dividend
- Improving dividend cover

* excluding volatility

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2006 Interim Results

2 August 2006

Eric Daniels
Group Chief Executive



Lloyds TSB Group

Overview

- **We are delivering Phase Two of our strategy: building strong customer franchises**
 - **All three divisions performing strongly**
 - **Leading indicators point to future growth**
 - **Group-wide initiatives delivering tangible results to enhance growth**

Our priorities for Phase Two

Strategic priorities


**Build our franchise reach
and depth**

**Enhance our product
capabilities**

Improve our productivity

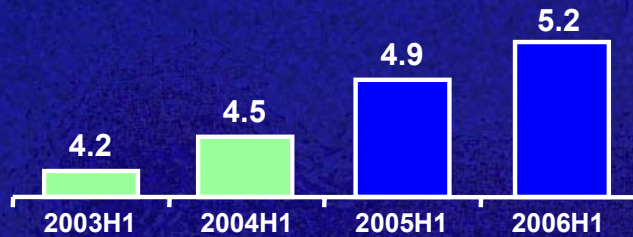
Work our capital harder

Financial goals for Phase Two

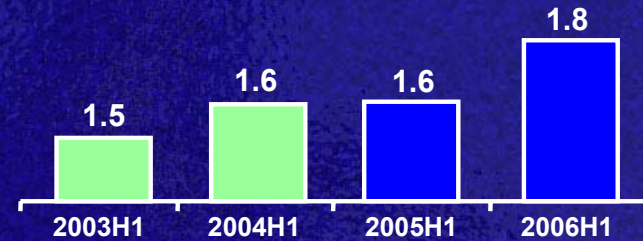
- **Building strong revenue growth**
 - **A step change in operational efficiency**
 - **Enhanced capital efficiency and dividend capacity**
- 
- **Double digit economic profit growth**

Our financial progress*

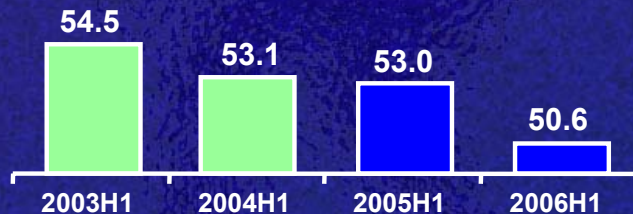
Income, £bn



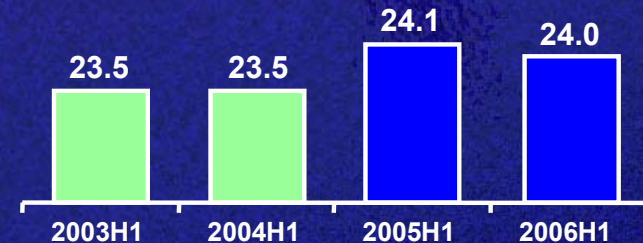
PBT, £bn



Cost:income ratio, %



ROE, %



* 2003-4 figures are based on published results excluding discontinued operations and certain one-off items. 2005-6 figures are on a full IFRS basis, excluding volatility

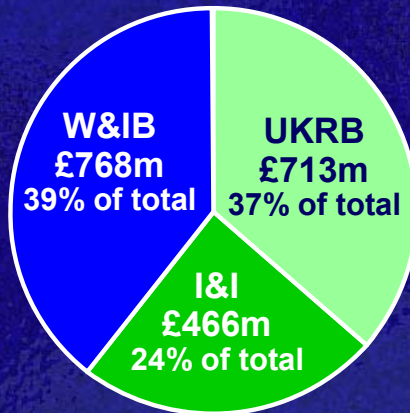
A strong set of well-balanced earnings

Building strong customer franchises...

Wholesale & International

- Income up 8%
- Trading surplus up 17%
- PBT up 11%
- *Strong sales in Corporate Markets and Business Banking*
- *Rising customer advocacy*
- *Winning target customers*
- *Roll-out of new product skills*

2006 H1 PBT *



UK Retail Banking

- Income up 3%
- Trading surplus up 8%
- PBT up 2%
- *Strong sales volumes*
- *Improving sales mix and rising customer advocacy*
- *Winning target customers*

Insurance and Investments†

- Income up 11%
- Trading surplus up 15%
- PBT up 15%
- *Strong sales in all channels, especially bancassurance*
- *Profitability further improved*
- *Capital efficiency improving*

* excluding volatility and central group items

† excluding insurance grossing adjustments and impact of December 2005 capital repatriation

UKRB: driving growth

Our objectives

Grow income from existing customer base

Grow income from new customers

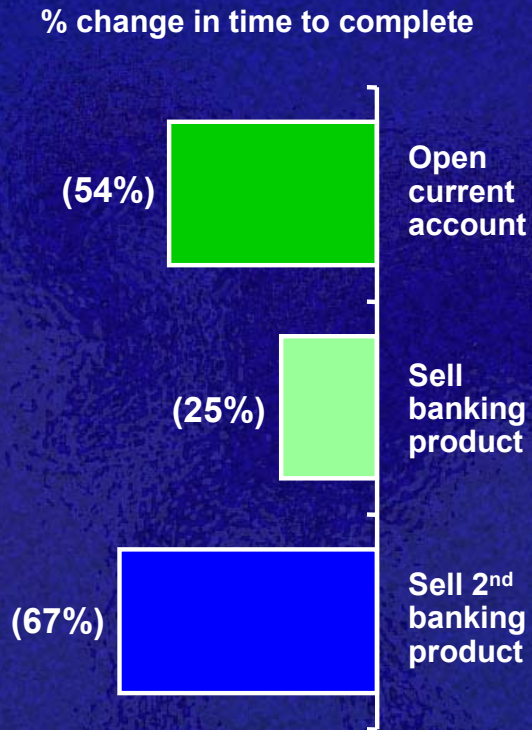
Improve productivity

What we are doing in 2006

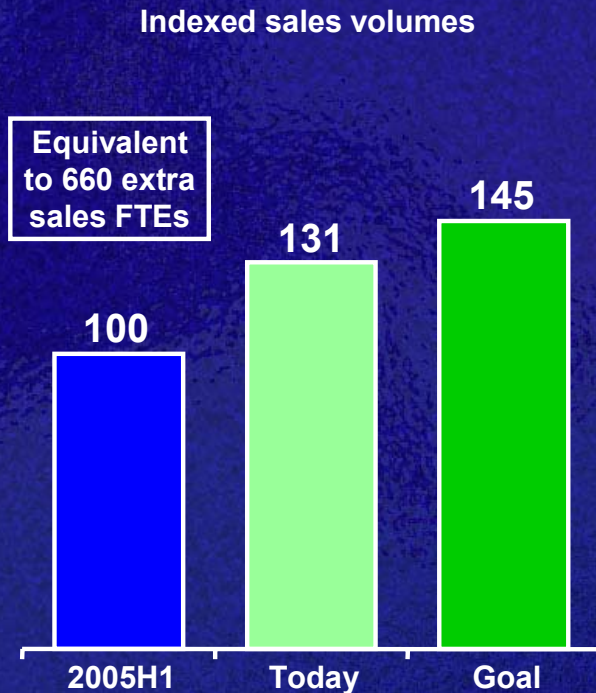
- **Growing sales volumes in key channels**
- **Recruiting more customers**
- **Improving customer satisfaction**
- **Rebalancing our sales mix**
- **Increasing branch sales capacity and effectiveness**
- **Reducing back office costs**

UKRB: improve productivity

Improved processes cut sales times...



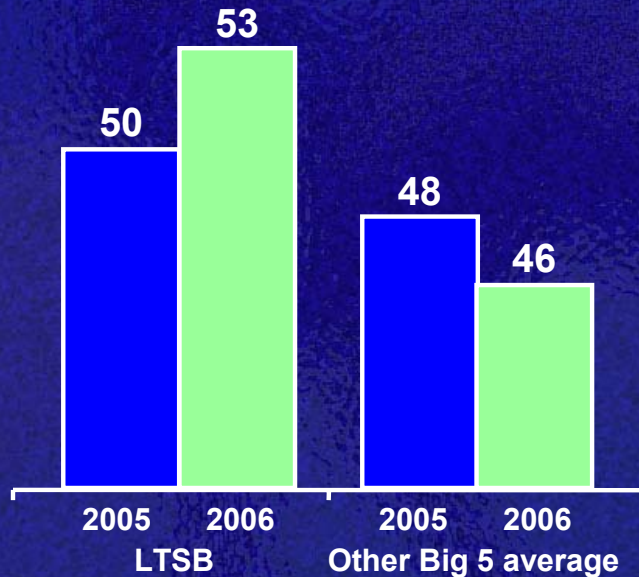
...and drive increased branch sales productivity



UKRB: grow income from existing customers

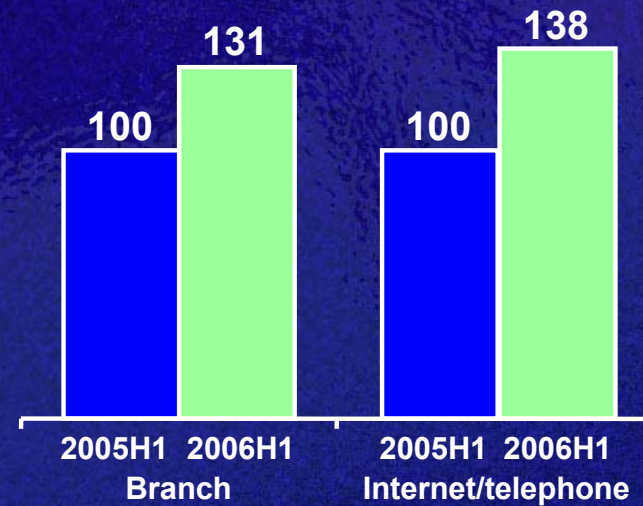
Improved processes plus rising customer satisfaction...

Percentage of customers 'very satisfied' with their bank*



...deliver strong sales in key channels

Sales volumes, indexed 2005H1=100



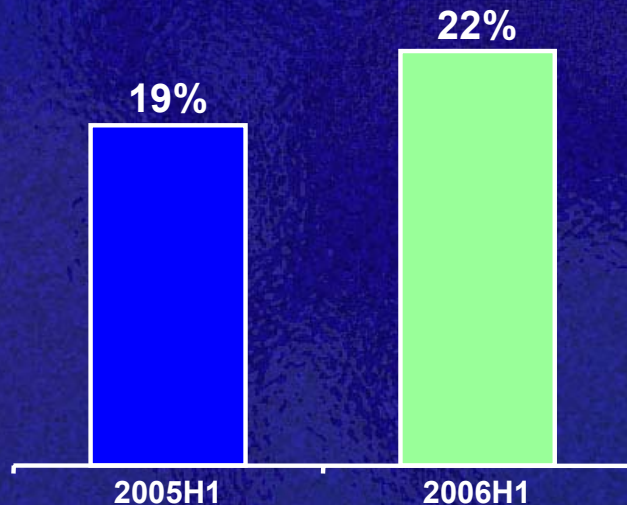
* source: MORI, Morgan Stanley

UKRB: grow income from new customers

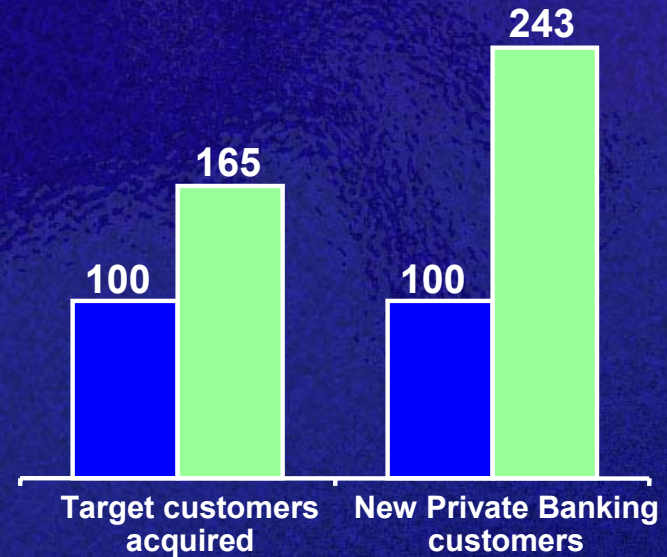
Improved processes plus higher consideration...

...delivers higher target customer recruitment

Current account consideration*



Recruitment, indexed 2005H1=100

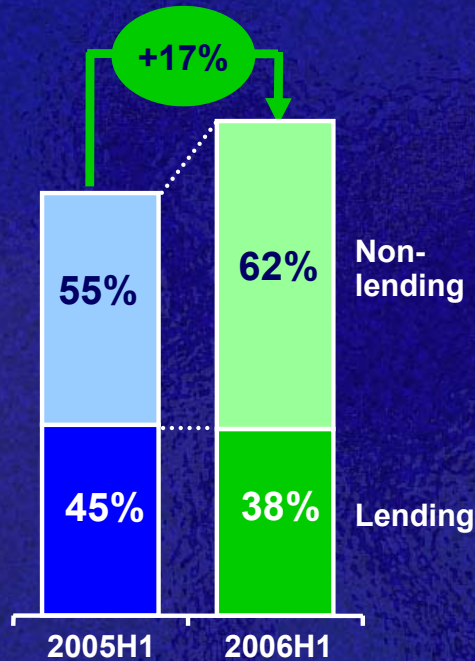


* source: GfK

UKRB: capturing our savings opportunity

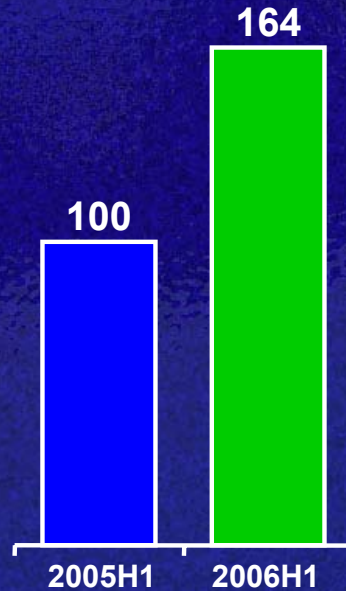
Rebalanced sales mix

Total retail product sales volumes



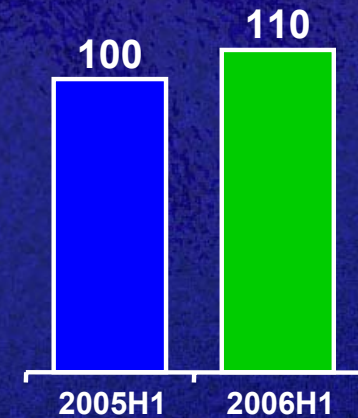
64% growth in bancassurance sales

APE, bancassurance sales, indexed 2005H1=100



10% growth in bank savings balances

End-period bank savings balances, indexed 2005H1=100



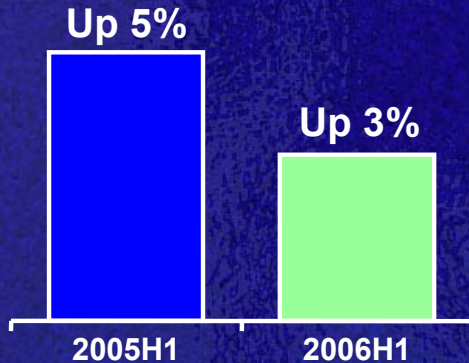
UKRB: establishing a platform for growth

Transitioning our income streams...

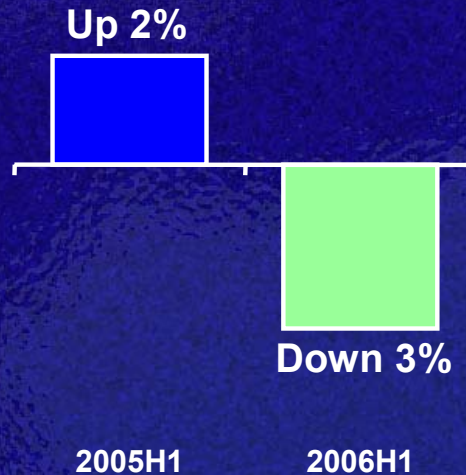
...and increasing cost discipline...

...delivers continued trading surplus growth

Growth, %



Growth, %



Growth, %



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UKRB: growth outlook

**We are improving the fundamentals
of our franchise...**

- **Sales up**
- **Customer acquisition up**
- **Customer service improved**
- **Long-term savings and investment up**
- **Productivity up**

**...to drive accelerated future
profit growth**

- **Attractive customer demographics in our franchise**
- **Advocacy and easier account opening drive recruitment**
- **Satisfaction and better products drive sales**
- **Effectiveness and productivity help us serve customers better**

I&I: accelerating growth

Our objectives

Maximise distribution reach

Develop better products

Improve capital management

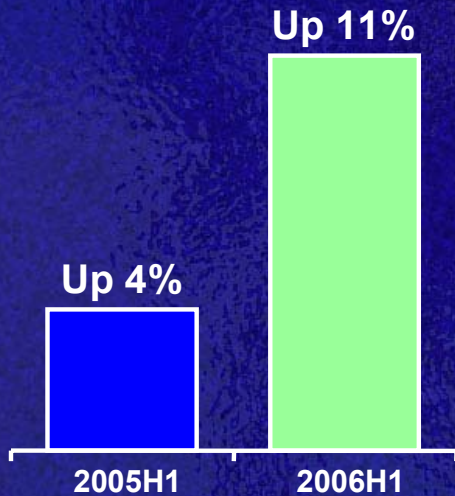
What we are doing in 2006

- **Improving our bancassurance product range and sales effectiveness**
- **Focusing on the most valuable IFA relationships and improving service**
- **Improving product profitability and capital efficiency**

I&I: accelerating growth momentum*

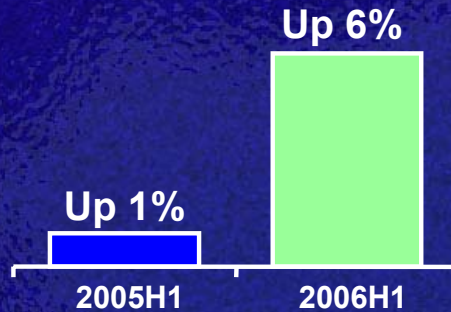
Accelerating income growth...

Growth, %



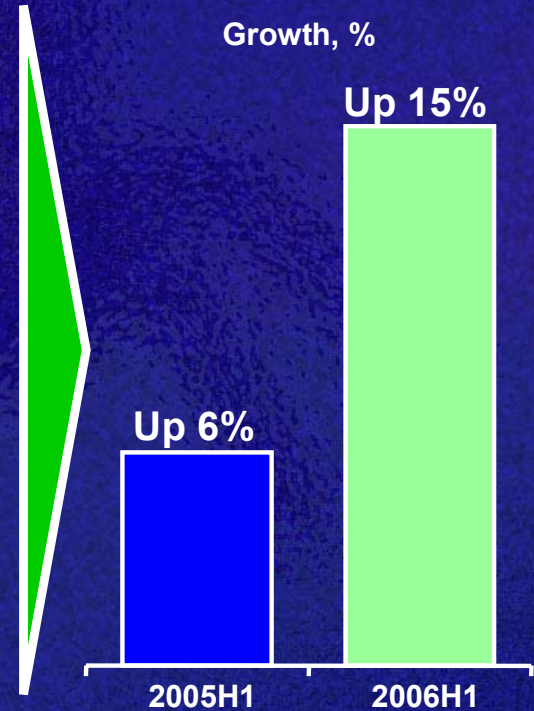
...plus controlled cost growth...

Growth, %



...delivers accelerating trading surplus growth

Growth, %



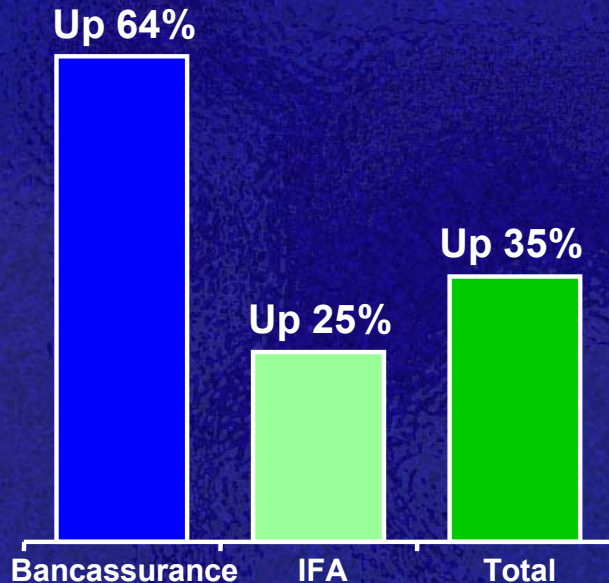
* excluding volatility, insurance grossing adjustments, and adjusting for the impact of the £800 million capital repatriation in December 2005

I&I: strong Scottish Widows sales across all channels

Strong sales growth in all channels...

...driven by improved products and sales processes

2006H1 APE growth



- Bancassurance market share boosted by
 - Improving network sales effectiveness
 - Strong franchise demand for investment products
- IFA sales growth driven by strength of product and service offer for corporate pensions
- Avoided matching recent uneconomic competitor pricing to chase market share

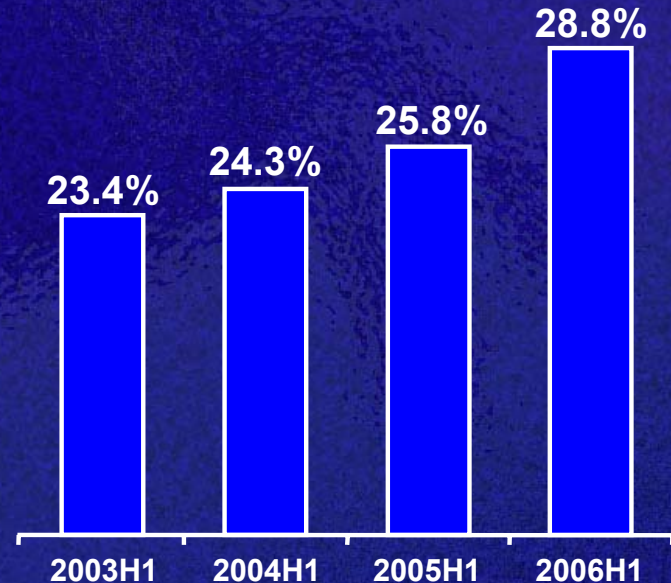
I&I: improving Scottish Widows margins

Focus on improving product profitability...

- Management focus on RAROC and product IRRs
- Shift towards higher margin bancassurance business
- Redesign products and reduce costs to improve IRRs
- Avoid uneconomic competition in IFA channel

...has led to improved new business margins

New business margin, life and pensions



I&I: growth outlook

Our focus on profitability and leveraging our franchises is showing results...

- **Bancassurance sales up strongly**
- **Product profitability enhanced**
- **New business margin up**
- **Capital efficiency improving**

...and will drive accelerated future profit growth

- **Attractive customer demographics in our franchise**
- **Improved products and sales processes to drive growth in our retail and SME franchises**
- **Improving investment performance and products to further enhance IFA sales momentum**
- **Cost and capital efficiency gains to drive further profitability improvements**

W&IB: accelerating growth momentum

Our objectives

**Grow the Corporate Markets
business**

**Build on the growth
momentum in
Business Banking**

Maintain strong asset quality

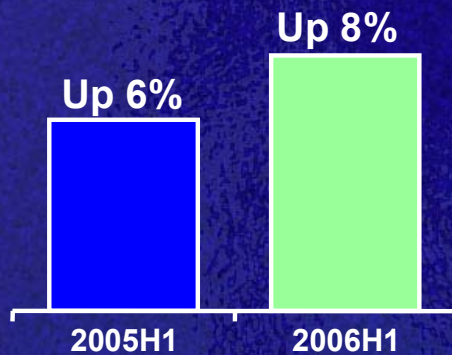
What we are doing in 2006

- Growing and deepening relationships
- Building product capability and increasing share of wallet
- Building asset distribution capabilities
- Winning higher value customers
- Improving productivity and service
- Simplifying our offer and operations
- Early management of potential bad debts
- Maintaining high quality lending portfolio

W&IB: accelerating growth momentum

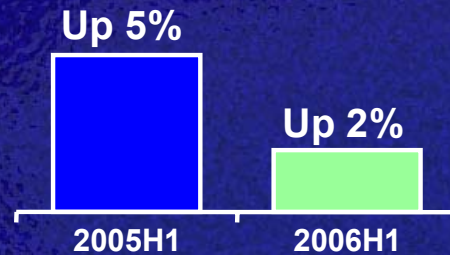
Accelerating income growth...

Growth, %



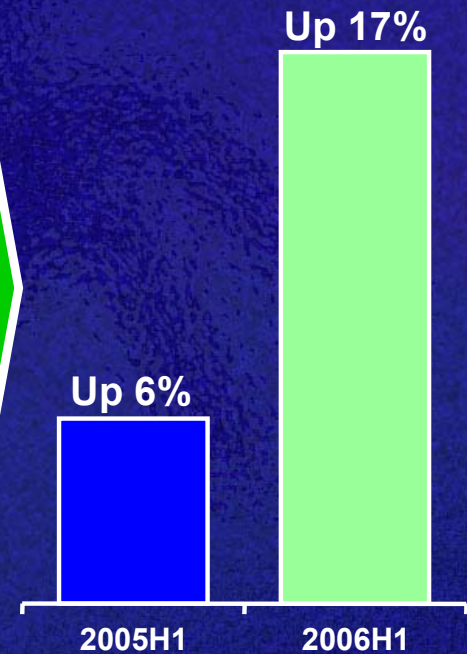
...plus strong cost control...

Growth, %



...delivers accelerating trading surplus growth

Growth, %



Lloyds TSB Group

W&IB: accelerating growth momentum

Strong PBT growth across W&IB - except in Asset Finance

Profit before tax* (£m)	<u>2005H1</u>	<u>2006H1</u>	<u>% Change</u>
Corporate Markets	428	512	20
Business Banking	93	116	25
Asset Finance	107	100	(7)

* full IFRS basis, excluding volatility

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W&IB: strengthening our franchise in Corporate Markets

17% income growth achieved by winning more business from high value corporate customers and...

- Number of deals

Δ 05H1 - 06H1



- Income per customer



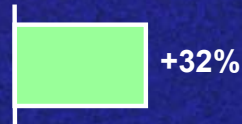
- CBI/Real Finance awards
— Corporate Bank of the Year for second year running

- Number of high value customers (>£500k income) up 30%

...winning more commercial customer business

- Number of deals

Δ 05H1 - 06H1



- Highest customer advocacy at 55% 'extremely likely' or 'very likely' to recommend*

* source: NOP Market Research, commissioned by Lloyds TSB

W&IB: driving product capabilities and distribution

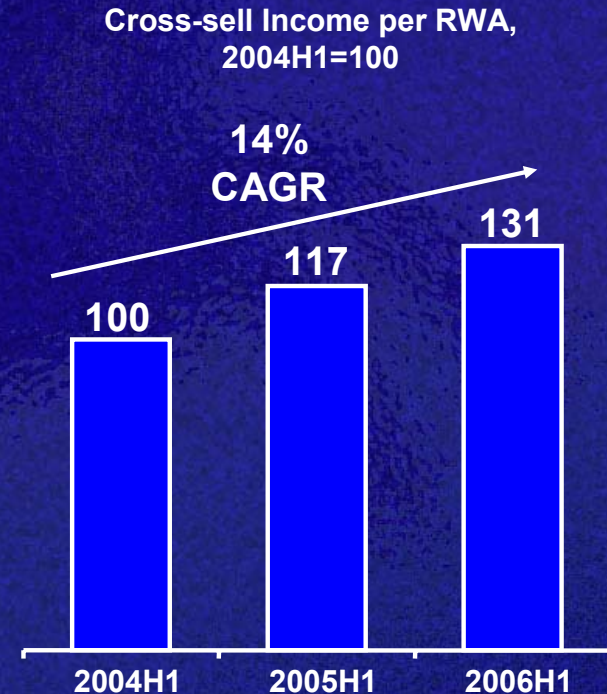
Further product build*

- Acquisition Finance up 49%
- Debt capital markets income up 34%
- Derivatives income up 88%

Growing distribution skills

- Launched loan trading and credit structuring
- Building securitisation capabilities
- Debut in CDO market

Increased cross-sell ratio



* income growth 05H1 – 06H1

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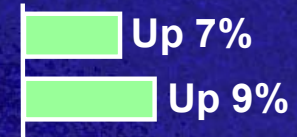
W&IB: accelerating Business Banking growth

We are growing our franchise, winning more of our customers' business, improving our productivity

Δ 05H1 - 06H1

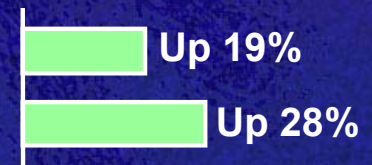
Winning new customers

- Number of start-ups recruited
- Number of switchers recruited



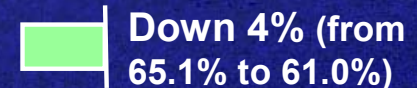
Improving sales productivity

- Number of income generating contacts
- Economic profit per customer



Simplifying operations

- Cost:income ratio



W&IB: growth outlook

Our strategy of growing and deepening our franchise shows in our results...

- **Share of 'lead' relationships up**
- **Commercial customer base growing**
- **Extended product range reflected in stronger cross-sell**
- **Continued growth in Business Banking**
- **Increased productivity shows in strong 'Jaws' and low cost growth**

...and will drive accelerated future profit growth

- **Increasing market recognition and capabilities will drive further share gain**
- **Investment in building product and distribution skills will have further impact**
- **New high value customers will drive future income growth**

Our priorities for Phase Two

Strategic priorities

**Build our franchise reach
and depth**

**Enhance our product
capabilities**

Improve our productivity

Work our capital harder

Financial goals for Phase Two

- **Building strong revenue growth**
- **A step change in operational efficiency**
- **Enhanced capital efficiency and dividend capacity**



- **Double digit economic profit growth**

Improving our productivity

Strategic priorities

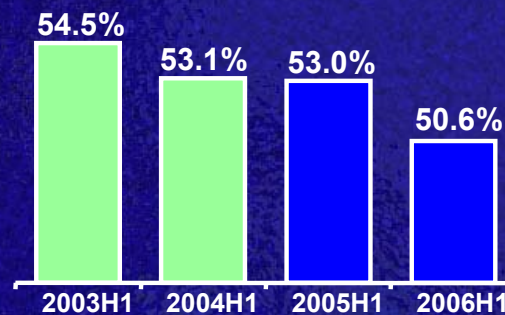
Leverage our scale

Exploit our cost management skills

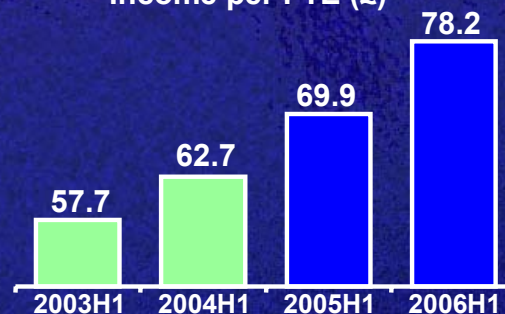
Achieve best in class efficiency

The impact in 2006

Group cost:income ratio



Income per FTE (£)



* 2003-4 figures are based on published results excluding discontinued operations and certain one-off items. 2005-6 figures are on a full IFRS basis, excluding volatility

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Working our capital harder

Strategic priorities

Maximise capital efficiency in each business

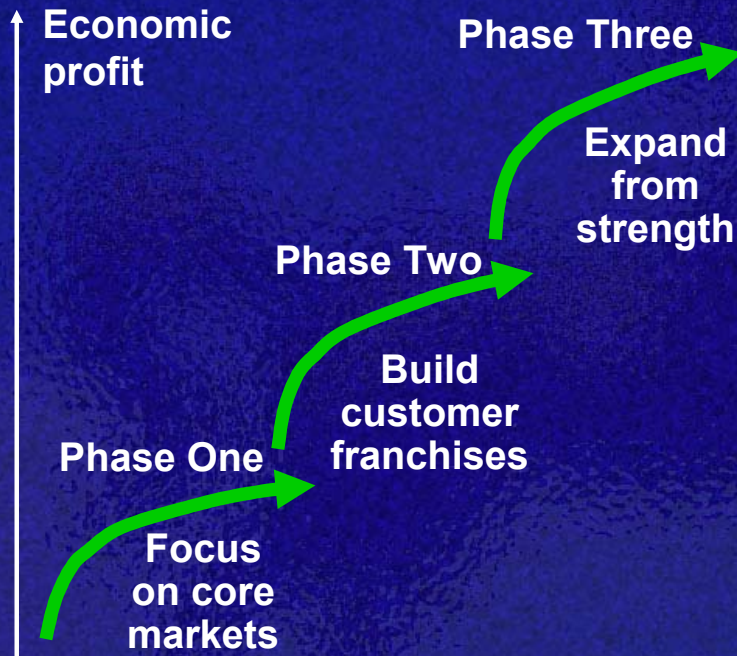
Shift lower yield risk off our balance sheet

Focus on our strength in origination

What we are doing in 2006

- **Focusing on economic profitability at a customer and product level**
- **From 'buy and hold' to 'origination and distribution'**
- **Rolling mortgage securitisation programme**
- **Repatriating further capital from Scottish Widows**

Summary



• We are delivering Phase Two of our strategy

- All three divisions performing strongly
- Leading indicators point to future growth
- Group-wide initiatives delivering results to enhance growth

In Phase Two we are building strong customer franchises and developing distinctive capabilities

Forward looking statements

This document is a summary only of certain information contained in the announcement dated 2 August 2006 and should be read in conjunction with the full text of the announcement.

This document contains forward looking statements with respect to the business, strategy and plans of the Lloyds TSB Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds TSB Group's or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Lloyds TSB Group's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, risks concerning borrower credit quality, market related risks such as interest rate risk and exchange rate risk in its banking businesses and equity risk in its insurance businesses, inherent risks regarding changing demographic developments, catastrophic weather and similar contingencies outside Lloyds TSB Group's control, any adverse experience in inherent operational risks, any unexpected developments in regulation or regulatory actions, changes in customer preferences, competition, industry consolidation, acquisitions and other factors. For more information on these and other factors, please refer to Lloyds TSB Group's Registration Statement on Form 20-F filed with the US Securities and Exchange Commission and to any subsequent reports furnished by Lloyds TSB Group to the US Securities and Exchange Commission or to the London Stock Exchange. The forward looking statements contained in this document are made as of the date hereof, and Lloyds TSB Group undertakes no obligation to update any of its forward looking statements.

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