annual review

Lloyds TSB Group plc

2002

Lloyds TSB Group

consumer credit up 17% to £14.9 billion

Profit before tax

By main businesses

	2002 £ million	2001* £ million
UK Retail Banking and Mortgages	**1,172**	1,205
Insurance and Investments	**1,231**	1,421
Wholesale Markets	**626**	852
International Banking	**379**	357
Central group items	**96**	185
Profit before tax, excluding changes in economic assumptions and investment variance	**3,504**	4,020
Changes in economic assumptions	**55**	–
Investment variance	**(952)**	(859)
Profit before tax	**2,607**	3,161
Earnings per share	**32.0p**	40.3p

* *Restated to reflect the implementation of UITF33, 'Obligations in capital instruments', FRS17, 'Retirement benefits', FRS19, 'Deferred tax' and detailed guidance from the Association of British Insurers for best practice in the preparation of results using the achieved profits method of accounting. 2001 figures have been restated to incorporate efficiency programme related restructuring costs within business units, and the reclassification of emerging markets debt earnings from International Banking to Central group items.*

Our governing objective is to maximise shareholder value over time

To meet our governing objective we aim:

- To be a leader in our chosen markets
- To be the first choice for our 16 million customers
- To reduce day-to-day operating costs through increased effectiveness

Final dividend

A final dividend of 23.5p per share will be paid on 7 May 2003. This makes a total dividend for 2002 of 34.2p, an increase of 1.5 per cent.

Dividends per share (pence)

Presentation of results

During 2002 the Group implemented a number of changes in accounting policies following the issue of new accounting standards and guidelines: Urgent Issues Task Force Abstract 33 – 'Obligations in capital instruments', FRS 17 – 'Retirement benefits', FRS 19 – 'Deferred tax', and detailed guidance from the Association of British Insurers (ABI) for best practice in the preparation of results using the achieved profits method of accounting. In accordance with the requirements of accounting standards, the Group has restated comparative figures to reflect these changes.

In order to provide a clearer representation of the underlying performance, the results of the Group's life and pensions business include investment earnings calculated using longer-term investment rates of return and annual management charges based on unsmoothed fund values. The difference between the normalised investment earnings and the actual return ('the investment variance') together with the impact of changes in the economic assumptions used in the embedded value calculation have been separately analysed and a reconciliation to the Group's profit before tax is given on this page.

Market leadership in personal finance

During 2002, the Group increased its market share in both personal loans and credit card lending. Personal loan balances increased by 15 per cent to £8.6 billion, while more than 700,000 new credit cards were issued, leading to a growth of 27 per cent in credit card balances outstanding to £4.9 billion.

The businesses of Lloyds TSB

The group

Lloyds TSB is a leading UK-based financial services group, whose businesses provide a comprehensive range of banking and financial services in the UK and overseas. At the end of 2002 total group assets were £253 billion and there were over 79,000 employees. Market capitalisation was £24.8 billion.

The main businesses and activities of the Group during 2002 are described below:

UK Retail Banking and Mortgages

A full range of banking and financial services to some 15 million personal and small business customers through more than 2,200 branches throughout the UK, as well as telephone and internet banking services. Cheltenham & Gloucester is the Group's specialist residential mortgage provider, selling its products through branches of C&G and Lloyds TSB Bank in England and Wales, as well as through the telephone, internet and postal service, C&G TeleDirect. The Group is the third largest mortgage lender in the UK, with a market share of 9.3 per cent. Pre-tax profit from UK Retail Banking and Mortgages was £1,172 million.

Insurance and Investments

Scottish Widows is the Group's specialist provider of life assurance, pensions and investment products, distributed through the Lloyds TSB branch network, through independent financial advisers and directly via the telephone and the internet. Insurance and Investments also includes general insurance underwriting and broking, and fund management. Operating profit was £1,231 million.

Wholesale Markets

Banking, treasury, large value lease finance, share registration, venture capital, and other related services for major UK and multinational companies, banks and financial institutions, and medium-sized UK businesses; and Lloyds TSB Asset Finance. In 2002, pre-tax profit from Wholesale Markets was £626 million.

International Banking

Banking and other financial services overseas in three main areas: The Americas, New Zealand, and Europe and Offshore Banking. Profit before tax from International Banking was £379 million.

Forward looking statements

This document contains forward looking statements with respect to the business, strategy and plans of the Lloyds TSB Group, its current goals and expectations relating to its future financial condition and performance. 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 business and equity risk in its insurance businesses, changing demographic trends, unexpected changes to regulation or regulatory actions, changes in customer preferences, competition and other factors. Please refer to the Annual Report on Form 20-F of Lloyds TSB Group filed with the US Securities and Exchange Commission for a discussion of such factors.

This annual review, including the summary financial statement on pages 10, 11 and 13, does not contain sufficient information to allow as full an understanding of the results and state of affairs of Lloyds TSB Group as would be provided by the full report and accounts. Shareholders who would like more detailed information may obtain a copy of the full report and accounts, free of charge, by completing the request form which accompanies this review.

customer deposit balances up 7% to £116.3 billion

Chairman's statement

Maarten van den Bergh

The turmoil surrounding the operating, regulatory and stockmarket environment in which we operate has been unprecedented in recent times.

Whilst these issues have had a direct effect on the Group's results for 2002, and are likely to continue to have an impact until some stability returns to global stockmarkets, they do not impact our long-term strategic goals, the fundamental strength of the Group or the way in which we run our business. In the UK, from where the Group derives the vast majority of its earnings, the slowdown in economic growth has partly been alleviated by the continued strength of the housing market and high levels of consumer spending. We expect levels of growth in the housing market and consumer spending to fall during 2003 although overall economic growth for the year is expected to be slightly higher than the 1.7 per cent growth experienced in 2002.

Our strategic aims

The Group remains totally committed to maximising shareholder value over time and our business units continue to be focused on the Group's three strategic aims: to be a leader in our chosen markets, to be first choice for our customers and to drive down day-to-day operational costs to enable us to further invest in our business franchise. This is a strategy that is being well implemented and delivered, and ensures that the Group continues to seek the optimum balance between short-term profit growth and investment in the future of the business, to create sustainable long-term value for all our stakeholders.

Our results

Notwithstanding the slowdown in the UK and all major global economies, Lloyds TSB continues to trade satisfactorily, with strong market share performances in many of its key product areas, and good growth in customer lending and deposits. During the year the Group also achieved its target of an average 2.5 products per customer, whilst maintaining its strict control on operational expenses with costs in 2002, excluding acquisitions and growth in operating lease depreciation, held flat, in part as a result of the significant investment in efficiency programmes made over the last three years. Profit before tax for the year, however, fell by 18 per cent to £2,607 million, partly as a result of a significant increase in provisions for bad and doubtful debts but also as a result of a number of special items including additional provisions for redress to past purchasers of certain pension and endowment products and a higher negative investment variance of £952 million in our insurance businesses, reflecting the weakness of equity markets.

The high level of government interference in all areas of our business has continued throughout 2002 and into 2003. The annual cost of responding to this government intervention is substantial and in 2003 the cost of implementing the findings of the Competition Commission's 'Report into the supply of banking services to small and medium-sized enterprises' is alone likely to be in the region of £150 million.

This industry is already immensely competitive. If the Government wishes to foster greater competition within financial services it should recognise that the level of returns available must be acceptable to both existing and new competitors.

The Government's interventions include the removal of dividend tax credits – increasing corporate pension contributions – the cost of the Universal Bank and the automation of benefits, as well as more specific price controls in both the banking and pensions businesses.

If interference continues, there is a danger that one of the UK's great success stories – the financial services industry – will be less able to compete on the world financial scene where the really strong players will dominate in the future.

Market leadership in home insurance

With over 9 million policies in force, Lloyds TSB Insurance is one of the largest distributors of personal lines general insurance in the UK, with market leadership in the distribution of home and creditor insurance.

Dividend

The Group continues to generate strong cashflows from its banking businesses and, excluding investment variance, the profit attributable to shareholders in 2002 was £2,496 million. The Board has decided to maintain the final dividend at 23.5p, to make a total for the year of 34.2p, an increase of 1.5 per cent. The Board is mindful of the level of dividend cover and, consequently, profit growth may not necessarily result in increases in dividend. The Board recognises the importance attached by shareholders to the Group's dividend.

Our people

In all of my dealings with staff throughout the Group it never ceases to amaze me how professional and motivated the entire staff of the Group continues to be, in the face of very difficult circumstances. Lloyds TSB's continuing success is underpinned by the significant contribution made by its entire staff and the Group's people strategy will continue to be shaped around harnessing this superb commitment, creating a workplace where staff understand their roles and contribution, and continue to feel proud to work for Lloyds TSB. I know the management and staff remain as committed as ever to the future development of the Group and delivery of value to its shareholders.

Board changes

After more than 40 years in the banking industry and over 12 years of outstanding service and leadership to TSB and the Lloyds TSB Group, Peter Ellwood will retire on 31 May 2003. His tremendous contribution to the Group has included bringing together Lloyds Bank and TSB in a most effective combination. Our highest regards and warmest wishes go with him. I am delighted that Peter will be succeeded by Eric Daniels, who has exceptional financial services experience throughout the world, and who has already made a significant impact on the quality and positioning of our retail business. Peter Ayliffe will succeed Eric Daniels as Group Executive Director, UK Retail Banking, and join the Board on 1 June 2003. We shall also bid farewell to Kent Atkinson who retires, with our best wishes, at the annual general meeting after more than 38 years with the Group. He was succeeded as Group Finance Director by Philip Hampton, who joined the Board on 1 June 2002.

Alan Moore, Deputy Chairman, will also be leaving the Board at the annual general meeting after 23 years of valuable service, including 14 as a member of the Board, and will be replaced by David Pritchard, who will retire as an executive director. Steve Targett will join the Board on 10 March 2003, and succeed David as Group Executive Director, Wholesale and International Banking, following the annual general meeting.

Other non-executive directors leaving the Board at the annual general meeting are Clive Butler, who has served since 1993, and Sheila Forbes, who joined the Board in 1994.

All the departing directors leave with our warm thanks for their contribution to the Group over many years.

Our future

The business environment in which we operate is characterised by increasing levels of competition, volatile equity markets and increasing government intervention in, and regulation of, the financial services industry. Against this backdrop, Lloyds TSB will continue to focus on its long standing principles of prudent and sustainable revenue growth from the creation of value for customers, tight management of its cost base and strong credit risk management. With a clear focus on these core strengths, and supported by a dedicated and resourceful team of people, Lloyds TSB is well positioned for future growth and the challenges ahead.

Maarten van den Bergh
Chairman
13 February 2003

current account up 12% balances to £27.9 billion

Group chief executive's review

Peter Ellwood CBE

The trading environment of 2002 has been a substantial challenge for both the financial services industry and, within it, Lloyds TSB. In order to prosper in such a challenging environment it remains essential that the Lloyds TSB Group has in place a clearly defined strategy. To this end we remain committed to maximising shareholder value over time through leveraging world class leadership and management of our people to achieve our three strategic aims. We have made progress in a number of areas.

The year has been characterised by some encouraging features but also by a number of issues which have adversely affected the profit and loss account. The encouraging side of the story is the growth in market share in personal loans, credit cards, general insurance, and life and pensions, and the fact that we sold more products to more people than we have ever done before, with a record net increase in products of 1.6 million compared with 1.3 million last year. Our improved cross-selling ratio of 2.5 products per customer remains industry leading. Customer lending increased by 9 per cent and customer deposits increased by 7 per cent. Our efficiency programme delivered benefits in 2002 in line with our forecasts resulting in a significant improvement in our underlying efficiency. Excluding the impact of acquisitions and operating lease depreciation, operating costs were flat in comparison with 2001, and there was a reduction in our headcount of over 4,000. At the same time we have continued to invest heavily in improving our service to customers.

All these factors augur well for future sustainable growth. However, we have also had to absorb a number of significant hits to our profit and loss account. During the year we have experienced a reduction in profit of £952 million as a result of the adverse investment variance following the 24 per cent fall in the FT All Share Index during 2002. We have increased the Group's general provision by £50 million in respect of our business in Argentina and significantly increased our provisions in respect of certain US corporate customers as a result of their accounting and other irregularities. In addition, we have absorbed provisions totalling £205 million for redress to past purchasers of pensions and Abbey Life endowment and long-term savings products, much of which relates to policies written in the late 1980s and early 1990s. The Group has also experienced a reduction of £59 million in unit trust and asset management fees, largely as a result of stockmarket falls, a cost of £57 million to reflect the implementation of revised mortality assumptions in the Group's life businesses, and a £142 million reduction in income as a result of lower other finance income, following the adoption of Financial Reporting Standard 17. The overall impact of these issues meant that the Group's statutory pre-tax profits fell to £2,607 million from £3,161 million in 2001, and earnings per share fell by 21 per cent to 32.0p. Our post-tax return on equity was 16.7 per cent. Excluding changes in economic assumptions and investment variance, our post-tax return on equity was 23.0 per cent.

Within our businesses, the performance of retail banking is now benefiting from the substantial investments we have made to reposition the business for profitable growth. Product sales were at an all time high during 2002 and the Group continues to grow its current account customer franchise in the light of intense competition. Scottish Widows, in line with the rest of the life assurance industry, has experienced difficult trading conditions as a result of the considerable fall in equity markets. However, we believe the long-term growth prospects for this sector of the market, and for Scottish Widows in particular, remain

Market leadership in motor finance

In 2002, Lloyds TSB strengthened its leading position in the motor finance market, growing its business by 17 per cent. Lloyds TSB is also the leading contract hire and fleet management company in the UK, now managing a fleet of some 150,000 vehicles.

good. The long-term winners will be those with extensive customer franchises and distribution reach, augmented by economies of scale and strong brand power.

We have these in abundance. Our market leading general insurance business has continued to prosper and delivered very strong profitable growth, with pre-tax profits increasing by 16 per cent, compared with 2001.

In our wholesale markets and international banking businesses good growth has continued to be achieved in a number of our specialist businesses, although this growth has been offset by a significant increase in the level of corporate bad and doubtful debt provisions. Whilst overall credit quality continues to be robust, the Group does have a cautious outlook on a number of corporate sectors and exposures which has led to these higher levels of corporate provisioning. The economic situation in Argentina continues to be difficult and the outlook is likely to remain uncertain at least until after the new Argentine government takes office during 2003. During 2002 the Group increased its general provision for its exposure to Argentina by £50 million and the Group's total exposure to Argentina at the end of the year had been reduced to £190 million, net of provisions and charges, compared to £610 million a year ago.

Against the volatile background, it is essential that we are not swayed from the successful implementation of our vision and strategic aims.

As a Group we have a unifying vision whereby our first strategic aim is to be first choice for our customers because we understand and meet their needs more effectively than any of our competitors. It is a vision of a business where we truly create value for our customers; where our customers trust us enough to give us the privilege of looking after more of their business. It is a vision of a business where our staff understand the Group's strategy, understand what we are seeking to do, agree with it and know that what they do is vital to our future success. Our second strategic aim of being a leader in our chosen markets also links in to the customer. Market leaders earn higher returns and generate greater value, some of which can be passed on to the customer. Our third strategic aim of driving down day-to-day operational costs allows the Group to create headroom to invest for the future. Throughout the Group these three themes underpin the development of our businesses and in the last twelve months considerable progress has been made to meet these strategic aims and our world class aspirations.

First choice for our customers

The Group's strategy of maximising shareholder value over time can only be sustainably achieved by putting our customers at the heart of everything we do. Lloyds TSB's multi-channel banking infrastructure, including internet and telephony services, means that the Group can provide its customers with significant options in terms of both convenience and choice. The knowledge and expertise of our staff ensures that the Group provides comprehensive financial solutions to meet the needs of all of our customers. But the environment in which we work is changing rapidly as customer needs are evolving and as customers continue to seek greater value in terms of the benefits they receive from their products and services. Customers expect excellent customer service and error free operation of their banking arrangements. Those organisations that can develop a reputation for providing excellent customer service will retain existing customers and attract new ones. Over the last twelve months Lloyds TSB has made considerable progress in addressing customer service issues, and these improvements in customer service during 2002 have been a significant contributory factor to strong recruitment of new customers during the year and the improvement in the Group's cross selling rates.

A leader in our chosen markets

The Group continues to strengthen its market position in many of its key product

mortgage balances up 10% to £62.5 billion

areas despite high levels of competition throughout our business. In retail banking we continue to grow our customer franchise and during 2002 saw income growth of 5 per cent from our retail banking business. Our personal loan and credit card portfolios grew by 15 per cent and by 27 per cent respectively, again showing significant improvements in our market share. In Scottish Widows the second half of the year showed a good improvement in market share notwithstanding the very difficult stockmarket environment. In our general insurance business the Group further enhanced its UK market leadership position in the distribution of home and creditor insurance to deliver growth in premium and commission income of 19 per cent. Within asset finance, the Group has acquired First National Vehicle Holdings, Abbey National Vehicle Finance and the Dutton-Forshaw Group. These acquisitions have further enhanced the Group's leading position in UK motor finance. So, in most areas of our business, the Group continues to maintain and develop market leading positions to enable high levels of returns to be sustained, or improved.

Driving down our day-to-day costs

The Group is already amongst the leaders in cost efficiency. However, in a relatively low growth, low inflation and low interest rate macro-economic environment, cost control remains critically important. Augmented by our efficiency programmes the Group's control and focus on costs has meant that in 2002 costs, excluding the impact of acquisitions and operating lease depreciation, were held flat. Overall Group staff numbers decreased by 4,191 to 79,537 during 2002, after adjusting for an increase of 2,328 from acquisitions during the year. The Group will, of course, continue its significant programme of investment in improved efficiency, to support business growth.

On a personal note, we announced in December last year that I will retire as Group Chief Executive on 31 May 2003, shortly after my 60th birthday. I have thoroughly enjoyed my time at Lloyds TSB and it has been a great privilege to lead this organisation as Chief Executive for the last six years. I am delighted to hand over the mantle to Eric Daniels, who shares my passion for this organisation, and my drive to create value for our customers and shareholders by providing excellent products and superior service. He will be supported by a fantastic team of over 79,000 people across the Group to whom my heartfelt thanks go for their help and support over the years.

Lloyds TSB is an extremely successful organisation with strong returns on shareholders' equity and a first class efficiency ratio. However, the Group does operate in a world of greater competitive ferocity, greater regulation and a tough global economic environment, exacerbated by concerns over geo-political stability. The Group has continued to strive constantly to refresh existing and new revenue streams, build upon its financial and intellectual capital and optimally manage risk and cost. These are not easy times but we have three businesses, UK Retail Banking and Mortgages, Insurance and Investments, and Wholesale Markets and International Banking, all of which have considerable scope for sustainable profitable growth and which can build on the track record in income growth which the Group has seen over the last six years, with costs growing at a considerably slower pace. For any successful business to maintain and improve on such an excellent track record it is important to go forward with realism, confidence and excitement about the future. This, we do.

Peter Ellwood CBE
Group Chief Executive
13 February 2003

The leading corporate donor in the UK

Since 1996, the Lloyds TSB Foundations have received over £200 million to distribute to local charities.

Our work in the community

Lloyds TSB is committed to making a positive impact on local communities. As one of the UK's leading financial services organisations we recognise the need to play our part in tackling some of the social issues that confront the communities in which our business is based.

Our community programme was valued at £40 million in 2002 which makes us the UK's largest corporate giver. The majority of our support is channelled through the independent Lloyds TSB Foundations which receive one per cent of the Group's pre-tax profits, averaged over three years, instead of the dividend on their shareholdings. This year they will receive £33 million to distribute to grassroots causes which help to improve the quality of life for disabled and disadvantaged people.

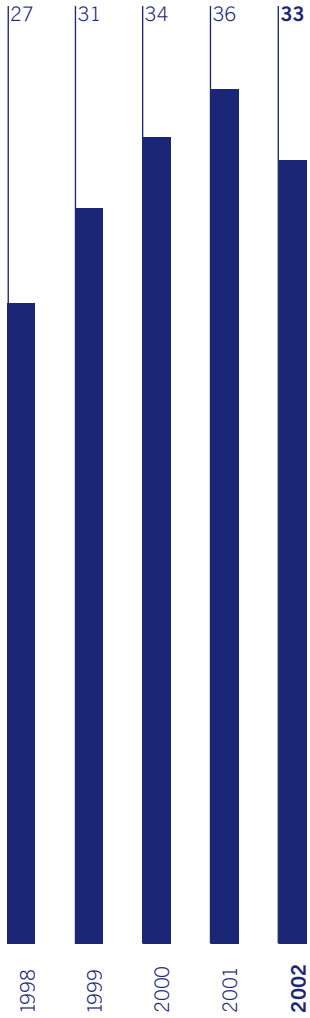
The Foundations also run a 'Matched Giving Scheme' for Lloyds TSB Group staff which matches money raised and time given to registered charities. In 2003 the Foundations have set aside £1.25 million to encourage staff to support local groups. We support national charities through our Charity of the Year campaign. In 2002 staff raised some £685,000 for the Royal National Institute for Deaf People to fund its Information and Tinnitus Helpline for one year. This year we aim to raise £750,000 for Help the Hospices, to support both adult and children's hospices across the country.

As well as providing charitable support, we also focus our resources on education and economic and social regeneration. Our Quality in Education programme promotes the use of a self-assessment and improvement tool which helps schools to drive their own efforts to raise standards. In 2002, the programme received a Business in the Community Impact Endorsement Mark in recognition of the results we have achieved. By working through local education authorities, professional teacher associations and in partnership with the Department for Education and Skills and the Cabinet Office, the programme has been introduced to over 4,000 schools so far.

Business has an important role to play in neighbourhood renewal which is why we work with community based organisations to foster economic and social regeneration. Our programme focuses on creating access to finance in disadvantaged communities, providing backing for small business and encouraging entrepreneurship among young people.

One of our main projects this year has been the development of the Wessex Reinvestment Trust (WRT) which will deliver loan services to develop enterprise and facilitate access to affordable housing and workspace. This is the first entirely rural community finance initiative which seeks to provide a springboard for rural regeneration in Devon, Dorset and Somerset.

Distribution to the Lloyds TSB Foundations (£m)



Summary consolidated profit and loss account

for the year ended 31 December 2002

	2002 £ million	2001* £ million
Net interest income	**5,171**	4,922
Other finance income	**165**	307
Other income	**3,542**	3,660
Total income	**8,878**	8,889
Operating expenses	**4,915**	4,776
Trading surplus	**3,963**	4,113
General insurance claims	**229**	174
Provisions for bad and doubtful debts	**1,029**	747
Amounts written off fixed asset investments	**87**	60
Operating profit	**2,618**	3,132
Income from joint ventures	**(11)**	(10)
Profit on sale of businesses	**–**	39
Profit on ordinary activities before tax	**2,607**	3,161
Tax on profit on ordinary activities	**764**	875
Profit on ordinary activities after tax	**1,843**	2,286
Minority interests	**62**	57
Profit for the year attributable to shareholders	**1,781**	2,229
Dividends	**1,908**	1,872
(Loss) profit for the year	**(127)**	357
Earnings per share	**32.0p**	40.3p
Diluted earnings per share	**31.8p**	39.9p
	£000	£000
Directors' emoluments	**5,864**	5,749

Summary consolidated balance sheet

at 31 December 2002

	2002 £ million	2001* £ million
Assets		
Cash and liquid funds	**3,549**	5,652
Loans and advances to banks	**17,529**	15,224
Loans and advances to customers	**134,474**	122,935
Investments	**29,565**	24,489
Intangible fixed assets	**2,634**	2,566
Tangible fixed assets	**4,096**	3,365
Other assets†	**9,343**	8,807
Long-term assurance business attributable to the shareholder	**6,228**	6,366
	207,418	189,404
Long-term assurance assets attributable to policyholders	**45,340**	46,389
	252,758	235,793
Liabilities		
Deposits by banks	**25,443**	24,310
Customer accounts	**116,334**	109,116
Debt securities in issue	**30,255**	24,420
Other liabilities†	**16,515**	12,548
Subordinated liabilities (loan capital)	**10,168**	8,108
Minority interests	**731**	546
Shareholders' funds (equity)	**7,972**	10,356
	207,418	189,404
Long-term assurance liabilities to policyholders	**45,340**	46,389
	252,758	235,793
Memorandum items††		
Contingent liabilities	**10,346**	7,963
Commitments	**64,504**	53,342

* Figures for 2001 have been restated to reflect the implementation of UITF33, 'Obligations in capital instruments', FRS17, 'Retirement benefits', FRS19, 'Deferred tax' and detailed guidance from the Association of British Insurers for best practice in the preparation of results using the achieved profits method of accounting.

† Other assets and other liabilities comprise mainly foreign exchange and interest rate contracts, post-retirement benefit assets and liabilities and items in course of transmission.

†† Contingent liabilities comprise mainly guarantees; commitments include undrawn formal standby facilities, credit lines and other commitments to lend.

The summary financial statement on pages 10, 11 and 13 was approved by the directors on 13 February 2003.

M A van den Bergh
Chairman

P B Ellwood CBE
Group Chief Executive

P R Hampton
Group Finance Director

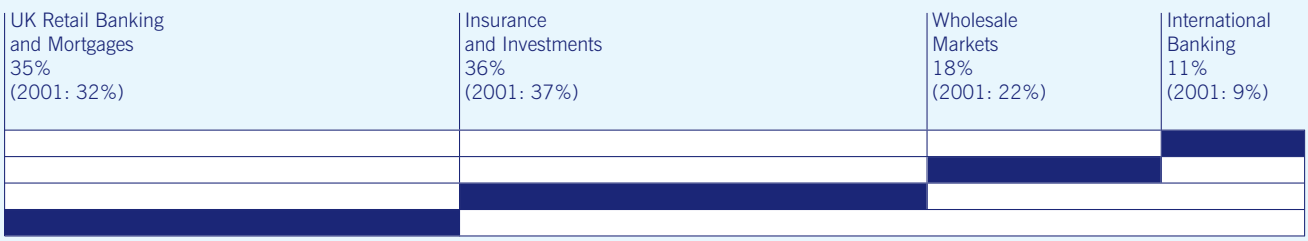
Five year financial summary

	2002	2001	2000	1999	1998
Results £m					
Profit before tax	**2,607**	3,161	3,785	3,529	2,948
Profit after tax	**1,843**	2,286	2,703	2,445	2,086
Profit attributable to shareholders	**1,781**	2,229	2,654	2,439	2,073
Economic profit	**821**	1,119	1,524	1,522	1,189
Share information					
Earnings per share	**32.0p**	40.3p	48.4p	44.8p	38.4p
Dividends per share (net)	**34.2p**	33.7p	30.6p	26.6p	22.2p
Market price (year-end)	**446p**	746p	708p	774p	855p
Net assets per share	**141p**	184p	213p	212p	170p
Number of shareholders (thousands)	**973**	981	1,026	1,024	1,028
Average shares in issue (millions)	**5,570**	5,533	5,487	5,445	5,400
Performance measures %					
Post-tax return on average shareholders' equity	**16.7**	18.1	21.1	23.9	23.5
Post-tax return on average assets*	**0.93**	1.28	1.68	1.63	1.48
Post-tax return on average risk-weighted assets*	**1.61**	2.26	3.07	2.94	2.62
Efficiency ratio	**55.4**	53.7	48.8	46.7	52.1
Balance sheet £m					
Shareholders' equity	**7,972**	10,356	11,901	11,760	9,333
Assets*	**207,418**	189,404	169,587	153,172	146,475
Total assets	**252,758**	235,793	220,672	179,714	170,167
Risk asset ratio: total capital (%)	**9.6**	8.8	8.7	14.9	11.2
tier 1 capital (%)	**7.8**	7.8	8.0	9.9	8.6

* Assets exclude long-term assurance assets attributable to policyholders.

Note:
Figures for 2001 and earlier years have been restated to reflect the implementation of UITF33, 'Obligations in capital instruments', FRS17, 'Retirement benefits', FRS19, 'Deferred tax' and detailed guidance from the Association of British Insurers for best practice in the preparation of results using the achieved profits method of accounting.

Quality of earnings



Excluding central group items, changes in economic assumptions and investment variance

Directors' report

Summary directors' report

An interim dividend of 10.7p per ordinary share was paid on 9 October 2002 and a final dividend of 23.5p per ordinary share will be paid on 7 May 2003.

The Company is a holding company and its subsidiaries provide a wide range of banking and financial services through branches and offices in the UK and overseas.

A review of the business and an indication of future developments are given on pages 3 to 9.

Biographical details of directors are shown on pages 14 and 15. Mr Urquhart left the board at the annual general meeting in 2002. Mr Atkinson, Mr Butler, Miss Forbes and Mr Moore will leave the board at the annual general meeting in 2003.

Mr Gemmell became a director on 17 April 2002 and was elected at the annual general meeting on that day.

Mr Hampton joined the board on 1 June 2002 and Mr Targett will join the board on 10 March 2003. Under the articles of association they offer themselves for election at the annual general meeting. Mr Kane and Mr Ross retire by rotation at the annual general meeting and offer themselves for re-election.

Particulars of the directors' interests in shares in the Company are shown in the full report and accounts.

Directors' remuneration

Full details of the Group's remuneration policy for directors as well as details of remuneration earned by directors in 2002 can be found in the directors' remuneration report within the full report and accounts. These can be accessed through the Group's website at www.investorrelations.lloydstsb.com or a copy can be obtained by completing the request form that accompanies this annual review. Shareholders will be asked to vote to approve the remuneration report at the forthcoming annual general meeting.

In accordance with recent legislation, summaries of selected sections from the remuneration report have also been included in this review.

Summary of directors' remuneration policy

The Group aims to ensure that the executive directors' remuneration arrangements, in line with the Group's overall practice on pay and benefits, are competitive and designed to attract, retain and motivate executive directors of the highest calibre, who are expected to perform to the highest standards. Account is taken of information, from internal and independent sources, on the remuneration for comparable positions in a wide range of FTSE 100 companies. The strategy for executive directors' pay is for basic salaries to reflect the relevant market median; for benefits such as company car, medical insurance and pension to reflect market practice; and for total direct compensation (basic salary, annual incentives and the value of long-term incentives) to be at the upper quartile of the market place, provided that performance justifies the amount. This strategy is consistent with the Group's belief that performance should determine a significant proportion of the total remuneration package for executive directors.

The current package for executive directors comprises basic salary, a bonus receivable under the annual incentive scheme, share options which are exercisable only if challenging performance conditions are satisfied and a pension based on salary and length of service with the Group, with a maximum pension of two-thirds of final salary. As part of his recruitment package Mr Daniels participates in a share retention plan. The executive directors, the chairman and the deputy chairman may also participate in the Group's 'sharesave' scheme and 'shareplan' on the same basis as other employees.

The general Group policy is for executive directors to have service agreements with notice periods no greater than one year to reflect current corporate governance best practice.

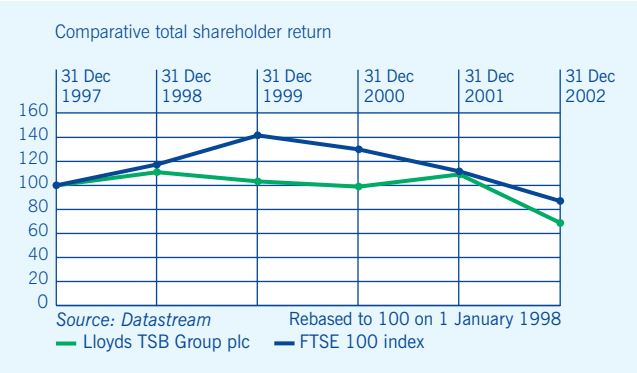
Non-executive directors' remuneration consists of an annual fee for their services as members of the board. Their remuneration is agreed by the board within a total amount determined by the shareholders. Non-executive directors do not have service contracts and have no provision for compensation on termination of appointment.

Summary of emoluments paid to directors

	2002 £000	2001 £000
Aggregate emoluments paid to directors	**5,864**	5,749
Aggregate gains made by directors on exercise of share options	**9**	1,793
Aggregate value of assets receivable under long-term incentive schemes	**–**	–
Aggregate company contributions in respect of directors to money purchase pension schemes	**–**	–
Number of directors with retirement benefits accruing under		
– money purchase schemes	**–**	–
– defined benefit schemes	**9**	8

Performance graph

This graph illustrates the performance of Lloyds TSB Group plc and the FTSE 100 index over the past five years. Performance is measured by total shareholder return (share price growth plus dividends).



The board

Non-executive directors

Maarten A van den Bergh◆
Chairman
Joined the Group in 2000 as deputy chairman and was appointed chairman in 2001. Joined the Royal Dutch/Shell Group of companies in 1968 and after a number of senior and general management appointments in that group, became group managing director in 1992. Appointed president of Royal Dutch Petroleum Company and vice chairman of the committee of managing directors of the Royal Dutch/Shell Group in 1998 and continued in these roles until 2000. A non-executive director of Royal Dutch Petroleum Company, BT Group and British Airways. Aged 60.

M Kent Atkinson
(leaving on 16 April 2003)
Joined Bank of London & South America in 1964, which became a Lloyds Bank subsidiary in 1971, and held a number of senior and general management appointments, including positions in Latin America and the Middle East, before being appointed to the board in 1997 as group finance director. Became a non-executive director of the group in June 2002. A non-executive director of Coca-Cola HBC SA, Marconi and Marconi Corporation. Aged 57.

Sheila M Forbes CBE✻†
(leaving on 16 April 2003)
A director of TSB Group since 1994. Chairs the board of governors of Thames Valley University and is a civil service commissioner. Head of personnel for Unigate from 1980 to 1988 and personnel director for Storehouse from 1988 to 1992. Director of human resources at Reed Elsevier (UK) from 1992 to 1996. A non-executive director of OCS Group. Aged 56.

DeAnne S Julius CBE✻†
Joined the board in 2001. Held a number of senior appointments in the UK and USA with the World Bank, Royal Dutch/Shell Group and British Airways, before membership of the Bank of England Monetary Policy Committee from 1997 to 2001. Chaired HM Treasury's banking services consumer codes review group. A non-executive director of the Bank of England, BP, Serco Group and Roche Holdings SA. Aged 53.

Alan E Moore CBE*§
Deputy Chairman
(leaving on 16 April 2003)
Joined Lloyds Bank International in 1980. Held a number of senior and general management appointments in that company and in Lloyds Bank before becoming a director of Lloyds Bank in 1989 and deputy chief executive and treasurer in 1994. Following the merger with TSB Group in 1995, became deputy group chief executive of Lloyds TSB Group and then deputy chairman in 1998. Joined Glyn Mills & Co in 1953, holding senior appointments there until his secondment, as director general, to the Bahrain Monetary Agency from 1974 to 1979. Aged 66.

Ewan Brown CBE FRSE✻**
Chairman of Lloyds TSB Scotland
A director since 1999. A non-executive director of Lloyds TSB Scotland since 1997. Executive director of Noble Grossart since 1971. Chairman of Transport Initiatives Edinburgh. A non-executive director of John Wood Group and Stagecoach Holdings. Aged 60.

Gavin J N Gemmell CBE✻*
Chairman of Scottish Widows
Joined the board in 2002. A non-executive director of Scottish Widows since 1984. Retired as senior partner of Baillie Gifford in 2001, after 37 years with that firm. A non-executive director of Archangel Informal Investment. Chairman of the court of Heriot-Watt University. Aged 61.

Sir Tom McKillop✻*†
(▲ from 16 April 2003)
A director since 1999. Joined ICI in 1969 and held a number of senior and general management appointments before the demerger in 1993, when Zeneca was created. Chief executive of Zeneca Pharmaceuticals from 1994 to 1999 and chief executive of AstraZeneca from 1999. Pro-chancellor of Leicester University. Aged 59.

A Clive Butler‡§▲
(leaving on 16 April 2003)
A director of TSB Group since 1993. Joined Unilever in 1970 and following a number of senior and general management appointments was appointed an executive director of Unilever in 1992. Aged 56.

Christopher S Gibson-Smith✻†
A director since 1999. Chairman of National Air Traffic Services. Managing director of BP from 1997 to 2001, having held senior and general management appointments in the UK, USA, Canada and Europe, since joining that company in 1970. A non-executive director of The British Land Company. Aged 57.

The Earl of Selborne KBE FRS✻§
A director since 1995, having been a director of Lloyds Bank since 1994. Managing director of The Blackmoor Estate, his family business. Chancellor of Southampton University since 1996. President of the Royal Geographical Society from 1997 to 2000. Aged 62.

* Member of the audit committee
** Chairman of the audit committee
† Member of the remuneration committee
‡ Chairman of the remuneration committee
§ Member of the nomination committee
◆ Chairman of the nomination committee
✻ Independent director
▲ Senior independent director

Executive directors

Peter B Ellwood CBE
Group Chief Executive
(until 31 May 2003)
Joined TSB Bank in 1989 as chief executive, retail banking. Appointed a director of TSB Group in 1990 and became group chief executive in 1992. Following the merger with Lloyds Bank in 1995, became deputy group chief executive of Lloyds TSB Group and then group chief executive in 1997. Joined Barclays Bank in 1961 and held a number of senior and general management appointments, including chief executive of Barclaycard from 1985 to 1989. Chairman of the Work Foundation. Former chairman of Visa International. Aged 59.

J Eric Daniels
Group Executive Director, UK Retail Banking
(Group Chief Executive from 1 June 2003)
Joined the board in 2001. Served with Citibank from 1975 and held a number of senior and general management appointments in the USA, South America and Europe before becoming chief operating officer of Citibank Consumer Bank in 1998. Following the Citibank/Travelers merger in 1998, he was chairman and chief executive officer of Travelers Life and Annuity until 2000. Chairman and chief executive officer of Zona Financiera from 2000 to 2001. Aged 51.

Archie G Kane
Group Executive Director, IT and Operations
Joined TSB Commercial Holdings in 1986 and held a number of senior and general management appointments in the Group before being appointed to the board in 2000. After some 10 years in the accountancy profession, joined General Telephone & Electronics Corporation in 1980, serving as finance director in the UK from 1983 to 1985. Chairman of the council of the Association for Payment Clearing Services. Aged 50.

Steve C Targett
(Group Executive Director, Wholesale and International Banking from 16 April 2003)
Joins the board on 10 March 2003. Served with National Australia Bank from 1997, where he held a number of senior and general management appointments in Australia and the UK before becoming chief executive officer, Europe, in 2002. Previously held a number of senior and general management appointments in Cargill, a commodity trading group, from 1980 to 1988, State Bank of South Australia from 1988 to 1991 and ANZ Bank from 1991 to 1997. His early career, between 1972 and 1980, was spent with National Australia Bank. Aged 47.

Michael E Fairey
Deputy Group Chief Executive
Joined TSB Group in 1991 and held a number of senior and general management appointments before being appointed to the board in 1997 and deputy group chief executive in 1998. Joined Barclays Bank in 1967 and held a number of senior and general management appointments, including managing director of Barclays Direct Lending Services from 1990 to 1991. Aged 54.

Philip R Hampton
Group Finance Director
Joined the board in 2002. Previously, finance director of BT Group from 2000 to 2002, BG Group from 1996 to 2000 and British Steel from 1990 to 1996. Before that, he worked for Coopers & Lybrand from 1975 to 1980 and Lazard Brothers from 1981 to 1990. A non-executive director of RMC Group. Aged 49.

David P Pritchard
Group Executive Director, Wholesale and International Banking
(Deputy Chairman from 16 April 2003)
Joined TSB Group in 1995 as group treasurer. Seconded to the Securities and Investments Board as head of supervision & standards, markets & exchanges, from 1996 to 1998. Appointed to the board in 1998. Held senior and general management appointments with Citicorp from 1978 to 1986 and Royal Bank of Canada from 1986 to 1995. A non-executive director of The London Clearing House. Aged 58.

Michael D Ross CBE
Deputy Group Chief Executive
Joined the board in 2000. Joined Scottish Widows in 1964 and following a number of senior and general management appointments became group chief executive of that company in 1991. Chairman of the Association of British Insurers. Aged 56.

Company Secretary
Alastair J Michie FCIS FCIBS

Information for shareholders

Auditors' report

The auditors' report on the full accounts for the year ended 31 December 2002 was unqualified and did not include a statement under sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the UK Companies Act 1985.

Auditors' statement to the members of Lloyds TSB Group plc

We have examined the summary financial statement on pages 10, 11 and 13.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual review. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the annual review with the annual financial statements, directors' report, and directors' remuneration report, and its compliance with the relevant requirements of section 251 of the UK Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the annual review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Our report, including this opinion, has been prepared for and only for the Company's members as a body in accordance with Section 251 of the United Kingdom Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board.

Opinion

In our opinion the summary financial statement on pages 10, 11 and 13 is consistent with the annual financial statements, directors' report and directors' remuneration report of Lloyds TSB Group plc for the year ended 31 December 2002 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers, LLP,
Chartered Accountants and
Registered Auditors, Southampton.
13 February 2003

Share price information

In addition to information published in the financial pages of the press, the latest price of Lloyds TSB shares on the London Stock Exchange can be obtained by telephoning 0906 8771515. These telephone calls are charged at 60p per minute, including VAT, or visit www.londonstockexchange.com.

Share dealing facilities

The Company provides a low cost, execution only, postal dealing service for the purchase and sale of Lloyds TSB shares through Lloyds TSB Registrars. The current rate of commission is 0.75%, for both purchases and sales, no minimum. For full details please contact Lloyds TSB Registrars. Telephone 0870 2424244.

The Company also provides a telephone dealing service through Lloyds TSB Stockbrokers for the purchase and sale of Lloyds TSB shares on preferential commission terms. The current rate for both purchases and sales is 0.75%, minimum £18.50 maximum £75, for transactions up to £75,000. For full details please contact Lloyds TSB Stockbrokers. Telephone 0845 7888100.

American Depositary Receipts (ADRs)

Lloyds TSB shares are traded in the USA through an NYSE-listed sponsored ADR facility, with The Bank of New York as the depositary. The ADRs are traded on the New York Stock Exchange under the symbol LYG. The CUSIP number is 539439109 and the ratio of ADRs to ordinary shares is 1:4. For details please contact The Bank of New York, Investor Relations, PO Box 11258, Church Street Station, New York, NY 10286-1258. Telephone (1) 888 BNY ADRS (US toll free), international callers (1) 610 312 5315. Visit www.adrbny.com or email shareowner–svcs@bankofny.com

Individual Savings Accounts (ISAs)

The Company provides a facility for investing in Lloyds TSB shares through an ISA. For details please contact Lloyds TSB Private Banking ISAs, Freepost, PO Box 149, Haywards Heath, West Sussex RH16 3BR. Telephone 0845 7418418.

The community and our business

Information about the Group's role in the community and copies of the Group's code of business conduct and its environmental report may be obtained by writing to Public Affairs, Lloyds TSB Group plc, 71 Lombard Street, London EC3P 3BS. This information is also available on the Group's website (see below).

Shareholder enquiries

The Company's share register is maintained by Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 0870 6003990; textphone 0870 6003950. Please contact them if you have enquiries about your Lloyds TSB shareholding, including those concerning the following matters:

- change of name or address
- loss of share certificate, dividend warrant or tax voucher
- to obtain a form for dividends to be paid directly to your bank or building society account (tax vouchers will still be sent to your registered address unless you request otherwise)
- to obtain details of the dividend reinvestment plan which enables you to use your cash dividends to buy Lloyds TSB shares in the market
- request for copies of the report and accounts in alternative formats for shareholders with disabilities.

Lloyds TSB Registrars operates a web based enquiry and portfolio management service for shareholders. Visit www.shareview.co.uk for details.

Financial calendar 2003

14 February
Results for 2002 announced

26 February
Ex-dividend date for 2002 final dividend

28 Februrary
Record date for final dividend

9 April
Final date for joining or leaving the dividend reinvestment plan for the final dividend

16 April
Annual general meeting in Glasgow

7 May
Final dividend paid

1 August
Results for half-year to 30 June 2003 announced

13 August
Ex-dividend date for 2003 interim dividend

15 August
Record date for interim dividend

10 September
Final date for joining or leaving the dividend reinvestment plan for the interim dividend

8 October
Interim dividend paid

Head office

71 Lombard Street
London EC3P 3BS

(from 28 March, 2003)
25 Gresham Street
London EC2V 7HN

Registered office

Henry Duncan House
120 George Street
Edinburgh EH2 4LH
Registered in Scotland no 95000

Registrar

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Internet

www.lloydstsb.com

The information about Lloyds TSB Stockbrokers' services is approved by Lloyds TSB Stockbrokers Limited. Lloyds TSB Stockbrokers is a member of the London Stock Exchange and is regulated by the FSA.

Lloyds TSB Group

Designed by Starling Design/The Team. Printed in the UK by St Ives Burrups.
This document is printed on paper produced from sustainable managed forests using an elemental chlorine free process and an Environmentally Responsible Approach (ERA).