



2065

## Directors

### *Chairman*

Sir Robin Ibbs KBE

### *Deputy Chairmen*

Sir Nicholas Goodison

J T Davies

### *Chief Executive*

Sir Brian Pitman

### *Deputy Chief Executive and Treasurer*

A E Moore CBE

### *Deputy Chief Executive*

P B Ellwood

M K Atkinson

P G Brown

R C Carefull

J K Elbourne

M E Fairey

H R Freedberg

A H Longhurst

S A Maran

D B Pirrie

### *Secretary*

L H W March

Registered office: 71 Lombard Street, London EC3P 3BS. Registered in England no 2065





## Chief Executive's report

In 1995, Lloyds Bank achieved a record pre-tax profit of £1,472 million, up by £168 million, or 13 per cent, and earnings per share up by 14 per cent from a year ago. The effective rate of tax decreased to 31 per cent from 33 per cent.

The results were affected by a number of special factors. First, Cheltenham & Gloucester (C&G) joined the Lloyds Bank Group on 1 August 1995 and contributed a net £67 million after the cost of funding the cash consideration; second, the disposal of investments in 3i and Standard Chartered added £193 million to the year's profit; third, the contribution from problem country debt (PCD) fell by £278 million; and, fourth, we bolstered the general provision by £121 million, as a measure of prudence at this stage of the economic cycle.

We again achieved our goal of continuous improvement in customer satisfaction and we were rewarded with increased business volumes and, in a number of priority target markets, increased market share. Helped by a first-time contribution from C&G, average interest-earning assets grew by 19 per cent and total revenue rose by £444 million, or 11 per cent, to £4,329 million. Net interest income was up by 9 per cent and other income by 14 per cent. Trading surplus rose by £304 million, or 22 per cent, to £1,717 million, reflecting continuing tight control of costs; and the cost:income ratio improved to 60.3 per cent from 63.6 per cent. In the second half of the year, pre-tax profit from our ongoing businesses was up by 18 per cent on the first half.

Including the contribution from C&G, Retail Financial Services increased its pre-tax profit by 86 per cent to £826 million from £443 million: business volumes increased, sales of mortgages through Lloyds Bank branches expanded significantly, following the introduction of the C&G brand, and costs remained under tight control. International Banking pre-tax profit recovered to £146 million from £112 million, largely as a result of a recovery in our Brazilian associate, Banco Multiplic. Corporate Banking and Treasury profit was maintained. Private Banking was down 15 per cent at £82 million; the business continues to grow, but in 1995 there was a significant increase in development and restructuring expenditure.

Following a net release of provisions of £28 million on completion of rescheduling arrangements with Ecuador, the PCD portfolio contributed £50 million before tax. This compared with a net release of provisions of £240 million a year ago, when rescheduling arrangements were completed with Brazil and Poland, and a pre-tax contribution of £328 million. In the wake of the Mexican crisis, there was a sharp fall in the value of our PCD portfolio in the first quarter of 1995, but by the end of the year, based on secondary market prices, the surplus of market value over net book value of the total PCD portfolio had risen to about £600 million from £400 million at the end of 1994.

Overall, there was a further improvement in credit quality but, as a measure of prudence at this stage of the economic cycle, we have bolstered the general provision by £121 million. The UK specific charge for bad and doubtful debts fell by 12 per cent to £302 million from £342 million in 1994. Reflecting the lower release of PCD provisions, the total group net charge for specific provisions was £333 million compared with £135 million. Non-performing loans fell to £2,168 million, or 3.5 per cent of lending, from £2,724 million. At the end of the year, we were well provided against possible future losses on loans with provisions of £2,380 million, representing 3.8 per cent of lending.



## Chief Executive's report

Capital ratios are satisfactory, despite a goodwill write-off of £745 million for C&G and growth of 26 per cent in risk assets. At the end of 1995, the total capital ratio was 10.4 per cent and the tier 1 capital ratio 5.8 per cent, comfortably meeting the Bank of England's capital ratio requirements, and we plan to achieve a further strengthening of these ratios in 1996.

Staff profit sharing increased by 39 per cent to £61 million from £44 million, giving an average payment of £1,445, or 9.57 per cent of basic salary, to each member of our UK staff eligible to participate in the scheme (1994: £1,020, or 6.92 per cent of basic salary).

1995 was a great year for Lloyds Bank and the board and management want to thank everyone who had a part in it for their contribution to the Company's success.

Current trading remains satisfactory and we expect to make further progress in 1996 from organic growth and a reduction in provisions for bad debts. The addition of C&G has enhanced both our earnings prospects and asset quality and we believe that the merger with TSB offers an exceptional opportunity for a further improvement in the quantity and quality of the Group's earnings.

*Brian Pitman*

Sir Brian Pitman

*Chief Executive*



## Directors' report

### Results and dividends

The consolidated profit and loss account on page 7 shows a profit attributable to shareholders amounting to £914 million.

A first interim dividend totalling £112 million was paid on 12 October 1995; a second interim dividend totalling £200 million was paid on 17 January 1996; and the directors have declared a final dividend totalling £277 million. The dividends for 1995 will absorb £589 million, leaving a profit of £325 million retained.

### Principal activities

The Bank and its subsidiaries provide a comprehensive range of banking and financial services through branches and offices in the UK and overseas.

### Group structure

On 1 August 1995, the business of Cheltenham & Gloucester Building Society was transferred to Cheltenham & Gloucester plc, a wholly owned subsidiary of Lloyds Bank Plc. As consideration, the Group paid a cash sum of £1.8 billion, which was distributed to the building society's eligible members and depositors.

### Business review and future developments

A review of the business during the year and an indication of likely future developments are given on pages 2 and 3.

### Premises

Freehold and long leasehold premises have been valued by professionally qualified valuers on the basis of open market value for existing use or, in the case of specialised premises, on a depreciated replacement cost basis. As a result, the net book value of these premises has been written down by £137 million in 1995. The shortfall, which is not considered to be permanent, has been debited to the revaluation reserve, resulting in an overall deficit on this reserve of £128 million.

### Directors

The names of the present directors of the Company are shown on page 1.

During the year the following directors were appointed or resigned:

	Appointed	Resigned
Mr M K Atkinson	28.12.1995	
Mr J N Bays	1.8.1995	28.12.1995
Mr R C Carefull	28.12.1995	
Mr J K Elbourne	28.12.1995	
Mr P B Ellwood	28.12.1995	
Mr M E Fairey	28.12.1995	
Mr H R Freedberg	28.12.1995	
Sir Nicholas Goodison	28.12.1995	
Sir Richard Greenbury		28.12.1995
Sir Simon Hornby		28.12.1995
Mr A H Longhurst	1.8.1995	
Mr P C Nicholson		28.12.1995
Dr B M Ogilvie	1.3.1995	28.12.1995
Lord Plumb		30.3.1995
Sir Ian Prosser		28.12.1995
Sir Michael Quinlan		28.12.1995
Mr J M Raisman		28.12.1995



## Directors' report

	Resigned
The Earl of Selborne	28.12.1995
Mr C R Smith	28.12.1995
Mr E Swainson	28.12.1995
Mr M H R Thompson	30.3.1995

Under the articles of association, Mr M K Atkinson, Mr R C Carefull, Mr J K Elbourne, Mr P B Ellwood, Mr M E Fairey, Mr H R Freedberg, Sir Nicholas Goodison and Mr A H Longhurst offer themselves for election as directors at the annual general meeting. Mr A E Moore and Mr P G Brown retire by rotation at the annual general meeting and offer themselves for re-election.

Reference is made on page 23 in note 39 to the interests of the directors in the capital of Lloyds TSB Group plc, the ultimate parent company, and its subsidiaries.

During the year, the Bank purchased insurance to provide liability cover for directors and officers.

In the Chairman's statement last year, I paid tribute to Lord Plumb and Mr Michael Thompson who retired in March 1995.

On completion of the merger with TSB Group, Mr Russell Smith, having reached the age of 70, has retired from the board after 22 years of valuable service as a non-executive, first as a regional board member and, since 1986, as a director of the Bank. He leaves with our warm thanks and good wishes.

The other directors who have resigned on 28 December 1995 have joined me, Mr John Davies, Sir Brian Pitman and Mr Alan Moore on the board of Lloyds TSB Group plc.

### Employees

The Bank is committed to employment policies which follow best practice, based on equal opportunities for all employees irrespective of sex, race, religion, colour, disability or marital status.

If serving employees become disabled the Bank continues employment wherever possible and arranges retraining.

Employees are involved in the Bank's performance through consultation, the provision of information through normal management channels, internal publications and communication meetings. The Bank also has regular dialogue with staff unions.

A profit sharing scheme and a savings-related share option scheme enable eligible employees in the UK, the Channel Islands and the Isle of Man to become shareholders in Lloyds TSB Group plc, encouraging their involvement in the progress of the Group.

My colleagues on the board and I thank all our staff most warmly for their exceptional dedication and continued willingness to embrace major change.

### Auditors

Price Waterhouse have indicated their willingness to continue in office and a resolution concerning their re-appointment as auditors will be submitted to the annual general meeting.

On behalf of the board

Robin Ibbs  
Chairman

14 February 1996



## Auditors' report

To the members of Lloyds Bank Plc.

We have audited the financial statements on pages 7 to 25 which have been prepared under the historical cost convention as modified by the revaluation of investments and premises and the accounting policies set out on pages 11 and 12.

### Respective responsibilities of directors and auditors

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group and of the profit for the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The directors have responsibility for ensuring that the Bank keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 1995 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Chartered Accountants and Registered Auditors

London

14 February 1996



## Consolidated profit and loss account

*for the year ended 31 December 1995*

	Lloyds Bank (excluding C&G)	C&G (note 44)	Total	
Note	1995 £ million	1995 £ million	1995 £ million	1994 £ million
Interest receivable:				
Interest receivable and similar income arising from debt securities	631	43	674	564
Other interest receivable and similar income	5,046	611	5,657	4,508
Interest payable	3,510	470	3,980	2,922
<b>Net interest income</b>	2,167	184	2,351	2,150
<b>Other income</b>				
Dividend income from equity shares	14	—	14	12
Fees and commissions receivable	1,533	14	1,547	1,473
Fees and commissions payable	(106)	(1)	(107)	(97)
Dealing profits (before expenses)	134	—	134	66
Other operating income	387	3	390	281
	1,962	16	1,978	1,735
<b>Total income</b>	4,129	200	4,329	3,885
<b>Operating expenses</b>				
Administrative expenses	3 2,336	55	2,391	2,243
Staff profit sharing	61	—	61	44
Depreciation	24 155	5	160	185
	2,552	60	2,612	2,472
<b>Trading surplus</b>	1,577	140	1,717	1,413
<b>Provisions for bad and doubtful debts</b>	16			
Specific	313	20	333	135
General	120	1	121	—
	433	21	454	135
Amounts (released) provided against fixed asset investments	4 (27)	—	(27)	2
<b>Operating profit</b>	1,171	119	1,290	1,276
Income from associated undertakings			54	(2)
Profit on sale of fixed asset investments	5		163	30
Loss on sale of group undertaking	6		(35)	—
<b>Profit on ordinary activities before tax</b>	7		1,472	1,304
Tax on profit on ordinary activities	9		454	425
<b>Profit on ordinary activities after tax</b>			1,018	879
Minority interests (equity)			104	82
<b>Profit for the financial year attributable to shareholders</b>	10		914	797
Dividends	11		589	334
<b>Retained profit</b>	38		325	463
<b>Earnings per share</b>	12		70.1p	61.7p

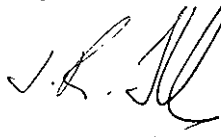

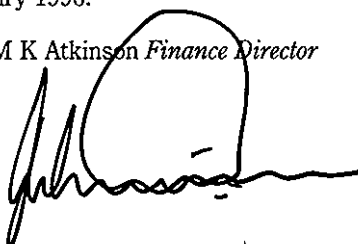


**Balance sheets**  
*at 31 December 1995*

		Group		Bank	
	<i>Note</i>	1995 £ million	1994 £ million	1995 £ million	1994 £ million
<b>Assets</b>					
Cash and balances at central banks		557	439	441	348
Items in course of collection from banks		1,618	1,554	1,604	1,541
Treasury bills and other eligible bills	13	4,368	3,131	3,471	2,663
Loans and advances to banks	14	13,929	12,426	24,354	13,332
Loans and advances to customers	15	59,617	39,020	24,957	30,717
Debt securities	19	9,429	7,459	6,134	5,622
Equity shares	20	138	249	43	162
Interests in associated undertakings	22	140	108	7	7
Shares in group undertakings	23	—	—	3,582	2,220
Tangible fixed assets	24	1,710	1,731	1,298	1,426
Other assets	27	7,406	4,635	7,036	4,143
Prepayments and accrued income		1,552	1,397	1,499	1,027
Long-term assurance business attributable to shareholders	28	1,023	1,051	—	—
		101,487	73,200	74,426	63,208
Long-term assurance assets attributable to policyholders	28	9,231	8,157	—	—
<b>Total assets</b>		<b>110,718</b>	<b>81,357</b>	<b>74,426</b>	<b>63,208</b>

The directors approved the accounts on 14 February 1996.

J R Ibbs *Chairman* B I Pitman *Chief Executive* M K Atkinson *Finance Director*





**Balance sheets**  
*at 31 December 1995*

		Group		Bank	
	<i>Note</i>	1995 £ million	1994 £ million	1995 £ million	1994 £ million
<b>Liabilities</b>					
Deposits by banks	30	14,361	12,794	15,232	13,632
Customer accounts	31	58,009	37,909	37,450	31,828
Items in course of transmission to banks		802	736	787	718
Debt securities in issue	32	9,041	7,334	4,713	5,052
Other liabilities	33	9,837	5,349	8,808	4,463
Accruals and deferred income		2,082	1,534	1,489	1,049
Provisions for liabilities and charges:					
Deferred tax	34	199	195	(236)	(184)
Other provisions for liabilities and charges	35	177	162	115	112
Subordinated liabilities:					
Undated loan capital	36	1,416	1,182	1,316	1,182
Dated loan capital	36	1,750	1,771	1,553	1,689
Other subordinated liabilities	36	—	6	—	6
Minority interests (equity)		614	567	—	—
Called-up share capital	37	1,313	1,297	1,313	1,297
Share premium account	38	64	53	64	53
Revaluation reserve	38	(128)	59	472	1,092
Profit and loss account	38	1,950	2,252	1,350	1,219
Shareholders' funds		3,199	3,661	3,199	3,661
		101,487	73,200	74,426	63,208
Long-term assurance liabilities to policyholders		9,231	8,157	—	—
Total liabilities		110,718	81,357	74,426	63,208
<b>Memorandum items</b>					
	42				
Contingent liabilities:					
Acceptances and endorsements		598	594	447	437
Guarantees and assets pledged as collateral security		2,122	1,762	2,829	2,805
Other contingent liabilities		1,076	1,484	655	988
		3,796	3,840	3,931	4,230
Commitments:					
Commitments arising out of sale and option to resell transactions		8	6	2	6
Other commitments		17,855	15,820	15,896	13,623
		17,863	15,826	15,898	13,629



Statement of total recognised gains and losses  
*for the year ended 31 December 1995*

	1995 £ million	1994 £ million
Profit attributable to shareholders	914	797
Premises revaluation deficit	(128)	—
Currency translation differences on foreign currency net investments	52	78
Total recognised gains and losses relating to the year	<u>838</u>	<u>875</u>

Historical cost profits and losses  
*for the year ended 31 December 1995*

	1995 £ million	1994 £ million
Profit on ordinary activities before tax	1,472	1,304
Realisation of revaluation surplus on equity shares	59	—
Historical cost profit on ordinary activities before tax	<u>1,531</u>	<u>1,304</u>
Historical cost profit for the year retained after tax, minority interests and dividends	<u>384</u>	<u>463</u>

Reconciliation of movements in shareholders' funds  
*for the year ended 31 December 1995*

	1995 £ million	1994 £ million
Profit attributable to shareholders	914	797
Dividends	(589)	(334)
Retained profit	325	463
Premises revaluation deficit	(128)	—
Currency translation differences on foreign currency net investments	52	78
Issue of shares	53	51
Premiums on acquisitions	(764)	—
Discount on acquisition	—	6
Net (decrease) increase in shareholders' funds	<u>(462)</u>	<u>598</u>
Shareholders' funds at beginning of year	3,661	3,063
Shareholders' funds at end of year	<u>3,199</u>	<u>3,661</u>



## Notes to the accounts

### 1 Accounting policies

Accounting policies are unchanged from 1994.

#### a Accounting convention

The accounts are prepared under the historical cost convention as modified by the revaluation of shares in group undertakings and interests in associated undertakings, debt securities and equity shares held for dealing purposes, and premises (see e, f, g and h) in compliance with Sections 255 and 255A, Schedule 9 and other requirements of the Companies Act 1985 and in accordance with applicable accounting standards.

#### b Basis of consolidation

Assets, liabilities and results of group undertakings and the share of results of associated undertakings are included in the consolidated accounts on the basis of the accounts made up to 31 December. In order to reflect the different nature of the shareholders' and policyholders' interests in the long-term assurance business, the value of long-term assurance business attributable to shareholders and the assets and liabilities attributable to policyholders are classified under separate headings in the consolidated balance sheet.

#### c Premiums and discounts on acquisitions

Premiums and discounts arising on acquisitions of or by group and associated undertakings are taken direct to profit and loss account reserves in the year of acquisition.

#### d Provisions for bad and doubtful debts and interest in suspense

Provisions for bad and doubtful debts are based on the year-end appraisal of advances. The specific element relates to identified risk advances, whereas the general element relates to latent bad and doubtful debts which are present in any portfolio of bank advances but have not been specifically identified.

Advances are written down to estimated realisable value when the normal banking relationship with the customer has ceased; where it is doubtful that interest earned on loans and advances will be collectable, it is credited to an interest in suspense account and is only released to the profit and loss account when its collectability is no longer subject to significant doubt.

#### e Debt securities and equity shares

Premiums and discounts on debt securities, apart from those held for dealing purposes, are amortised from purchase to maturity in equal annual instalments. Debt securities acquired in exchange for advances to countries experiencing payment difficulties, either collateralised or due to be collateralised by US Treasury securities, are included in the Bank's portfolio of investment securities at an amount based on the market value at the date of exchange as adjusted for the amortisation of discount on acquisition. Equity shares are stated at cost less amounts written off or at directors' valuation. Debt securities and equity shares held for dealing purposes are included at market value. Investments held within the long-term assurance fund are included on the following basis: stocks, shares, fixed interest securities and unit trusts held for unit linked funds are valued in accordance with policy conditions at market prices; other stocks and shares and fixed interest securities are valued at middle market price and other unit trusts at bid price; investment properties are included at valuation by independent valuers at open market value for existing use at 31 December 1995, and mortgages and loans are at cost less amounts written off.

#### f Shares in group undertakings

Shares in group undertakings are stated in the balance sheet of the Bank at its share of net tangible assets, with the exception of the life assurance group undertakings which are stated on the basis described in m.

#### g Interests in associated undertakings

Interests in associated undertakings are stated at the Group or Bank share of the net tangible assets of the relevant undertakings.

#### h Tangible fixed assets

Freeholds and long leaseholds are included at the last valuation on the basis of open market value for existing use or depreciated replacement cost as appropriate. Short leaseholds (50 years or less) and equipment are included at cost less depreciation.

### 1 Accounting policies (continued)

#### h Tangible fixed assets (continued)

Land is not depreciated. Leasehold premises with unexpired lease terms of 50 years or less are depreciated by equal annual instalments over the remaining period of the lease. Freehold and long leasehold buildings are maintained in a state of good repair and it is considered that residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are such that depreciation is not significant. The costs of adapting premises for the use of the Group are separately identified and depreciated over 10 years, or over the term of the lease if less; such costs are included within premises in the balance sheet total of tangible fixed assets. Equipment is depreciated by equal annual instalments over the estimated useful lives of the assets, which for fixtures and furnishings are 10-20 years and for computers, motor vehicles and other equipment are 3-8 years.

#### i Leasing and instalment credit transactions

Leasing income is credited to the profit and loss account in proportion to the net cash invested so as to give a constant rate of return over each period after taking account of tax.

Income from instalment credit transactions is calculated by the sum of the digits method.

Operating lease costs are charged to the profit and loss account in equal annual instalments over the life of the lease.

#### j Deferred tax

Deferred tax is provided at the appropriate rates of tax where there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

#### k Pensions and other post-retirement benefits

Contributions to the Group's pension schemes are charged to the profit and loss account so as to spread the expected cost of pensions, calculated in accordance with actuarial advice, on a systematic basis over employees' working lives. Pension arrangements for staff in the UK and for the majority of those overseas are operated through defined benefit schemes funded by the Bank. The pension cost relating to these schemes is assessed in accordance with the advice of qualified actuaries, using the projected unit method. Variations from the regular cost are allocated by equal annual instalments over the average remaining service lives of current employees. Arrangements for pensions of certain staff employed overseas who are not included in funded schemes are made in accordance with local regulations and custom.

The cost of providing post-retirement benefits other than pensions is charged to the profit and loss account on a systematic basis over employees' working lives. The unfunded liability is included in provisions in the balance sheet.

#### l Foreign currency translation

Assets, liabilities and results in foreign currencies are expressed in sterling at the rates of exchange ruling on the dates of the respective balance sheets. For countries experiencing hyper-inflation, a charge is made against profits as interest expense to the extent that local inflation erodes the value of the working capital employed during the year. Other exchange adjustments on translation of working capital held abroad and in the UK on account of foreign currency operations and exchange adjustments arising on trade investments, premises and equipment, offset by those on any related currency loan capital, are taken direct to reserves.

#### m Long-term assurance business

The value placed on the Group's long-term assurance business attributable to shareholders represents a prudent valuation of future earnings of policies in force, together with the net worth of the business, being the net tangible assets and the surplus retained within the long-term assurance funds. This value is determined annually in consultation with independent actuaries and is included separately in the balance sheet.

Changes in the value placed on long-term assurance business attributable to shareholders, which are determined on a post-tax basis, are included in the profit and loss account. For the purpose of presentation, the change in this value is grossed-up at the standard rate of corporation tax.



## Notes to the accounts

### 1 Accounting policies (continued)

#### n Off-balance sheet instruments

Off-balance sheet instruments used in trading activities are carried at market value. Profits and losses on instruments which are being used to hedge exposures are recognised in a manner that reflects the accounting treatment of the assets or liabilities being hedged.

### 2 Presentation of financial information

The following changes have been made in the presentation of financial information since the last report and accounts:

(i) The business of Cheltenham & Gloucester Building Society was vested in Cheltenham & Gloucester plc, a member of the Lloyds Bank Group, on 1 August 1995. The former business of Cheltenham & Gloucester plc was transferred to another group company shortly prior to that date. In accordance with the requirements of Financial Reporting Standard 3, the results of Cheltenham & Gloucester plc from 1 August 1995 to 31 December 1995 have been separately disclosed in the profit and loss account.

(ii) At an extraordinary general meeting held on 27 November 1995 the Bank's shareholders voted in favour of a merger with TSB Group plc, subsequently renamed Lloyds TSB Group plc on 28 December 1995. The merger was effected by means of a scheme of arrangement whereby the High Court approved the cancellation of all the issued share capital of Lloyds Bank Plc with effect from the close of business on 27 December 1995. In consideration of the cancellation of their shares each Lloyds Bank shareholder received 2.704 Lloyds TSB Group plc shares credited as fully paid for each Lloyds Bank share held.

The Bank's issued share capital was immediately reinstated to its former amount by applying the credit arising as a result of the cancellation of the share capital in paying up new shares which were issued to Lloyds TSB Group plc. As a consequence, Lloyds Bank Plc became a wholly owned subsidiary of Lloyds TSB Group plc on 28 December 1995.

As permitted by Financial Reporting Standard 1, no cash flow statement is presented in these accounts, since a consolidated cash flow statement is included in the accounts of Lloyds TSB Group plc.

(iii) Certain fees and commissions which were previously disclosed net have been grossed-up, resulting in an increase in fees and commissions receivable of £41 million, with a corresponding increase in fees payable (1994: increase in fees and commissions receivable and fees payable of £41 million).

### 3 Administrative expenses

	1995 £m	1994 £m
Wages and salaries	1,266	1,189
Social security costs	103	97
Other pension costs	24	19
Staff costs	1,393	1,305
Other administrative expenses	998	938
	<u>2,391</u>	<u>2,243</u>
The average number of persons on a headcount basis employed by the Group during the year was as follows:	1995	1994
Cheltenham & Gloucester	1,505	—
Lloyds Abbey Life	9,762	10,513
Rest of Lloyds Bank Group: UK	45,218	46,329
: overseas	8,675	8,849
	<u>65,160</u>	<u>65,691</u>

### 3 Administrative expenses (continued)

The auditors' remuneration was £3,131,000 (1994: £2,951,000), of which £1,007,000 (1994: £935,000) related to Lloyds Bank Plc. Fees paid to Price Waterhouse in respect of non-audit services were £3,099,000 (1994: £2,374,000), of which £2,139,000 (1994: £1,322,000) related to UK companies.

The total pension cost for the Group in 1995 was £24 million (1994: £19 million), which included a charge of £3 million (1994: £4 million) relating to the main pension scheme.

A full actuarial valuation of the main scheme is carried out every three years with interim reviews in the intervening years. At 30 June 1993, the date of the latest full actuarial valuation, the principal actuarial assumptions adopted were that, over the long term, the annual rate of return on new investments would be 2.5 per cent higher than the annual increase in pensionable remuneration and 5 per cent higher than the annual increase in present and future pensions in payment, and 4.5 per cent higher than the annual increase in dividends receivable. The market value of the assets of the main scheme at this date was £4,021 million. The actuarial value of the assets represented 117 per cent of the accrued liabilities allowing for future increases in pensions and pensionable remuneration.

For funding purposes, the surplus of the main scheme is being eliminated by a reduction in the Bank's contribution rate to the average rate of normal contributions paid by members to the scheme. It is anticipated that contributions will be required from the Bank for the foreseeable future. Contribution rates to other schemes have been adjusted to take account of surpluses and deficiencies. The pensions prepayment of £181 million (1994: £158 million) for the Group and the Bank is included in prepayments and accrued income.

The Group operates a number of schemes which provide post-retirement health care benefits to certain employees, retired employees and their dependent relatives. The total cost for the Group in 1995 was £4 million (1994: £4 million). The latest actuarial valuation of the liability was carried out at 31 December 1995. The principal actuarial assumptions adopted were that, over the long term, the valuation discount rate and the rate of increase in medical costs would be 4.5 per cent and 6.5 per cent respectively higher than annual price inflation.

### 4 Amounts (released) provided against fixed asset investments

	1995 £m	1994 £m
Debt securities	—	2
Equity shares (note 5)	(27)	—
	<u>(27)</u>	<u>2</u>

### 5 Profit on sale of fixed asset investments

In 1994, the investment in 3i Group plc was reduced to 9 per cent from 13 per cent as part of the public flotation of the company; this resulted in a profit of £30 million (tax: £nil). In 1995, the whole of the remaining investment was sold; this resulted in a profit of £111 million (tax: £nil).

In 1995, the whole of the investment in Standard Chartered PLC was sold. The profit and loss account includes £82 million (tax: £nil) arising from the sale; £30 million is included under amounts released against fixed asset investments (note 4) and £52 million is included under profit on sale of fixed asset investments.

### 6 Loss on sale of group undertaking

In 1995, the German life assurance subsidiary Transatlantische Lebensversicherungs-AG (Trans Leben) was sold, resulting in a loss of £35 million (tax: £nil). In the period from 1 January 1995 to the date of disposal, the company incurred a loss before tax of £5 million, which has been recognised in the consolidated profit and loss account.



## Notes to the accounts

7 Profit on ordinary activities before tax	1995 £m	1994 £m
Profit on ordinary activities before tax is stated after taking account of:		
<i>Income from:</i>		
Equipment leased to customers and banks and hire purchase contracts: aggregate amounts receivable	1,420	1,405
Increase in value of long-term assurance business	252	167
Listed securities	640	434
Profit less losses from securities trading	118	(44)
Profit less losses on disposal of other investment securities	16	14
<i>Charges:</i>		
Rental of premises	123	121
Hire of equipment	43	42
Interest on subordinated liabilities (loan capital)	232	178
Finance leases: charges	-	2
: depreciation	10	46

8 Segment analysis	Profit on ordinary activities before tax 1995 £m	1994** £m
<i>Class of business:</i>		
Retail Financial Services	826	443
Corporate Banking and Treasury	326	321
Private Banking	82	96
International Banking	146	112
Problem Country Debt	50	328
Central group items*	42	4
	1,472	1,304

\*1995 includes a general provision of £120 million.

Geographical area:	Domestic 1995 £m	Inter- national 1995 £m	Problem country debt 1995 £m	Total 1995 £m
Interest receivable	4,193	2,004	134	6,331
Dividend income from equity shares	11	3	-	14
Fees and commissions receivable	1,239	305	3	1,547
Dealing profits (before expenses)	45	89	-	134
Other operating income	368	20	2	390
Total gross income	5,856	2,421	139	8,416
Profit on ordinary activities before tax	1,255	167	50	1,472
	Domestic 1994 £m	Inter- national 1994 £m	Problem country debt 1994 £m	Total 1994 £m
Interest receivable	3,135	1,759	178	5,072
Dividend income from equity shares	7	5	-	12
Fees and commissions receivable	1,166	303	4	1,473
Dealing profits (before expenses)	39	27	-	66
Other operating income	234	45	2	281
Total gross income	4,581	2,139	184	6,904
Profit on ordinary activities before tax	791	185	328	1,304

8 Segment analysis (continued)	Net assets† 1995 £m	1994** £m	Assets‡ 1995 £m	1994** £m
<i>Class of business:</i>				
Retail Financial Services	3,167	3,481	47,910	27,078
Corporate Banking and Treasury	1,200	1,539	37,177	31,299
Private Banking	81	84	2,898	2,613
International Banking	681	588	11,071	9,991
Problem Country Debt	(1,321)	(1,469)	2,275	2,056
Central group items	5	5	156	163
	3,813	4,228	101,487	73,200
<i>Geographical area:</i>				
Domestic	4,137	4,811	74,474	49,403
International	997	886	24,738	21,741
Problem Country Debt	(1,321)	(1,469)	2,275	2,056
	3,813	4,228	101,487	73,200

\*\*1994 figures have been restated to take account of organisational changes. Retail Financial Services includes C&G from 1 August 1995; details of the results of C&G are set out in the profit and loss account.

†Net assets represent shareholders' funds plus minority interests. Disclosure of information on net assets is an accounting standard requirement (SSAP25); it is not appropriate to relate it directly to the segmental profits above because the business is not managed by the allocation of net assets to business units.

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

The geographical distribution of gross income sources, profit on ordinary activities before tax and assets by domestic and international operations is based primarily upon the location of the office recording the transaction. The operations of the Group which are domiciled in the UK, however, are allocated between domestic and international depending on the location of the main source of their business.

As the business of the Group is mainly that of banking and insurance, no segment analysis of turnover is given.

9 Tax on profit on ordinary activities	1995 £m	1994 £m
UK corporation tax	357	295
Relief for overseas tax	(20)	(42)
Overseas tax	54	53
Deferred tax	57	105
	448	411
Associated undertakings	6	14
	454	425

The charge for tax on the profit for the year is based on a UK corporation tax rate of 33% (1994: 33%). Deferred tax includes a charge of £15 million (1994: £83 million) in respect of the release of problem country debt provisions for which deferred tax relief was previously assumed (note 34).

The UK corporation tax charge includes £36 million (1994: £37 million) in respect of notional tax on franked investment income and on the shareholders' interest in the increase in the value of the long-term assurance business.



## Notes to the accounts

### 10 Profit for the financial year attributable to shareholders

The profit attributable to shareholders includes a profit of £658 million (1994: £711 million) dealt with in the accounts of the parent company, for which no profit and loss account is shown as permitted by Section 230 of the Companies Act 1985.

11 Dividends	1995 £m	1994 £m
First interim	112	97
Second interim	200	—
Final	277	237
	<u>589</u>	<u>334</u>

During 1995, £26 million (1994: £17 million) was transferred to reserves in respect of shares issued instead of cash, representing £19 million in respect of the 1994 final dividend and £7 million in respect of the 1995 first interim dividend.

12 Earnings per share	1995	1994
Profit attributable to shareholders	£914m	£797m
Weighted average number of shares in issue during the year	1,304m	1,291m
Earnings per share	70.1p	61.7p

13 Treasury bills and other eligible bills	1995 Balance sheet £m	1995 Valuation £m	1994 Balance sheet £m	1994 Valuation £m
<b>Group</b>				
Investment securities:				
Treasury bills and similar securities	977	976	92	92
Other eligible bills	2,003	2,002	1,848	1,847
	<u>2,980</u>	<u>2,978</u>	<u>1,940</u>	<u>1,939</u>
Other securities:				
Treasury bills and similar securities	1,372		1,175	
Other eligible bills	16		16	
	<u>1,388</u>		<u>1,191</u>	
	<u>4,368</u>		<u>3,131</u>	

Included above:  
Unamortised discounts  
net of premiums on  
investment securities

16 15

Movements in investment  
securities comprise:

	Cost £m	Premiums and discounts £m	Total £m
At 1 January 1995	1,930	10	1,940
Adjustments on acquisition	348	—	348
Additions	19,150	—	19,150
Bills sold or matured	(18,470)	(160)	(18,630)
Amortisation of premiums and discounts	—	172	172
At 31 December 1995	<u>2,958</u>	<u>22</u>	<u>2,980</u>

### 13 Treasury bills and other eligible bills (continued)

	1995 Balance sheet £m	1995 Valuation £m	1994 Balance sheet £m	1994 Valuation £m
<b>Bank</b>				
Investment securities:				
Treasury bills and similar securities	790	789	64	64
Other eligible bills	1,858	1,857	1,848	1,847
	<u>2,648</u>	<u>2,646</u>	<u>1,912</u>	<u>1,911</u>
Other securities:				
Treasury bills and similar securities	811		735	
Other eligible bills	12		16	
	<u>823</u>		<u>751</u>	
	<u>3,471</u>		<u>2,663</u>	

Included above:  
Unamortised discounts  
net of premiums on  
investment securities

16 15

Movements in investment  
securities comprise:

	Cost £m	Premiums and discounts £m	Total £m
At 1 January 1995	1,902	10	1,912
Additions	17,807	—	17,807
Bills sold or matured	(17,081)	(152)	(17,233)
Amortisation of premiums and discounts	—	162	162
At 31 December 1995	<u>2,628</u>	<u>20</u>	<u>2,648</u>

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for dealing purposes.

The difference between the cost of other securities and market value, where the market value is higher than the cost, is not disclosed as its determination is not practicable.



## Notes to the accounts

### 14 Loans and advances to banks

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Lending to banks	748	836	13,668	2,949
Deposits placed with banks	13,393	11,920	10,898	10,711
	14,141	12,756	24,566	13,660
Equipment leased to banks	2	1	-	-
Total loans and advances to banks	14,143	12,757	24,566	13,660
Provisions for bad and doubtful debts	(165)	(262)	(164)	(260)
Interest held in suspense	(49)	(69)	(48)	(68)
	13,929	12,426	24,354	13,332
Repayable on demand	3,616	1,906	3,355	1,982
Other loans and advances by residual maturity repayable:				
3 months or less	8,161	7,892	17,233	8,945
1 year or less but over 3 months	1,877	2,362	2,154	2,127
5 years or less but over 1 year	232	288	1,322	301
Over 5 years	257	309	502	305
Provisions for bad and doubtful debts	(165)	(262)	(164)	(260)
Interest held in suspense	(49)	(69)	(48)	(68)
	13,929	12,426	24,354	13,332

#### Included above:

Due from group undertakings – all unsubordinated			12,933	2,159
Due from fellow group undertakings – all unsubordinated	108	-	65	-

### 15 Loans and advances to customers

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Lending to customers	57,965	37,524	27,007	32,745
Hire purchase debtors	1,120	1,035	-	-
Equipment leased to customers	2,939	2,762	-	-
Total loans and advances to customers	62,024	41,321	27,007	32,745
Provisions for bad and doubtful debts	(2,215)	(2,083)	(1,882)	(1,851)
Interest held in suspense	(192)	(218)	(168)	(177)
	59,617	39,020	24,957	30,717
Loans and advances by residual maturity repayable:				
3 months or less	16,098	14,447	14,248	13,611
1 year or less but over 3 months	4,218	3,946	3,013	2,964
5 years or less but over 1 year	9,145	7,092	4,740	4,847
Over 5 years	32,563	15,836	5,006	11,323
Provisions for bad and doubtful debts	(2,215)	(2,083)	(1,882)	(1,851)
Interest held in suspense	(192)	(218)	(168)	(177)
	59,617	39,020	24,957	30,717
Of which repayable on demand or at short notice	8,871	8,462	7,384	7,514

### 15 Loans and advances to customers (continued)

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Included above:				
Due from group undertakings – all unsubordinated			3,880	3,745
Due from associated undertakings – all unsubordinated	23	33	-	-

The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts amounted to £1,458 million (1994: £1,111 million).

### 16 Provisions for bad and doubtful debts

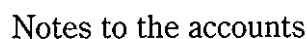
	1995 Specific £m	1995 General £m	1994 Specific £m	1994 General £m
Group				
At 1 January	2,070	275	2,638	288
Exchange and other adjustments	67	(40)	(39)	(13)
Adjustments on acquisition	80	34	-	-
Advances written off	(537)	-	(492)	-
Reclassification of provision for collateralised bonds	(86)	-	(217)	-
Recoveries of advances written off in previous years	63	-	45	-
Charge to profit and loss account	333	121	135	-
At 31 December	1,990	390	2,070	275
	2,380		2,345	
In respect of:				
Loans and advances to banks	165		262	
Loans and advances to customers	2,215		2,083	
	2,380		2,345	

#### Bank

At 1 January	1,906	205	2,454	219
Exchange and other adjustments	61	-	(37)	(14)
Advances written off	(466)	-	(438)	-
Reclassification of provision for collateralised bonds	(86)	-	(217)	-
Transfer to subsidiary undertaking	(28)	-	-	-
Recoveries of advances written off in previous years	48	-	34	-
Charge to profit and loss account	286	120	110	-
At 31 December	1,721	325	1,906	205
	2,046		2,111	

#### In respect of:

Loans and advances to banks	164	260
Loans and advances to customers	1,882	1,851
	2,046	2,111



18 Concentrations of exposure	Group		Bank	
	1995	1994	1995	1994
	£m	£m	£m	£m
Loans and advances to customers and banks				
Domestic:				
Agriculture, forestry and fishing	1,758	1,734	611	620
Manufacturing	2,926	2,659	2,534	2,311
Construction	880	1,067	861	1,055
Transport, distribution and hotels	2,952	2,784	2,413	2,358
Property companies	1,816	1,895	1,735	1,895
Financial, business and other services	9,402	7,063	8,109	6,807
Personal: mortgages*	26,808	9,476	1,248	8,664
: other	3,869	3,612	3,645	3,403
Lease financing	2,907	2,723	—	—
Hire purchase	1,108	1,022	—	—
Due from group undertakings	—	—	15,996	4,979
Other	1,287	1,940	739	1,921
	55,713	35,975	37,891	34,013
Problem country debt†	2,764	2,757	2,463	2,564
Other international	17,690	15,346	11,219	9,828
Total	76,167	54,078	51,573	46,405

† Problem country debt includes suspended interest of £135 million for the Group and £135 million for the Bank (1994: *Group £178 million; Bank £155 million*) and voluntary short-term trade facilities (which are fully serviced and not affected by restrictions on payment) and interbank facilities of £708 million for the Group and £527 million for the Bank (1994: *Group £588 million; Bank £458 million*).





## Notes to the accounts

### 19 Debt securities

	1995 Balance sheet £m	1995 Valuation £m	1994 Balance sheet £m	1994 Valuation £m
<b>Group</b>				
<i>Investment securities:</i>				
Government securities	2,320	2,432	2,457	2,316
Other public sector securities	160	163	42	42
Bank and building society certificates of deposit	2,018	2,044	1,204	1,218
Other debt securities	1,133	1,135	434	435
	<u>5,631</u>	<u>5,774</u>	<u>4,137</u>	<u>4,011</u>
<i>Other securities:</i>				
Government securities	1,439	1,439	1,322	1,322
Other public sector securities	128	128	109	109
Bank and building society certificates of deposit	406	406	435	435
Other debt securities	1,825	1,825	1,456	1,456
	<u>9,429</u>	<u>9,572</u>	<u>7,459</u>	<u>7,333</u>
Due within 1 year	2,966		1,994	
Due 1 year and over	6,463		5,465	
	<u>9,429</u>		<u>7,459</u>	
Unamortised discounts net of premiums on investment securities	947		905	
Listed on a recognised UK exchange	3,041	3,049	2,140	2,136
Listed elsewhere: collateralised bonds	870	970	805	738
: other	2,450	2,455	2,501	2,432
Unlisted	3,068	3,098	2,013	2,027
	<u>9,429</u>	<u>9,572</u>	<u>7,459</u>	<u>7,333</u>
<b>Movements in investment securities comprise:</b>				
	Cost £m	Premiums and discounts £m	Provisions £m	Total £m
At 1 January 1995	4,054	90	7	4,137
Exchange and other adjustments	57	-	-	57
Adjustments on acquisition	1,702	-	-	1,702
Additions	12,303	-	-	12,303
Securities sold or matured	(12,632)	(6)	-	(12,638)
Amortisation of premiums and discounts	-	70	-	70
At 31 December 1995	<u>5,484</u>	<u>154</u>	<u>7</u>	<u>5,631</u>

### 19 Debt securities (continued)

	1995 Balance sheet £m	1995 Valuation £m	1994 Balance sheet £m	1994 Valuation £m
<b>Bank</b>				
<i>Investment securities:</i>				
Government securities	1,415	1,512	1,413	1,341
Other public sector securities	79	79	38	38
Bank and building society certificates of deposit	1,660	1,687	1,204	1,218
Other debt securities	344	344	183	183
	<u>3,498</u>	<u>3,622</u>	<u>2,838</u>	<u>2,780</u>
<i>Other securities:</i>				
Government securities	1,071	1,071	1,180	1,180
Bank and building society certificates of deposit	2	2	379	379
Other debt securities	1,563	1,563	1,225	1,225
	<u>6,134</u>	<u>6,258</u>	<u>5,622</u>	<u>5,564</u>
Included above:				
Due from group undertakings - all unsubordinated	60		45	
Due within 1 year	2,060		1,525	
Due 1 year and over	4,074		4,097	
	<u>6,134</u>		<u>5,622</u>	
Unamortised discounts net of premiums on investment securities	784		719	
Listed on a recognised UK exchange	2,207	2,207	2,185	2,180
Listed elsewhere: collateralised bonds	870	970	805	738
: other	1,044	1,042	923	923
Unlisted	2,013	2,039	1,709	1,723
	<u>6,134</u>	<u>6,258</u>	<u>5,622</u>	<u>5,564</u>
<b>Movements in investment securities comprise:</b>				
	Cost £m	Premiums and discounts £m	Total £m	
At 1 January 1995	2,800	38	2,838	
Exchange and other adjustments	25	-	25	
Additions	6,782	-	6,782	
Securities sold or matured	(6,174)	-	(6,174)	
Amortisation of premiums and discounts	-	27	27	
At 31 December 1995	<u>3,433</u>	<u>65</u>	<u>3,498</u>	

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for dealing purposes.

The difference between the cost of other securities and market value, where the market value is higher than the cost, is not disclosed as its determination is not practicable.



## Notes to the accounts

20 Equity shares	1995 Balance sheet £m	1995 Valuation £m	1994 Balance sheet £m	1994 Valuation £m
<b>Group</b>				
<i>Investment securities:</i>				
Listed on a recognised UK exchange	7	25	128	315
Listed elsewhere	46	46	36	34
Unlisted	69	83	68	83
	122	154	232	432
<i>Other securities:</i>				
Listed on a recognised UK exchange	10		11	
Listed elsewhere	3		3	
Unlisted	3		3	
	16		17	
	138		249	

Movements in investment securities comprise:	Cost £m	Provisions £m	Total £m
At 1 January 1995	269	37	232
Additions	37	-	37
Disposals	(174)	-	(174)
Charge for the year	-	(27)	27
At 31 December 1995	132	10	122

Bank	1995 Balance sheet £m	1995 Valuation £m	1994 Balance sheet £m	1994 Valuation £m
<i>Investment securities:</i>				
Listed on a recognised UK exchange	-	-	119	293
Listed elsewhere	34	33	33	30
Unlisted	9	9	10	10
	43	42	162	333

Movements in investment securities comprise:	Cost £m	Provisions £m	Total £m
At 1 January 1995	192	30	162
Additions	5	-	5
Disposals	(154)	-	(154)
Charge for the year	-	(30)	30
At 31 December 1995	43	-	43

Investment securities are those intended for use on a continuing basis in the activities of the Group and not for dealing purposes.

The difference between the cost of other securities and market value, where the market value is higher than the cost, is not disclosed as its determination is not practicable.

21 Assets transferred under sale and repurchase transactions	Group 1995 £m	Group 1994 £m	Bank 1995 £m	Bank 1994 £m
Treasury bills and other eligible bills	1,152	720	734	406
Debt securities	142	66	116	29
	1,294	786	850	435

22 Interests in associated undertakings	Group £m	Bank £m
At 1 January 1995	108	7
Exchange and other adjustments	9	-
Capital repayment	(17)	-
Retained profits	40	-
At 31 December 1995	140	7

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Interests in banks	133	101	-	-
Interests in other associated undertakings	7	7	7	7
Total – all unlisted	140	108	7	7

On a historical cost basis, interests in associated undertakings would have been included as follows: 10 10

Principal associated undertaking	Issued share and loan capital (based on latest audited accounts)	Interest of Lloyds Bank Plc	Nature of business
Banco Multiplic SA Year end: 31 December	Ordinary R\$127m Preferred R\$127m	*33% *67%	Banking and financial services

### \*Indirect interest.

Banco Multiplic SA is incorporated in Brazil which is also its principal area of operation. The accounts of Banco Multiplic SA are audited by a firm other than Price Waterhouse.



## Notes to the accounts

### 23 Shares in group undertakings

	Bank £m	
At 1 January 1995	2,220	
Exchange and other adjustments	24	
Acquisitions	1,827	
Revaluations	(489)	
At 31 December 1995	3,582	
	1995 £m	1994 £m
Listed on a recognised UK exchange	1,009	933
Unlisted	2,573	1,287
	3,582	2,220
Market value of listed securities included above	1,967	1,438
Shares in banks	2,236	1,042
Shares in other group undertakings	1,346	1,178
	3,582	2,220

On a historical cost basis, shares in group undertakings would have been included as follows:

3,009 1,182

The principal group undertakings, all of which prepare accounts to 31 December and whose results are included in the consolidated accounts of Lloyds Bank Plc, are:

	Country of registration/ incorporation	Percentage of equity share capital and voting rights held	Nature of business
*Lloyds Abbey Life plc	England	62%	Life assurance and other financial services
§Cheltenham & Gloucester plc	England	†100%	Mortgage lending and retail investments
Lloyds Bank (BLSA) Limited	England	100%	Banking and financial services
Lloyds Bank Factors Limited	England	100%	Credit factoring
Lloyds Leasing Limited	England	100%	Financial leasing
Lloyds Private Banking Limited	England	100%	Private banking
‡Schröder Münchmeyer Hengst & Co	Germany	†91%	Commercial and investment banking
The Agricultural Mortgage Corporation Plc	England	100%	Long-term agricultural finance
The National Bank of New Zealand Limited	New Zealand	†100%	Banking and financial services

\*Lloyds Abbey Life Group includes undertakings audited by a firm other than Price Waterhouse.

§Cheltenham & Gloucester plc is audited by a firm other than Price Waterhouse.

†Indirect interest.

‡Partnership.

The country of registration/incorporation is also the principal area of operation for each of the above group undertakings except as follows:

Lloyds Bank (BLSA) Limited operates in Spain, Argentina, Ecuador and Uruguay. The National Bank of New Zealand Limited also operates through representative offices in the UK, USA, Hong Kong and Japan.

### 24 Tangible fixed assets

	Group		Bank	
	Premises £m	Equipment £m	Premises £m	Equipment £m
Cost or valuation:				
At 1 January 1995	1,277	1,219	1,087	986
Exchange and other adjustments	14	7	4	4
Adjustments on acquisition	95	41	-	-
Additions	52	127	41	81
Disposals	(36)	(91)	(29)	(62)
Premises revaluation	(160)	-	(115)	-
At 31 December 1995	1,242	1,303	988	1,009
Depreciation:				
At 1 January 1995	88	677	77	570
Charge for the year	34	126	29	94
Exchange and other adjustments	1	3	-	2
Disposals	(1)	(70)	(1)	(53)
Premises revaluation	(23)	-	(19)	-
At 31 December 1995	99	736	86	613
Balance sheet amount at 31 December 1995	1,143	567	902	396
	1,710		1,298	
Balance sheet amount at 31 December 1994	1,189	542	1,010	416
	1,731		1,426	

Equipment includes assets held under finance leases which at 31 December 1995 amounted to £15 million, net of accumulated depreciation of £92 million (1994: £25 million, net of accumulated depreciation of £82 million).

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Balance sheet amount of premises comprises:				
Freeholds	914	933	705	780
Leaseholds 50 years and over unexpired	133	157	116	146
Leaseholds less than 50 years unexpired	96	99	81	84
	1,143	1,189	902	1,010
Balance sheet amount of premises comprises:				
Valued in 1990	-	781	-	773
Valued in 1992	-	174	-	51
Valued in 1995	937	-	712	-
At cost	206	234	190	186
	1,143	1,189	902	1,010

On an historical cost basis, premises would have been included as follows:

Cost	1,204	1,035	940	898
Accumulated depreciation	(144)	(114)	(126)	(99)
	1,060	921	814	799

Land and buildings occupied for own activities

1,027 1,077 805 903

The valuations included in the balance sheet in 1995 relate to both UK and overseas premises, the majority of which were carried out by the Group's professionally qualified staff who are Corporate Members of the Royal Institution of Chartered Surveyors or, in the case of certain overseas premises, by local management. The remainder were carried out by local valuers, principally Weatherall in Spain and Germany. The accounting policy for valuations is set out on page 11 in accounting policy h.



## Notes to the accounts

### 25 Lease commitments

At 31 December, commitments under non-cancellable operating leases, in respect of payments due to be made in the following year, were:

	1995 Premises £m	1995 Equipment £m	1994 Premises £m	1994 Equipment £m
<b>Group</b>				
Leases on which the commitment is due to expire in:				
1 year or less	2	8	1	3
5 years or less but over 1 year	19	22	15	17
Over 5 years	105	-	102	-
	<u>126</u>	<u>30</u>	<u>118</u>	<u>20</u>
<b>Bank</b>				
Leases on which the commitment is due to expire in:				
1 year or less	1	5	-	1
5 years or less but over 1 year	7	18	7	8
Over 5 years	76	-	76	-
	<u>84</u>	<u>23</u>	<u>83</u>	<u>9</u>

### 26 Capital commitments

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Capital expenditure not provided for in these accounts comprises:				
Contracts	12	19	5	10
Authorised by directors but not contracted	62	12	53	1

### 27 Other assets

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Foreign exchange and interest rate contracts	7,030	4,358	6,751	3,972
Other assets	376	277	285	171
	<u>7,406</u>	<u>4,635</u>	<u>7,036</u>	<u>4,143</u>

### 28 Long-term assurance business

The value of long-term assurance business attributable to shareholders included in the consolidated balance sheet comprises:

	1995 £m	1994 £m
Net tangible assets of life companies including surplus	327	323
Value of policies in force	696	728
	<u>1,023</u>	<u>1,051</u>

In order to reflect the requirements of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, which became effective this year within the Group's life assurance businesses, the analysis of the value of the long-term assurance business attributable to shareholders has been altered, principally to reflect the deferral of acquisition costs. Comparative figures have been restated accordingly. There has been no change in the total value of long-term assurance business attributable to shareholders.

### 28 Long-term assurance business (continued)

	1995 £m	1994 £m
The long-term assurance assets attributable to policyholders are:		
Investments	9,594	8,442
Value of policies in force	696	728
Premises and equipment	21	23
Net current (liabilities) assets	(57)	15
	<u>10,254</u>	<u>9,208</u>
Long-term assurance business attributable to shareholders	(1,023)	(1,051)
	<u>9,231</u>	<u>8,157</u>
Investments shown above comprise:		
Fixed interest securities	1,792	1,556
Stocks, shares and unit trusts	6,113	5,278
Investment properties	457	514
Other properties	9	23
Mortgages and loans	41	78
Deposits	1,182	993
	<u>9,594</u>	<u>8,442</u>

The increase in the value of the long-term assurance business included in the consolidated profit and loss account for the year ended 31 December 1995 amounted to £252 million before tax; £169 million after tax (1994: £167 million before tax; £113 million after tax).

In determining the value of long-term assurance business in force, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed vary depending upon the type of asset to which they relate. Profits expected to arise in the future from business currently in force are discounted at 12.5 per cent per annum after provision has been made for tax.

### 29 Assets and liabilities denominated in foreign currencies

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Assets: denominated in sterling	71,325	47,515	54,435	45,977
: denominated in currencies - other than sterling	30,162	25,685	19,991	17,231
	<u>101,487</u>	<u>73,200</u>	<u>74,426</u>	<u>63,208</u>
Liabilities: denominated in sterling	70,795	47,581	54,451	46,030
: denominated in currencies other than sterling	30,692	25,619	19,975	17,178
	<u>101,487</u>	<u>73,200</u>	<u>74,426</u>	<u>63,208</u>

### 30 Deposits by banks

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Repayable on demand	2,472	2,586	2,627	2,693
Other deposits by banks with agreed maturity dates or periods of notice by residual maturity repayable:				
3 months or less	10,237	8,941	11,146	9,603
1 year or less but over 3 months	1,267	1,104	1,086	1,261
5 years or less but over 1 year	338	157	327	74
Over 5 years	47	6	46	1
	<u>14,361</u>	<u>12,794</u>	<u>15,232</u>	<u>13,632</u>

Included above:

Due to group undertakings			3,060	2,784
Due to fellow group undertakings	31	-	31	-



## Notes to the accounts

### 31 Customer accounts

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Repayable on demand	38,657	22,527	22,692	20,358
Other customer accounts with agreed maturity dates or periods of notice by residual maturity repayable:				
3 months or less	17,186	13,756	13,067	10,039
1 year or less but over 3 months	1,309	1,170	813	799
5 years or less but over 1 year	817	432	715	614
Over 5 years	40	24	163	18
	58,009	37,909	37,450	31,828
Included above:				
Due to group undertakings			858	978

### 32 Debt securities in issue

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Bonds and medium-term notes by residual maturity repayable:				
1 year or less	330	51	-	-
2 years or less but over 1 year	29	165	-	-
5 years or less but over 2 years	534	75	-	-
Over 5 years	-	-	-	-
	893	291	-	-
Other debt securities by residual maturity repayable:				
3 months or less	6,898	5,194	3,790	3,387
1 year or less but over 3 months	1,141	1,627	823	1,444
5 years or less but over 1 year	109	222	100	221
	8,148	7,043	4,713	5,052
	9,041	7,334	4,713	5,052

### 33 Other liabilities

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Foreign exchange and interest rate contracts	8,243	4,294	7,955	3,906
Current tax	526	335	291	225
Dividends	477	237	477	237
Other liabilities	591	483	85	95
	9,837	5,349	8,808	4,463

### 34 Deferred tax

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
Short-term timing differences	(47)	(67)	(36)	(40)
Pensions prepayment	60	53	60	53
Provision for problem country exposure	(171)	(156)	(171)	(154)
Accelerated depreciation allowances	460	411	-	-
Advance corporation tax recoverable	(103)	(46)	(89)	(43)
	199	195	(236)	(184)

The £15 million increase in the deferred tax balance relating to provisions for problem country exposure comprises £30 million resulting from changes in tax allowable provision levels offset by a £15 million reduction in respect of provisions released to profit and loss account (note 9).

	Group £m	Bank £m
At 1 January 1995	195	(184)
Adjustment on acquisition	4	-
Tax provided	57	(5)
Other movements	(57)	(47)
At 31 December 1995	199	(236)
	Group £m	Bank £m
	1995 £m	1994 £m

Potential tax for which no provision

has been made relating to

accelerated depreciation allowances on:

Equipment used in the business	42	42	42	42
Equipment leased to customers	72	72	-	-
	114	114	42	42

Provision has been made for the liability to tax on overseas earnings which are expected to be remitted to the UK. No provision has been made for the liability to tax which could arise if premises or group undertakings were disposed of at their balance sheet amounts or investments in associated undertakings and trade investments at their valuation. It is expected that the majority of these assets will be retained in the business and that, in view of the substantial number of properties involved and the law relating to rollover relief, the likelihood of any material tax liability arising thereon is remote; no useful purpose would be served by attempting to quantify it.

### 35 Other provisions for liabilities and charges

	Pension obligations £m	Other £m	Total £m
Group			
At 1 January 1995	43	119	162
Exchange and other adjustments	4	2	6
Provisions applied	(2)	(8)	(10)
Other movements	3	2	5
Charge to profit and loss account	2	12	14
At 31 December 1995	50	127	177
Bank			
At 1 January 1995	-	112	112
Exchange and other adjustments	-	2	2
Provisions applied	-	(7)	(7)
Charge to profit and loss account	-	8	8
At 31 December 1995	-	115	115



## Notes to the accounts

### 36 Subordinated liabilities

	1995 £m	1994 £m
<i>Undated loan capital:</i>		
*†Primary Capital Undated Floating Rate Notes:		
Series 1 (US\$750 million)	483	479
Series 2 (US\$500 million)	322	320
Series 3 (US\$600 million)	386	383
†*♣Subordinated 5.57% Step-up Coupon Notes (¥20 billion)	125	—
Bank	1,316	1,182
†11½% Perpetual Subordinated Bonds	100	—
Group	1,416	1,182
<i>Dated loan capital:</i>		
*‡Guaranteed Floating Rate Notes 1996 (minimum rate 5%)	40	80
*‡Guaranteed Floating Rate Notes 1997 (US\$112 million)	72	107
10½% Subordinated Bonds 1998	150	150
*Variable Rate Subordinated Notes 1998	120	160
*‡Guaranteed Floating Rate Notes 1998 (US\$138 million)	89	118
11½% Subordinated Serial Bonds 1998	60	80
**Subordinated Floating Rate Notes 1999	226	298
*♣Subordinated Floating Rate Notes 2004	100	—
7½% Subordinated Bonds 2004	397	397
9½% Subordinated Bonds 2009	99	99
9½% Subordinated Bonds 2023	200	200
Bank	1,553	1,689
*Subordinated Floating Rate Notes 2001	45	—
*Subordinated Floating Rate Notes 2003	18	—
§Subordinated Fixed Rate Bonds 2003 (NZ\$200 million)	84	82
*Subordinated Floating Rate Notes 2004	25	—
*Subordinated Floating Rate Notes 2005	25	—
Group	1,750	1,771
<i>Other subordinated liabilities:</i>		
9½% Subordinated Notes 1995	—	6
Total subordinated liabilities : Group	3,166	2,959
: Bank	2,869	2,877

These liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

\*Subject to the minimum rate stated, these notes bear interest at rates fixed periodically in advance based on London Interbank rates.

†In certain circumstances, these notes and bonds would acquire the characteristics of preference share capital.

‡Issued by a group undertaking under the Bank's subordinated guarantee and on-lent to the Bank on a subordinated basis.

\*Issued by the Bank during 1995 to finance the general business of the Group.

§These bonds bear interest, to be reset in 1998, at a fixed margin over New Zealand Government stocks.

\*Exchangeable at the election of the Bank for Subordinated Floating Rate Notes 2009.

♣Redeemable at the election of the Bank in 2015. In the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over the then 5 year Yen swap rate.

\*Exchangeable at the election of the Bank for further subordinated floating rate notes. The total dated subordinated liabilities of the Group are repayable as follows:

	1995 £m	1994 £m
1 year or less	166	172
2 years or less but over 1 year	126	166
5 years or less but over 2 years	470	661
Over 5 years	988	778
	1,750	1,777

### 37 Called-up share capital

	1995 £m	1994 £m
Authorised: ordinary shares of £1 each*	1,650	1,650
Issued and fully paid: ordinary shares of £1 each		
At 1 January	1,297	1,284
Issued under employees' share schemes	12	10
Issued instead of cash dividends	4	3
Cancellation of shares under scheme of arrangement (note 2)	(1,313)	—
Issue of shares under scheme of arrangement (note 2)	1,313	—
At 31 December	1,313	1,297

\*Includes one cumulative floating rate preference share of £1.

The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent undertaking of the only group of undertakings for which consolidated accounts are drawn up of which the Bank is a member. Lloyds TSB Group plc is registered in Scotland and copies of the group accounts may be obtained from the head office, 71 Lombard Street, London EC3P 3BS.

### 38 Reserves

	Group £m	Bank £m	Associated undertakings £m
Share premium account:			
At 1 January 1995	53	53	—
Premium arising on issue of shares	15	15	—
Shares issued instead of cash dividends	(4)	(4)	—
At 31 December 1995	64	64	—
Revaluation reserve:			
At 1 January 1995	59	1,092	—
Decrease in net tangible assets of subsidiary and associated undertakings	—	(489)	—
Transfer to profit and loss account	(59)	(35)	—
Premises revaluation deficit	(128)	(96)	—
At 31 December 1995	(128)	472	—
Profit and loss account:			
At 1 January 1995	2,252	1,219	39
Exchange and other adjustments	52	17	9
Premiums on acquisitions	(764)	(16)	—
Shares issued instead of cash dividends	26	26	—
Transfer from revaluation reserve	59	35	—
Transfer from profit and loss account	325	69	40
At 31 December 1995	1,950	1,350	88

The Group profit and loss account reserves at 31 December include £318 million (1994: £298 million) not presently available for distribution representing the Group's share of the value of long-term assurance business in force and the surplus retained within the long-term assurance funds.

The cumulative amount of premiums on acquisitions written off against profit and loss account reserves during the current and previous years amounted to £920 million of which £844 million has been written off over the last 10 years.



## Notes to the accounts

### 39 Directors' interests

The interests of directors, except those who were also directors of Lloyds TSB Group, in shares in Lloyds TSB Group were:

Shares:	Lloyds TSB Group		Lloyds Bank		Lloyds Abbey Life	
	At 31 December 1995	At 1 January 1995 or later date of appointment*	At 1 January 1995 or later date of appointment*	At 31 December 1995	At 1 January 1995 or later date of appointment	At 31 December 1995
M K Atkinson	23,045	23,045				
P G Brown	112,963		35,357			
R C Carefull	4,062	4,062				
J K Elbourne	134,609	134,609				
M E Fairey	6,195	6,195				
H R Freedberg	115,085	115,085				
A H Longhurst	2,736					
S A Maran	92,655		34,266	5,798	4,334	
D B Pirrie	81,728		27,557			

\*2,704 Lloyds TSB shares were issued for each Lloyds Bank share held on 27 December 1995.

#### Options to acquire shares:

	Lloyds TSB Group		Lloyds TSB Group	
	At 1 January 1995 or later date of appointment	At 1 January 1995 or later date of appointment	Granted during the year or since appointment†	At 31 December 1995
M K Atkinson**		65,029		65,029
P G Brown**	191,377		20,000	3,348
R C Carefull		100,715		100,715
J K Elbourne		240,185		240,185
M E Fairey		461,167		461,167
H R Freedberg		268,258		268,258
D B Pirrie**	245,481			663,778

\*\*Shares under option at 31 December 1995 are shown as Lloyds TSB Group shares as, on exercise, optionholders will receive 2,704 Lloyds TSB Group shares for each Lloyds Bank share under option at 27 December 1995.

†Exercisable between 1996 and 2005.

#### Lloyds Abbey Life:

	At 1 January 1995	Granted during the year	Exercised during the year	At 31 December 1995
S A Maran	254,707	1,036	1,464	254,279

Except as disclosed in the report and accounts of Lloyds TSB Group, none of the other directors at 31 December 1995 had options to acquire shares in Lloyds TSB Group or its subsidiaries and no director had an interest in the loan capital of Lloyds TSB Group or in the share and loan capital of its subsidiaries.

### 40 Directors' emoluments

	1995 £000	1994 £000
Fees	372	312
Other emoluments	3,263	2,910
	3,635	3,222
Pensions paid to past directors and their dependants	101	98
	3,736	3,320

One director (1994: one) waived rights to receive emoluments of £8,750 in 1995 (1994: £3,750).

Performance-related payments have previously been included in directors' emoluments in the year of payment. These are now shown on a receivable basis so that they relate more closely to the results on which they are based and the comparative figures have been restated accordingly.

The emoluments of the Chairman were £320,294 (1994: £292,934) and did not include any employer's pension scheme contributions.

The emoluments, excluding employer's pension scheme contributions, of the highest paid director were £689,273 (1994: £583,883).

The following table shows the number of directors whose emoluments, excluding employer's pension scheme contributions, fell within the bands stated:

Emoluments £	No. of directors 1995	No. of directors 1994	Emoluments £	No. of directors 1995	No. of directors 1994
Up to 5,000	7	—	175,001 to 180,000	—	1
5,001 to 10,000	1	—	225,001 to 230,000	—	1
15,001 to 20,000	1	—	240,001 to 245,000	—	1
20,001 to 25,000	—	3	255,001 to 260,000	1	—
25,001 to 30,000	5	3	280,001 to 285,000	—	1
30,001 to 35,000	1	1	290,001 to 295,000	—	2
35,001 to 40,000	1	—	320,001 to 325,000	1	—
40,001 to 45,000	1	1	335,001 to 340,000	1	—
45,001 to 50,000	1	—	340,001 to 345,000	1	—
75,001 to 80,000	—	1	345,001 to 350,000	—	1
85,001 to 90,000	1	—	375,001 to 380,000	1	—
110,001 to 115,000	—	1	390,001 to 395,000	1	—
115,001 to 120,000	1	—	580,001 to 585,000	—	1
140,001 to 145,000	1	—	685,001 to 690,000	1	—
170,001 to 175,000	—	1			

### 41 Transactions, arrangements and agreements involving directors and others

At 31 December 1995, transactions, arrangements and agreements entered into by the Bank or its subsidiaries with directors and connected persons and with officers of the Bank included:

	Number of persons	Total £000
Loans and credit card transactions:		
Directors and connected persons	36	1,025
Officers	17	1,380



## Notes to the accounts

### 42 Off-balance sheet instruments and other commitments and contingent liabilities

The Group enters into various transactions during the course of its business involving acceptances, endorsements, guarantees, performance bonds and similar arrangements. In addition various transactions are undertaken involving off-balance sheet financial instruments. The amounts shown below are intended to provide an indication of the volume of business transacted and do not necessarily represent the underlying credit or other risks.

	Group		Bank	
	1995 £m	1994 £m	1995 £m	1994 £m
<b>Contingent liabilities:</b>				
Acceptances and endorsements	598	594	447	437
Guarantees	2,122	1,762	2,829	2,805
Other:				
Other items serving as direct credit substitutes	437	659	112	286
Performance bonds and other transaction-related contingencies	534	653	447	540
Other contingent liabilities	105	172	96	162
	<u>1,076</u>	<u>1,484</u>	<u>655</u>	<u>988</u>
	<u>3,796</u>	<u>3,840</u>	<u>3,931</u>	<u>4,230</u>
<b>Commitments:</b>				
Documentary credits and other short-term trade-related transactions	341	441	262	363
Forward asset purchases and forward forward deposits placed	1,949	800	1,663	409
Undrawn note issuing and revolving underwriting facilities	105	78	-	12
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year maturity	9,629	10,555	8,316	9,054
1 year or over maturity	5,770	3,821	5,594	3,660
Other commitments	69	131	63	131
	<u>17,863</u>	<u>15,826</u>	<u>15,898</u>	<u>13,629</u>
<b>Incurred on behalf of group undertakings:</b>				
Contingent liabilities			1,064	1,183
Commitments			584	438
			<u>1,648</u>	<u>1,621</u>

### 43 Derivatives

The Group uses derivatives as part of its trading activities and to reduce its own exposure to fluctuations in interest and exchange rates.

At 31 December 1995, the notional principal amounts of instruments entered into with third parties were as follows:

	1995 Notional principal amounts £m	1994 Notional principal amounts £m
<b>Group</b>		
<b>Exchange rate contracts:</b>		
Spot, forwards and futures	221,801	194,274
Currency swaps	2,271	1,982
Options purchased	2,878	1,607
Options written	3,125	2,240
	<u>230,075</u>	<u>200,103</u>
<b>Interest rate contracts:</b>		
Interest rate swaps	246,806	204,748
Forward rate agreements	286,234	265,366
Options purchased	1,130	907
Options written	1,190	617
Futures	104,743	84,663
	<u>640,103</u>	<u>556,301</u>
Net replacement cost	<u>7,302</u>	<u>4,948</u>
Risk weighted amount	<u>2,393</u>	<u>1,712</u>
<b>Bank</b>		
<b>Exchange rate contracts:</b>		
Spot, forwards and futures	211,527	184,349
Currency swaps	1,435	927
Options purchased	2,373	1,124
Options written	2,361	1,761
	<u>217,696</u>	<u>188,161</u>
<b>Interest rate contracts:</b>		
Interest rate swaps	239,698	200,465
Forward rate agreements	284,408	263,236
Options purchased	542	495
Options written	688	65
Futures	104,183	83,731
	<u>629,519</u>	<u>547,992</u>
Net replacement cost	<u>7,229</u>	<u>4,618</u>
Risk weighted amount	<u>2,238</u>	<u>1,536</u>





## Notes to the accounts

### 43 Derivatives (continued)

At 31 December 1995, the remaining maturity of the notional principal amount and replacement cost of instruments entered into with third parties was:

	Under 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
<b>Group</b>				
<i>Exchange rate contracts:</i>				
Notional principal amount	221,091	8,667	317	230,075
Net replacement cost	2,555	169	27	2,751
<i>Interest rate contracts:</i>				
Notional principal amount	403,482	232,268	4,353	640,103
Net replacement cost	2,185	2,169	197	4,551
<b>31 December 1994</b>				
<i>Exchange rate contracts:</i>				
Notional principal amount	197,136	2,781	186	200,103
Net replacement cost	2,499	126	16	2,641
<i>Interest rate contracts:</i>				
Notional principal amount	329,571	222,268	4,462	556,301
Net replacement cost	923	1,115	269	2,307
<b>Bank</b>				
<i>Exchange rate contracts:</i>				
Notional principal amount	209,493	7,929	274	217,696
Net replacement cost	2,438	161	9	2,608
<i>Interest rate contracts:</i>				
Notional principal amount	396,123	228,281	5,115	629,519
Net replacement cost	2,161	2,184	276	4,621
<b>31 December 1994</b>				
<i>Exchange rate contracts:</i>				
Notional principal amount	185,665	2,317	179	188,161
Net replacement cost	2,293	88	9	2,390
<i>Interest rate contracts:</i>				
Notional principal amount	323,743	219,316	4,933	547,992
Net replacement cost	904	1,058	266	2,228

The notional principal amount does not represent the Group's real exposure to credit risk which is limited to the current cost of replacing contracts at current market rates should the counterparties default. No account is taken of master netting agreements which reduce the gross exposure.

An analysis of the net replacement cost of instruments entered into with third parties by counterparty type is set out below:

	1995 £m	1994 £m
OECD banks	6,639	4,464
Other	663	484
	<u>7,302</u>	<u>4,948</u>

### 44 Business combinations

a) On 1 August 1995, C&G joined the Lloyds Bank Group for a consideration of £1.8 billion in cash. This transaction has been accounted for in accordance with acquisition accounting principles. The results of C&G have been included in the consolidated accounts of the Group from 1 August 1995; a summarised profit and loss account for C&G for the period from 1 January 1995 to 31 July 1995 is set out below.

	£m
Net interest income	251
Other income and charges	(6)
	<u>245</u>
Administrative expenses	(83)
Provisions for bad and doubtful debts	(23)
	<u>Operating profit</u>
Costs incurred relating to the transfer to Lloyds Bank Plc	(12)
	<u>Profit on ordinary activities before tax</u>
Tax	(40)
	<u>Profit after tax</u>
	87
	<u>Profit after tax for the year ended 31 December 1994</u>
	144

All recognised gains and losses are included in the profit and loss account.

The balance sheet of C&G as at 1 August 1995 was as follows:

	Book value at 1 August £m	Fair value adjust- ments £m	Fair value at acq- uisition £m
Cash and liquid funds	10	-	10
Treasury and other eligible bills	348	-	348
Loans and advances to banks	1,143	-	1,143
Loans and advances to customers	16,892	-	16,892
Debt securities	1,700	2	1,702
Tangible fixed assets	159	(23)	136
Other assets	46	-	46
Deposits by banks	(903)	-	(903)
Customer accounts	(14,802)	-	(14,802)
Debt securities in issue	(2,753)	-	(2,753)
Other liabilities	(531)	1	(530)
Subordinated liabilities	(213)	-	(213)
	<u>1,096</u>	<u>(20)</u>	<u>1,076</u>
Net assets acquired			
Goodwill			745
Consideration			<u>1,821</u>
Satisfied by:			
Cash			1,814
Related costs of acquisition			7
			<u>1,821</u>

The fair value adjustments relate principally to the revaluation of C&G's freehold and leasehold premises. The goodwill arising has been written off directly to profit and loss account reserves.

b) During the year, the Lloyds Bank Group acquired NatWest Investment Services, the global custody operation of NatWest Group, for a consideration of £17 million. The transaction has been accounted for in accordance with acquisition accounting principles and goodwill amounting to £16 million has been written off directly to profit and loss account reserves.

The results of this business have been included in the consolidated accounts of the Group from 25 April 1995; the effect on the results of the Group is not material.