

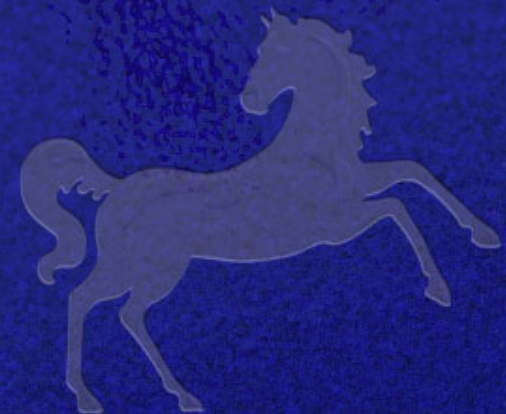
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# Lloyds TSB Group

Merrill Lynch Banking & Insurance Conference  
3 October 2006

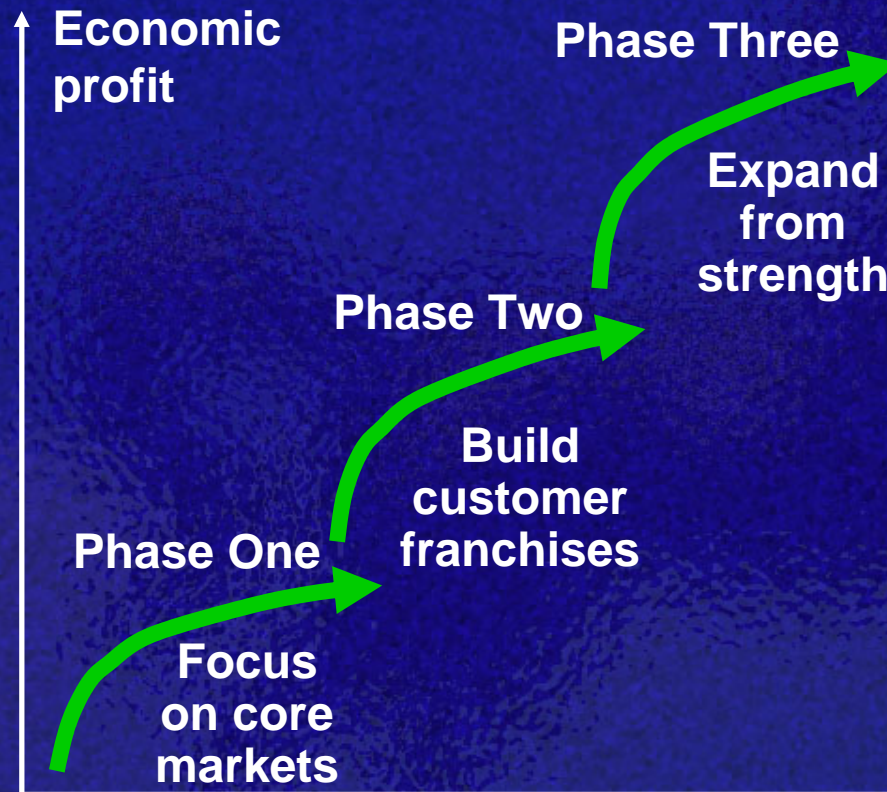
**Risk, Return & Growth – getting the balance right**

**Eric Daniels**  
Group Chief Executive



Lloyds TSB Group

# Overview



- 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**

# Our priorities for Phase Two

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## Strategic priorities

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**Build our franchise reach and depth**

**Enhance our product capabilities**

**Improve our productivity**

**Work our capital harder**

## Financial goals for Phase Two

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



- **Double digit economic profit growth**

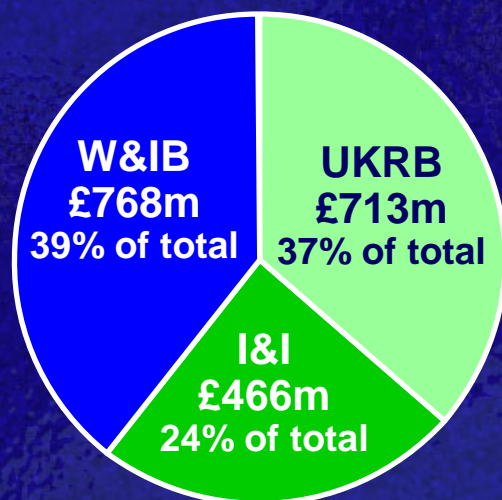
# A well-balanced, strong set of earnings

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*

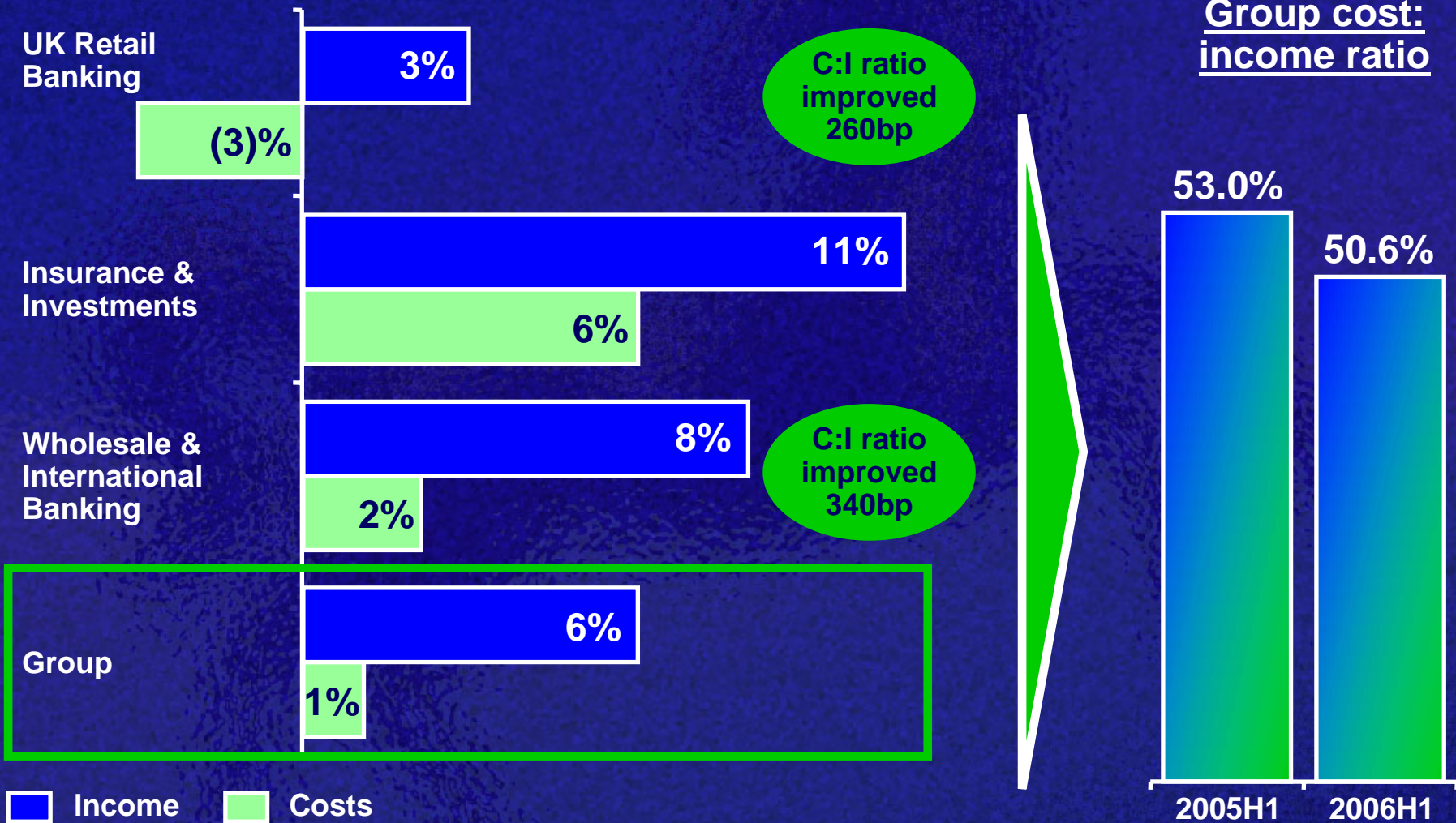
## Insurance and Investments†

- 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

# 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

# UKRB: driving growth

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## Our objectives

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**Grow income from existing customer base**

**Grow income from new customers**

**Improve productivity**

## What we are doing in 2006

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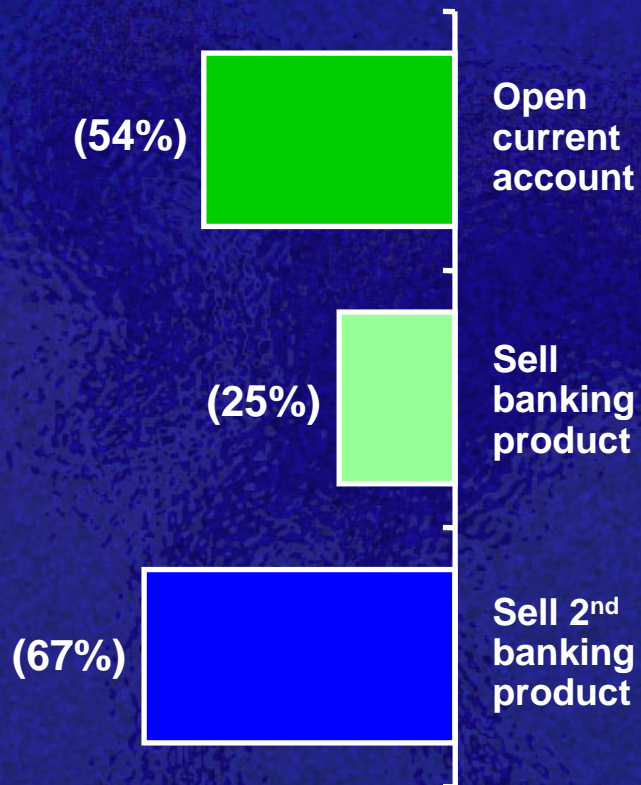
- **Growing sales volumes in key channels**
- **Recruiting more customers**
- **Improving customer satisfaction**
- **Rebalancing our sales mix**
- **Increasing branch sales capacity and effectiveness**
- **Reducing back office costs**

# UKRB: improving productivity

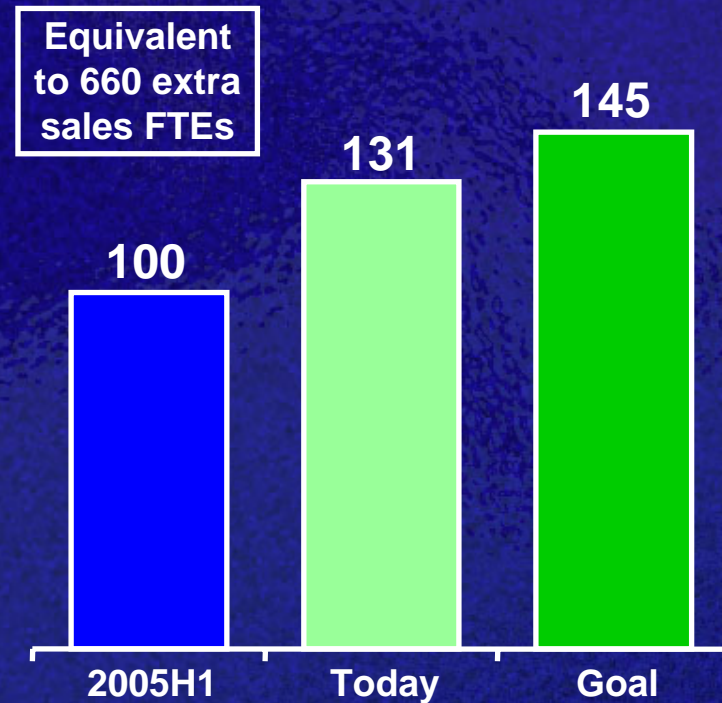
Improved processes cut sales times...

...and drive increased branch sales productivity

% change in time to complete



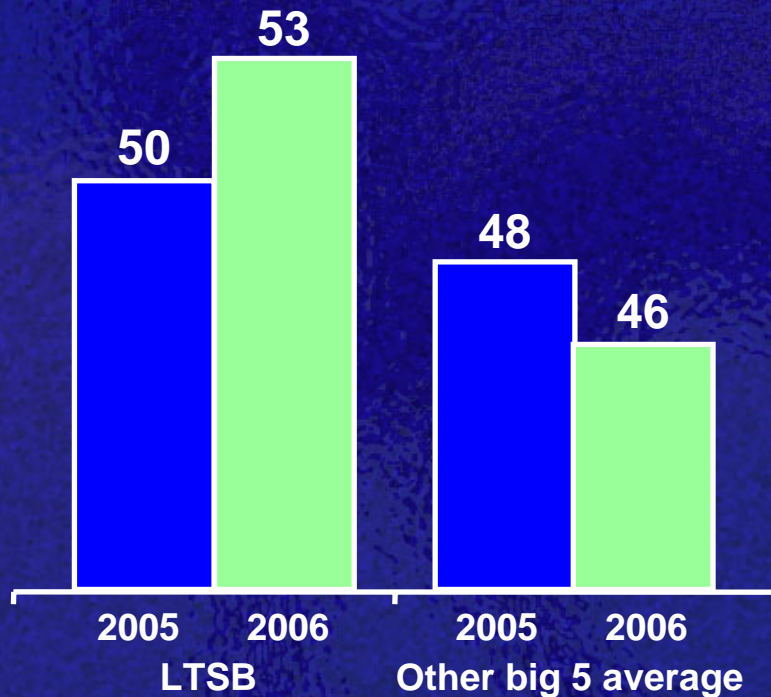
Indexed sales volumes



# UKRB: growing income from existing customers

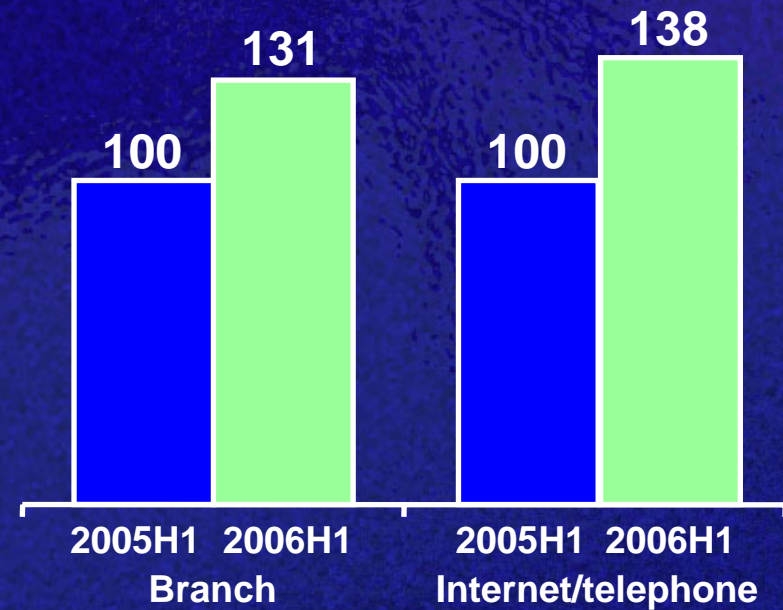
Improved processes plus rising customer satisfaction...

Percentage of customers 'very satisfied' with their bank\*



...deliver strong sales in key channels

Sales volumes, indexed 2005H1=100



\* source: MORI, Morgan Stanley

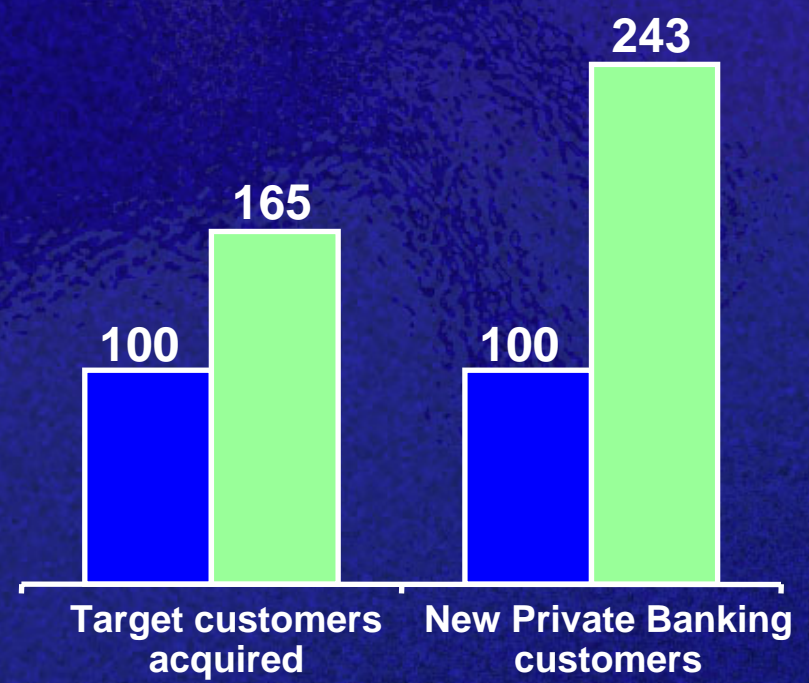
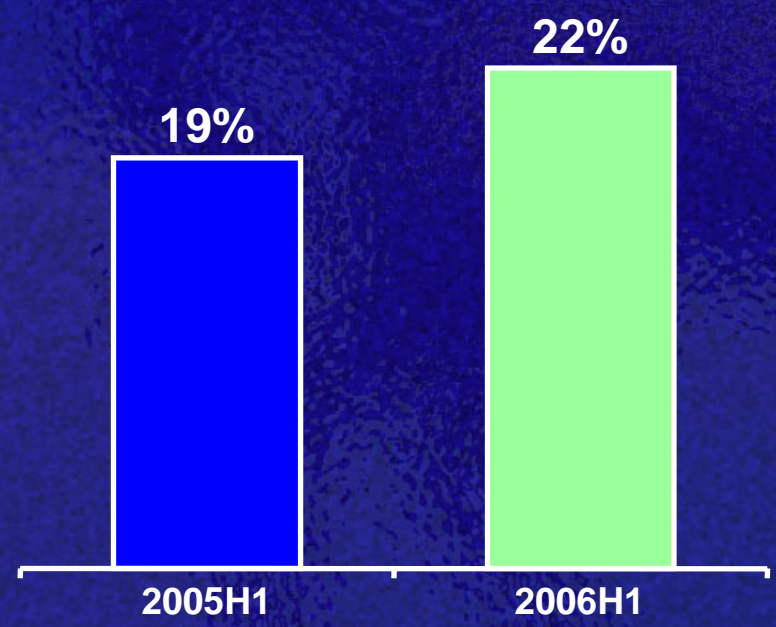
# UKRB: growing income from new customers

Improved processes plus higher consideration...

...delivers higher target customer recruitment

Current account consideration\*

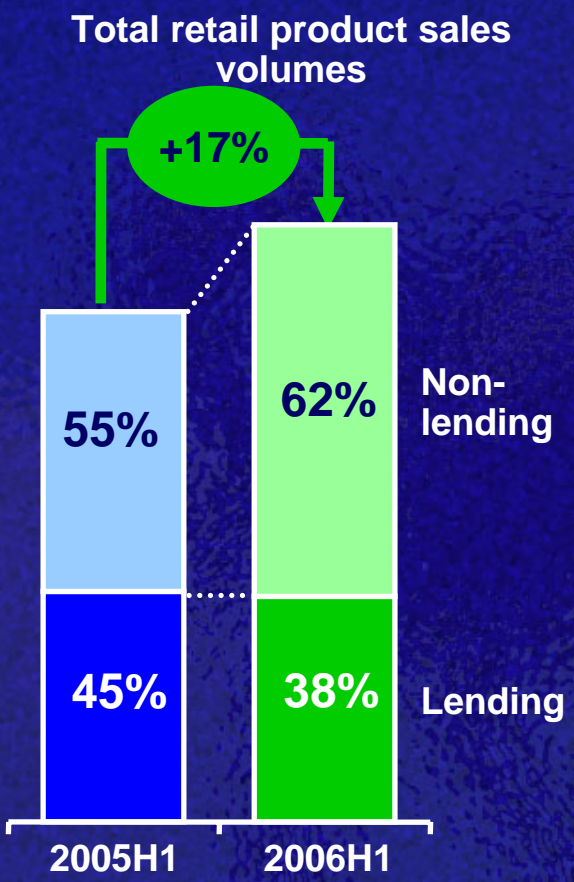
Recruitment, indexed 2005H1=100



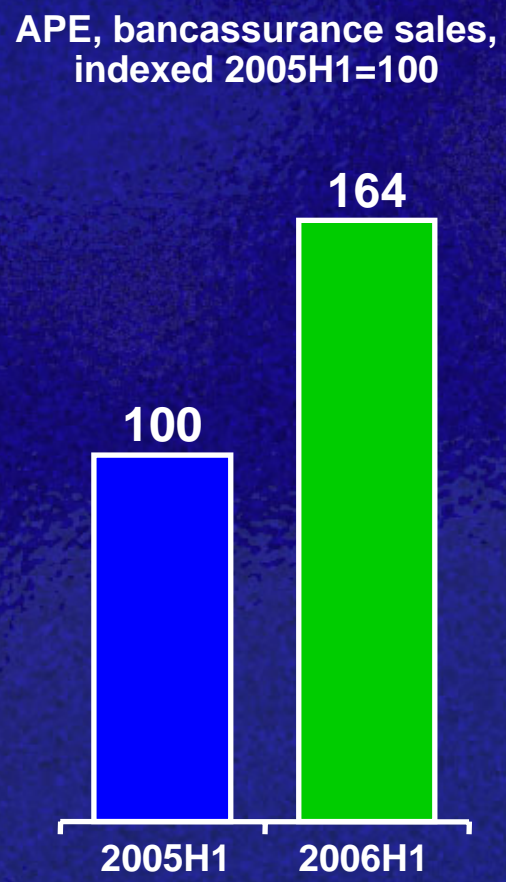
\* source: GfK

# UKRB: capturing our savings opportunity

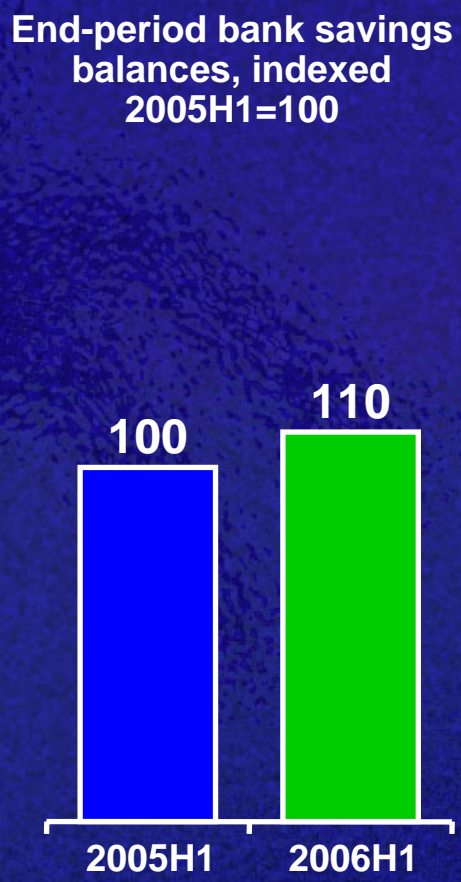
## Rebalanced sales mix



## 64% growth in bancassurance sales



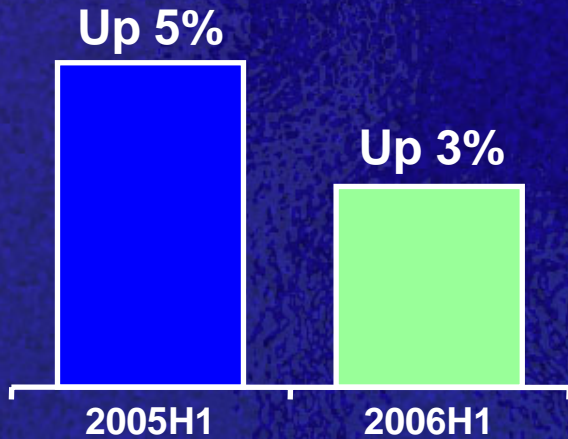
## 10% growth in bank savings balances



# UKRB: establishing a platform for growth

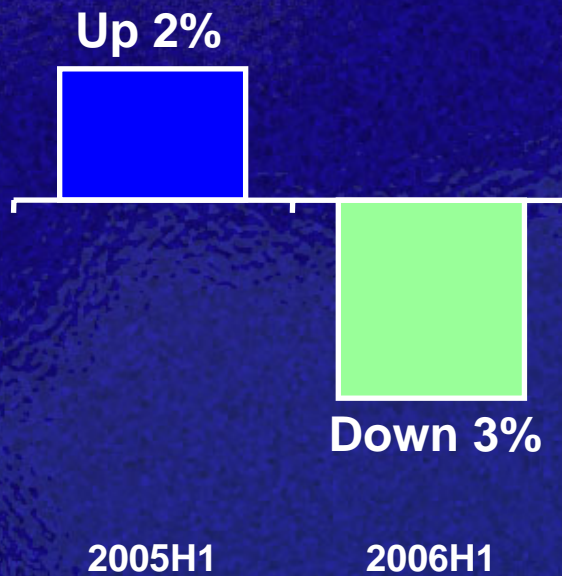
Transitioning our  
income streams...

Growth, %



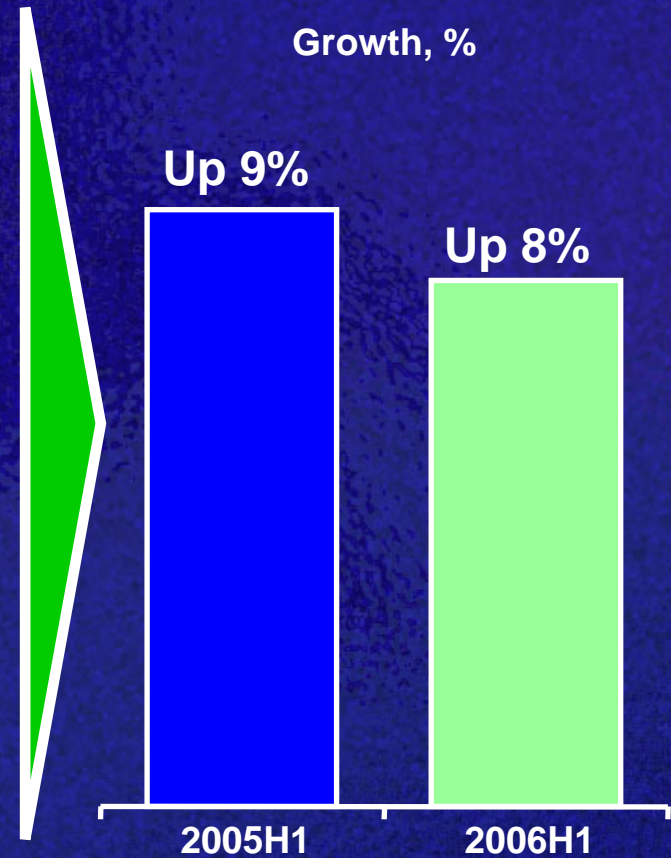
...and increasing cost  
discipline...

Growth, %

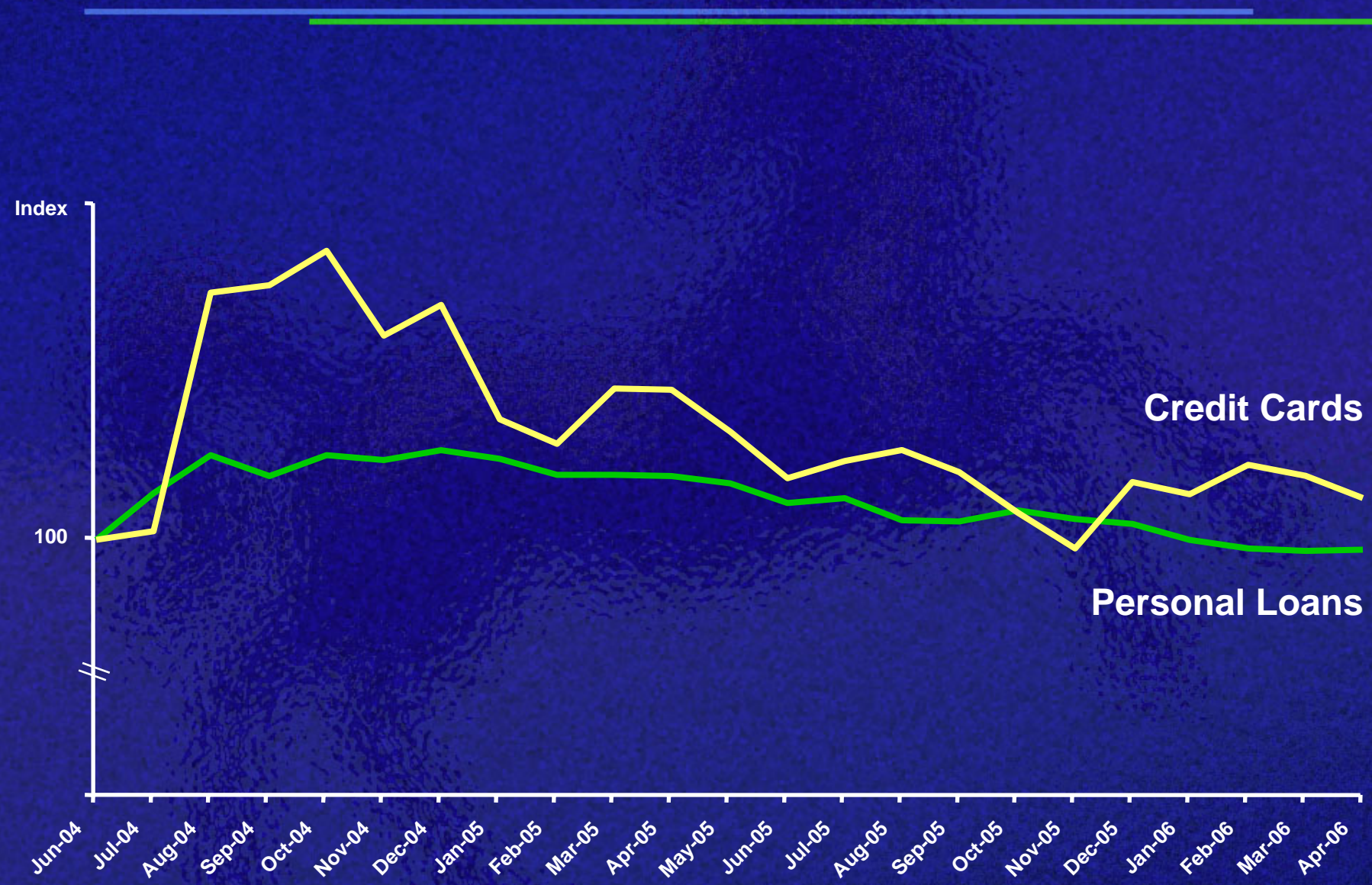


...delivers continued trading  
surplus growth

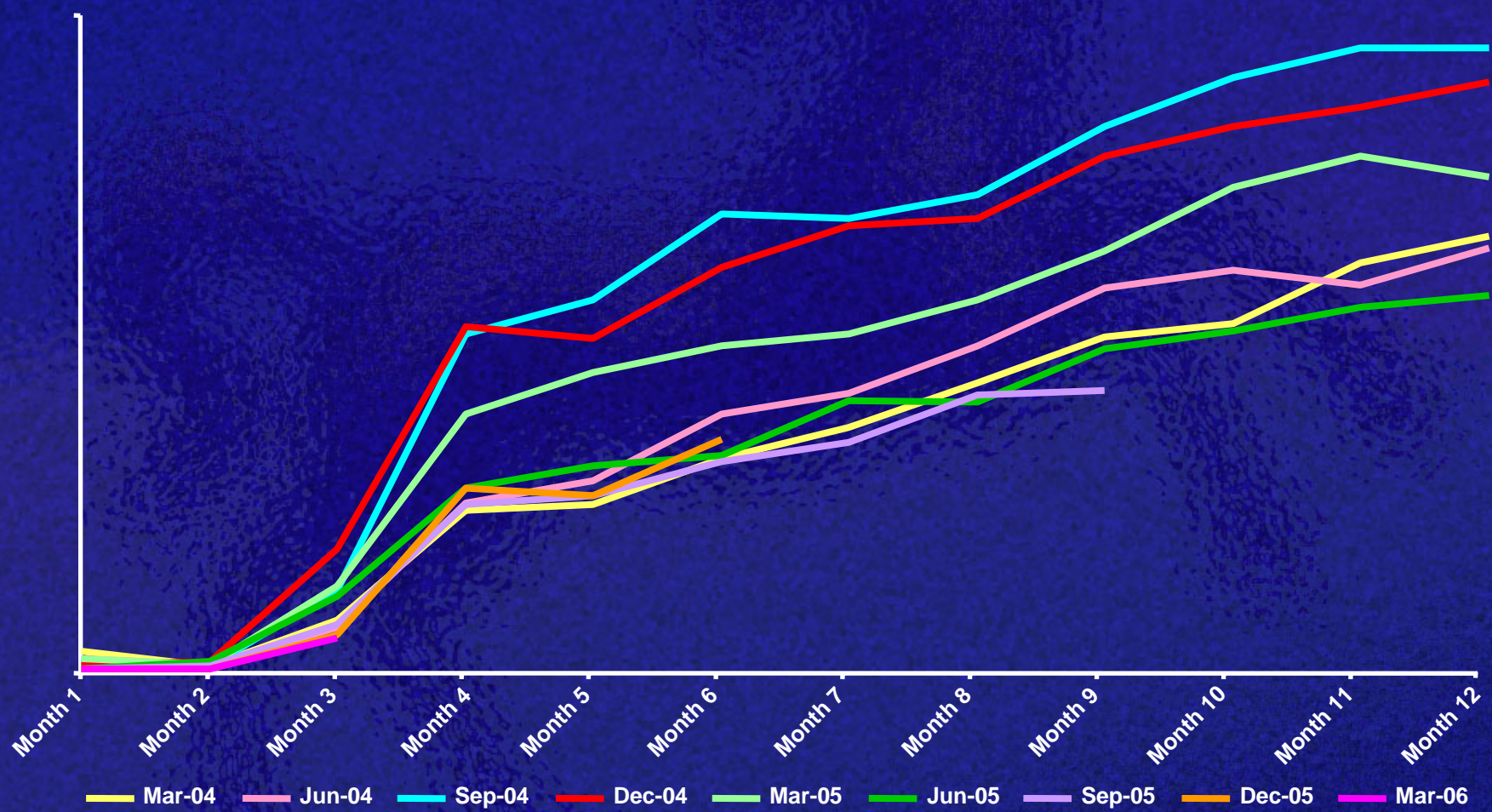
Growth, %



# New business – probability of default



# Arrears performance by vintage – credit cards



# UKRB: growth outlook

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

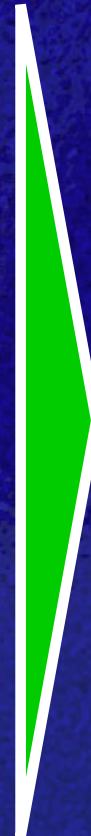
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- Sales up
- Customer acquisition up
- Customer service improved
- Long-term savings and investment up
- Productivity up

## ...to drive accelerated future profit growth

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- 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

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## Our objectives

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**Maximise distribution reach**

**Develop better products**

**Improve capital management**

## What we are doing in 2006

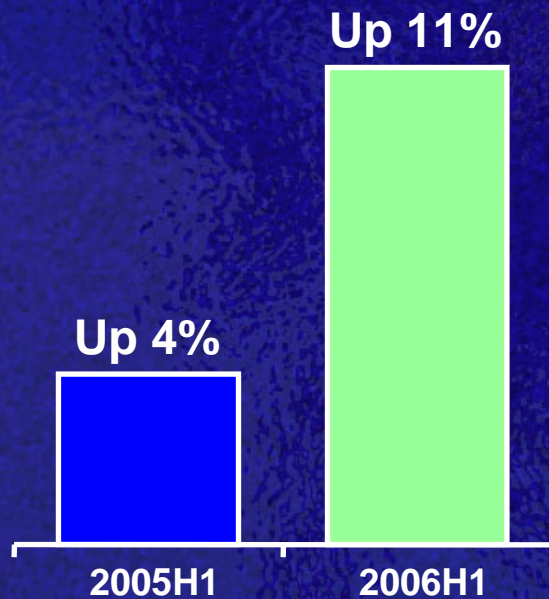
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- **Improving our bancassurance product range and sales effectiveness**
- **Focusing on the most valuable IFA relationships and improving service**
- **Improving product profitability and capital efficiency**

# I&I: accelerating growth momentum\*

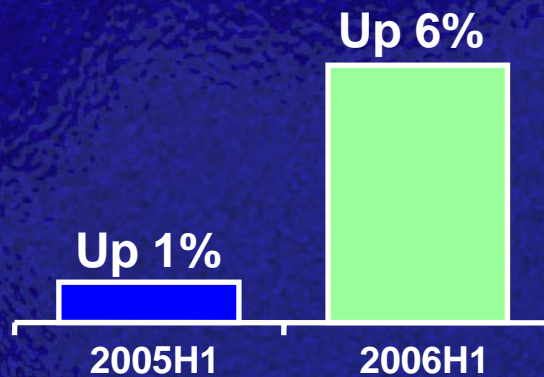
Accelerating income growth...

Growth, %



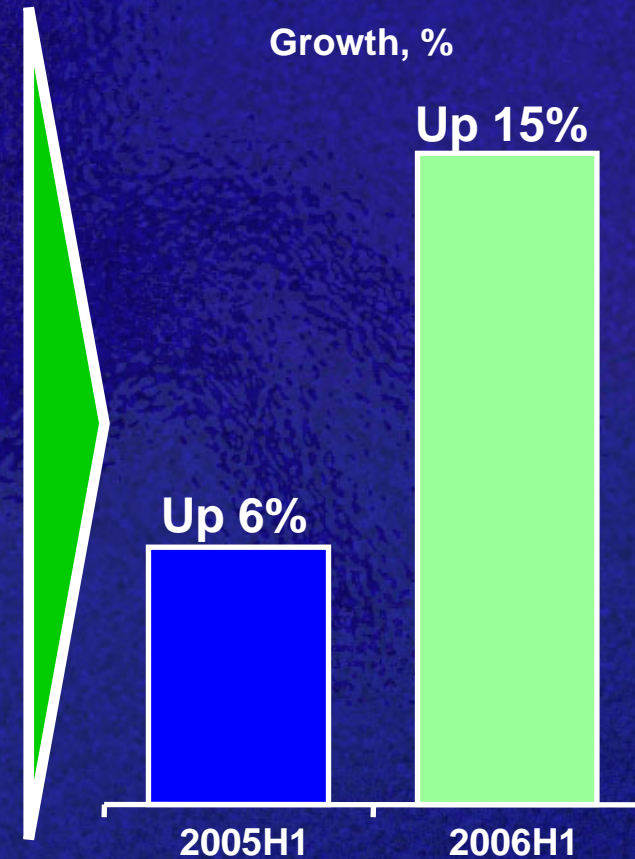
...plus controlled cost growth...

Growth, %



...delivers accelerating trading surplus growth

Growth, %



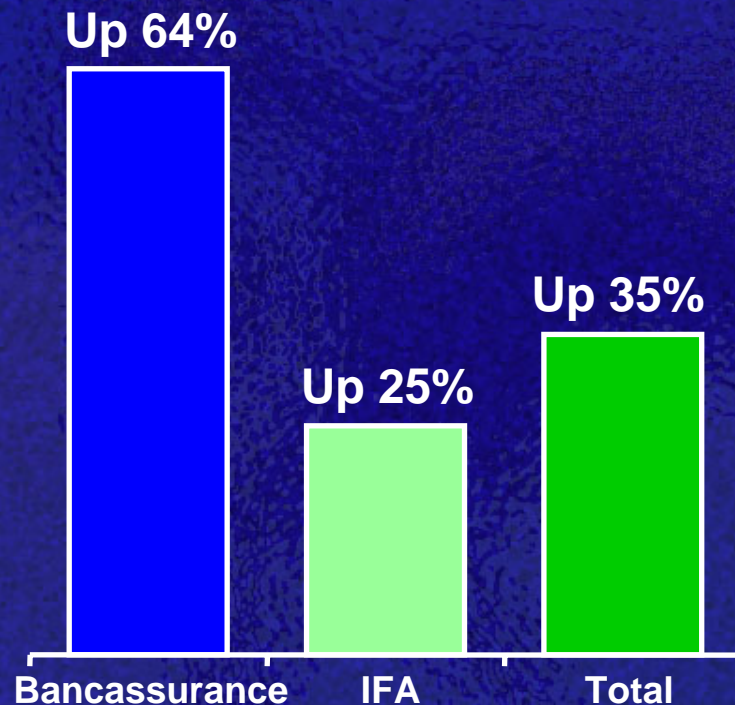
\* excluding volatility, insurance grossing adjustments, and adjusting for the impact of the £800 million capital repatriation in December 2005

# 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

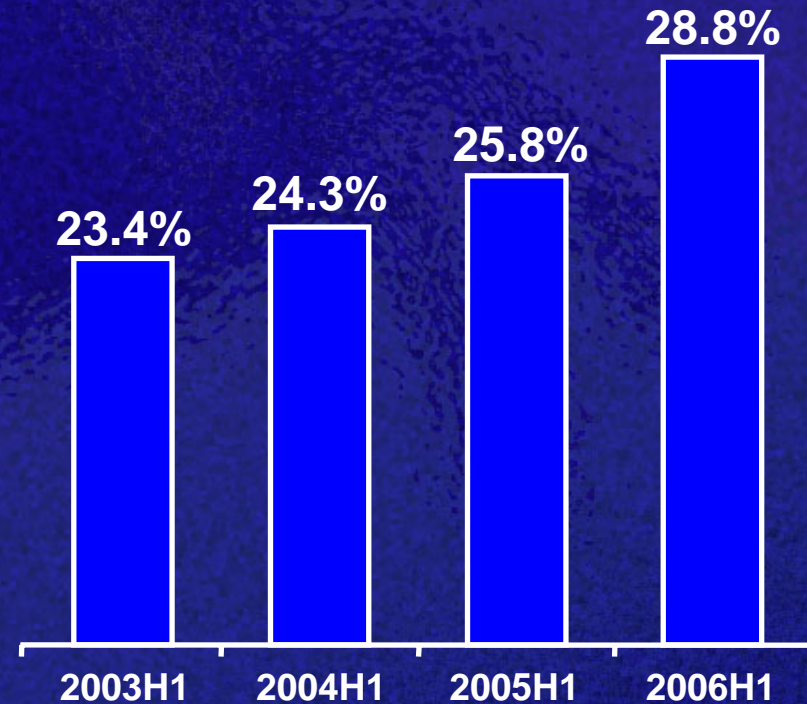
# I&I: improving Scottish Widows margins

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

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

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

**...and will drive accelerated future profit growth**

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- **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

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## Our objectives

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**Grow the Corporate Markets  
business**

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

**Maintain strong asset quality**

## What we are doing in 2006

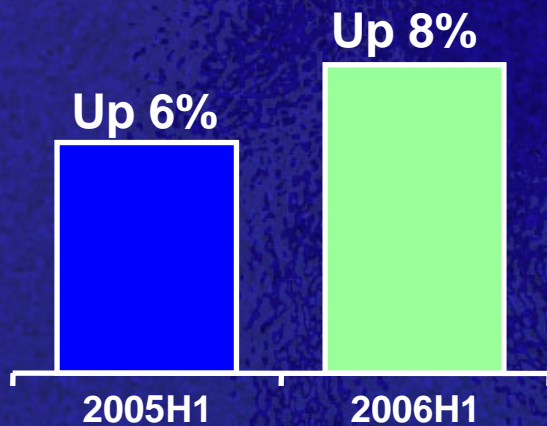
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- Growing and deepening relationships
- Building product capability and increasing share of wallet
- Building asset distribution capabilities
- Winning higher value customers
- Improving productivity and service
- Simplifying our offer and operations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

# W&B: accelerating growth momentum

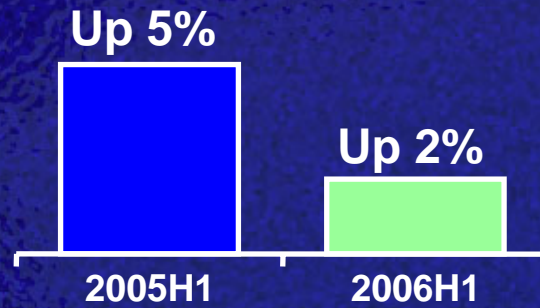
Accelerating income growth...

Growth, %



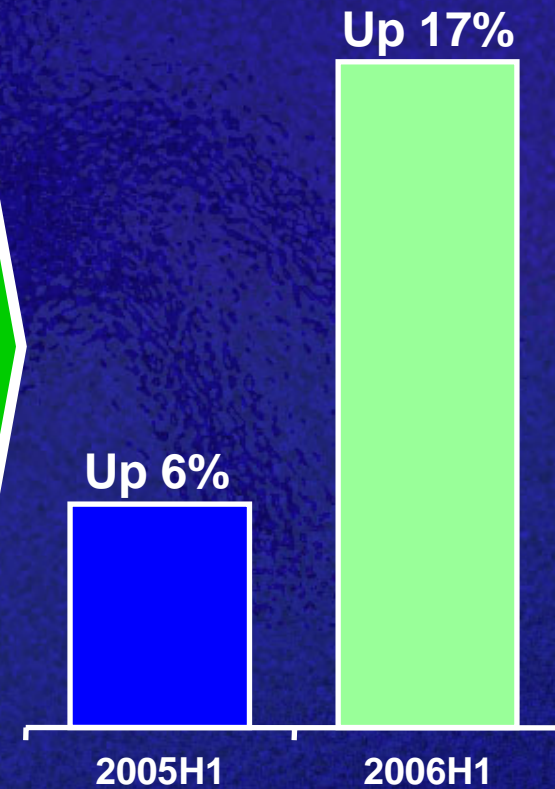
...plus strong cost control...

Growth, %



...delivers accelerating trading surplus growth

Growth, %



# 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%

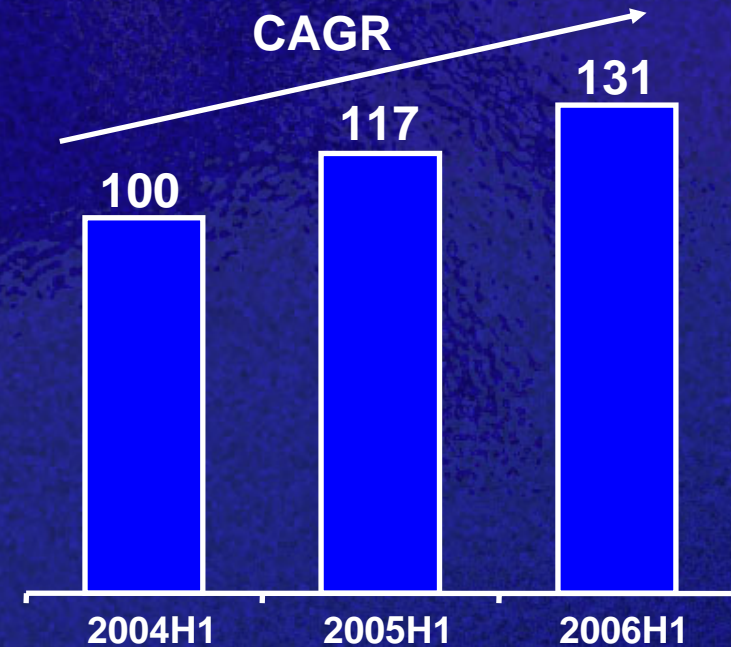
## Growing distribution skills

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

## Increased cross-sell ratio

Cross-sell Income per RWA,  
2004H1=100

14%  
CAGR



\* income growth 05H1 – 06H1

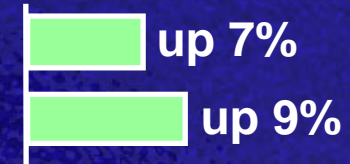
# W&IB: accelerating Business Banking growth

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

Δ 05H1 - 06H1

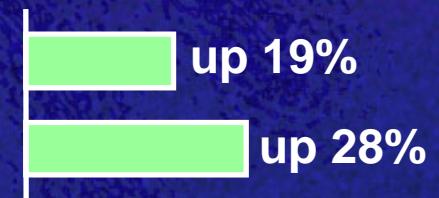
## Winning new customers

- 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&B: growth outlook

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

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- **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**

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- **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

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## Strategic priorities

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**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**

# Productivity programme key activities

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

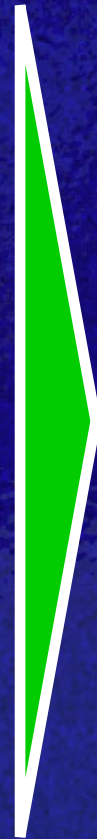


- **Centralised procurement activity**
- **Consolidated Wholesale operations**
- **Integrating C&G savings system**
- **Lean Group manufacturing**
- **Simplified UKRB back office**
- **Offshoring accounts payable**
- **IT organisational redesign**

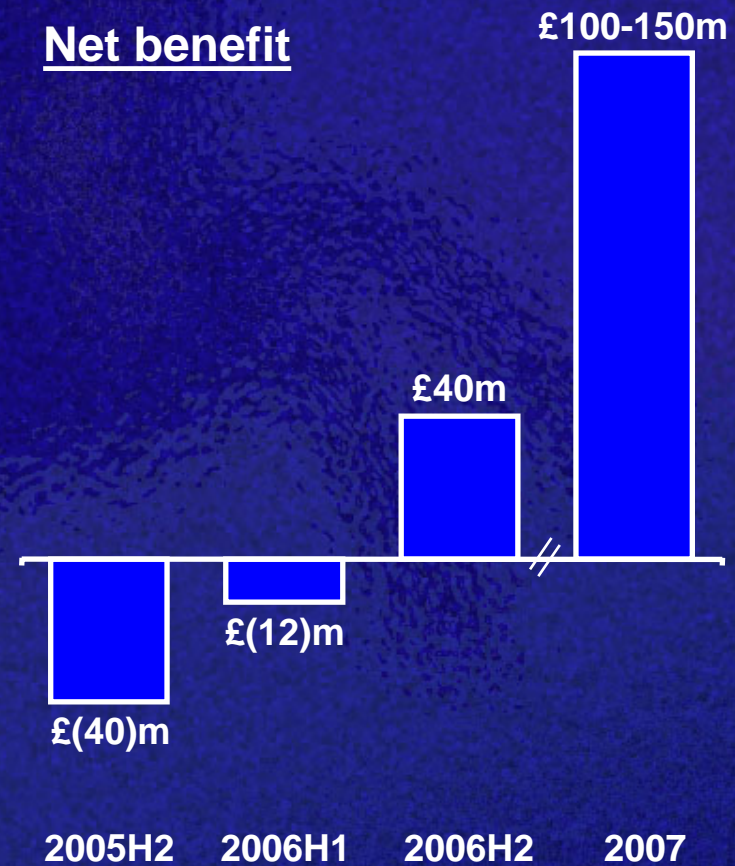
# Productivity programme on track

## Financial principles

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



## Net benefit



# Working our capital harder

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## Strategic priorities

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**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

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- **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**

## 2006 first half: continued earnings momentum\*

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**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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# Forward looking statement

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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.