
2004 Interim Results

30 July 2004

Helen Weir

Group Finance Director



Lloyds TSB Group

Headline results

Statutory

As a result of the impact of business sales and a negative investment variance:

- Profit before tax decreased by £118 million, or 7%
- Earnings per share decreased by 6% to 19.4p

Continuing operations*

- Profit before tax increased by £174 million, or 12%
- Earnings per share increased by 13% to 20.6p
- Return on average risk-weighted assets increased to 1.95% from 1.86%
- Interim dividend of 10.7p per share

* excluding investment variance, changes in economic assumptions and loss on sale of businesses

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Impact of 2003 major items

| £m | <u>Income</u> | <u>Costs</u> | <u>PBT</u> | <u>Treatment in Presentation</u> |
|---|---------------|--------------|------------|--|
| Sales of EMD bonds/ closed foreign exchange positions in 2003 | 295 | - | 295 | } Consolidated in single line item |
| Customer redress provisions in 2003 | (100) | (200) | (300) | |
| Net impact | <u>195</u> | <u>(200)</u> | <u>(5)</u> | |
| Notional interest on NBNZ/Brazil proceeds | 57 | - | 57 | Increase in 2003 income |

Headline results – continuing operations*

| £m | 2003H1 [†] | 2004H1 | Variance (%) |
|--------------------------------|---------------------|--------|--------------|
| Total income | 4,390 | 4,595 | 5 |
| Operating expenses | 2,284 | 2,363 | 3 |
| Trading surplus | 2,106 | 2,232 | 6 |
| General insurance claims | 108 | 121 | 12 |
| Bad debt provisions | 430 | 442 | 3 |
| Other | (35) | (24) | |
| Net impact of one-offs | (5) | - | |
| Profit before tax [†] | 1,528 | 1,645 | 8 |
| Notional interest | (57) | - | |
| Profit before tax | 1,471 | 1,645 | 12 |

* excluding investment variance, changes in economic assumptions, loss on sale of businesses.
Income and cost comparisons exclude customer redress provisions and the sale of EMD bonds/
forex closures

† also includes notional interest earned on sale proceeds of businesses sold in 2003

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Continuing operations – divisional performance

| £m | <u>2003H1†</u> | <u>2004H1</u> | <u>Variance (%)</u> |
|-----------------------------------|----------------|---------------|---------------------|
| UK Retail Banking | 793 | 818 | 3 |
| Insurance & Investments | 345 | 378 | 10 |
| Wholesale & International Banking | | | |
| - Wholesale | 428 | 510 | 19 |
| - International Banking | 60 | 106 | 77 |
| | 488 | 616 | 26 |
| Central group items | (93) | (167) | (80) |
| Net impact of one-offs | (5) | - | |
| Profit before tax* | <u>1,528</u> | <u>1,645</u> | 8 |

* excluding investment variance, changes in economic assumptions and loss on sale of businesses

† also includes notional interest earned on sale proceeds of businesses sold in 2003

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Continuing operations – revenue*

| £m | <u>2003H1†</u> | <u>2004H1</u> | <u>Variance (%)</u> |
|----------------------|----------------|---------------|---------------------|
| Net interest income | 2,348 | 2,438 | 4 |
| Other finance income | 17 | 19 | |
| Other income | 2,025 | 2,138 | 6 |
| Total income* | <u>4,390</u> | <u>4,595</u> | 5 |

* excluding investment variance, changes in economic assumptions, loss on sale of businesses, customer redress provisions, the sale of EMD bonds/forex closures

† also includes notional interest earned on sale proceeds of businesses sold in 2003

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Net interest income drivers by division*

| £m | <u>2003H1†</u> | <u>Volume</u> | <u>Rate</u> | <u>Other</u> | <u>2004H1</u> | <u>Variance (%)</u> |
|-----------------------------------|----------------|---------------|-------------|--------------|---------------|---------------------|
| UK Retail Banking | 1,515 | 186 | (129) | 17 | 1,589 | 5 |
| Insurance & Investments | 39 | 9 | 2 | - | 50 | 28 |
| Wholesale & International Banking | 898 | 16 | 58 | (5) | 967 | 8 |
| Central group items | (104) | - | (1) | (63) | (168) | (62) |
| Mix variance | - | (39) | 39 | - | - | - |
| | <u>2,348</u> | <u>172</u> | <u>(31)</u> | <u>(51)</u> | <u>2,438</u> | <u>4</u> |

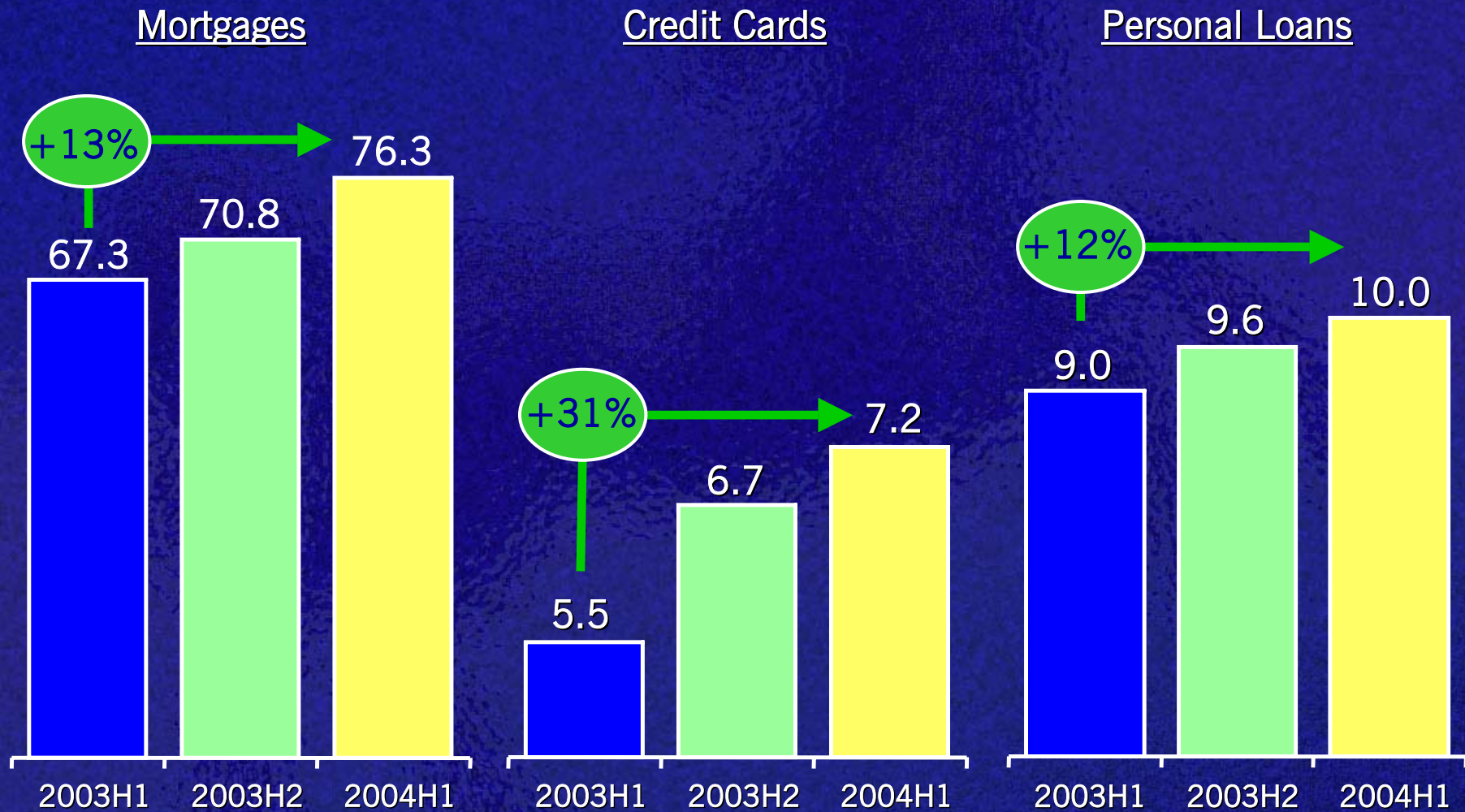
* continuing operations excluding investment variance, changes in economic assumptions, loss on sale of businesses, and the sale of EMD bonds/forex closures

† also includes notional interest earned on sale proceeds of businesses sold in 2003

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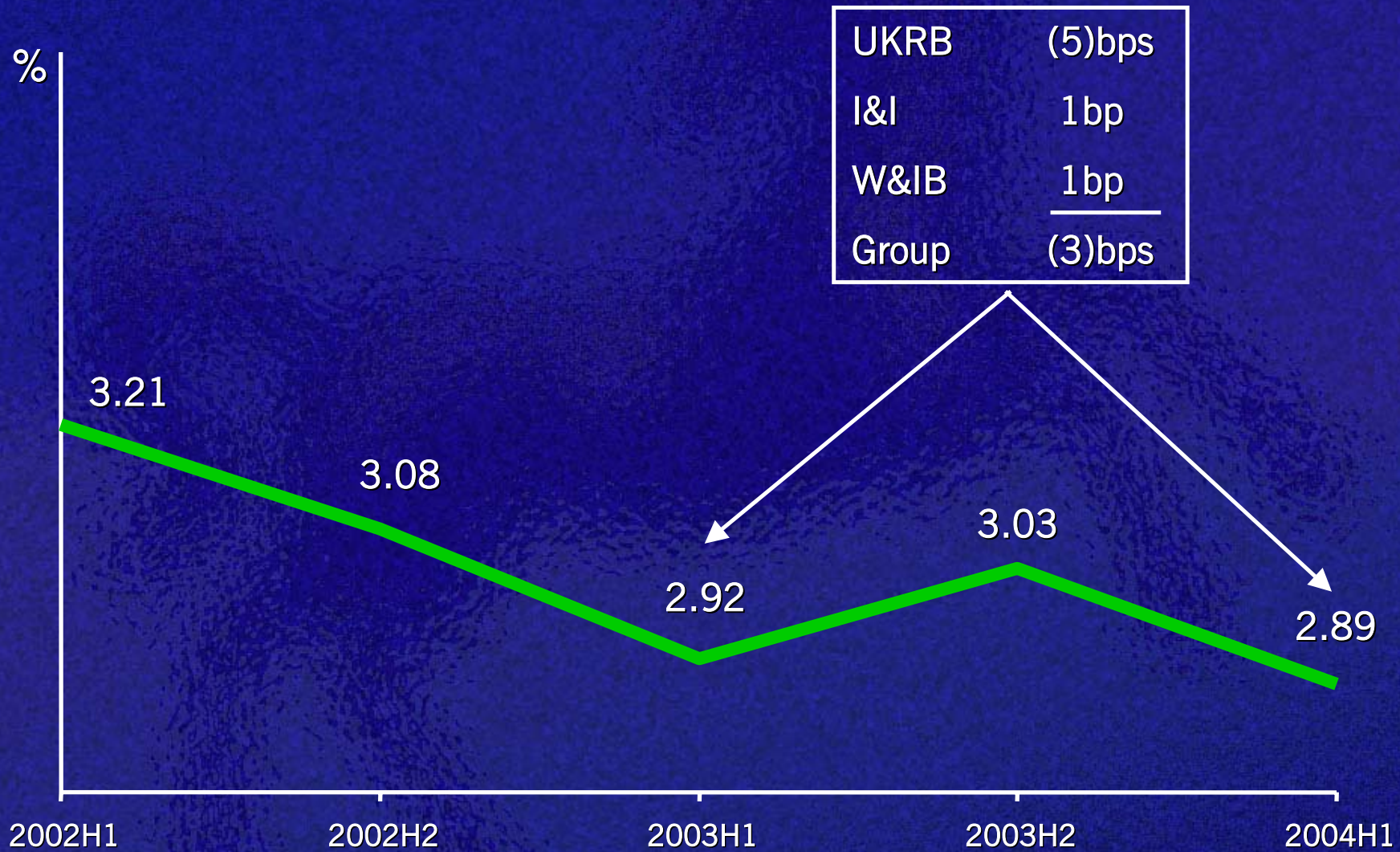
UK Retail Banking growth

Period-end Balances (£bn)



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Net interest margin* – half-yearly trends



* continuing operations

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Continuing operations – other income*

| £m | <u>2003H1</u> | <u>2004H1</u> | <u>Variance (%)</u> |
|-----------------------------------|---------------|---------------|---------------------|
| UK Retail Banking | 741 | 767 | 4 |
| Insurance & Investments | 547 | 582 | 6 |
| Wholesale & International Banking | 750 | 785 | 5 |
| Central group items | (13) | 4 | - |
| | <u>2,025</u> | <u>2,138</u> | 6 |

* excluding investment variance, changes in economic assumptions, loss on sale of businesses, customer redress provisions, the sale of EMD bonds/forex closures

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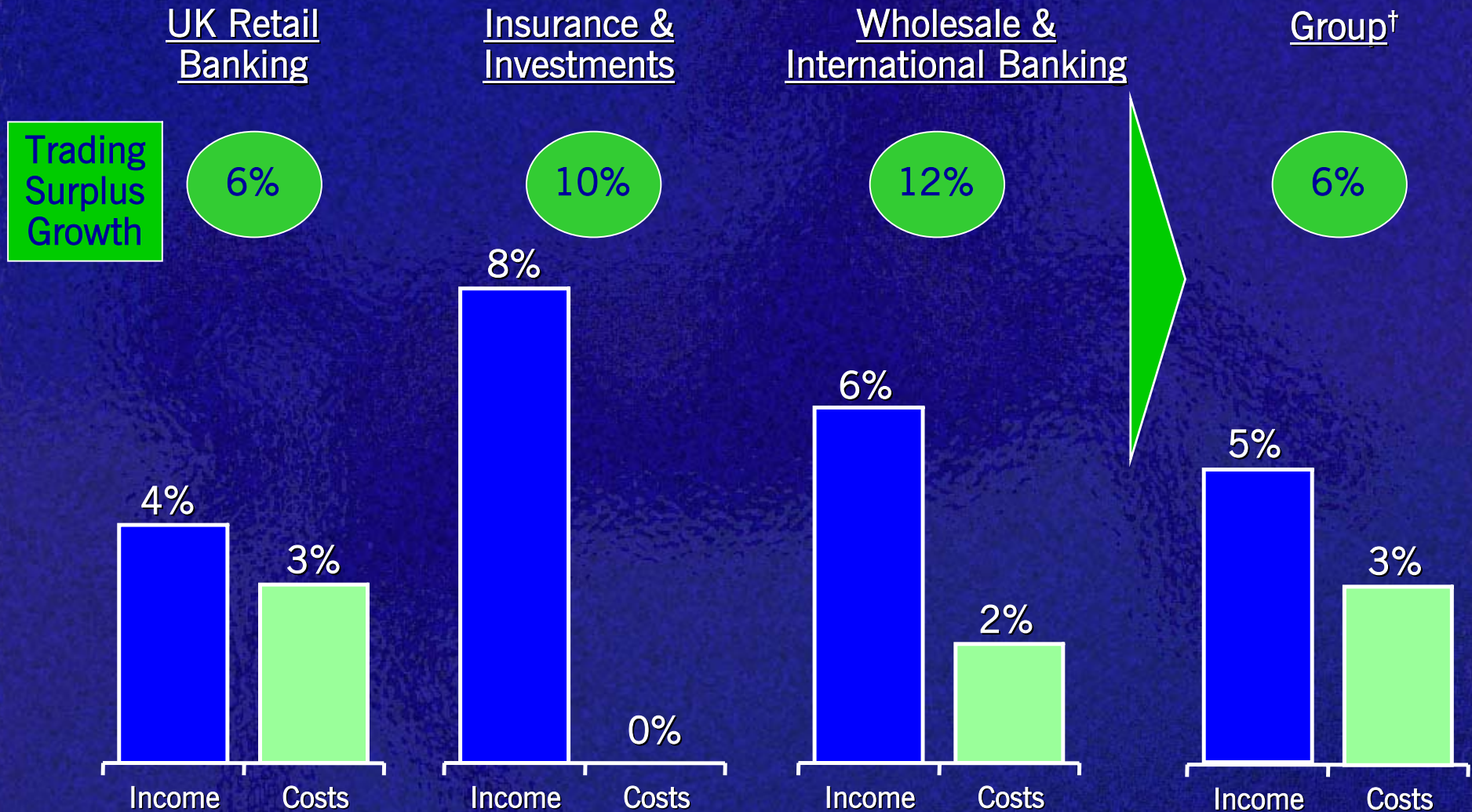
Continuing operations – operating expenses*

| £m | <u>2003H1</u> | <u>2004H1</u> | <u>Variance (%)</u> |
|-----------------------------------|---------------|---------------|---------------------|
| UK Retail Banking | 1,154 | 1,193 | 3 |
| Insurance & Investments | 133 | 133 | - |
| Wholesale & International Banking | 991 | 1,015 | 2 |
| Central group items | 6 | 22 | - |
| | <u>2,284</u> | <u>2,363</u> | 3 |

* excluding investment variance, changes in economic assumptions, loss on sale of businesses, customer redress provisions, the sale of EMD bonds/forex closures

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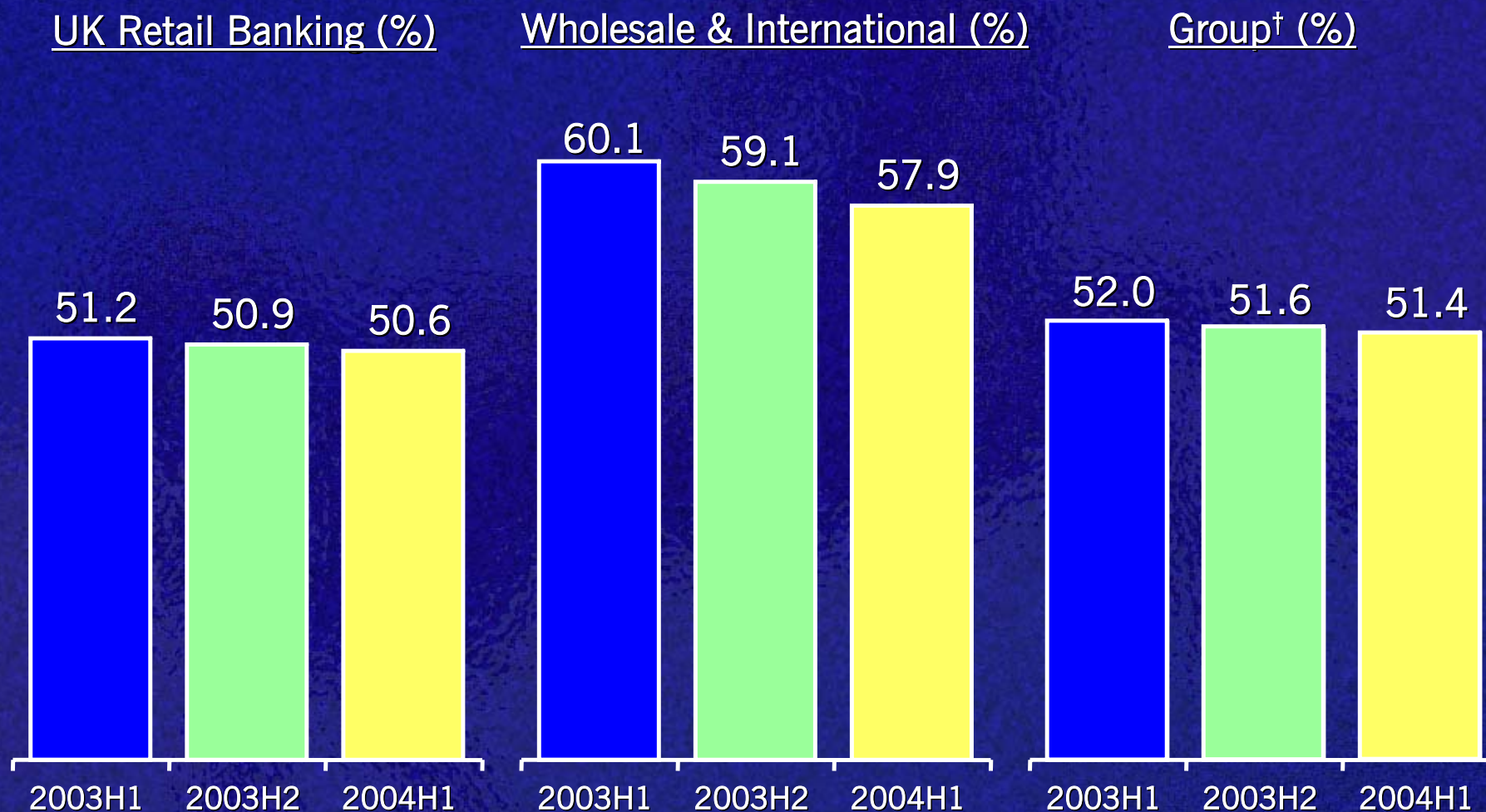
Income growth ahead of costs*



* continuing operations, excluding investment variance, changes in economic assumptions, loss on sale of businesses, customer redress provisions, the sale of EMD bonds/forex closures

† also includes notional interest earned on sale proceeds of businesses sold in 2003

Cost:income ratio improvements*



* continuing operations, excluding investment variance, changes in economic assumptions, (loss) profit on sale of businesses, customer redress provisions, the sale of EMD bonds/forex closures

† also includes notional interest earned on sale proceeds of businesses sold in 2003

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Charge for bad and doubtful debts*

| | 2003H1 | 2004H1 | Variance | % of Annualised Average Lending | |
|--------------------------------------|--------|--------|----------|------------------------------------|--------|
| | £m | £m | % | 2003H1 | 2004H1 |
| UK Retail Banking | 298 | 344 | 15 | 0.75 | 0.76 |
| Personal loans/overdrafts | 218 | 236 | 8 | 4.44 | 4.34 |
| Credit cards | 85 | 120 | 41 | 3.34 | 3.51 |
| Mortgages | (5) | (12) | | (0.02) | (0.03) |
| Wholesale & International Banking | 145 | 98 | (32) | 0.59 | 0.39 |
| Central group items | (13) | - | - | | |
| Total charge | 430 | 442 | 3 | 0.66 | 0.63 |

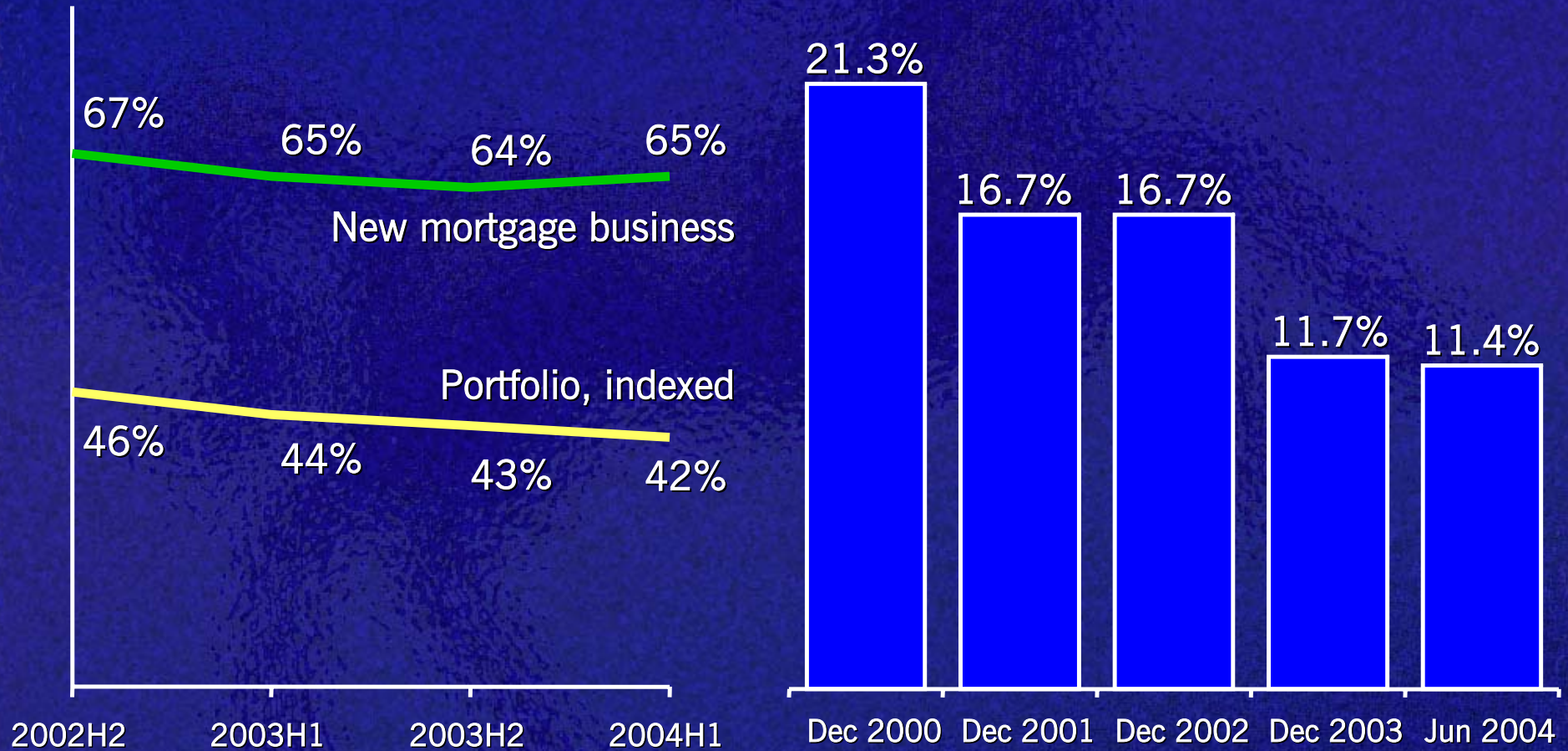
* continuing operations

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Good mortgage asset quality

Average Loan-to-Value

Percentage of C&G mortgage balances with indexed loan-to-value above 80%

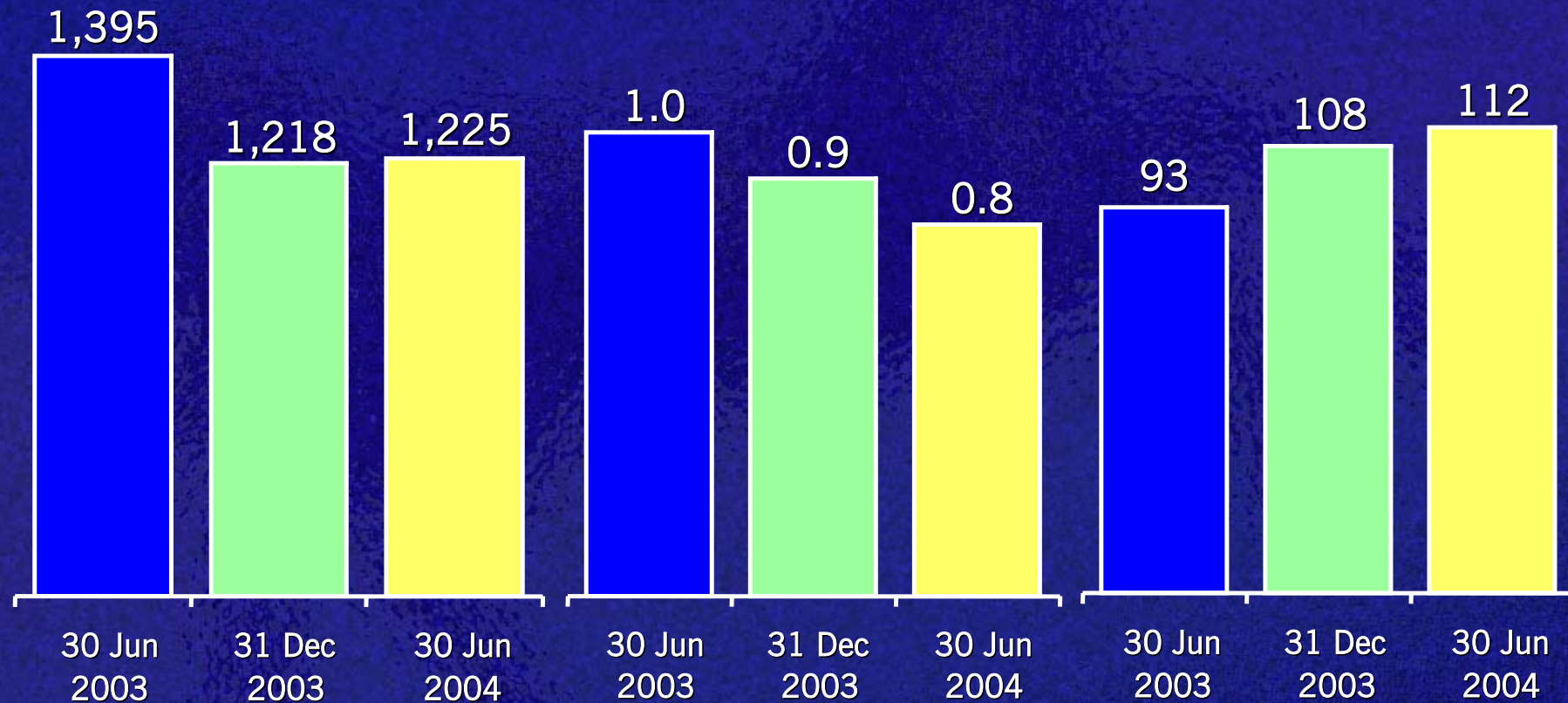


Asset quality – non-performing lending*

Non-performing Lending
(£m)

NPL's as a Percentage of
Total Lending (%)

Specific Provisions as a
Percentage of NPL's (%)

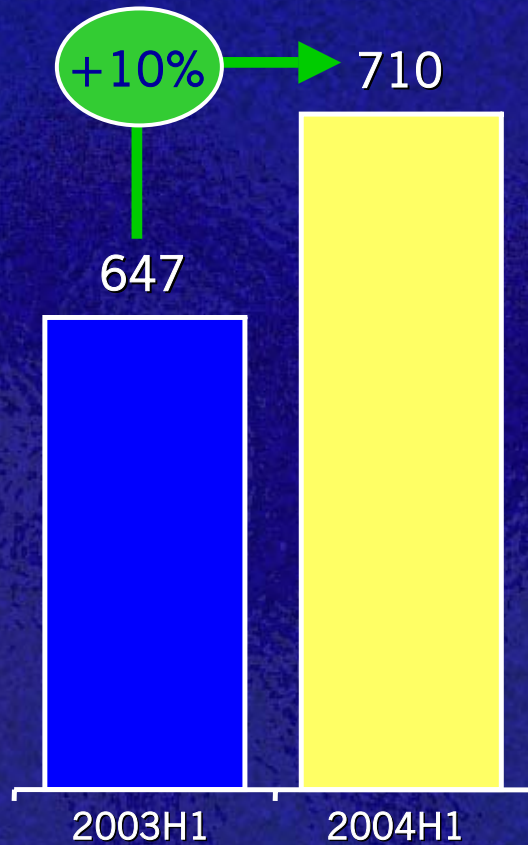


* continuing operations

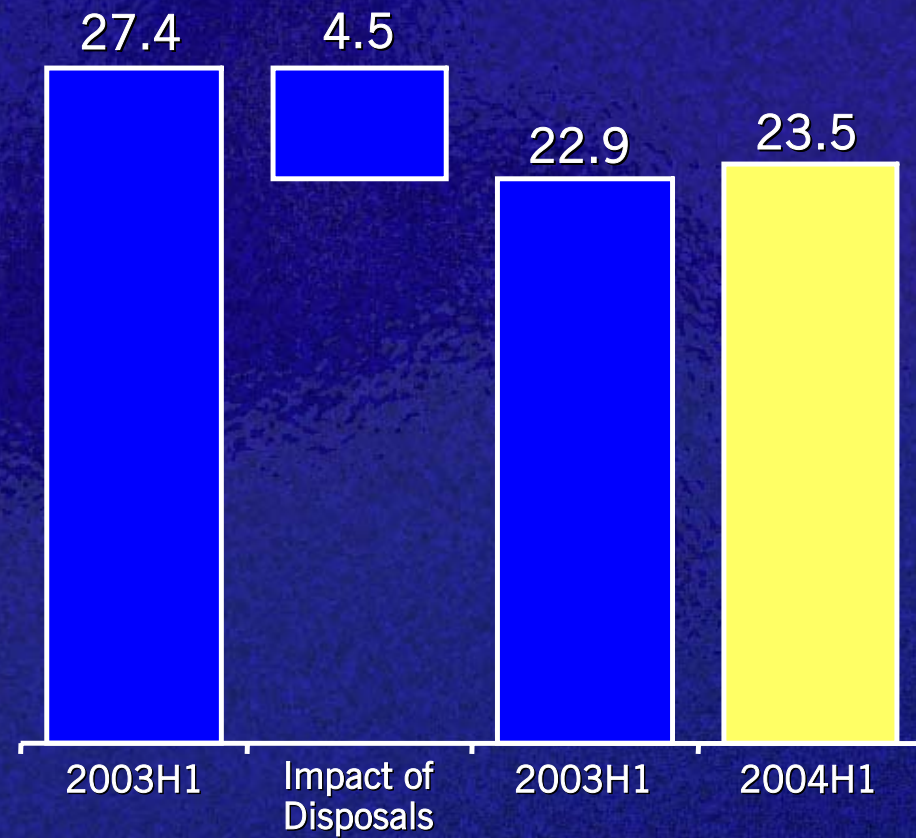
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Economic profit and ROE

Economic Profit (£m)*



Post-tax Return on Average Shareholders' Equity (%)

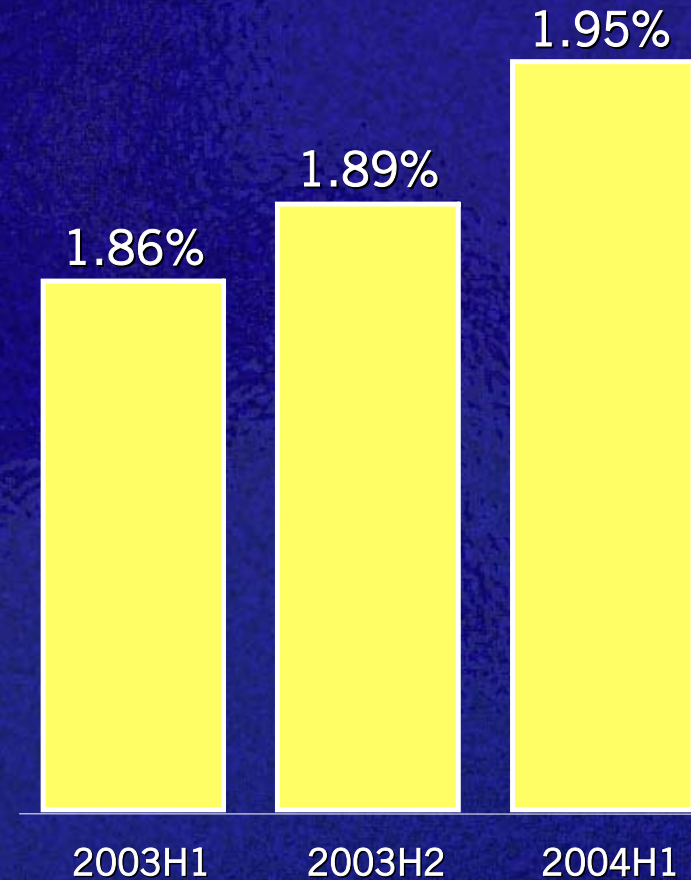
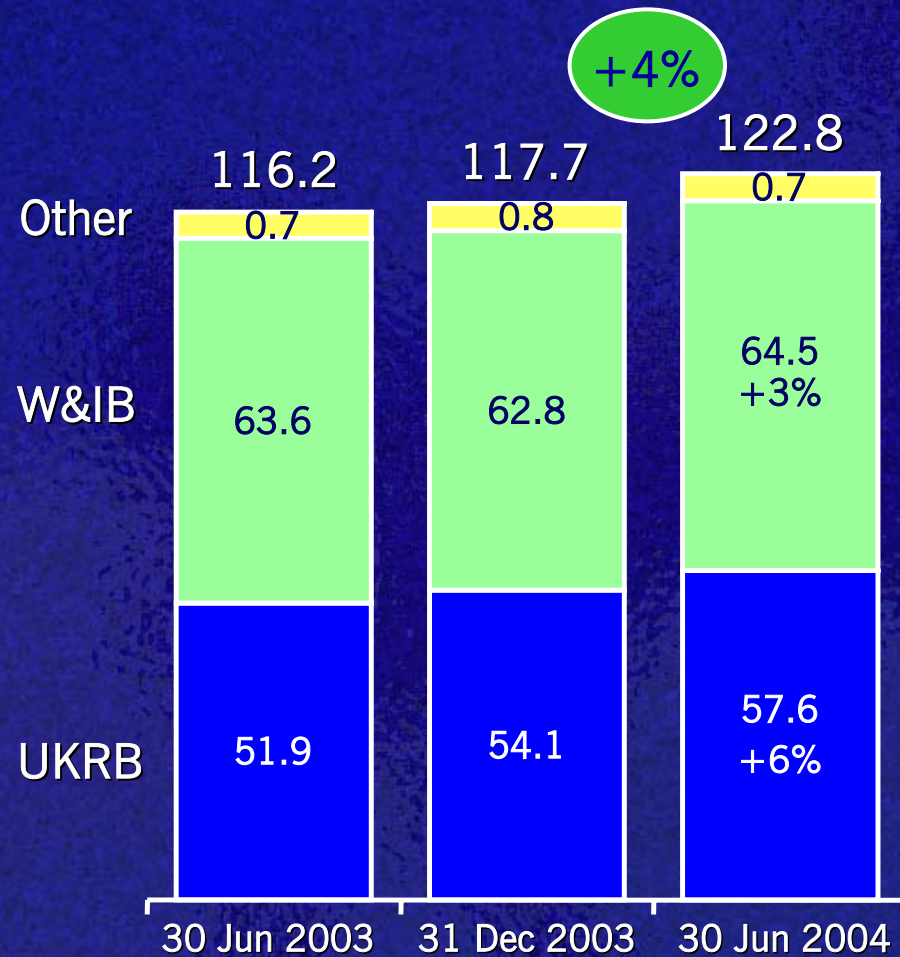


* continuing operations, excluding investment variance, changes in economic assumptions and loss on sale of businesses

Risk capital returns improved

Risk-weighted Assets* (£bn)

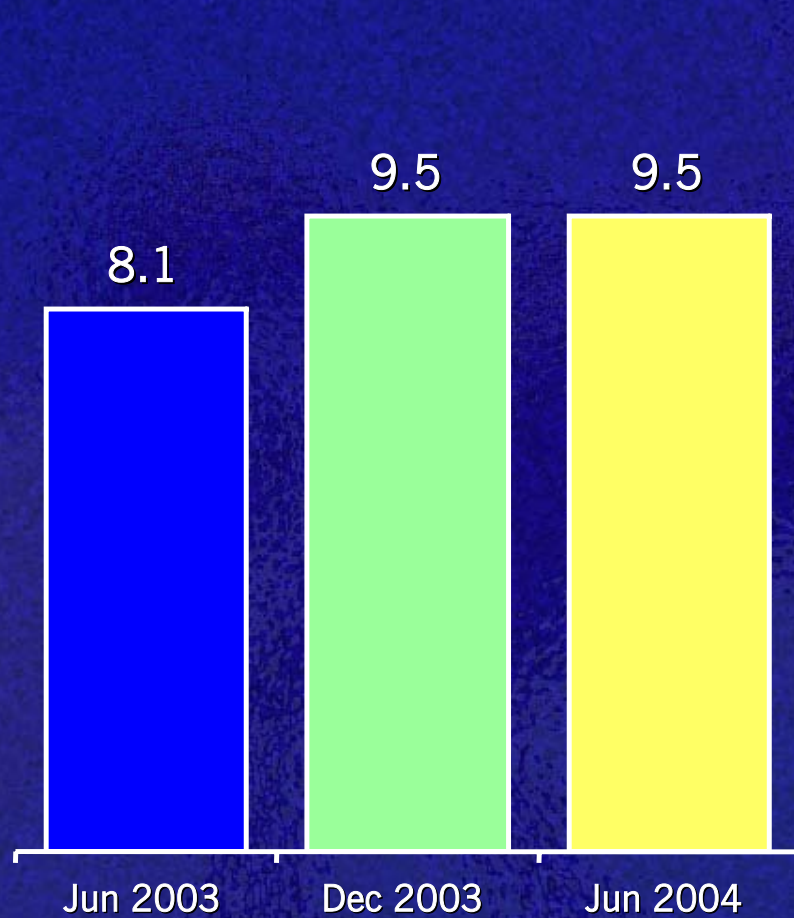
Return on Average Risk-weighted Assets*



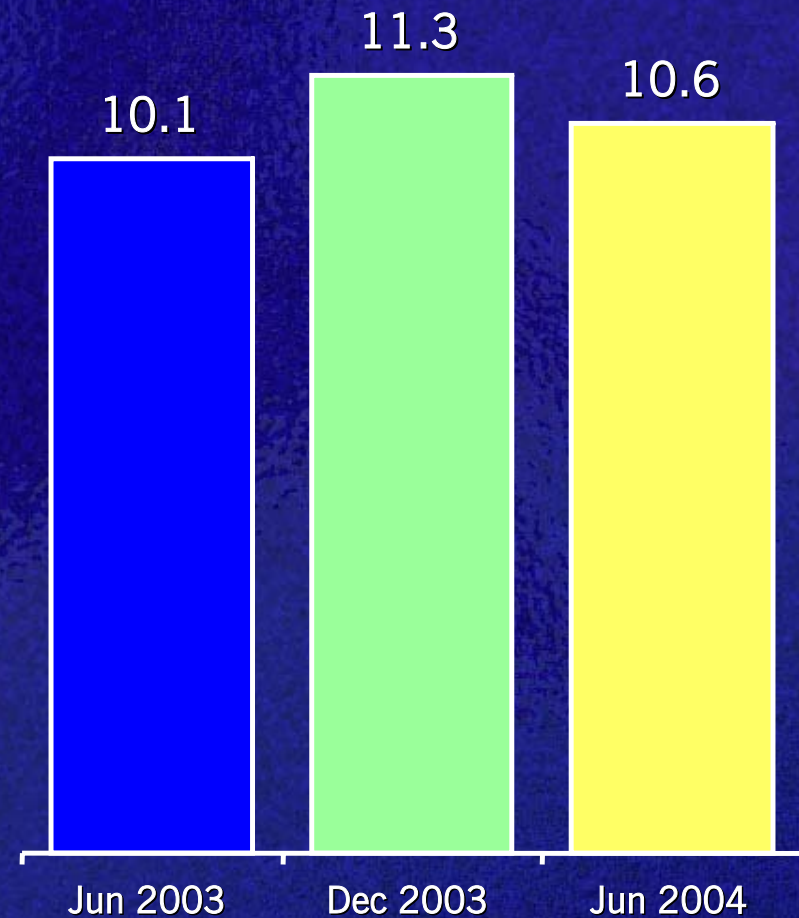
* continuing operations, excluding investment variance, changes in economic assumptions and profit (loss) on sale of businesses

Strong capital ratios

Tier 1 Ratio (%)



Total Capital Ratio (%)



Capital position robust

- £0.7 billion tier 2 raised in July 2004
- Capital ratios remain strong
- Strong credit ratings maintained
 - Moody's – 'Aaa'
 - S&P – 'AA' (negative outlook)
 - Fitch – 'AA+'
- Sufficient retained earnings to support expected risk-weighted asset growth

Scottish Widows - capital

- Free asset ratio improved to an estimated 14.0% (31 December 2003: 13.6%)
- Realistic balance sheet position is strong
- On a market consistent basis, we estimate that available capital is more than three times the risk capital margin
- We do not expect Scottish Widows to require any additional capital under the FSA's new reporting regime
- Scottish Widows remains on track to pay a 2004 dividend to Lloyds TSB

Impact of accounting changes

- FRED34 – insurance accounting
- International Accounting Standards
 - Insurance accounting
 - Dividends
 - Pensions accounting
 - Financial instruments

IFRS conversion project is making good progress

Implementation of Basel II

- Early implementation – 2007
- We expect a lower capital requirement – up to 20% over time
- Phased benefit introduction
- EU Consolidated Banking Directive contains no requirement to deduct ‘investment in life subsidiaries’ from tier 1 capital

Summary – key performance highlights

- Good growth in customer lending and customer deposits with increases in market share
- Some margin erosion in retail business
- Costs remain firmly under control
- Asset quality remains strong
- Capital ratios strong

2004 Interim Results

30 July 2004

Eric Daniels
Group Chief Executive



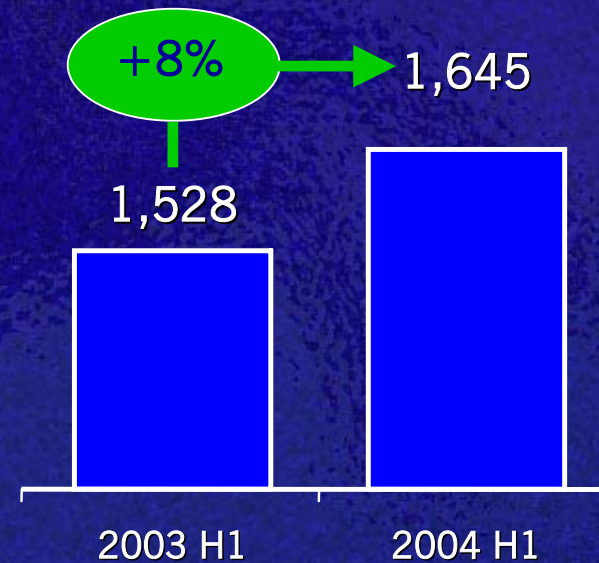
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Context

Earnings story taking shape

- Recent past:
 - High returns, but no growth
- Growth over last two halves and maintained returns
- Going forward:
 - Better balanced growth
 - Stronger top line

First half-year result* 2004 (£m)



- continuing basis: excludes investment variance, changes in economic assumptions, loss on sale of businesses and includes £57 million notional interest earned on sale proceeds of businesses sold in 2003

Management priorities

- To manage business portfolio and reduce earnings volatility
- To maintain and build levels of profitability
- To grow our business

Interim Results
1 August 2003

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Manage the business portfolio

Business disposals are helping us to focus on our core franchise and reduce earnings volatility

- Sale of Panama and Guatemala completed
- Sale of Argentina and Colombia announced



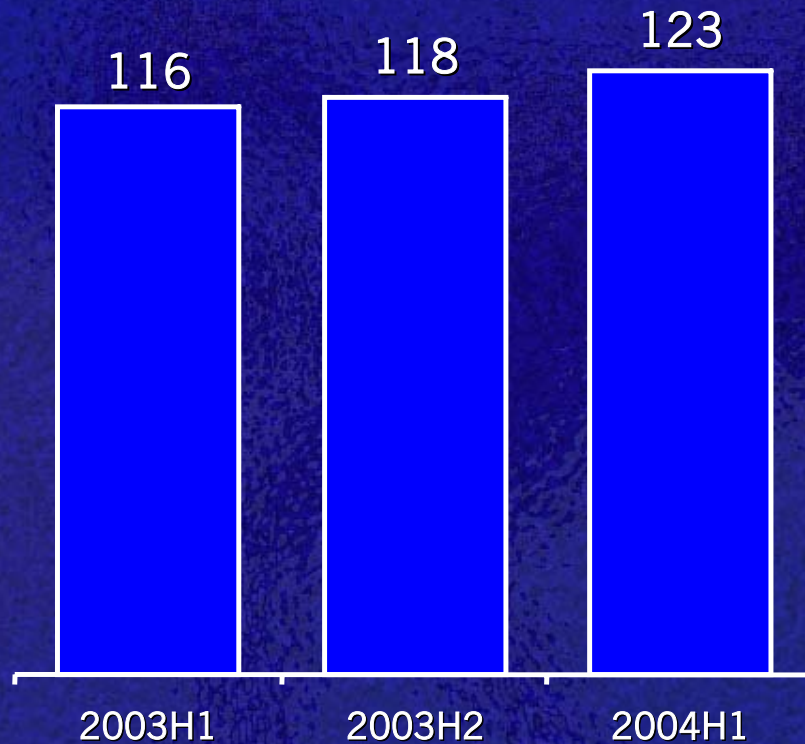
1999 – 2003:

- Average return on equity: (28.6)%
- Combined losses of £220m

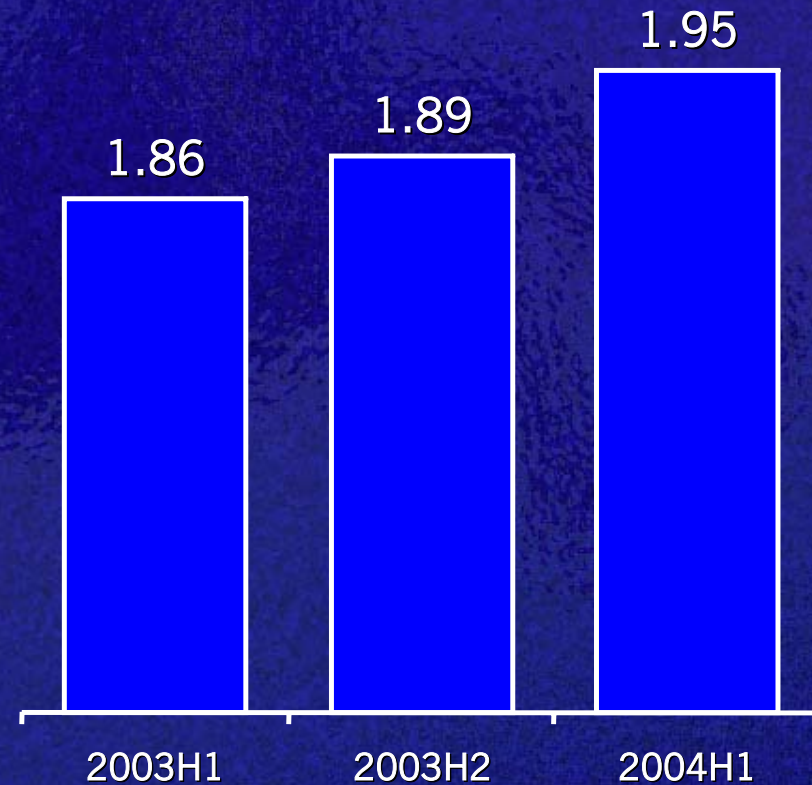
Maintain and build profitability

We are managing the balance sheet more efficiently

Risk-weighted Assets* (£bn)



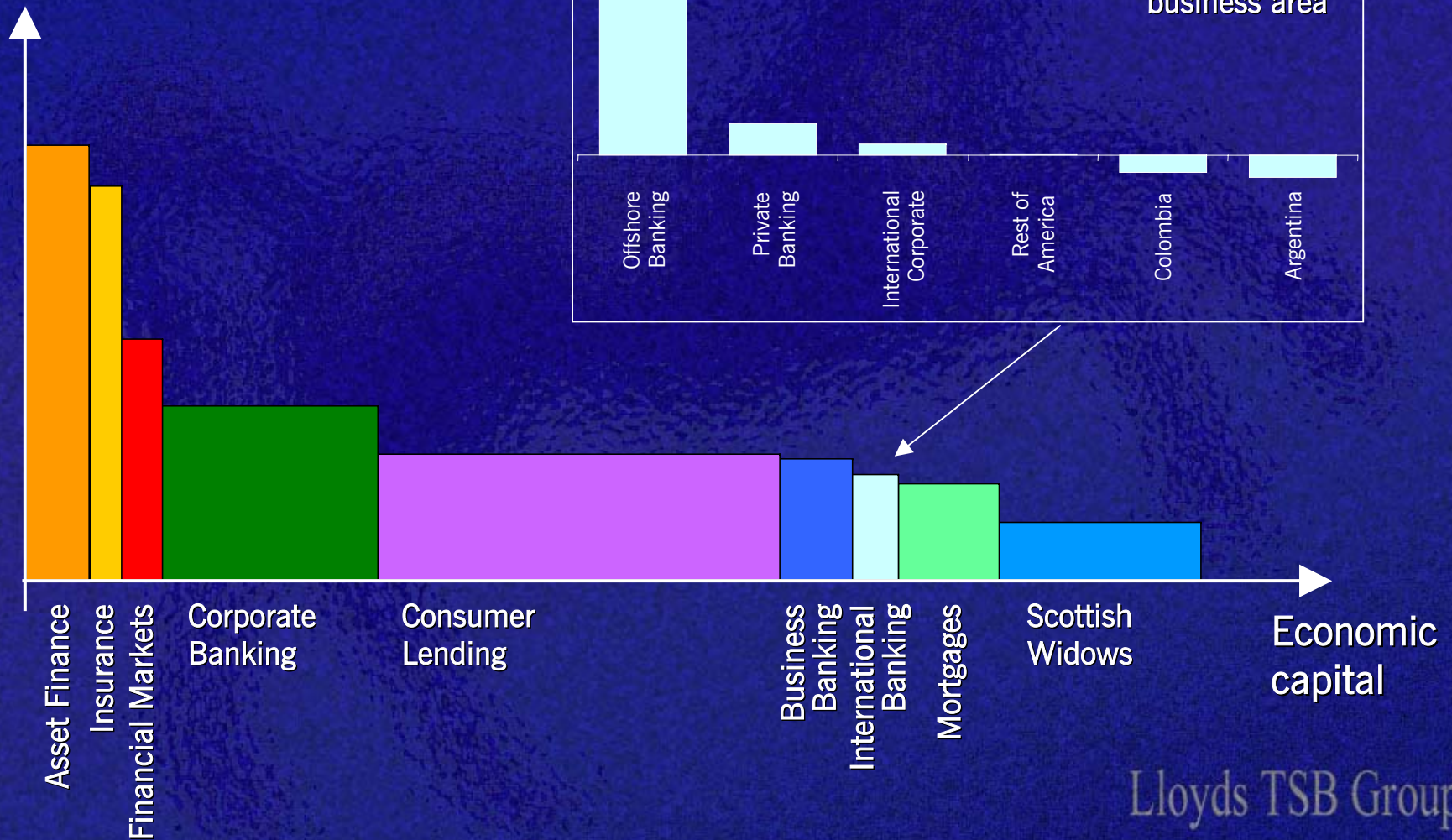
Return on Average Risk-weighted Assets*



* continuing operations, excluding investment variance, changes in economic assumptions and loss on sale of businesses

Maintain and build profitability

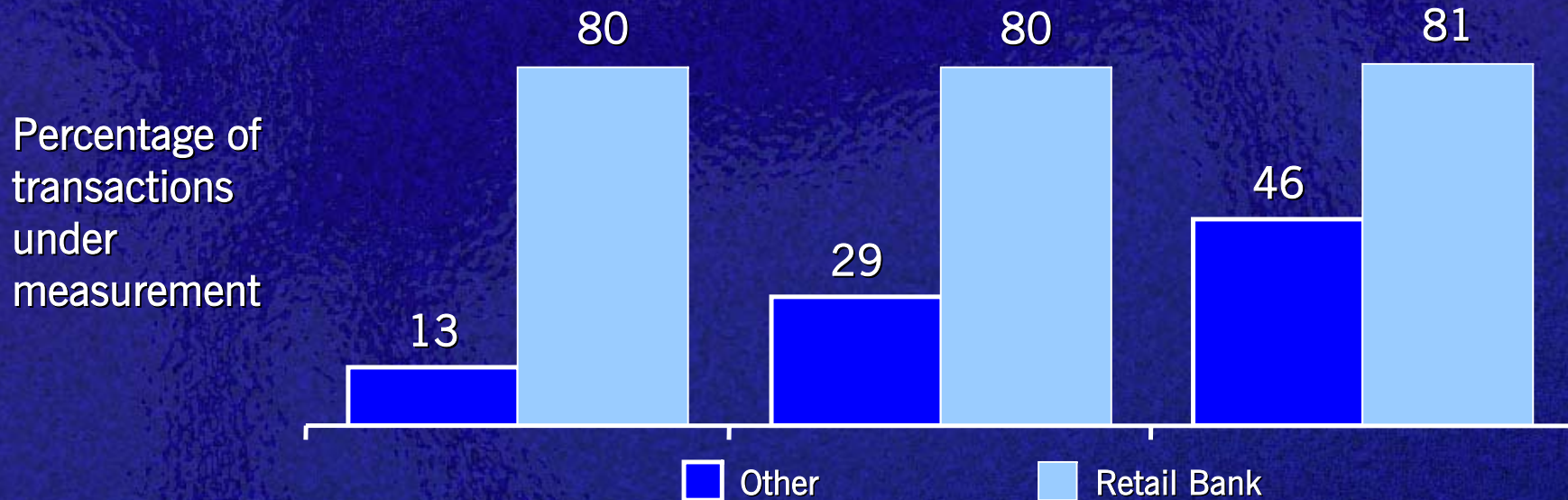
Economic profitability by business (RAROC minus Ke)



Maintain and build profitability

Sigma scores and coverage improving

| Re-works per million | June <u>2003</u> | December <u>2003</u> | June <u>2004</u> |
|----------------------|---------------------|-------------------------|---------------------|
| UK Retail Bank | 2,125 | 1,747 | 990 |
| Other | 58,723 | 25,948 | 21,818 |



Accelerating profitable growth

Our strategic focus

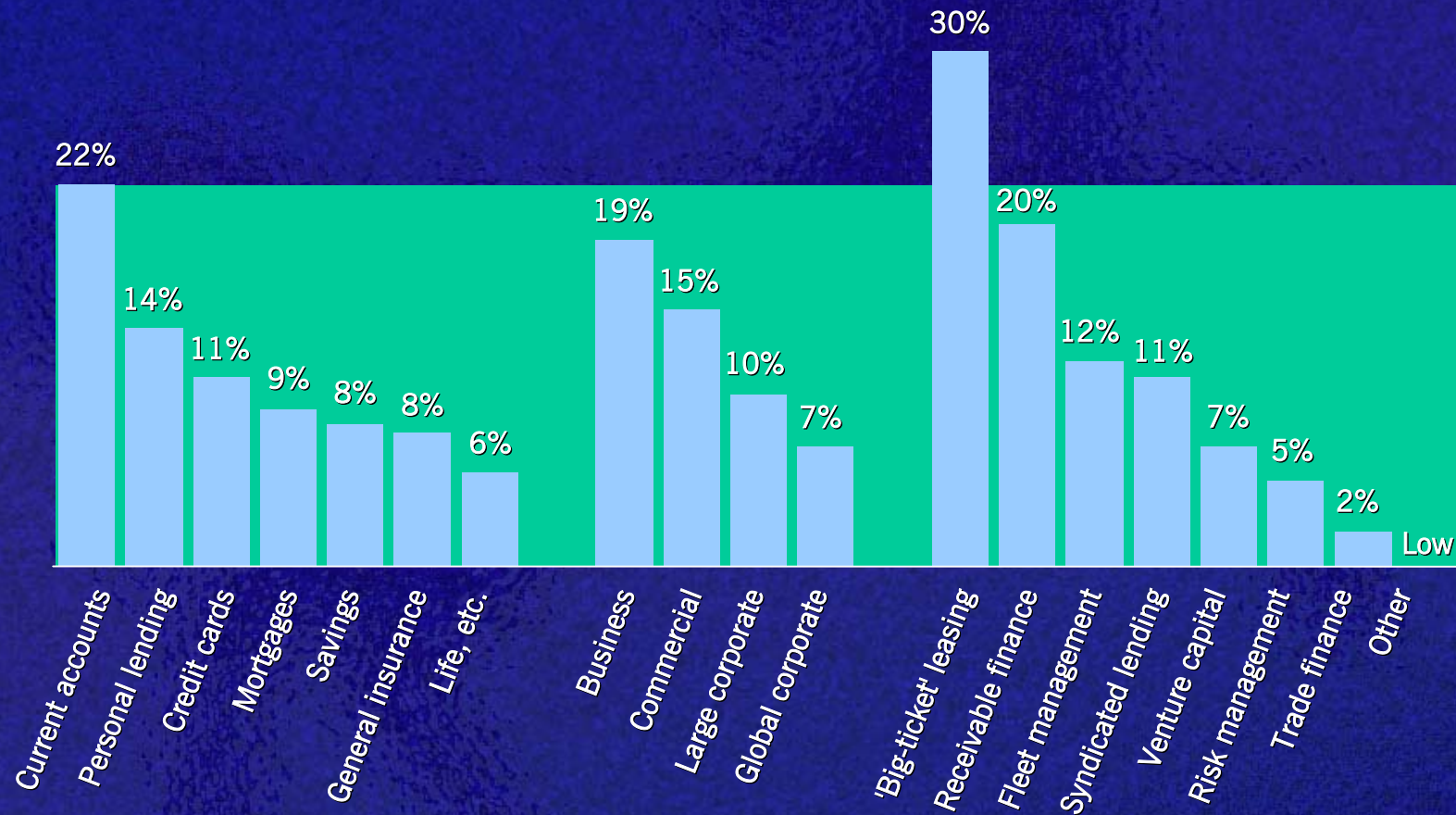
Product
Focus



Customer
Focus

Accelerating profitable growth

Our franchise opportunity



Source: BBA/Internal data (October 2003)

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Accelerating profitable growth

Three divisions, three stories

- | | |
|----------------------------|-------------------|
| – UK Retail Banking | Maintain momentum |
| – Wholesale & Int. Banking | Build momentum |
| – Insurance & Investments | Recover |

Maintaining momentum in the retail bank

Our objectives

- Acquire and retain quality customers
- Deepen customer relationships
- Grow economic profit faster than the market

What have we done

- Reorganised branch network
- Made each local market profit accountable
- Rolled out segmented customer offers
- Recalibrated branch scorecard

UK Retail Bank

Balance market share trends

| | June 2003 | December 2003 | June 2004 |
|-------------------|--------------|------------------|--------------|
| Mortgages: | | | |
| Net lending | 11% | 6% | 10% |
| Gross new lending | 10% | 8% | 9% |
| Credit cards | 11% | 13% | 13% |
| Overdrafts | 13% | 13% | 13% |
| Loans | 8% | 9% | 9% |
| Current accounts | 22% | 21% | 22% |
| Personal deposits | 10% | 9% | 9% |

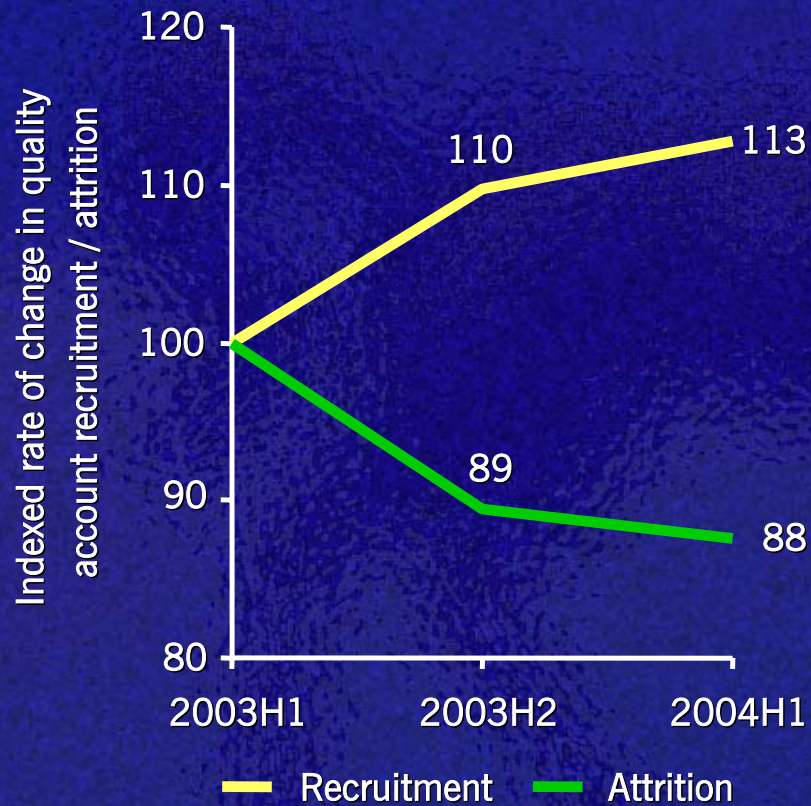
Source: Bank of England, British Bankers Association; mortgage data based on 6 months cumulative data; current accounts data March CACI

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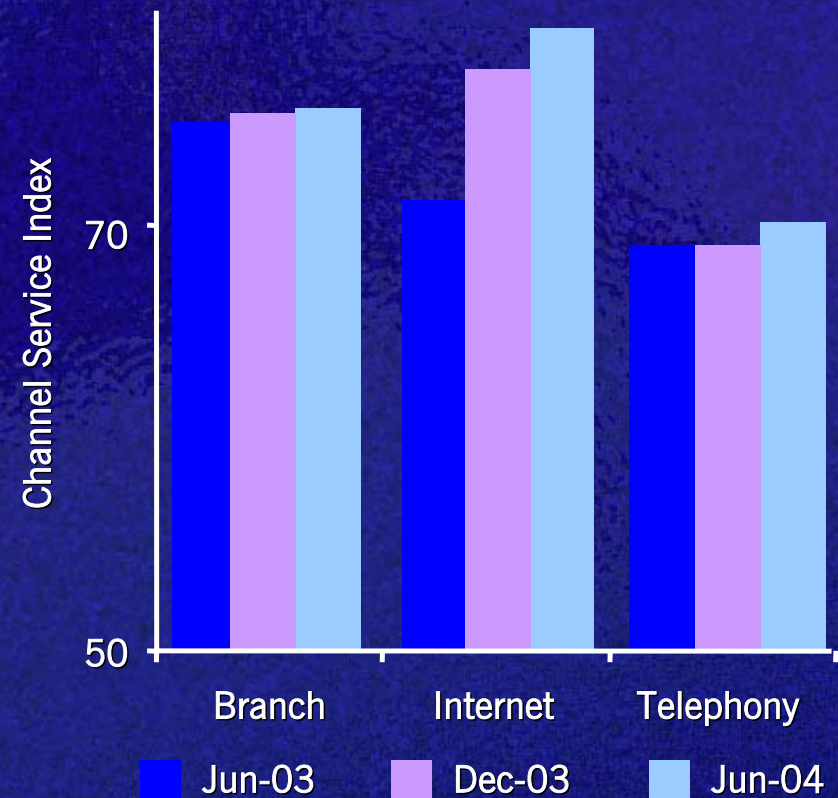
UK Retail Bank

We are improving our recruitment and retention of quality customers and our service is improving

Quality customer recruitment and attrition



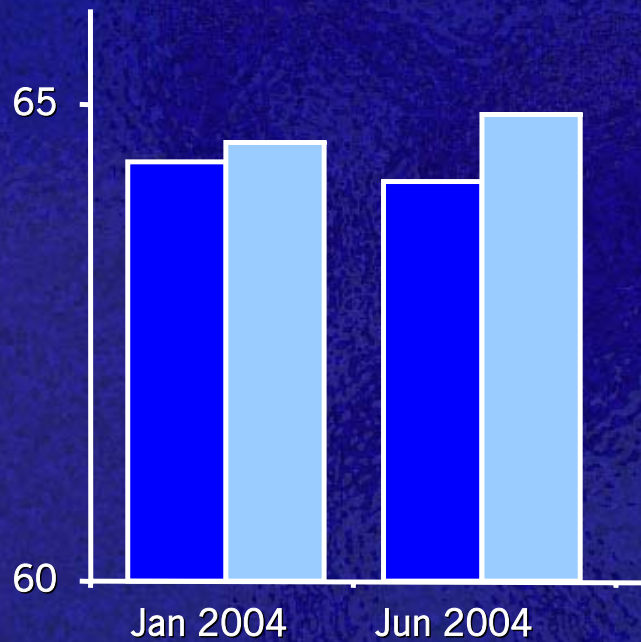
Channel touch scores



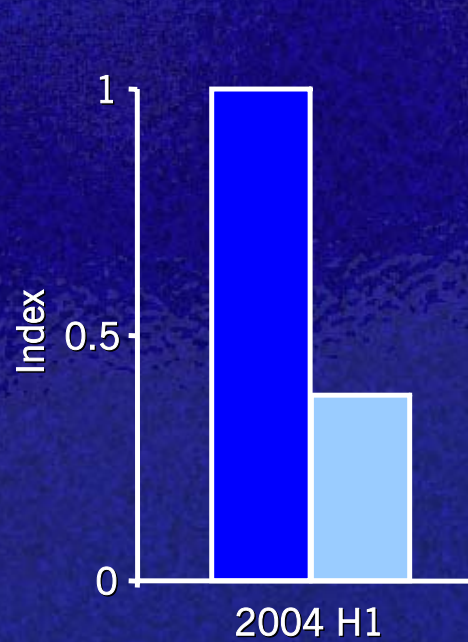
UK Retail Bank

Relationship intensity is driving higher customer satisfaction, lower attrition and enhanced profitability

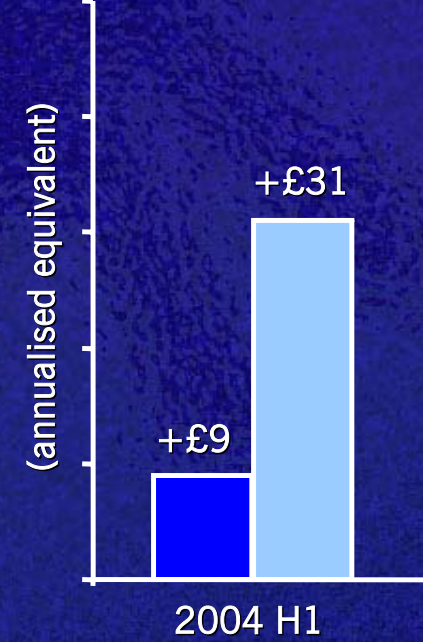
Customer service index



Relative customer attrition rate



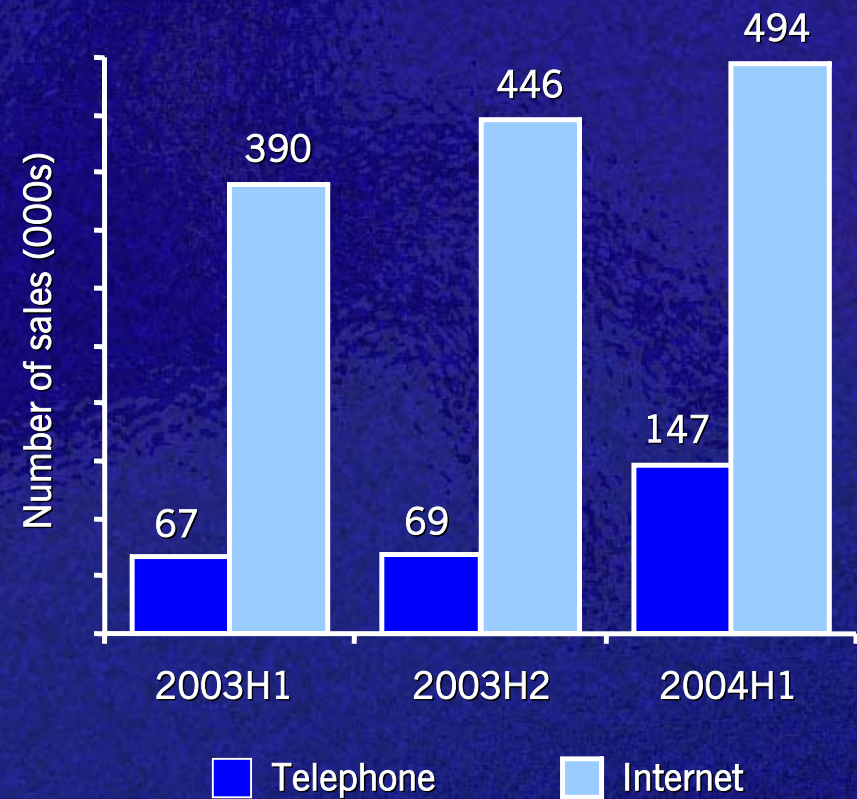
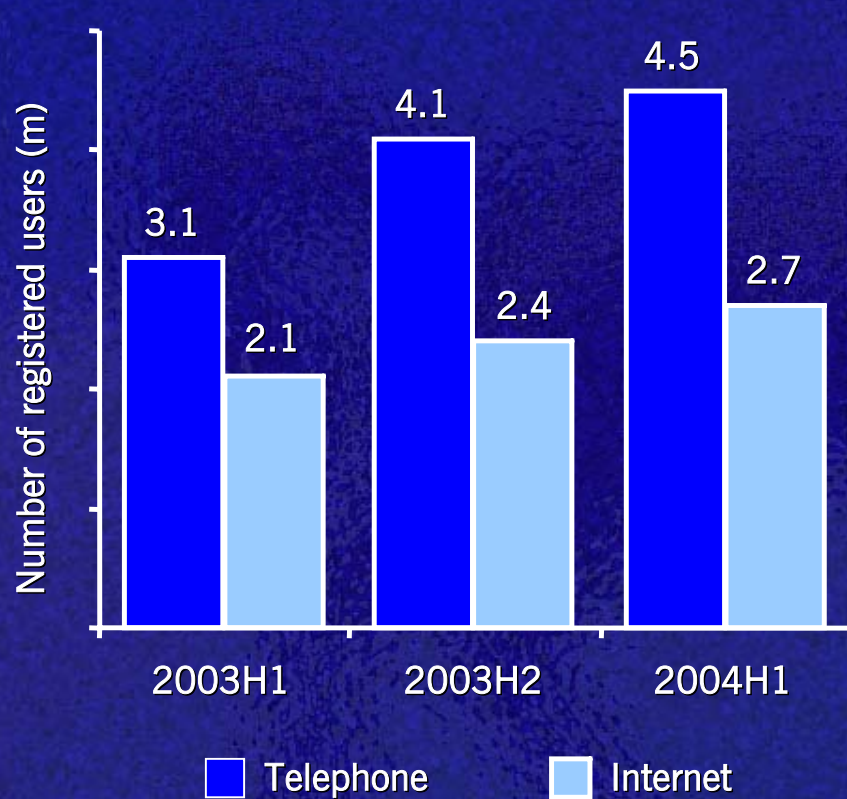
Incremental profit per customer



■ Non-Privilege ■ Privilege

UK Retail Bank

Number of internet and telephony customers continue to increase and there is good growth in direct sales



Building wholesale banking momentum

Our objectives

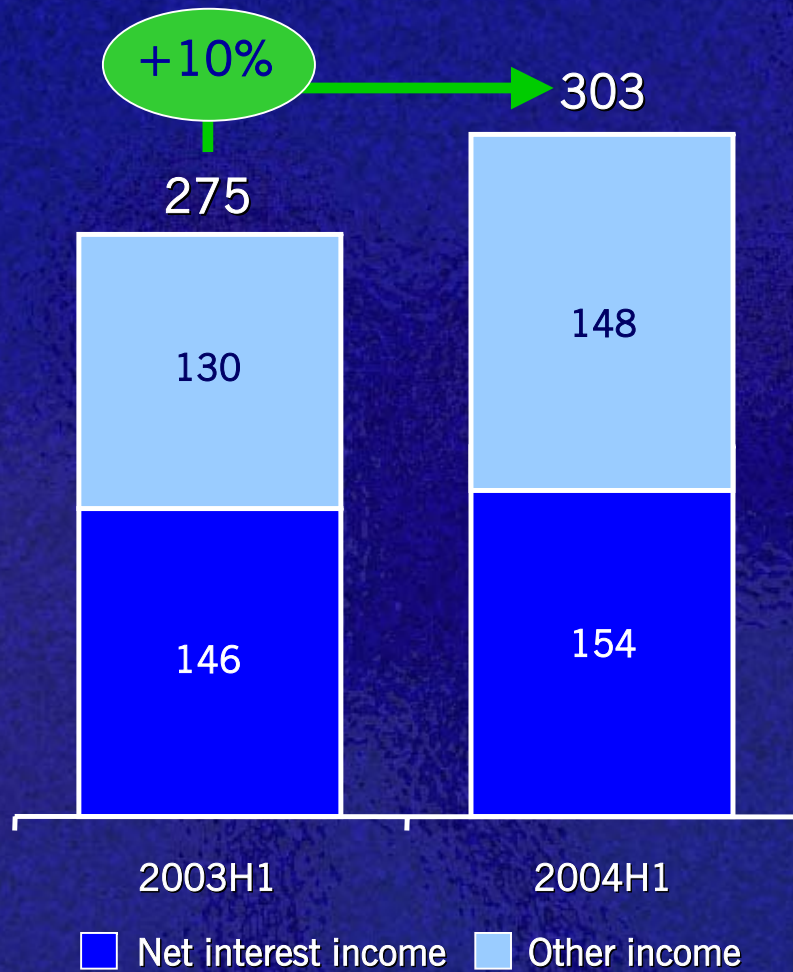
- Develop revenue streams by increasing share of wallet
- Improve customer transition through the offers

What have we done

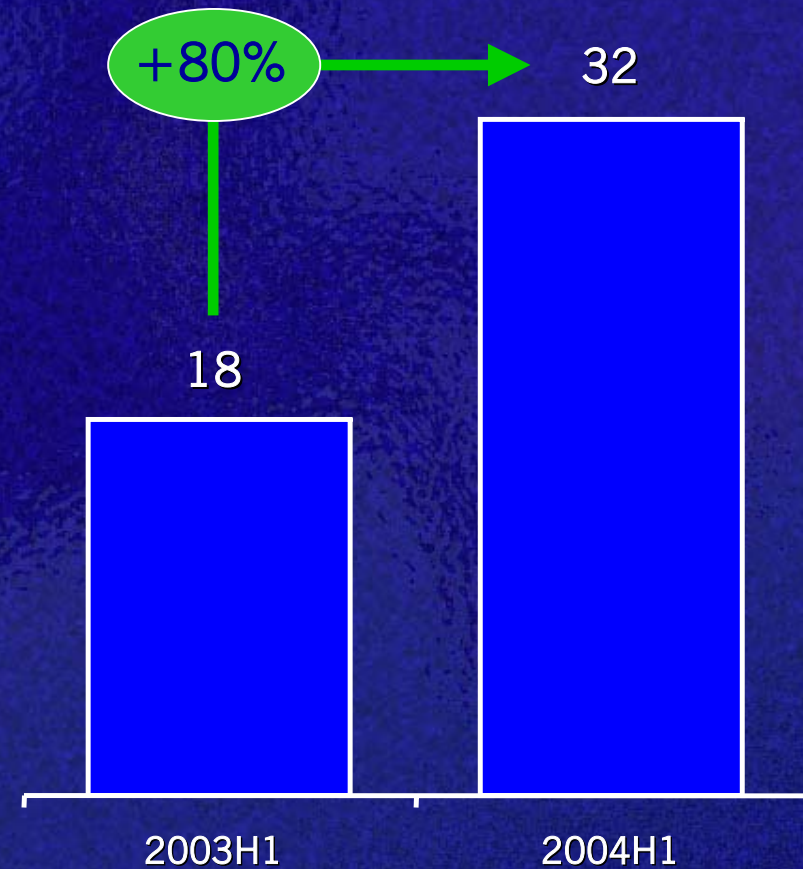
- Increased focus on relationship value by changing measurement of success
- Increased customer-facing staff
- Investing in regional centres
- Developed better information systems

Wholesale & International

Corporate Relationship Banking
Income (£m)



Financial Markets Income from
Cross-selling (£m)



Continuing operations basis

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Wholesale & International

All businesses contributing to growth

| <u>Growth in profit before tax £m</u> | <u>H1 2004 on H1 2003</u> |
|---|---------------------------|
| Wholesale Bank* | 22% |
| Business Banking | 19% |
| Asset Finance | 46% |
| International Banking | 77% |
| Total Wholesale & International Banking | <hr/> 26% |

* includes Corporate Banking and Financial Markets; continuing operations excluding loss on sale of businesses

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Recovery in Insurance & Investments

Our objectives

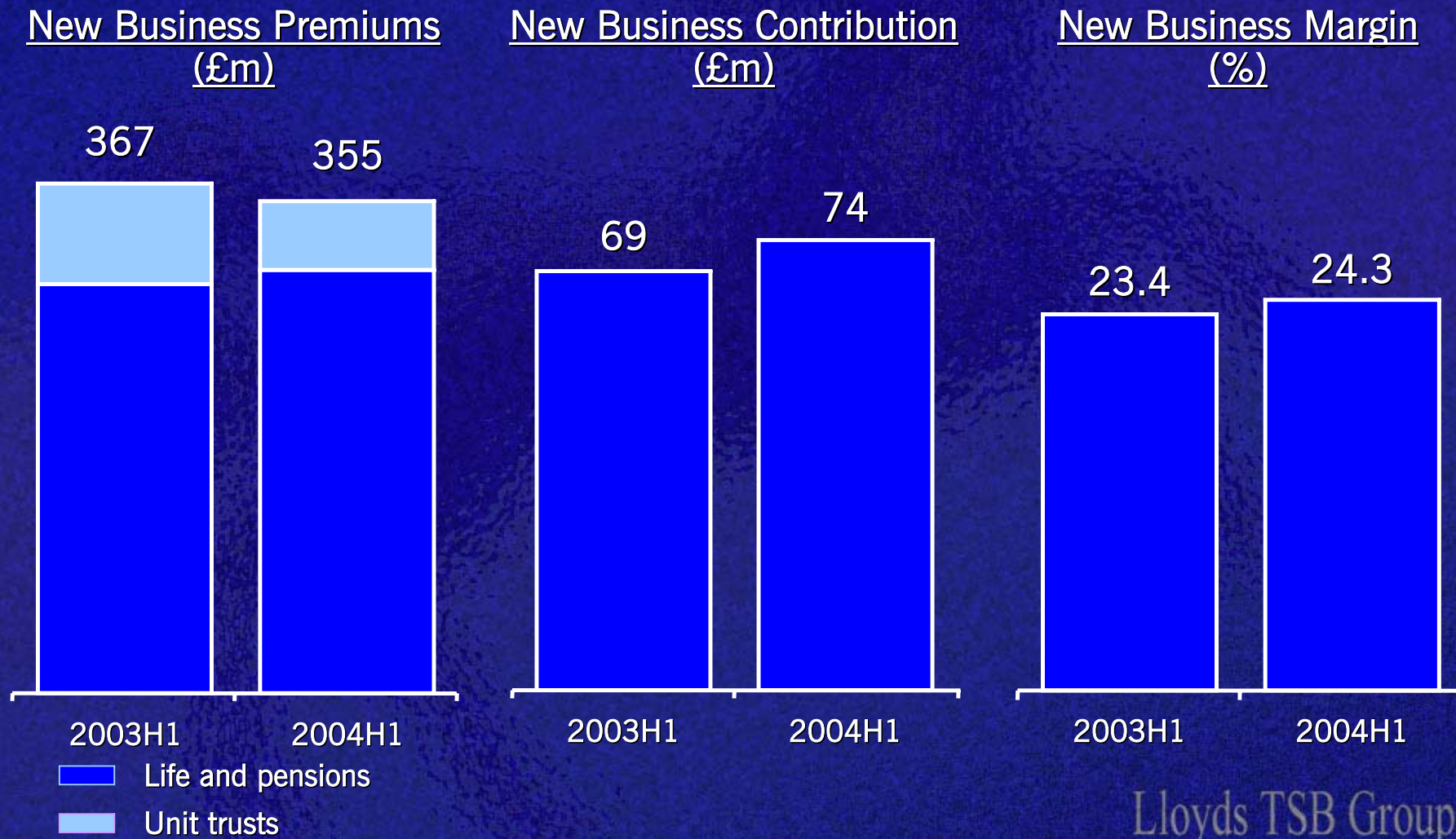
- Make bancassurance work
- Continue developing the IFA channel
- Manage the capital intensity of business
- Grow direct channels in Insurance

What have we done

- Developed channel-specific tailored products
- Strengthened sales force and processes
- Greater focus on new business profitability

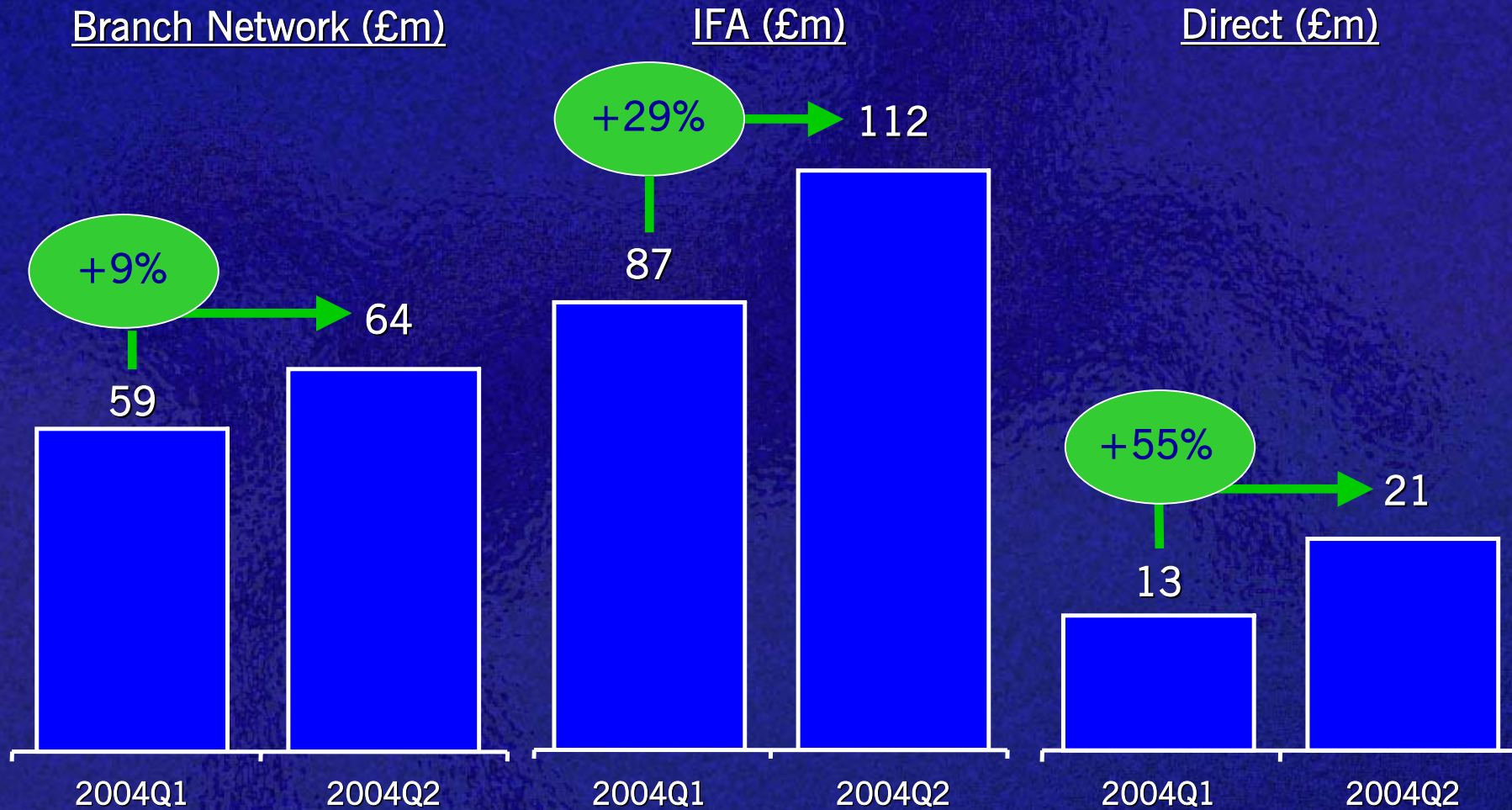
Insurance & Investments

Improvement in new business margin



Insurance & Investments

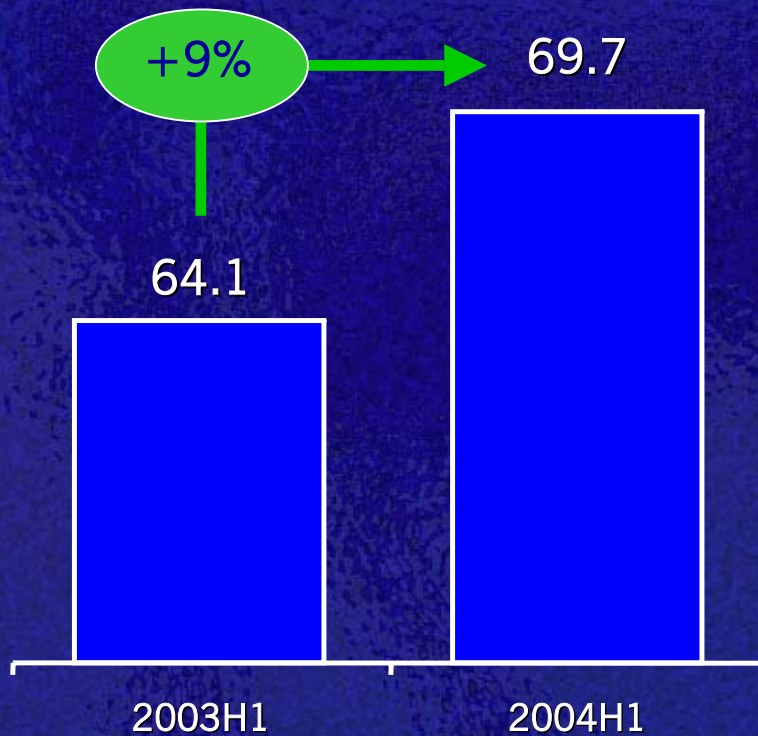
Sales momentum building during the first half



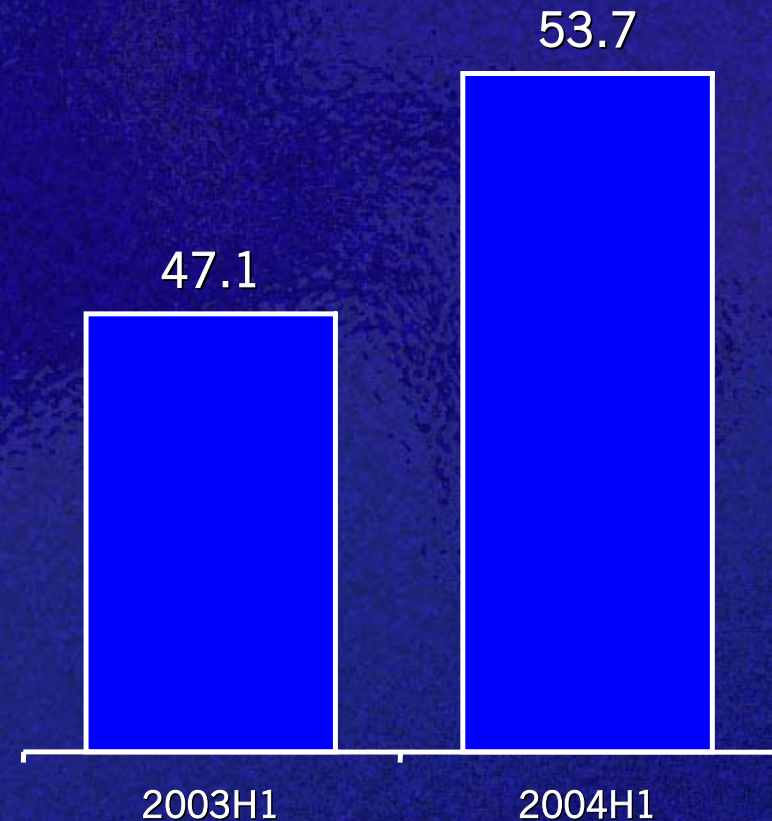
Insurance & Investments

Growth in direct insurance sales

Telephone and Internet Sales
Gross Written Premiums £m



Direct Sales as a percentage of
total sales*



* excluding creditor insurance

Results overview

- One year into the strategy
- Well advanced in:
 - Managing down volatility
 - Building returns
- Beginning to grow
- Profits up 8%

Continuing operations basis: excludes investment variance, changes in economic assumptions, loss on sale of businesses and includes £57 million notional interest earned on sale proceeds of businesses sold in 2003

Forward looking statements

This document is a summary only of certain information contained in the announcement dated 30 July 2004 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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