2065

# Lloyds TSB Bank plc

## Report and Accounts

## 1999



Member of Lloyds TSB Group

# Contents



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

# Directors

Sir Brian Pitman
*Chairman*

Sir Nicholas Goodison
*Deputy Chairman*
*(until 11 April 2000)*

A E Moore CBE
*Deputy Chairman*

P B Ellwood
*Chief Executive*

M E Fairey
*Deputy Chief Executive*

M K Atkinson

Ewan Brown

A C Butler

S M Forbes

C S Gibson-Smith

Dennis Holt

A G Kane

L E Linaker

T F W McKillop

P C Nicholson
*(until 11 April 2000)*

Dame Bridget Ogilvie
*(until 11 April 2000)*

D P Pritchard

The Earl of Selborne

# Directors' report

### Change of name

On 28 June 1999 the name of the company was changed from Lloyds Bank Plc.

### Results and dividends

The consolidated profit and loss account on page 7 shows a profit attributable to shareholders for the year ended 31 December 1999 of £2,180 million. An interim dividend of £440 million for the year ended 31 December 1999 was paid on 1 October 1999. A second interim dividend of £860 million will be paid on 31 March 2000.

### 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.

### Business review and future developments

Profit before tax for the Lloyds TSB Bank Group was £3,229 million in 1999, compared with £2,531 million in 1998.

Total income increased by 15 per cent to £7,238 million and expenses fell by 1 per cent to £3,291 million. The efficiency ratio improved further to 45.5 per cent from 53.0 per cent in 1998. However, both income and operating expenses were significantly affected by the impact of pension provisions, the sale and closure of businesses, and the acquisition of Lloyds TSB Financial Services Holdings plc, the holding company for all the UK insurance and related businesses of the Lloyds TSB Group, from the Bank's parent company Lloyds TSB Group plc.

Total profit before tax from UK Retail Banking and Mortgages rose by £215 million or 15 per cent to £1,650 million. There was good growth in mortgages and other personal lending and in retail deposits. Pre-tax profit from Insurance and Investments, acquired by the Bank during the year, excluding the provision for redress to past purchasers of pension policies, was £533 million. Wholesale Markets pre-tax profit increased by £86 million, or 12 per cent, to £781 million. Both our Corporate and Institutional Banking Division and Commercial Banking increased their profits. International Banking pre-tax profit was £130 million higher at £436 million.

The total charge for bad and doubtful debts rose to £588 million from £531 million in 1998. The domestic charge increased to £501 million from £366 million in 1998. Provisions overseas decreased to £87 million from £165 million in 1998. Non-performing lending fell to £1,088 million from £1,187 million in December 1998. Non-performing lending represented 1.0 per cent of total lending, down from 1.2 per cent in December 1998.

Shareholders' funds grew by 42 per cent to £10,187 million. Risk-weighted assets increased by 1 per cent to £84.2 billion. At the end of 1999 the risk asset ratios, the international standard for measuring capital adequacy, were 15.0 per cent for total capital and 11.9 per cent for tier 1 capital. Excluding the impact of additional tier 2 capital raised for the Scottish Widows acquisition, the Group's total capital ratio would have been 12.1 per cent.

In December 1999 we announced a revised Group structure based upon delivering a stronger customer focus to strengthen the continuous drive for revenue growth and further improvements in efficiency. We will continue to invest heavily in improving our services to customers to help deliver our extensive plans for revenue growth, and we have also identified additional opportunities to reduce further our operating costs. We have now begun a major new efficiency programme and the cost reductions from this programme are such that by 2002 we expect that the Group's efficiency ratio will be below 35 per cent. We forecast further progress thereafter. In 2000 we expect to incur a restructuring charge of up to £200 million.

The programme will result in the centralisation of large scale processing activities and the further rationalisation of support functions, and will facilitate additional investment in lower cost delivery channels such as telephone banking and internet operations, and the development of our e-commerce activities.

# Directors' report

On 23 June 1999 the Group announced an agreement with Scottish Widows providing for the transfer of Scottish Widows' business to the Lloyds TSB Group. The transfer has been approved by Scottish Widows members and, subject to the sanction of the Court of Session in Edinburgh, the transfer is expected to be completed on schedule on 3 March 2000. Completion of the proposed transaction will bring together the life, pensions, unit trust and fund management businesses of Lloyds TSB and Scottish Widows and create a business capable of achieving greater sales, increased revenue growth and lower unit costs.

On 1 February 2000 the Group announced the sale of the new business capability of Abbey Life to Allied Dunbar for £100 million. A provision of £18 million has been made in the 1999 accounts for the impairment of certain assets.

**Group structure**

As described on page 12 in note 2, the businesses of Hill Samuel Bank Limited and TSB Bank plc were transferred to the Bank on 31 March and 28 June 1999, respectively.

On 30 June 1999 the Bank acquired, from its parent company Lloyds TSB Group plc, the entire issued share capital of Lloyds TSB Financial Services Holdings plc, the holding company for all the UK insurance and related businesses of the Lloyds TSB Group. In addition, on the same day the Bank acquired, from its parent company, the entire issued share capital of TSB Group Holdings (Jersey) Limited, Amberdate Limited, TSB Hill Samuel Bank Holding Company Limited, and a number of other subsidiaries.

**Directors**

The names of the directors of the Bank are shown on page 2.

Professor Brown, Mr Butler, Miss Forbes, Dr Gibson-Smith, Mr Linaker, Dr McKillop, Mr Nicholson, Dame Bridget Ogilvie, Sir Ian Prosser and The Earl of Selborne joined the board on 30 June 1999. Mr Carefull left the board on 30 June 1999, Sir Ian Prosser and Mr Maran retired on 31 July 1999 and 31 December 1999, respectively, and Mr Pell left the board on 7 January 2000. Mr Kane and Mr Holt joined the board on 1 January 2000 and 1 February 2000, respectively.

**Employees**

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

In the UK, the Bank supports Opportunity Now and Race for Opportunity, campaigns to improve opportunities for women and ethnic minorities in the work place. The Bank is a member of the Employers' Forum on Disability in support of employment of people with disabilities. This recognises the need for ensuring fair employment practices in recruitment and selection, and the retention and career development of disabled staff.

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions.

Financial involvement is encouraged through profit sharing and share option schemes.

**Policy and practice on payment of creditors**

The Bank follows 'The Better Payment Practice Code' published by the Department of Trade and Industry regarding payments to suppliers. A copy of the code and information about it may be obtained from The Department of Trade and Industry, 1 Victoria Street, London SW1H 0ET.

The Bank's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Bank to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

The number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is 33. This bears the same proportion to the number of days in the year as the aggregate of the amounts owed to trade creditors at 31 December 1999 bears to the aggregate of the amounts invoiced by suppliers during the year.

**Year 2000**

The Bank recognised the far-reaching implications of the problems which might have arisen from the failures of systems to acknowledge dates before, on or after 1 January 2000, and its policy was to ensure that the systems and business processes were not affected by these problems. The successful implementation of the Bank's Year 2000 programme represented the culmination of many years' work. This comprehensive programme ensured the continued progress of the Bank's systems, processes and infrastructure. Costs incurred to the end of 1999 were £132 million.

**Economic and Monetary Union**

In preparing for the initial decision that the UK should 'opt-out' of Economic and Monetary Union, the Bank successfully managed the euro conversion process at the beginning of January 1999. The Bank now provides euro accounts and enables customers to make and receive payments in euro. Costs incurred to the end of December 1999 were £36 million.

On behalf of the board

AJMichie

A J Michie
Secretary
10 February 2000

# Auditors' report

**To the members of Lloyds TSB Bank plc**

We have audited the financial statements on pages 7 to 34 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**
The directors are responsible for preparing the annual report including, as described below, the financial statements. 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 as at the end of the year and of the profit or loss for that year. 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 the going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The directors are responsible for keeping 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 Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibilities, as independent auditors, are established in the UK by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the UK Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

**Basis of audit 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 Bank 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 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
10 February 2000

# Consolidated profit and loss account

*for the year ended 31 December 1999*

| | Note | Lloyds TSB Bank Group (excluding Lloyds TSB Financial Services Holdings Group) (note 2) 1999 £ million | Lloyds TSB Financial Services Holdings Group (note 46) 1999 £ million | 1999 £ million | (note 2) 1998 £ million |
|---|---|---|---|---|---|
| Interest receivable: | | | | | |
| Interest receivable and similar income arising from debt securities | | **423** | **4** | **427** | 519 |
| Other interest receivable and similar income | | **10,021** | **42** | **10,063** | 10,831 |
| Interest payable | | **5,742** | **5** | **5,747** | 6,953 |
| Write-down of finance lease receivables | | **–** | **–** | **–** | 32 |
| **Net interest income** | | **4,702** | **41** | **4,743** | 4,365 |
| **Other income** | | | | | |
| Dividend income from equity shares | | **3** | **–** | **3** | 5 |
| Fees and commissions receivable | | **1,765** | **364** | **2,129** | 1,698 |
| Fees and commissions payable | | **(352)** | **(47)** | **(399)** | (333) |
| Dealing profits (before expenses) | 3 | **189** | **14** | **203** | 185 |
| Income from long-term assurance business: | 29 | | | | |
| Income before pension provision | | **5** | **168** | **173** | – |
| Pension provision | | **–** | **(102)** | **(102)** | – |
| General insurance premium income | | **–** | **200** | **200** | – |
| Other operating income | | **278** | **10** | **288** | 364 |
| | | **1,888** | **607** | **2,495** | 1,919 |
| **Total income** | | **6,590** | **648** | **7,238** | 6,284 |
| **Operating expenses** | | | | | |
| Administrative expenses | 4 | **2,920** | **164** | **3,084** | 3,072 |
| Restructuring costs | 37 | **–** | **–** | **–** | 42 |
| Total administrative expenses | | **2,920** | **164** | **3,084** | 3,114 |
| Depreciation | 24 | **215** | **3** | **218** | 213 |
| Amortisation of goodwill | 23 | **(11)** | **–** | **(11)** | 4 |
| Depreciation and amortisation | | **204** | **3** | **207** | 217 |
| Total operating expenses | | **3,124** | **167** | **3,291** | 3,331 |
| **Trading surplus** | | **3,466** | **481** | **3,947** | 2,953 |
| *General insurance claims* | | **–** | **85** | **85** | – |
| **Provisions for bad and doubtful debts** | 15 | | | | |
| Specific | | **588** | **–** | **588** | 537 |
| General | | **–** | **–** | **–** | (6) |
| | | **588** | **–** | **588** | 531 |
| Amounts written off fixed asset investments | 5 | **7** | **–** | **7** | 15 |
| **Operating profit** | | **2,871** | **396** | **3,267** | 2,407 |
| Income from associated undertakings | | | | **8** | 8 |
| (Loss) profit on sale and closure of businesses | 6 | | | **(46)** | 116 |
| **Profit on ordinary activities before tax** | 7 | | | **3,229** | 2,531 |
| Tax on profit on ordinary activities | 9 | | | **1,043** | 701 |
| **Profit on ordinary activities after tax** | | | | **2,186** | 1,830 |
| Minority interests (equity) | | | | **6** | 13 |
| **Profit for the year attributable to shareholders** | 10 | | | **2,180** | 1,817 |
| Dividends | 11 | | | **1,300** | 1,451 |
| **Retained profit** | 40 | | | **880** | 366 |

# Balance sheets

*at 31 December 1999*

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **1999 £ million** | 1998 £ million | **1999 £ million** | 1998 £ million |
| **Assets** | | | | | |
| Cash and balances at central banks | | **1,276** | 1,071 | **1,061** | 918 |
| Items in course of collection from banks | | **1,743** | 1,729 | **1,687** | 1,692 |
| Treasury bills and other eligible bills | *12* | **2,065** | 3,151 | **1,957** | 2,665 |
| Loans and advances to banks | *13* | **16,963** | 18,232 | **47,842** | 44,420 |
| *Loans and advances to customers* | *14* | **104,561** | 99,682 | **44,422** | 41,524 |
| Debt securities | *18* | **14,184** | 12,309 | **13,038** | 11,630 |
| Equity shares | *19* | **213** | 46 | **25** | 28 |
| Interests in associated undertakings | *21* | **28** | 4 | **4** | 2 |
| Shares in group undertakings | *22* | **–** | – | **8,304** | 4,334 |
| Intangible fixed assets | *23* | **231** | 216 | **10** | – |
| Tangible fixed assets | *24* | **1,668** | 1,598 | **1,206** | 1,142 |
| Other assets | *27* | **3,590** | 5,164 | **2,992** | 4,462 |
| Prepayments and accrued income | *28* | **2,628** | 2,377 | **2,247** | 2,152 |
| Long-term assurance business attributable to shareholders | *29* | **2,274** | – | **–** | – |
| | | **151,424** | 145,579 | **124,795** | 114,969 |
| Long-term assurance assets attributable to policyholders | *29* | **26,542** | – | **–** | – |
| Total assets | | **177,966** | 145,579 | **124,795** | 114,969 |

The directors approved the accounts on 10 February 2000.

**Sir Brian Pitman** Chairman **P B Ellwood** Chief Executive **M K Atkinson** Finance Director

Brian Pitman

# Balance sheets

*at 31 December 1999*

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **1999 £ million** | 1998 £ million | **1999 £ million** | 1998 £ million |
| **Liabilities** | | | | | |
| Deposits by banks | 31 | **17,694** | 17,587 | **24,350** | 22,921 |
| *Customer accounts* | 32 | **93,122** | 91,667 | **68,535** | 63,233 |
| Items in course of transmission to banks | | **757** | 801 | **678** | 775 |
| Debt securities in issue | 33 | **12,260** | 11,853 | **8,591** | 8,574 |
| Other liabilities | 34 | **5,331** | 7,690 | **4,125** | 6,850 |
| Accruals and deferred income | 35 | **3,309** | 2,866 | **2,167** | 1,811 |
| Provisions for liabilities and charges: | | | | | |
| Deferred tax | 36 | **1,471** | 1,236 | **(39)** | (154) |
| Other provisions for liabilities and charges | 37 | **474** | 344 | **234** | 267 |
| Subordinated liabilities: | | | | | |
| Undated loan capital | 38 | **3,294** | 1,518 | **3,194** | 1,418 |
| Dated loan capital | 38 | **3,492** | 2,787 | **2,773** | 2,086 |
| Minority interests (equity) | | **33** | 42 | **–** | – |
| Called-up share capital | 39 | **1,542** | 1,472 | **1,542** | 1,472 |
| Share premium account | 40 | **2,960** | 879 | **2,960** | 879 |
| *Revaluation reserve* | 40 | **(206)** | *(201)* | **620** | 573 |
| Profit and loss account | 40 | **5,891** | 5,038 | **5,065** | 4,264 |
| Shareholders' funds (equity) | | **10,187** | 7,188 | **10,187** | 7,188 |
| | | **151,424** | 145,579 | **124,795** | 114,969 |
| Long-term assurance liabilities to policyholders | 29 | **26,542** | – | **–** | – |
| Total liabilities | | **177,966** | 145,579 | **124,795** | 114,969 |
| **Memorandum items** | 44 | | | | |
| *Contingent liabilities:* | | | | | |
| Acceptances and endorsements | | **459** | 415 | **440** | 398 |
| Guarantees and assets pledged as collateral security | | **2,485** | 2,077 | **2,988** | 2,851 |
| Other contingent liabilities | | **1,479** | 1,590 | **1,458** | 1,558 |
| | | **4,423** | 4,082 | **4,886** | 4,807 |
| Commitments: | | | | | |
| Commitments arising out of sale and option to resell transactions | | **14** | 25 | **14** | 25 |
| Other commitments | | **27,862** | 26,542 | **24,862** | 24,315 |
| | | **27,876** | 26,567 | **24,876** | 24,340 |

## Statement of total recognised gains and losses

*for the year ended 31 December 1999*

| | **1999 £ million** | 1998 £ million |
|---|---|---|
| Profit attributable to shareholders | **2,180** | 1,817 |
| Currency translation differences on foreign currency net investments | **(32)** | (8) |
| Total recognised gains and losses relating to the year | **2,148** | 1,809 |

## Historical cost profits and losses

*for the year ended 31 December 1999*

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

## Reconciliation of movements in shareholders' funds

*for the year ended 31 December 1999*

| | **1999 £ million** | 1998 £ million |
|---|---|---|
| Profit attributable to shareholders | **2,180** | 1,817 |
| Dividends | **(1,300)** | (1,451) |
| Retained profit | **880** | 366 |
| Currency translation differences on foreign currency net investments | **(32)** | (8) |
| Issue of shares | **2,151** | 24 |
| Goodwill written back on sale of businesses | **–** | 76 |
| Net increase in shareholders' funds | **2,999** | 458 |
| Shareholders' funds at beginning of year | **7,188** | 6,730 |
| Shareholders' funds at end of year | **10,187** | 7,188 |

# Notes to the accounts

**1 Accounting policies**

Accounting policies are unchanged from 1998, except that the Group has implemented the requirements of Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets'; the effect has not been significant.

In addition, the Group has implemented the requirements of Financial Reporting Standard 13 'Derivatives and Other Financial Instruments: Disclosures'.

**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 **g**, **h**, **i** and **j**) in compliance with Sections 255 and 255A, Schedule 9 and other requirements of the Companies Act 1985, in accordance with applicable accounting standards, pronouncements of the Urgent Issues Task Force and with the Statements of Recommended Accounting Practice issued by the British Bankers Association.

As permitted by Financial Reporting Standard 1 (revised), no cash flow statement is presented in these accounts, as the Bank is a wholly owned subsidiary of Lloyds TSB Group plc which presents such a statement in its own accounts. In addition, advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with Lloyds TSB Group plc or other group or associated undertakings, as the consolidated accounts of Lloyds TSB Group plc in which the Bank is included are publicly available.

**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 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 Goodwill**

Goodwill arising on acquisitions of or by group and associated undertakings is capitalised and amortised on a straight line basis over their estimated useful lives, which will not exceed 20 years. For acquisitions prior to 1 January 1998, goodwill was taken direct to reserves in the year of acquisition. As permitted by the transitional arrangements of Financial Reporting Standard 10, this goodwill was not reinstated when the Group adopted the standard in 1998.

At the date of the disposal of group or associated undertakings, any unamortised goodwill, or goodwill taken directly to reserves, is included in the Group's share of the net assets of the undertaking in the calculation of the profit or loss on disposal.

**d Income recognition**

Interest income is recognised in the profit and loss account as it accrues, with the exception of interest on non-performing lending which is taken to income when received (see **e**)

Fees receivable from customers to reimburse the Group for costs incurred are taken to income when due. Fees relating to the ongoing provision of a service or risk borne for a customer are taken to income in proportion to the service provided or risk borne in each accounting period. Fees charged in lieu of interest are taken to income on a level yield basis over the period of the loan. Other fees receivable are accounted for as they fall due.

**e 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.

**1 Accounting policies (continued)**

**f Mortgage incentives**

Payments made under cash gift and discount mortgage schemes, which are recoverable from the customer in the event of early redemption, are amortised as an adjustment to net interest income over the early redemption charge period. Payments cease to be deferred and are charged to the profit and loss account in the event that the related loan is redeemed or becomes impaired.

**g Debt securities and equity shares**

Debt securities, apart from those held for dealing purposes, are stated at cost as adjusted for the amortisation of any premiums and discounts arising on acquisition, which 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 Group'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, apart from those held for dealing purposes, are stated at cost less amounts written off. 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 existing use value at 31 December 1999, and mortgages and loans are at cost less amounts written off.

**h Shares in group undertakings**

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

**i Interests in associated undertakings**

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

**j Tangible fixed assets**

Freeholds and long leaseholds are included at the last valuation on the basis of existing use value. Short leaseholds (50 years or less) and equipment are included at cost less depreciation.

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.

**k Vacant leasehold property**

When a leasehold property ceases to be used in the business or a commitment is entered into which would cause this to occur, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease.

**l 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.

# Notes to the accounts

## 1 Accounting policies (continued)

**m 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.

**n 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 most of the 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. Pension arrangements for staff joining Lloyds TSB Group Pension Scheme No. 1 (formerly the Lloyds Bank pension scheme) after 1 January 1996 and Lloyds TSB Group Pension Scheme No. 2 (formerly the TSB Group pension scheme) after 1 January 1998 are through money purchase elements of these schemes. 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.

**o 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. Exchange adjustments on the translation of opening net assets held overseas are taken direct to reserves. All other exchange profits or losses, which arise from normal trading activities, are included in the profit and loss account.

**p 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 underlying rate of corporation tax.

**q General insurance business**
The underwriting result of the general insurance business is determined annually and included in profit before tax after taking into account premiums, outstanding claims and deferred acquisition costs. Premiums are included net of refunds and a provision for the proportion of premiums written in the year which relate to cover provided for future periods. The provision for claims includes the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date.

**r Derivatives**
Derivatives are used in the Group's trading activities both for direct trading purposes and to manage risk in its trading portfolios. Such instruments include exchange rate forwards and futures, currency swaps and options together with interest rate swaps, forward rate agreements, interest rate options and futures. These derivatives are carried at fair value and all changes in fair value are reported within dealing profits in the profit and loss account. Fair values are normally determined by reference to quoted market prices; internal models are used to determine fair value in instances where no market price is available. The unrealised gains and losses on trading derivatives are included within other assets and other liabilities respectively; these items are reported gross except in instances where the Group has entered into legally binding netting agreements, where the Group has a right to insist on net settlement that would survive the insolvency of the counterparty; in these cases the positive and negative fair values of trading derivatives with the relevant counterparties are offset within the balance sheet totals.

## 1 Accounting policies (continued)

Derivatives used in the Group's non-trading activities, taken out to reduce exposures to fluctuations in interest and exchange rates, include exchange rate forwards and futures, currency options together with interest rate swaps, forward rate agreements and options. These derivatives are accounted for on an accruals basis, in line with the treatment of the underlying items which they are hedging. Interest receipts and payments on hedging interest derivatives are included in the profit and loss account so as to match the interest payable or receivable on the hedged item.

A derivative will only be classified as a hedge in circumstances where there was adequate evidence of the intention to hedge at the outset of the transaction and the derivative substantially matches or eliminates the exposure being hedged.

Where a hedge transaction is superseded, ceases to be effective or is terminated early the derivative is measured at fair value. Any profit or loss arising is then amortised to the profit and loss account over the remaining life of the item which it was originally hedging. When the underlying asset, liability or position that was being hedged is terminated, the hedging derivative is measured at fair value and any profit or loss arising is recognised immediately.

## 2 Merger of Lloyds Bank, TSB and Hill Samuel businesses

Following the granting of royal assent to the Lloyds TSB Act, the following transactions took place during the year:

a) On 31 March 1999 the business, assets and liabilities of Hill Samuel Bank Limited were vested in Lloyds TSB Bank plc.

b) On 28 June 1999 the business, assets and liabilities of TSB Bank plc were vested in Lloyds TSB Bank plc.

The vesting of the net assets of TSB Bank and Hill Samuel Bank has been accounted for as a group reconstruction using the merger accounting principles set out in Financial Reporting Standard 6 'Acquisitions and Mergers'. The results have therefore been presented as if the TSB Bank and Hill Samuel Bank businesses had been part of Lloyds TSB Bank plc throughout the current and comparative accounting periods.

| 3 Dealing profits (before expenses) | 1999 £m | 1998 £m |
|---|---|---|
| Foreign exchange trading income | **133** | 112 |
| Securities and other gains | **70** | 73 |
| | **203** | 185 |

Dealing profits include the profits and losses arising both on the purchase and sale of trading instruments and from the year-end revaluation to market value, together with the interest income earned from these instruments and the related funding cost.

# Notes to the accounts

## 4 Administrative expenses

| | 1999 £m | 1998 £m |
|---|---|---|
| Salaries and profit sharing | **1,718** | 1,633 |
| Social security costs | **124** | 118 |
| Other pension costs | **(104)** | (91) |
| Staff costs | **1,738** | 1,660 |
| Other administrative expenses | **1,346** | 1,412 |
| | **3,084** | 3,072 |

The average number of persons on a headcount basis employed by the Group during the year was as follows:

| | 1999 | 1998 |
|---|---|---|
| UK | **66,641** | 67,399 |
| Overseas | **12,535** | 11,911 |
| | **79,176** | 79,310 |

The above staff numbers exclude 2,469 (1998: nil) staff employed in the long-term assurance business. Costs of £70 million (1998: £nil) in relation to those staff are reflected in the valuation of the long-term assurance fund.

Details of directors' emoluments, pensions and interests are given on page 27.

The auditors' remuneration was £3.7 million (1998: £3.0 million), of which £1.1 million (1998: £1.1 million) related to Lloyds TSB Bank plc. Fees paid to PricewaterhouseCoopers in respect of non-audit services were £28.7 million (1998: £13.1 million), of which £27.7 million (1998: £10.5 million) related to UK companies. Non-audit fees comprise management consultancy of £24.7 million and regulatory and other advisory work of £4.0 million. The aggregate non-audit fees paid to PricewaterhouseCoopers in 1998 included £4.9 million paid to Price Waterhouse and £0.5 million paid to Coopers & Lybrand prior to the date of appointment of PricewaterhouseCoopers as auditors.

There was a net credit in respect of pension costs for the Group in 1999 of £104 million (1998: credit of £91 million), which included a credit of £116 million (1998: credit of £103 million) relating to Lloyds TSB Group Pension Schemes No's 1 and 2.

## 4 Administrative expenses (continued)

Full actuarial valuations of the Lloyds TSB Group Pension Schemes No's 1 and 2 are carried out every three years with interim reviews in the intervening years. At 30 June 1999, the date of the latest full actuarial valuations, the principal actuarial assumptions adopted were that, over the long term, the annual rate of return on new investments would be 3 per cent higher than the annual increase in pensionable remuneration, 4 per cent higher than the annual increase in present and future pensions in payment, and 3 per cent higher than the annual increase in dividends receivable. The market value of the assets of the schemes at this date was £11,748 million. The actuarial value of the assets represented 125 per cent of the accrued liabilities allowing for future increases in pensions and pensionable remuneration. For funding purposes, the surpluses in the two schemes are being eliminated by means of a contribution holiday.

Contribution rates to other schemes have been adjusted to take account of surpluses and deficiencies. The pensions prepayment of £647 million for the Group and £573 million for the Bank (1998: £505 million for the Group and £476 million for the Bank) is included in prepayments and accrued income.

The Group operates a number of schemes which provide post-retirement healthcare benefits to certain employees, retired employees and their dependent relatives. The total cost for the Group in 1999 was £17 million (1998: £2 million). The latest actuarial valuation of the liability was carried out at 31 December 1997. This valuation showed the Group's liability to be £57 million, which had been fully provided for at that date. 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 2.5 per cent respectively higher than annual price inflation.

## 5 Amounts written off fixed asset investments

| | 1999 £m | 1998 £m |
|---|---|---|
| Debt securities | **7** | 9 |
| Equity shares | **–** | 6 |
| | **7** | 15 |

## 6 (Loss) profit before tax on sale and closure of businesses

| | 1999 £m | 1998 £m |
|---|---|---|
| Provision for closure of Lloyds TSB Securities Services (tax: nil) | **(28)** | – |
| Provision for sale of Abbey Life new business capability (tax: nil) | **(18)** | – |
| Profit on sale of TSB Factors Limited (tax: nil) | **–** | 3 |
| Profit on sale of International Factors Limited (tax: nil) | **–** | 158 |
| Loss on sale of estate agency businesses (after charging goodwill of £76 million previously written off to reserves) (tax: nil) | **–** | (45) |
| | **(46)** | 116 |

The results of the businesses sold in 1998 up to their dates of sale were not material.

On 26 July 1999 the Group announced that it is to withdraw from the global custody and unit trust trusteeship business and, as a consequence, the business of Lloyds TSB Securities Services will be run down and closed by the end of 2000. A provision has been made for the expected operating losses to be incurred until the date of closure.

On 1 February 2000 the Group announced the sale of Abbey Life's new business capability. A provision of £18 million has been made against impaired assets.

# Notes to the accounts

## 7 Profit on ordinary activities before tax

| | 1999 £m | 1998 £m |
|---|---|---|
| Profit on ordinary activities before tax is stated after taking account of: | | |
| *Income from:* | | |
| Equipment leased to customers and banks and hire purchase contracts: aggregate amounts receivable | **3,640** | 3,763 |
| Profit less losses on disposal of investment securities | **57** | 45 |
| *Charges:* | | |
| Rental of premises | **192** | 197 |
| Hire of equipment | **32** | 36 |
| Interest on subordinated liabilities (loan capital) | **348** | 316 |
| Finance lease depreciation | **–** | 4 |

## 8 Segment analysis

| | Profit on ordinary activities before tax 1999 £m | 1998* £m |
|---|---|---|
| Class of business: | | |
| UK Retail Banking and Mortgages | **1,650** | 1,435 |
| Insurance and Investments | | |
| Profit before pension provision | **533** | – |
| Pension provision | **(102)** | – |
| | **431** | – |
| Wholesale Markets | | |
| Profit before write-down of finance lease receivables | **781** | 727 |
| Write-down of finance lease receivables | **–** | (32) |
| | **781** | 695 |
| International Banking | | |
| Profit before restructuring provision | **436** | 344 |
| Restructuring provision | **–** | (38) |
| | **436** | 306 |
| Central group items | **(23)** | (21) |
| Loss (profit) on sale and closure of businesses | **(46)** | 116 |
| | **3,229** | 2,531 |

## 8 Segment analysis (continued)

Geographical area:**

| | Domestic 1999 £m | International 1999 £m | Total 1999 £m |
|---|---|---|---|
| Interest receivable | **8,053** | **2,437** | **10,490** |
| Dividend income from equity shares | **3** | **–** | **3** |
| Fees and commissions receivable | **1,864** | **265** | **2,129** |
| Dealing profits (before expenses) | **142** | **61** | **203** |
| Income from long-term assurance business | **165** | **8** | **173** |
| General insurance premium income | **200** | **–** | **200** |
| Other operating income | **190** | **98** | **288** |
| Total gross income | **10,617** | **2,869** | **13,486** |
| Profit on ordinary activities before tax | **2,811** | **418** | **3,229** |

| | Domestic 1998 £m | International 1998 £m | Total 1998 £m |
|---|---|---|---|
| Interest receivable | 8,961 | 2,389 | 11,350 |
| Dividend income from equity shares | 5 | – | 5 |
| Fees and commissions receivable | 1,439 | 259 | 1,698 |
| Dealing profits (before expenses) | 130 | 55 | 185 |
| Other operating income | 275 | 89 | 364 |
| Total gross income | 10,810 | 2,792 | 13,602 |
| Profit on ordinary activities before tax | 2,264 | 267 | 2,531 |

| | Net assets† 1999 £m | Net assets† 1998 £m | Assets‡ 1999 £m | Assets‡ 1998 £m |
|---|---|---|---|---|
| Class of business: | | | | |
| UK Retail Banking and Mortgages | **3,589** | 3,785 | **64,396** | 60,855 |
| Insurance and Investments | **2,803** | – | **3,210** | – |
| UK Retail Financial Services | **6,392** | 3,785 | **67,606** | 60,855 |
| Wholesale Markets | **2,955** | 3,061 | **64,627** | 64,281 |
| International Banking | **873** | 384 | **17,193** | 17,514 |
| Central group items | **–** | – | **1,998** | 2,929 |
| | **10,220** | 7,230 | **151,424** | 145,579 |
| Geographical area:** | | | | |
| Domestic | **9,849** | 7,185 | **130,066** | 123,871 |
| International | **371** | 45 | **21,358** | 21,708 |
| | **10,220** | 7,230 | **151,424** | 145,579 |

*1998 figures have been restated to take account of changes in internal cost allocation and the reclassification of Lloyds UDT from UK Retail Banking to Wholesale Markets, which already includes the Group's other asset finance operations.

**The geographical distribution of gross income sources, profit on ordinary activities before tax and assets by domestic and international operations is based on the location of the office recording the transaction, except for lending by the international business booked in London.

†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.

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

# Notes to the accounts

## 9 Tax on profit on ordinary activities

| | 1999 £m | 1998 £m |
|---|---|---|
| UK corporation tax | **725** | 524 |
| Relief for overseas tax | **(45)** | (39) |
| Overseas tax | **118** | 110 |
| Deferred tax: current year | **242** | 137 |
| Deferred tax: prior year adjustment relating to rate change | **–** | (33) |
| | **1,040** | 699 |
| Associated undertakings | **3** | 2 |
| | **1,043** | 701 |

The charge for tax on the profit for the year is based on an average UK corporation tax rate of 30.25 per cent (1998: 31 per cent).

The UK corporation tax charge includes £20 million (1998: £2 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.

## 10 Profit for the financial year attributable to shareholders

The profit attributable to shareholders includes a profit of £2,121 million (1998: £1,614 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

| | | 1999 £m | 1998 £m |
|---|---|---|---|
| First interim | Lloyds TSB Bank plc | **440** | 150 |
| | TSB Bank plc | **–** | 100 |
| Second interim | Lloyds TSB Bank plc | **860** | 300 |
| | TSB Bank plc | **–** | 1 |
| Third interim | Lloyds TSB Bank plc | **–** | 650 |
| | TSB Bank plc | **–** | 250 |
| | | **1,300** | 1,451 |

## 12 Treasury bills and other eligible bills

| | 1999 Balance sheet £m | 1999 Valuation £m | 1998 Balance sheet £m | 1998 Valuation £m |
|---|---|---|---|---|
| **Group** | | | | |
| Investment securities: | | | | |
| Treasury bills and similar securities | **515** | **514** | 346 | 346 |
| Other eligible bills | **683** | **683** | 1,364 | 1,405 |
| | **1,198** | **1,197** | 1,710 | 1,751 |
| Other securities: | | | | |
| Treasury bills and similar securities | **857** | | 1,429 | |
| Other eligible bills | **10** | | 12 | |
| | **867** | | 1,441 | |
| | **2,065** | | 3,151 | |
| Included above: Unamortised discounts net of premiums on investment securities | **12** | | 8 | |

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

| Movements in investment securities comprise: | Cost £m | Premiums and discounts £m | Total £m |
|---|---|---|---|
| At 1 January 1999 | **1,706** | **4** | **1,710** |
| Exchange and other adjustments | **40** | **–** | **40** |
| Additions | **10,551** | **–** | **10,551** |
| Bills sold or matured | **(11,108)** | **(53)** | **(11,161)** |
| Amortisation of premiums and discounts | **–** | **58** | **58** |
| At 31 December 1999 | **1,189** | **9** | **1,198** |

| | 1999 Balance sheet £m | 1999 Valuation £m | 1998 Balance sheet £m | 1998 Valuation £m |
|---|---|---|---|---|
| **Bank** | | | | |
| Investment securities: | | | | |
| Treasury bills and similar securities | **515** | **514** | 346 | 346 |
| Other eligible bills | **683** | **683** | 1,364 | 1,405 |
| | **1,198** | **1,197** | 1,710 | 1,751 |
| Other securities: | | | | |
| Treasury bills and similar securities | **749** | | 943 | |
| Other eligible bills | **10** | | 12 | |
| | **759** | | 955 | |
| | **1,957** | | 2,665 | |
| Included above: Unamortised discounts net of premiums on investment securities | **12** | | 8 | |

| Movements in investment securities comprise: | Cost £m | Premiums and discounts £m | Total £m |
|---|---|---|---|
| At 1 January 1999 | **1,706** | **4** | **1,710** |
| Exchange and other adjustments | **40** | **–** | **40** |
| Additions | **10,551** | **–** | **10,551** |
| Bills sold or matured | **(11,108)** | **(53)** | **(11,161)** |
| Amortisation of premiums and discounts | **–** | **58** | **58** |
| At 31 December 1999 | **1,189** | **9** | **1,198** |

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

**13 Loans and advances to banks**

| | Group 1999 £m | Group 1998 £m | Bank 1999 £m | Bank 1998 £m |
|---|---|---|---|---|
| Lending to banks | **721** | 836 | **32,822** | 28,031 |
| Deposits placed with banks | **16,298** | 17,490 | **15,076** | 16,485 |
| | **17,019** | 18,326 | **47,898** | 44,516 |
| *Equipment leased to banks* | **–** | 4 | **–** | – |
| Total loans and advances to banks | **17,019** | 18,330 | **47,898** | 44,516 |
| Provisions for bad and doubtful debts | **(56)** | (58) | **(56)** | (56) |
| Interest held in suspense | **–** | (40) | **–** | (40) |
| | **16,963** | 18,232 | **47,842** | 44,420 |
| Repayable on demand | **1,132** | 1,572 | **15,751** | 14,663 |
| Other loans and advances by residual maturity repayable: | | | | |
| 3 months or less | **12,266** | 13,683 | **14,189** | 16,359 |
| 1 year or less but over 3 months | **2,780** | 2,318 | **3,664** | 3,190 |
| 5 years or less but over 1 year | **490** | 319 | **12,685** | 8,753 |
| Over 5 years | **351** | 438 | **1,609** | 1,551 |
| Provisions for bad and doubtful debts | **(56)** | (58) | **(56)** | (56) |
| Interest held in suspense | **–** | (40) | **–** | (40) |
| | **16,963** | 18,232 | **47,842** | 44,420 |
| Included above: | | | | |
| Due from group undertakings – all unsubordinated | | | **32,207** | 27,301 |
| Due from fellow group undertakings – all unsubordinated | **–** | 4 | **–** | 4 |

**14 Loans and advances to customers**

| | Group 1999 £m | Group 1998 £m | Bank 1999 £m | Bank 1998 £m |
|---|---|---|---|---|
| Lending to customers | **94,127** | 89,583 | **46,127** | 43,238 |
| Hire purchase debtors | **3,674** | 3,720 | **–** | – |
| Equipment leased to customers | **8,927** | 8,582 | **–** | – |
| Total loans and advances to customers | **106,728** | 101,885 | **46,127** | 43,238 |
| Provisions for bad and *doubtful debts* | **(2,067)** | (2,098) | **(1,642)** | (1,647) |
| Interest held in suspense | **(100)** | (105) | **(63)** | (67) |
| | **104,561** | 99,682 | **44,422** | 41,524 |
| Loans and advances by residual maturity repayable: | | | | |
| 3 months or less | **19,590** | 18,782 | **23,418** | 22,106 |
| 1 year or less but over 3 months | **7,005** | 7,349 | **5,018** | 5,542 |
| 5 years or less but over 1 year | **19,530** | 19,998 | **10,168** | 9,085 |
| Over 5 years | **60,603** | 55,756 | **7,523** | 6,505 |
| Provisions for bad and doubtful debts | **(2,067)** | (2,098) | **(1,642)** | (1,647) |
| Interest held in suspense | **(100)** | (105) | **(63)** | (67) |
| | **104,561** | 99,682 | **44,422** | 41,524 |
| Of which repayable on demand or at short notice | **10,241** | 10,412 | **10,428** | 10,696 |

**14 Loans and advances to customers (continued)**

| | Group 1999 £m | Group 1998 £m | Bank 1999 £m | Bank 1998 £m |
|---|---|---|---|---|
| Included above: | | | | |
| Due from group undertakings – all unsubordinated | | | **12,438** | 9,660 |
| *Due from fellow group undertakings* – all unsubordinated | **1,932** | 4,141 | **743** | 4,224 |

The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts amounted to £3,485 million (1998: £3,499 million).

**15 Provisions for bad and doubtful debts**

| | 1999 Specific £m | 1999 General £m | 1998 Specific £m | 1998 General £m |
|---|---|---|---|---|
| **Group** | | | | |
| At 1 January | **1,791** | **365** | 2,112 | 368 |
| Exchange and other adjustments | **(3)** | **(4)** | (25) | 3 |
| Advances written off | **(744)** | **–** | (954) | – |
| Recoveries of advances written off in previous years | **130** | **–** | 121 | – |
| Charge (release) to profit and loss account: | | | | |
| *New and additional provisions* | **1,087** | **7** | 996 | 3 |
| Releases and recoveries | **(499)** | **(7)** | (459) | (9) |
| | **588** | **–** | 537 | (6) |
| At 31 December | **1,762** | **361** | 1,791 | 365 |
| | **2,123** | | 2,156 | |
| In respect of: | | | | |
| Loans and advances to banks | **56** | | 58 | |
| Loans and advances to customers | **2,067** | | 2,098 | |
| | **2,123** | | 2,156 | |
| **Bank** | | | | |
| At 1 January | **1,441** | **262** | 1,591 | 264 |
| Exchange and other adjustments | **24** | **–** | (11) | – |
| Advances written off | **(523)** | **–** | (490) | – |
| Recoveries of advances written off in previous years | **93** | **–** | 86 | – |
| *Charge (release) to profit and* loss account: | | | | |
| New and additional provisions | **811** | **6** | 655 | 2 |
| Releases and recoveries | **(409)** | **(7)** | (390) | (4) |
| | **402** | **(1)** | 265 | (2) |
| At 31 December | **1,437** | **261** | 1,441 | 262 |
| | **1,698** | | 1,703 | |
| In respect of: | | | | |
| Loans and advances to banks | **56** | | 56 | |
| Loans and advances to customers | **1,642** | | 1,647 | |
| | **1,698** | | 1,703 | |

# Notes to the accounts

## 16 Interest held in suspense and non-performing lending

| | 1999 £m | 1998 £m |
|---|---|---|
| **Group** | | |
| At 1 January | **145** | 221 |
| Exchange and other adjustments | **(5)** | (8) |
| Interest written off | **(77)** | (76) |
| Interest taken to income | **(9)** | (17) |
| Interest suspended during the year | **46** | 25 |
| At 31 December | **100** | 145 |
| In respect of: | | |
| Loans and advances to banks | **–** | 40 |
| Loans and advances to customers | **100** | 105 |
| | **100** | 145 |
| Non-performing lending comprises: | | |
| Loans and advances – category 1 | **719** | 770 |
| Loans and advances – category 2 | **369** | 417 |
| | **1,088** | 1,187 |
| Provisions | **(613)** | (637) |
| Interest held in suspense | **(100)** | (145) |
| | **375** | 405 |
| **Bank** | | |
| At 1 January | **107** | 180 |
| Exchange and other adjustments | **(2)** | (7) |
| Interest written off | **(69)** | (65) |
| Interest taken to income | **(8)** | (15) |
| Interest suspended during the year | **35** | 14 |
| At 31 December | **63** | 107 |
| In respect of: | | |
| Loans and advances to banks | **–** | 40 |
| Loans and advances to customers | **63** | 67 |
| | **63** | 107 |
| Non-performing lending comprises: | | |
| Loans and advances – category 1 | **440** | 428 |
| Loans and advances – category 2 | **292** | 345 |
| | **732** | 773 |
| Provisions | **(377)** | (392) |
| Interest held in suspense | **(63)** | (107) |
| | **292** | 274 |

Category 1:
This comprises lending where the customer continues to operate the account, but where there is doubt about the payment of interest. Interest continues to be charged to the customer's account, but it is not applied to income; it is placed on a suspense account and only taken into income if there ceases to be significant doubt about its being paid.

Category 2:
This comprises lending where the operation of the customer's account has ceased. The lending is managed by specialist recovery departments and has been written down to its estimated realisable value. Interest is not added to the lending nor placed on a suspense account as its recovery is considered unlikely; it is only taken to income if it is received.

## 17 Concentrations of exposure

| | Group | | Bank | |
|---|---|---|---|---|
| | 1999 £m | 1998 £m | 1999 £m | 1998 £m |
| Loans and advances to customers | | | | |
| *Domestic:* | | | | |
| Agriculture, forestry and fishing | **2,183** | 2,052 | **791** | 722 |
| Manufacturing | **3,262** | 2,986 | **2,845** | 2,657 |
| Construction | **754** | 671 | **722** | 641 |
| Transport, distribution and hotels | **3,540** | 3,308 | **2,965** | 2,801 |
| Property companies | **2,303** | 2,304 | **2,211** | 2,224 |
| Financial, business and other services | **6,614** | 5,024 | **6,149** | 4,482 |
| Personal: mortgages | **47,451** | 44,609 | **550** | 636 |
| : other | **10,092** | 9,610 | **9,406** | 8,831 |
| Lease financing | **8,848** | 8,445 | **–** | – |
| Hire purchase | **3,674** | 3,701 | **–** | – |
| Due from fellow group undertakings | **1,932** | 4,141 | **13,181** | 13,884 |
| Other | **1,699** | 1,578 | **1,609** | 1,528 |
| Total domestic | **92,352** | 88,429 | **40,429** | 38,406 |
| *International:* | | | | |
| Latin America | **2,558** | 2,939 | **1,629** | 1,749 |
| New Zealand | **7,659** | 7,310 | **–** | – |
| Rest of the world | **4,159** | 3,207 | **4,069** | 3,083 |
| Total international | **14,376** | 13,456 | **5,698** | 4,832 |
| | **106,728** | 101,885 | **46,127** | 43,238 |
| Provisions for bad and doubtful debts* | **(2,067)** | (2,098) | **(1,642)** | (1,647) |
| Interest held in suspense* | **(100)** | (105) | **(63)** | (67) |
| | **104,561** | 99,682 | **44,422** | 41,524 |

*Figures exclude provisions and interest held in suspense relating to loans and advances to banks.

The classification of lending as domestic or international is based on the location of the office recording the transaction, except for certain lending of the international business booked in London.

# Notes to the accounts

## 18 Debt securities

| | 1999 Balance sheet £m | 1999 Valuation £m | 1998 Balance sheet £m | 1998 Valuation £m |
|---|---|---|---|---|
| **Group** | | | | |
| *Investment securities:* | | | | |
| Government securities | 1,196 | 1,349 | 995 | 1,226 |
| Other public sector securities | 4 | 4 | 12 | 12 |
| Bank and building society certificates of deposit | 4,153 | 4,145 | 2,448 | 2,453 |
| Other debt securities | 679 | 678 | 578 | 579 |
| | 6,032 | 6,176 | 4,033 | 4,270 |
| *Other securities:* | | | | |
| Government securities | 3,861 | 3,861 | 4,596 | 4,596 |
| Other public sector securities | 65 | 65 | 5 | 5 |
| Bank and building society certificates of deposit | 286 | 286 | 619 | 619 |
| Other debt securities | 3,940 | 3,940 | 3,056 | 3,056 |
| | 14,184 | 14,328 | 12,309 | 12,546 |
| Due within 1 year | 7,095 | | 4,873 | |
| Due 1 year and over | 7,089 | | 7,436 | |
| | 14,184 | | 12,309 | |
| Unamortised discounts net of premiums on investment securities | 771 | | 871 | |
| Listed: collateralised bonds | 869 | 1,028 | 866 | 1,102 |
| : other | 7,907 | 7,901 | 7,359 | 7,355 |
| Unlisted | 5,408 | 5,399 | 4,084 | 4,089 |
| | 14,184 | 14,328 | 12,309 | 12,546 |

| Movements in investment securities comprise: | Cost £m | Premiums and discounts £m | Provisions £m | Total £m |
|---|---|---|---|---|
| At 1 January 1999 | 3,869 | 176 | 12 | 4,033 |
| Exchange and other adjustments | 20 | 3 | – | 23 |
| Additions | 12,576 | – | – | 12,576 |
| Securities sold or matured | (10,625) | – | (2) | (10,623) |
| Charge for the year | – | – | 7 | (7) |
| Amortisation of premiums and discounts | – | 30 | – | 30 |
| At 31 December 1999 | 5,840 | 209 | 17 | 6,032 |

## 18 Debt securities (continued)

| | 1999 Balance sheet £m | 1999 Valuation £m | 1998 Balance sheet £m | 1998 Valuation £m |
|---|---|---|---|---|
| **Bank** | | | | |
| *Investment securities:* | | | | |
| Government securities | 1,154 | 1,304 | 965 | 1,196 |
| Other public sector securities | – | – | 8 | 9 |
| Bank and building society certificates of deposit | 4,073 | 4,065 | 2,448 | 2,453 |
| Other debt securities | 514 | 514 | 397 | 397 |
| | 5,741 | 5,883 | 3,818 | 4,055 |
| *Other securities:* | | | | |
| Government securities | 3,159 | 3,159 | 4,500 | 4,500 |
| Other public sector securities | 60 | 60 | – | – |
| Bank and building society certificates of deposit | 6 | 6 | 186 | 186 |
| Other debt securities | 4,072 | 4,072 | 3,126 | 3,126 |
| | 13,038 | 13,180 | 11,630 | 11,867 |
| Included above: | | | | |
| Due from group undertakings – all unsubordinated | 182 | | 129 | |
| Due within 1 year | 6,114 | | 4,319 | |
| Due 1 year and over | 6,924 | | 7,311 | |
| | 13,038 | | 11,630 | |
| Unamortised discounts net of premiums on investment securities | 630 | | 703 | |
| Listed: collateralised bonds | 869 | 1,028 | 866 | 1,102 |
| : other | 7,078 | 7,070 | 7,281 | 7,277 |
| Unlisted | 5,091 | 5,082 | 3,483 | 3,488 |
| | 13,038 | 13,180 | 11,630 | 11,867 |

| Movements in investment securities comprise: | Cost £m | Premiums and discounts £m | Total £m |
|---|---|---|---|
| At 1 January 1999 | 3,667 | 151 | 3,818 |
| Exchange and other adjustments | 19 | 4 | 23 |
| Additions | 12,391 | – | 12,391 |
| Securities sold or matured | (10,516) | – | (10,516) |
| Amortisation of premiums and discounts | – | 25 | 25 |
| At 31 December 1999 | 5,561 | 180 | 5,741 |

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

## 19 Equity shares

| | 1999 Balance sheet £m | 1999 Valuation £m | 1998 Balance sheet £m | 1998 Valuation £m |
|---|---|---|---|---|
| **Group** | | | | |
| *Investment securities:* | | | | |
| Listed | **10** | **23** | 11 | 28 |
| Unlisted | **33** | **56** | 33 | 48 |
| | **43** | **79** | 44 | 76 |
| *Other securities:* | | | | |
| Listed | **168** | | – | |
| Unlisted | **2** | | 2 | |
| | **170** | | 2 | |
| | **213** | | 46 | |

| Movements in investment securities comprise: | Cost £m | Provisions £m | Total £m |
|---|---|---|---|
| At 1 January 1999 | **56** | **12** | **44** |
| Exchange and other adjustments | **(1)** | – | **(1)** |
| Adjustments on acquisitions | **12** | – | **12** |
| Additions | **14** | – | **14** |
| Disposals | **(26)** | – | **(26)** |
| At 31 December 1999 | **55** | **12** | **43** |

| | 1999 Balance sheet £m | 1999 Valuation £m | 1998 Balance sheet £m | 1998 Valuation £m |
|---|---|---|---|---|
| **Bank** | | | | |
| *Investment securities:* | | | | |
| Listed | **10** | **6** | 13 | 10 |
| Unlisted | **13** | **14** | 14 | 14 |
| | **23** | **20** | 27 | 24 |
| *Other securities:* | | | | |
| Unlisted | **2** | | 1 | |
| | **25** | | 28 | |

| Movements in investment securities comprise: | Cost £m |
|---|---|
| At 1 January 1999 | **27** |
| Additions | **27** |
| Disposals | **(31)** |
| At 31 December 1999 | **23** |

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.

## 20 Assets transferred under sale and repurchase transactions

Included in the balance sheet are assets subject to sale and repurchase agreements as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 1999 £m | 1998 £m | 1999 £m | 1998 £m |
| Treasury bills and other eligible bills | **429** | 558 | **377** | 558 |
| Debt securities | **3,496** | 2,389 | **3,496** | 2,339 |
| | **3,925** | 2,947 | **3,873** | 2,897 |

These investments have been sold to third parties but, since the Group is committed to reacquire them at a future date and at a predetermined price, they are shown in the balance sheet.

## 21 Interests in associated undertakings

| | Group £m | Bank £m |
|---|---|---|
| At 1 January 1999 | **4** | **2** |
| Adjustments on acquisition | **21** | **–** |
| Disposals | **(2)** | **–** |
| Retained profits | **5** | **2** |
| At 31 December 1999 | **28** | **4** |

All of the Bank's and Group's associated undertakings are unlisted and none of them are banks.

On an historical cost basis, the Bank's interests in associated undertakings would have been included at £9 million (1998: £9 million).

## 22 Shares in group undertakings

| | Bank £m |
|---|---|
| At 1 January 1999 | **4,334** |
| Acquisitions | **3,920** |
| Disposals | **(4)** |
| Revaluations | **54** |
| At 31 December 1999 | **8,304** |

| | 1999 £m | 1998 £m |
|---|---|---|
| Shares in banks | **3,555** | 3,615 |
| Shares in other group undertakings | **4,749** | 719 |
| Total – all unlisted | **8,304** | 4,334 |

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

| | Cost £m | Provisions £m | Book value £m |
|---|---|---|---|
| At 1 January 1999 | **3,462** | **24** | **3,438** |
| Additions | **3,920** | **–** | **3,920** |
| At 31 December 1999 | **7,382** | **24** | **7,358** |

# Notes to the accounts

### 22 Shares in group undertakings (continued)

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

| | Country of registration/ incorporation | Percentage of equity share capital and voting rights held | Nature of business |
|---|---|---|---|
| Cheltenham & Gloucester plc | England | *100% | Mortgage lending and retail investments |
| Lloyds Bank (BLSA) Limited | England | 100% | Banking and financial services |
| Alex Lawrie Factors Limited | England | 100% | Credit factoring |
| Lloyds TSB Leasing Limited | England | 100% | Financial leasing |
| 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 TSB Bank (Jersey) Limited | Jersey | *100% | Banking and financial services |
| Lloyds UDT Finance Limited | England | 100% | Consumer credit, leasing and related services |
| Lloyds TSB Private Banking Limited | England | *100% | Private banking |
| Lloyds TSB Scotland plc† | Scotland | 100% | Banking and financial services |
| Lloyds TSB Commercial Finance Limited† | England | 100% | Invoice discounting |
| Lloyds TSB General Insurance Limited | England | *100% | General insurance |
| Hill Samuel Asset Management Group Limited | England | *100% | Investment management |
| Abbey Life Assurance Company Limited | England | *100% | Life assurance |
| Lloyds TSB Insurance Services Limited | England | *100% | Insurance broking |
| Lloyds TSB Life Assurance Limited | England | *100% | Life assurance and other financial services |

*Indirect interest.

†Investments vested in the company as explained on page 12 in note 2.

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 Argentina, Ecuador and Uruguay. The National Bank of New Zealand Limited also operates through a representative office in Hong Kong.

### 23 Intangible fixed assets

| | Cost £m | Amortisation £m | Net book value £m |
|---|---|---|---|
| **Group** | | | |
| Positive goodwill | | | |
| At 1 January 1999 | **220** | **4** | **216** |
| Exchange and other adjustments | **5** | **–** | **5** |
| Additions | **22** | **–** | **22** |
| Charge for the year | **–** | **12** | **(12)** |
| At 31 December 1999 | **247** | **16** | **231** |
| Negative goodwill | | | |
| At 1 January 1999 | **–** | **–** | **–** |
| Additions | **23** | **–** | **23** |
| Amounts written back | **–** | **23** | **(23)** |
| At 31 December 1999 | **23** | **23** | **–** |

Negative goodwill relates to the acquisition by the Group of Lloyds Bank (Channel Islands) Unit Trust Managers Limited (page 34, note 46a).

| | Cost £m | Amortisation £m | Net book value £m |
|---|---|---|---|
| **Bank** | | | |
| Goodwill | | | |
| At 1 January 1999 | **–** | **–** | **–** |
| Additions | **11** | **–** | **11** |
| Charge for the year | **–** | **1** | **(1)** |
| At 31 December 1999 | **11** | **1** | **10** |

### 24 Tangible fixed assets

| | Group | | Bank | |
|---|---|---|---|---|
| | Premises £m | Equipment £m | Premises £m | Equipment £m |
| Cost or valuation: | | | | |
| At 1 January 1999 | **1,093** | **2,085** | **772** | **1,722** |
| Exchange and other adjustments | **(12)** | **(4)** | **(7)** | **(4)** |
| Adjustments on acquisitions and disposals | **18** | **43** | **–** | **(1)** |
| Additions | **89** | **262** | **81** | **223** |
| Disposals | **(64)** | **(178)** | **(54)** | **(127)** |
| At 31 December 1999 | **1,124** | **2,208** | **792** | **1,813** |
| Depreciation: | | | | |
| At 1 January 1999 | **206** | **1,374** | **185** | **1,167** |
| Exchange and other adjustments | **–** | **(6)** | **–** | **(5)** |
| Adjustments on acquisitions and disposals | **2** | **35** | **–** | **(1)** |
| Charge for the year | **42** | **176** | **38** | **132** |
| Disposals | **(9)** | **(156)** | **(4)** | **(113)** |
| At 31 December 1999 | **241** | **1,423** | **219** | **1,180** |
| Balance sheet amount at 31 December 1999 | **883** | **785** | **573** | **633** |
| | **1,668** | | **1,206** | |
| Balance sheet amount at 31 December 1998 | 887 | 711 | 587 | 555 |
| | 1,598 | | 1,142 | |

Equipment includes assets held under finance leases which at 31 December 1999 amounted to £3 million, net of accumulated depreciation of £212 million (1998: £3 million, net of accumulated depreciation of £212 million).

### 24 Tangible fixed assets (continued)

| | Group | | Bank | |
|---|---|---|---|---|
| | **1999 £m** | 1998 £m | **1999 £m** | 1998 £m |
| Balance sheet amount of premises comprises: | | | | |
| Freeholds | **598** | 608 | **332** | 348 |
| Leaseholds 50 years and over unexpired | **37** | 58 | **19** | 40 |
| Leaseholds less than 50 years unexpired | **248** | 221 | **222** | 199 |
| | **883** | 887 | **573** | 587 |
| Balance sheet amount of premises comprises: | | | | |
| Valued in 1997 | **564** | 608 | **288** | 335 |
| At cost | **319** | 279 | **285** | 252 |
| | **883** | 887 | **573** | 587 |
| On an historical cost basis, premises would have been included as follows: | | | | |
| Cost | **1,219** | 1,214 | **873** | 891 |
| Accumulated depreciation | **(290)** | (285) | **(268)** | (265) |
| | **929** | 929 | **605** | 626 |
| Land and buildings occupied for own activities | **802** | 808 | **518** | 531 |

The accounting policy for valuations is set out on page 11 in accounting policy j.

### 25 Lease commitments

Commitments under non-cancellable operating leases were:

| | **1999 Premises £m** | **1999 Equipment £m** | 1998 Premises £m | 1998 Equipment £m |
|---|---|---|---|---|
| **Group** | | | | |
| Leases on which the commitment is due to expire in: | | | | |
| 1 year or less | **14** | **7** | 15 | 14 |
| 5 years or less but over 1 year | **41** | **3** | 44 | 9 |
| Over 5 years | **191** | **2** | 183 | – |
| | **246** | **12** | 242 | 23 |
| **Bank** | | | | |
| Leases on which the commitment is due to expire in: | | | | |
| 1 year or less | **3** | **5** | 3 | 14 |
| 5 years or less but over 1 year | **10** | **3** | 10 | 9 |
| Over 5 years | **144** | **2** | 141 | – |
| | **157** | **10** | 154 | 23 |

### 26 Capital commitments

Capital expenditure contracted but not provided for at 31 December 1999 amounted to £8 million for the Group and £7 million for the Bank (1998: Group £4 million; Bank £3 million).

### 27 Other assets

| | Group | | Bank | |
|---|---|---|---|---|
| | **1999 £m** | 1998 £m | **1999 £m** | 1998 £m |
| Foreign exchange and interest rate contracts | **2,742** | 4,135 | **2,678** | 3,778 |
| Other assets | **848** | 1,029 | **314** | 684 |
| | **3,590** | 5,164 | **2,992** | 4,462 |

### 28 Prepayments and accrued income

| | Group | | Bank | |
|---|---|---|---|---|
| | **1999 £m** | 1998 £m | **1999 £m** | 1998 £m |
| Interest receivable | **918** | 1,132 | **1,269** | 1,339 |
| Other debtors and prepayments | **1,710** | 1,245 | **978** | 813 |
| | **2,628** | 2,377 | **2,247** | 2,152 |

Included within the Group's other debtors and prepayments is £176 million (1998: £165 million) relating to the deferred element of the expenditure incurred under cash gift and discount mortgage schemes. If these incentives had been written off as incurred, net interest income would have been £11 million lower in 1999 (1998: £60 million higher).

### 29 Long-term assurance business

| | **1999 £m** |
|---|---|
| The value of long-term assurance business attributable to shareholders included in the consolidated balance sheet comprises: | |
| Net tangible assets of life companies including surplus | **723** |
| Value of long-term assurance business in force | **1,551** |
| | **2,274** |

The shareholders' interest in the long-term assurance business has been calculated on the basis of a series of economic and actuarial assumptions.

The economic assumptions, including those relating to investment returns and inflation, are based on a long-term view of economic activity and are therefore not adjusted for market movements which are considered to be short-term. This approach is considered the most appropriate given the long-term nature of the portfolio of products and achieves consistency in reporting from one period to the next. The principal assumptions are shown below:

| | % |
|---|---|
| Risk-adjusted discount rate (net of tax) | 10.00 |
| Gross return: unit linked | 8.50 |
| : non linked | 5.25 |
| Inflation | 3.00 |

A margin over the long-term risk free rate of return is included within the discount rate to reflect the shareholders' overall risk premium; other margins are not included in the profit recognition method. Allowance for tax is made using models which reflect the different tax regimes affecting different classes of product; no credit is taken in respect of any reduction in taxes deriving from expenses attributable to future business.

# Notes to the accounts

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

The assumptions for mortality and morbidity are derived from published tables adjusted for demographic differences of policyholders; those in respect of lapses are in line with the experience of the companies concerned.

| | 1999 £m |
|---|---|
| The income from long-term assurance business is: | |
| Value of long-term assurance business at 31 December | **2,274** |
| Value of long-term assurance business at 1 January | **–** |
| Increase in value of long-term assurance business | **2,274** |
| Adjustment on acquisition | **(2,299)** |
| Exchange and other adjustments | **(18)** |
| Dividends accrued | **92** |
| Income after tax from long-term assurance business | **49** |
| Income before pension provision | **173** |
| Pension provision | **(102)** |
| Income before tax from long-term assurance business | **71** |

During the second half of 1999, the Financial Services Authority (FSA) published revised assumptions which have been incorporated into the calculations of the continuing cost of redress to past purchasers of pension policies. These revised FSA guidelines were based on the assumption that the average life expectancy of pensioners had increased, and lower interest and inflation rates to be assumed in calculating the cost of redress. Applying these revised assumptions, the cost of redress is forecast to increase by £102 million and a provision of this amount has been made. The adequacy of this provision is reviewed continually and, whilst it is impossible to be precise, based on the information available at present, it is not considered appropriate to make any further provision at this stage.

| | 1999 £m |
|---|---|
| The long-term assurance assets attributable to policyholders comprise: | |
| Investments | **27,718** |
| Value of long-term assurance business in force | **1,551** |
| Premises and equipment | **30** |
| Net current liabilities | **(483)** |
| | **28,816** |
| Long-term assurance business attributable to shareholders | **(2,274)** |
| | **26,542** |
| Investments shown above comprise: | |
| Fixed interest securities | **7,415** |
| Stocks, shares and unit trusts | **16,996** |
| Investment properties | **1,045** |
| Other properties | **10** |
| Mortgages and loans | **50** |
| Deposits | **2,202** |
| | **27,718** |

### 30 Assets and liabilities denominated in foreign currencies

| | Group | | Bank | |
|---|---|---|---|---|
| | **1999 £m** | 1998 £m | **1999 £m** | 1998 £m |
| Assets: denominated in sterling | **113,037** | 110,253 | **96,857** | 89,449 |
| : denominated in other currencies | **38,387** | 35,326 | **27,938** | 25,520 |
| | **151,424** | 145,579 | **124,795** | 114,969 |
| Liabilities: denominated in sterling | **113,142** | 110,142 | **96,869** | 89,392 |
| : denominated in other currencies | **38,282** | 35,437 | **27,926** | 25,577 |
| | **151,424** | 145,579 | **124,795** | 114,969 |

### 31 Deposits by banks

| | Group | | Bank | |
|---|---|---|---|---|
| | **1999 £m** | 1998 £m | **1999 £m** | 1998 £m |
| Repayable on demand | **3,594** | 4,977 | **6,679** | 6,418 |
| Other deposits by banks with agreed maturity dates or periods of notice by residual maturity repayable: | | | | |
| 3 months or less | **12,551** | 10,196 | **15,524** | 13,607 |
| 1 year or less but over 3 months | **1,153** | 1,813 | **1,503** | 1,976 |
| 5 years or less but over 1 year | **341** | 475 | **599** | 812 |
| Over 5 years | **55** | 126 | **45** | 108 |
| | **17,694** | 17,587 | **24,350** | 22,921 |
| Included above: | | | | |
| Due to group undertakings | | | **7,824** | 6,677 |
| Due to fellow group undertakings | **–** | 496 | **–** | 496 |

### 32 Customer accounts

| | Group | | Bank | |
|---|---|---|---|---|
| | **1999 £m** | 1998 £m | **1999 £m** | 1998 £m |
| Repayable on demand | **68,961** | 63,642 | **49,409** | 42,111 |
| Other customer accounts with agreed maturity dates or periods of notice by residual maturity repayable: | | | | |
| 3 months or less | **20,122** | 23,451 | **15,489** | 17,983 |
| 1 year or less but over 3 months | **2,544** | 3,166 | **1,611** | 2,015 |
| 5 years or less but over 1 year | **1,360** | 964 | **1,699** | 708 |
| Over 5 years | **135** | 444 | **327** | 416 |
| | **93,122** | 91,667 | **68,535** | 63,233 |
| Included above: | | | | |
| Due to group undertakings | | | **5,474** | 2,116 |
| Due to fellow group undertakings | **271** | 3,234 | **263** | 2,337 |

# Notes to the accounts

## 33 Debt securities in issue

| | Group 1999 £m | Group 1998 £m | Bank 1999 £m | Bank 1998 £m |
|---|---|---|---|---|
| Bonds and medium-term notes by residual maturity repayable: | | | | |
| 1 year or less | **309** | 649 | **162** | 182 |
| 2 years or less but over 1 year | **188** | 249 | **24** | 81 |
| 5 years or less but over 2 years | **690** | 54 | **366** | 28 |
| Over 5 years | **407** | 273 | **131** | 3 |
| | **1,594** | 1,225 | **683** | 294 |
| Other debt securities by residual maturity repayable: | | | | |
| 3 months or less | **7,644** | 7,617 | **5,393** | 5,665 |
| 1 year or less but over 3 months | **2,645** | 2,808 | **2,189** | 2,472 |
| 5 years or less but over 1 year | **362** | 194 | **311** | 134 |
| Over 5 years | **15** | 9 | **15** | 9 |
| | **10,666** | 10,628 | **7,908** | 8,280 |
| | **12,260** | 11,853 | **8,591** | 8,574 |
| Included above: | | | | |
| Due to group undertakings | | | **213** | 125 |

## 34 Other liabilities

| | Group 1999 £m | Group 1998 £m | Bank 1999 £m | Bank 1998 £m |
|---|---|---|---|---|
| Foreign exchange and interest rate contracts | **2,036** | 4,825 | **2,468** | 4,543 |
| Current tax | **610** | 506 | **325** | 361 |
| Dividends | **860** | 900 | **860** | 900 |
| Other liabilities | **1,825** | 1,459 | **472** | 1,046 |
| | **5,331** | 7,690 | **4,125** | 6,850 |

## 35 Accruals and deferred income

| | Group 1999 £m | Group 1998 £m | Bank 1999 £m | Bank 1998 £m |
|---|---|---|---|---|
| Interest payable | **1,305** | 1,689 | **1,118** | 1,053 |
| Other creditors and accruals | **2,004** | 1,177 | **1,049** | 758 |
| | **3,309** | 2,866 | **2,167** | 1,811 |

## 36 Deferred tax

| | Group 1999 £m | Group 1998 £m | Bank 1999 £m | Bank 1998 £m |
|---|---|---|---|---|
| Short-term timing differences | **(82)** | (114) | **(29)** | (98) |
| Pensions prepayment | **185** | 143 | **170** | 140 |
| Restructuring provisions | **–** | (11) | **–** | (11) |
| Provision for Emerging Markets Debt | **(212)** | (220) | **(212)** | (220) |
| Accelerated depreciation allowances | **1,580** | 1,438 | **32** | 35 |
| | **1,471** | 1,236 | **(39)** | (154) |

| | Group £m | Bank £m |
|---|---|---|
| At 1 January 1999 | **1,236** | **(154)** |
| Exchange and other adjustments | **9** | **–** |
| Adjustments on acquisitions and disposals | **(16)** | **–** |
| Tax provided | **242** | **115** |
| At 31 December 1999 | **1,471** | **(39)** |

| | Group 1999 £m | Group 1998 £m | Bank 1999 £m | Bank 1998 £m |
|---|---|---|---|---|
| Potential tax for which no provision has been made relating to accelerated depreciation allowances on equipment leased to customers | **72** | 72 | **–** | – |

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 such material tax liability arising is remote; no useful purpose would be served by attempting to quantify it.

**37 Other provisions for liabilities and charges**

| | Pension obligations £m | Re-structuring provisions £m | Insurance provisions £m | Post-retirement healthcare £m | Vacant leasehold property £m | Provision for closure of business £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| At 1 January 1999 | **29** | **78** | **18** | **64** | **112** | **–** | **43** | **344** |
| Exchange and other adjustments | **(1)** | **1** | **–** | **–** | **–** | **–** | **–** | **–** |
| Adjustments on acquisition | **–** | **–** | **180** | **–** | **1** | **–** | **5** | **186** |
| Provisions applied | **–** | **(62)** | **(72)** | **(4)** | **(20)** | **–** | **(27)** | **(185)** |
| Other movements | **–** | **(15)** | **–** | **–** | **15** | **–** | **–** | **–** |
| Charge for the year | **–** | **–** | **75** | **17** | **4** | **28** | **5** | **129** |
| At 31 December 1999 | **28** | **2** | **201** | **77** | **112** | **28** | **26** | **474** |
| **Bank** | | | | | | | | |
| At 1 January 1999 | **29** | **44** | **–** | **64** | **93** | **–** | **37** | **267** |
| Exchange and other adjustments | **(1)** | **–** | **–** | **–** | **–** | **–** | **–** | **(1)** |
| Provisions applied | **–** | **(44)** | **–** | **(4)** | **(11)** | **–** | **(25)** | **(84)** |
| Charge for the year | **–** | **–** | **–** | **17** | **4** | **28** | **3** | **52** |
| At 31 December 1999 | **28** | **–** | **–** | **77** | **86** | **28** | **15** | **234** |

*Pension obligations*
This represents the Bank's and the Group's obligations in respect of certain overseas pension schemes. Full actuarial valuations are carried out by independent actuaries every three years.

*Restructuring provisions*
At 1 January 1999, a balance of £44 million remained of provisions raised by the Bank in respect of the integration of the Lloyds Bank and TSB Group businesses; this remaining provision was utilised during 1999.

In December 1998 The National Bank of New Zealand announced to its staff and customers a reorganisation plan following its acquisition of Countrywide. A restructuring provision of £38 million was made by the Group to cover the cost of integrating and reorganising Countrywide following its acquisition, which principally related to the cost of redundancies and branch closures. By 31 December 1999 £36 million of restructuring costs have been incurred and charged to this provision; the remaining balance of £2 million is expected to be utilised during 2000.

*Insurance provisions*
The Group's general insurance subsidiaries maintain provisions for outstanding claims which represent the ultimate cost of settling all claims arising from events which have occurred up to the balance sheet date and these include provisions for the cost of claims notified but not settled and for claims incurred but not yet reported. In addition, in line with the requirements of the Insurance Companies (Reserves) Act 1995, claims equalisation provisions are maintained in relation to property, credit and suretyship business. The majority of provisions in respect of claims will be settled in the following year, although new provisions will then be required in respect of claims arising from that year. The level of the claims equalisation provision will be adjusted annually, taking into account the guidelines contained in the legislation, and such provisions will be held for as long as the Group continues to write the relevant types of general insurance business.

*Post-retirement healthcare*
The Bank operates a number of schemes which provide post-retirement healthcare benefits to certain employees, retired employees and their dependent relatives. The principal scheme relates to former Lloyds Bank staff and under this scheme the Bank has undertaken to meet the cost of post-retirement healthcare for all eligible former employees (and their dependants) who retired prior to 1 January 1996. For retirements subsequent to this date, the Bank will meet a reducing proportion of the cost until 31 December 2004, after which date the only obligation will be in respect of the pre 1 January 1996 retirements. The cost of providing all post-retirement healthcare benefits is charged to the profit and loss account on a systematic basis over employees' working lives; the provision represents the unfunded obligation and is based on valuations of the Bank's liability by qualified actuaries.

*Vacant leasehold property*
Whenever the Group ceases to occupy a property, or commits itself to doing so, it is the Group's policy to raise a provision to cover any anticipated shortfall when comparing the recoverable amount of its interest in the property to the future rental and other payments that the Group is obligated to make over the remaining term of the lease. These provisions are made by reference to a prudent estimate of expected sub-let income and the possibility of disposing of the Group's interest in the lease, taking into account conditions in the property market. These provisions are reassessed on an annual basis and will normally run off over the remaining life of the leases concerned, currently averaging six years; where a property is disposed of earlier than anticipated, any remaining balance in the provision relating to that property is released.

*Provision for closure of business*
In July 1999 Lloyds TSB Group announced its decision to withdraw from the global custody and unit trust trusteeship business. As a result, a provision of £28 million has been raised for the anticipated operating losses to be incurred by Lloyds TSB Securities Services until the business is closed. The provision will be released to match losses as they are incurred over the period of run down of the business; this is expected to be completed by the end of 2000.

# Notes to the accounts

## 38 Subordinated liabilities

| | Group 1999 £m | Group 1998 £m | Bank 1999 £m | Bank 1998 £m |
|---|---|---|---|---|
| * *Undated loan capital:* | | | | |
| † Primary Capital Undated Floating Rate Notes: | | | | |
| Series 1 (US$750 million) | **465** | 451 | **465** | 451 |
| Series 2 (US$500 million) | **310** | 301 | **310** | 301 |
| Series 3 (US$600 million) | **372** | 361 | **372** | 361 |
| ■✠ 5⅝% Undated Subordinated Step-up Notes callable 2009 (€1,250 million) | **766** | – | **766** | – |
| †✠ Undated Step-up Floating Rate Notes callable 2009 (€150 million) | **93** | – | **93** | – |
| ¶✠ 6⅝% Undated Subordinated Step-up Notes callable 2010 | **405** | – | **405** | – |
| ✣ Subordinated 5.57% Step-up Coupon Notes callable 2015 (¥20 billion) | **120** | 106 | **120** | 106 |
| ¶✠ 6½% Undated Subordinated Step-up Notes callable 2019 | **266** | – | **266** | – |
| 11¾% Perpetual Subordinated Bonds | **100** | 100 | **–** | – |
| ● 8% Undated Subordinated Step-up Notes callable 2023 | **199** | 199 | **199** | 199 |
| ¶✠ 6½% Undated Subordinated Step-up Notes callable 2029 | **198** | – | **198** | – |
| | **3,294** | 1,518 | **3,194** | 1,418 |
| *Dated loan capital:* | | | | |
| † Subordinated Floating Rate Notes 1999 | **–** | 228 | **–** | 228 |
| Eurocurrency Zero Coupon Bonds 2003 (¥3 billion) | **15** | – | **–** | – |
| § Subordinated Fixed Rate Bonds 2003 (NZ$200 million) | **65** | 63 | **–** | – |
| † Subordinated Floating Rate Notes 2004 | **25** | 25 | **–** | – |
| 7⅜% Subordinated Bonds 2004 | **399** | 398 | **399** | 398 |
| †❖ Subordinated Floating Rate Notes 2004 | **100** | 100 | **100** | 100 |
| † Subordinated Floating Rate Notes 2005 | **25** | 25 | **–** | – |
| § Subordinated Bonds 2005 (NZ$50 million) | **16** | 16 | **–** | – |
| § Subordinated Bonds 2006 (NZ$75 million) | **24** | 24 | **–** | – |
| † Subordinated Floating Rate Notes 2006 | **250** | 250 | **100** | 100 |
| † Subordinated Floating Rate Notes 2007 | **200** | 200 | **–** | – |
| 7¾% Subordinated Bonds 2007 | **298** | 298 | **298** | 298 |
| § Subordinated Fixed Rate Bonds 2007 (NZ$150 million) | **49** | 48 | **–** | – |
| † Subordinated Floating Rate Notes 2008 | **150** | 150 | **–** | – |
| 5¼% Subordinated Notes 2008 (DM750 million) | **237** | 269 | **237** | 269 |
| ‡¶ 10⅝% Guaranteed Subordinated Loan Stock 2008 | **115** | 117 | **115** | 117 |
| 9½% Subordinated Bonds 2009 | **99** | 99 | **99** | 99 |
| †✠ Subordinated Step-up Floating Rate Notes 2009 callable 2004 (US$500 million) | **309** | – | **309** | – |
| ¶ 12% Guaranteed Subordinated Bonds 2011 | **124** | 127 | **124** | 127 |
| ✠ 4¾% Subordinated Notes 2011 (€850 million) | **500** | – | **500** | – |
| ▲ 9⅝% Subordinated Bonds 2023 | **342** | 200 | **342** | 200 |
| Subordinated Floating Rate Loan on rolling 6 year notice | **–** | 25 | **–** | 25 |
| Subordinated Non-Interest Bearing Loan on rolling 6 year notice | **150** | 125 | **150** | 125 |
| | **3,492** | 2,787 | **2,773** | 2,086 |
| Total subordinated liabilities | **6,786** | 4,305 | **5,967** | 3,504 |

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.

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

† These notes bear interest at rates fixed periodically in advance based on London Interbank rates.

✠ Issued during 1999 primarily to provide capital resources in connection with the proposed acquisition of Scottish Widows.

¶ At the callable date the coupon on these Notes will be reset by reference to the applicable five year benchmark gilt rate.

§ These bonds bear interest, to be reset 5 years before redemption date, at a fixed margin over New Zealand Government stocks.

■ At the callable date the coupon on these Notes will be reset to a floating rate.

✣ Redeemable at the election of the Group 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 Group for further subordinated floating rate notes.

● Redeemable at the election of the Group in 2023. In the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over the then 5 year gilt rate.

▲ A further £142 million was issued in 1999 primarily to provide capital resources in connection with the proposed acquisition of Scottish Widows.

**38 Subordinated liabilities (continued)**

Dated subordinated liabilities are repayable as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **1999 £m** | 1998 £m | **1999 £m** | 1998 £m |
| 1 year or less | **5** | 228 | **–** | 228 |
| 2 years or less but over 1 year | **5** | 5 | **–** | – |
| 5 years or less but over 2 years | **594** | 78 | **499** | – |
| Over 5 years | **2,888** | 2,476 | **2,274** | 1,858 |
| | **3,492** | 2,787 | **2,773** | 2,086 |

**39 Called-up share capital**

| | **1999 £m** | 1998 £m |
|---|---|---|
| Authorised: ordinary shares of £1 each* | **1,650** | 1,650 |
| Issued and fully paid: ordinary shares of £1 each | | |
| At 1 January | **1,472** | 1,470 |
| Issued in the year | **70** | 2 |
| At 31 December | **1,542** | 1,472 |

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

During 1999 the Bank issued 70 million shares to its holding company, Lloyds TSB Group plc, for total proceeds of £2,151 million in part consideration for the transfer of a number of subsidiaries. Further details are given on page 34 in note 46.

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. Copies of the group accounts may be obtained from the company secretary, Lloyds TSB Group plc, 71 Lombard Street, London EC3P 3BS.

**40 Reserves**

| | Group £m | Bank £m | Associated undertakings £m |
|---|---|---|---|
| Share premium account: | | | |
| At 1 January 1999 | **879** | **879** | **–** |
| Premium arising on issue of shares | **2,081** | **2,081** | **–** |
| At 31 December 1999 | **2,960** | **2,960** | **–** |
| Revaluation reserve: | | | |
| At 1 January 1999 | **(201)** | **573** | **–** |
| Increase in net tangible assets of subsidiary and associated undertakings | **–** | **56** | **–** |
| Transfer to profit and loss account | **(5)** | **(9)** | **–** |
| At 31 December 1999 | **(206)** | **620** | **–** |
| Profit and loss account: | | | |
| At 1 January 1999 | **5,038** | **4,264** | **(3)** |
| Exchange and other adjustments | **(32)** | **(29)** | **–** |
| Transfer from revaluation reserve | **5** | **9** | **–** |
| Retained profit | **880** | **821** | **5** |
| At 31 December 1999 | **5,891** | **5,065** | **2** |

The Group profit and loss account reserves at 31 December 1999 include £87 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 previous years amounts to £982 million of which £897 million was within the last 10 years.

# Notes to the accounts

## 41 Directors' interests

The directors are also directors of Lloyds TSB Group plc and their interests in the share and loan capital of Lloyds TSB Group plc and its subsidiaries are shown in the report and accounts of that company.

## 42 Directors' emoluments

The aggregate of the emoluments of the directors for their services to the Company was £3,336,000 (1998: £2,734,000).

The aggregate of the amount of the gains made by directors on the exercise of Lloyds TSB Group plc share options was £4,098,000 (1998: £2,306,000).

The aggregate of the value of company contributions paid, in respect of directors' qualifying services, to a money purchase pension scheme was £54,041 (1998: £43,313). None of this amount was attributable to the highest paid director.

The numbers of directors to whom retirement benefits were accruing under money purchase and defined benefit pension schemes were 1 and 5 respectively (1998: 1 and 7).

The total for the highest paid director (Sir Brian Pitman) for his services to the Company, including the £3,025,000 gain on the exercise of Lloyds TSB Group plc share options, was £3,393,000. (The total for the highest paid director in 1998 (Mr Moore), including the gains of £2,086,000 on the exercise of share options, was £2,262,000).

## 43 Transactions with related parties

At 31 December 1999, transactions, arrangements and agreements entered into by the Bank or its subsidiaries with directors and connected persons and with officers of the Bank included:

| | **1999 Number of persons** | **1999 Total £000** | 1998 Number of persons | 1998 Total £000 |
|---|---|---|---|---|
| Loans and credit card transactions: | | | | |
| Directors and connected persons | **15** | **257** | 4 | 132 |
| Officers | **28** | **2,986** | 25 | 2,757 |

## 44 Contingent liabilities and commitments

| | Group | | Bank | |
|---|---|---|---|---|
| | **1999 £m** | 1998 £m | **1999 £m** | 1998 £m |
| *Contingent liabilities:* | | | | |
| Acceptances and endorsements | **459** | 415 | **440** | 398 |
| Guarantees | **2,485** | 2,077 | **2,988** | 2,851 |
| Other: | | | | |
| Other items serving as direct credit substitutes | **273** | 229 | **269** | 270 |
| Performance bonds and other transaction-related contingencies | **1,198** | 1,348 | **1,189** | 1,288 |
| Other contingent liabilities | **8** | 13 | **–** | – |
| | **1,479** | 1,590 | **1,458** | 1,558 |
| | **4,423** | 4,082 | **4,886** | 4,807 |
| *Commitments:* | | | | |
| Documentary credits and other short-term trade-related transactions | **247** | 208 | **129** | 135 |
| Forward asset purchases and forward forward deposits placed | **986** | 1,892 | **770** | 1,750 |
| Undrawn note issuing and revolving underwriting facilities | **90** | 61 | **–** | – |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | | |
| Less than 1 year maturity | **21,314** | 19,095 | **19,315** | 17,496 |
| 1 year or over maturity | **5,225** | 5,286 | **4,648** | 4,934 |
| Other commitments | **14** | 25 | **14** | 25 |
| | **27,876** | 26,567 | **24,876** | 24,340 |
| *Incurred on behalf of group undertakings:* | | | | |
| Contingent liabilities | | | **637** | 819 |
| Commitments | | | **98** | 51 |
| | | | **735** | 870 |
| *Incurred on behalf of fellow group undertakings:* | | | | |
| Contingent liabilities | **–** | 6 | **–** | 59 |
| Commitments | **–** | 64 | **–** | 66 |
| | **–** | 70 | **–** | 125 |

**45 Financial instruments**

The Group's activities can be divided into three broad categories: banking and mortgages, insurance and investments, and trading activities.

Banking and mortgage activities represent the most significant element of the Group's business in terms of profit, assets and exposure to risk. These activities are entered into in both the UK and overseas and principally comprise the Group's core business of lending and deposit taking, involving a full range of personal and corporate customers. In entering into this business, the Group's objective is to secure a margin between the interest paid to customers on their deposits and interest received on amounts advanced. In order to do this, more complex financial instruments, such as derivatives, are used as a means of reducing risk by hedging exposures to movements in exchange rates, interest rates or other market variables.

Within its banking activities, the Group has a number of treasury operations that are responsible for utilising surplus funds and meeting funding shortfalls by entering into transactions in the money markets. Portfolios of debt securities and treasury bills are held to provide a source of liquidity; it is the Group's intention to hold these investments until maturity although in certain circumstances they may be disposed of before then where, for example, the need to hold the investment no longer applies. Any profits or losses arising from a sale of this kind are recognised immediately.

Insurance and investment businesses provide general insurance and market savings and investment products both within and outside the banking customer bases. Fund management services are also provided although, whilst involving external clients, this activity is dominated by the management of internal group funds.

Trading activities are restricted to a few highly specialist authorised trading centres, the principal one being the Group's Treasury department in London. Most of the Group's trading activity is to meet the requirements of customers for foreign exchange and interest rate products, from which the Group is able to earn a spread on the rates charged. However, interest rate and exchange rate positions are taken out using derivatives (forward foreign exchange contracts, interest rate swaps and forward rate agreements) and on-balance sheet instruments (mainly debt securities). The objective of these positions is to earn a profit from favourable movements in market rates. Accordingly, these transactions are reflected in the accounts at their fair value and gains and losses shown in the profit and loss account as dealing profits.

**Risk**

The board is responsible for determining the long-term strategy of the business, the markets in which the Group will operate and the level of risk acceptable to the Group in each area of its business. The principal risks arising from the Group's use of financial instruments are as follows:

***Credit risk***

Credit risk arises from extending credit in all forms in the Group's banking and trading activities, where there is a possibility that a counterparty may default. Lloyds TSB Group Credit formulate high-level credit policies, set standards, monitor the overall portfolios and provide an independent review of all major counterparty, sector and cross-border transfer risks. Exposure to individual counterparties or groups of counterparties is controlled through a tiered hierarchy of delegated sanctioning authorities.

Day-to-day credit management is the primary responsibility of the directors of business units, who develop a detailed lending policy within the high-level framework. This defines responsibilities for lending officers and provides a disciplined and focused benchmark for sound credit decisions. The use of credit scoring has increased significantly, particularly in retail banking and mortgage activities, whereby authorisations are determined by a scorecard tailored to meet the needs of the particular business.

Cross-border risk and bank risk are measured by way of in-house proprietary rating systems and approved centrally by Lloyds TSB Group Credit with bank sub-limits defined according to maturity and type of business. The credit risks inherent in trading activities are managed in the same way, and, in the case of derivatives, exposure to individual counterparties is calculated daily as the sum of mark-to-market values and add-ons for potential future exposure.

**45 Financial instruments (continued)**

***Market risk***

Market risk is the risk of losses being incurred as a result of adverse movements in interest or exchange rates or other market variables. Market risk arises in all areas of the Group's activities and is managed by a variety of different techniques.

The Group's trading activities expose it to the risk of adverse movements in interest rates or exchange rates, with little or no exposure to equity or commodity risks. Trading activities are restricted to a small number of authorised centres, and the level of exposure is strictly controlled and monitored within approved limits locally and centrally.

These are supplemented by a range of value at risk techniques in use in individual businesses, where suitable methodologies have been developed to meet the specific requirements of each centre. At Group level, global positions are incorporated into a central value at risk model, taking into account natural offset positions between different trading centres, and stress tests are carried out to simulate extreme conditions.

Various parameters are used to calculate the value at risk on a given portfolio of positions, thus avoiding undue reliance on a single measure. Based on the commonly quoted 95 per cent confidence level, assuming positions are held overnight and using observation periods of the preceding 3 years, during 1999 the value at risk on the Group's global trading averaged £1.16 million (1998: £1.65 million) with a maximum of £1.78 million (1998: £2.31 million) and a minimum of £0.77 million (1998: £0.91 million). The figure at 31 December 1999 was £1.04 million (1998: £0.94 million).

Lloyds TSB Group Balance Sheet Management (GBSM) specifically focuses on the management of interest rate risk in the Group's retail portfolios, including mortgages, and in the Group's capital funds. GBSM reports to an Asset and Liability Committee under the chairmanship of the Deputy Chief Executive. The Group's policy is to optimise the stability of future net interest income, which is achieved by entering into hedging transactions using interest rate swaps and other financial instruments.

***Liquidity risk***

To ensure that each business unit can meet its financial obligations as they fall due, the Group complies with the Financial Services Authority's Sterling Stock Liquidity policy in the UK, with similar liquidity policies in place across all trading centres worldwide. Compliance is monitored by regular liquidity returns to Lloyds TSB Group Market Risk.

The sources and maturities of assets and liabilities are closely monitored and diversified to avoid any undue concentration. A substantial proportion of deposits is made up of current and savings accounts which, although repayable on demand, have traditionally formed a stable deposit base.

The Group's significant involvement in the London money market and other financial centres, together with the strength of the Group's earnings and balance sheet are important factors in assuring the continued availability of wholesale funds at competitive rates.

***Operational risk***

Operational risk is the exposure to financial or other damage arising through unforeseen events or failure in the Group's operational processes/systems. Examples include inadequate internal controls and procedures, human error, deliberate malicious acts including fraud, and business interruptions.

Internal control techniques include segregation of duties, exception and exposure reporting, business continuity planning, reconciliations, and delegation of authority, and are based on the submission of timely and reliable management reporting. Where appropriate risk is mitigated by way of insurance with third parties.

**45 Financial instruments (continued)**

**Derivatives**

Derivatives are used to meet the financial needs of customers, as part of the Group's trading activities and to reduce its own exposure to fluctuations in interest and exchange rates. The principal derivatives used by the Group are interest rate and exchange rate contracts; particular attention is paid to the liquidity of the markets and products in which the Group trades to ensure that there are no undue concentrations of activity and risk.

Interest rate related contracts include interest rate swaps, forward rate agreements and options. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts. Forward rate agreements are contracts for the payment of the difference between a specified rate of interest and a reference rate, applied to a notional principal amount at a specific date in the future.

Exchange rate related contracts include forward foreign exchange contracts, currency swaps and options. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal can be notional or actual.

Equity derivatives are also used by the Group as part of its equity based retail product activity, whereby index-linked equity options are purchased to eliminate the Group's exposure to fluctuations in various international stock exchange indices.

**45 Financial instruments (continued)**

**a) Derivatives**

**Group**

*Trading*

The notional principal amounts and fair values (which, after netting, are the carrying values) of trading instruments entered into with third parties were as follows:

| **31 December 1999** | Notional principal amount £m | Fair values Assets £m | Fair values Liabilities £m |
|---|---|---|---|
| *Exchange rate contracts:* | | | |
| Spot, forwards and futures | **85,939** | **1,648** | **1,529** |
| Currency swaps | **6,371** | **261** | **235** |
| Options purchased | **1,265** | **16** | **1** |
| Options written | **1,220** | **2** | **9** |
| | **94,795** | **1,927** | **1,774** |
| *Interest rate contracts:* | | | |
| Interest rate swaps | **383,212** | **3,939** | **4,057** |
| Forward rate agreements | **85,613** | **83** | **67** |
| Options purchased | **4,545** | **97** | **–** |
| Options written | **3,067** | **–** | **72** |
| Futures | **40,022** | **–** | **–** |
| | **516,459** | **4,119** | **4,196** |
| Equity contracts | **2,393** | **646** | **16** |
| Effect of netting | | **(3,950)** | **(3,950)** |
| Balances arising from off-balance sheet financial instruments | | **2,742** | **2,036** |

| 31 December 1998 | Notional principal amount £m | Fair values Assets £m | Fair values Liabilities £m |
|---|---|---|---|
| *Exchange rate contracts:* | | | |
| Spot, forwards and futures | 135,052 | 2,061 | 1,641 |
| Currency swaps | 11,234 | 219 | 382 |
| Options purchased | 1,773 | 18 | 4 |
| Options written | 1,443 | 2 | 13 |
| | 149,502 | 2,300 | 2,040 |
| *Interest rate contracts:* | | | |
| Interest rate swaps | 572,907 | 8,327 | 9,294 |
| Forward rate agreements | 188,608 | 350 | 332 |
| Options purchased | 809 | 3 | – |
| Options written | 1,195 | – | 4 |
| Futures | 61,317 | – | – |
| | 824,836 | 8,680 | 9,630 |
| Equity contracts | 3,831 | 502 | 502 |
| Effect of netting | | (7,347) | (7,347) |
| Balances arising from off-balance sheet financial instruments | | 4,135 | 4,825 |

### 45 Financial instruments (continued)

#### a) Derivatives (continued)

*Non-trading*

Through intra company and intra group transactions the Group establishes non-trading derivatives positions with the Group's independent trading operations. Similar positions are also established with third parties. The notional principal amounts of non-trading instruments entered into with third parties were as follows:

| **31 December 1999** | Notional principal amount £m | Fair values Positive £m | Fair values Negative £m |
|---|---|---|---|
| *Exchange rate contracts:* | | | |
| Spot, forwards and futures | **187** | **4** | **1** |
| Currency swaps | **95** | **11** | **3** |
| | **282** | **15** | **4** |
| *Interest rate contracts:* | | | |
| Interest rate swaps | **2,203** | **31** | **23** |
| Forward rate agreements | **20** | **–** | **–** |
| | **2,223** | **31** | **23** |

| 31 December 1998 | Notional principal amount £m | Fair values Positive £m | Fair values Negative £m |
|---|---|---|---|
| *Exchange rate contracts:* | | | |
| Spot, forwards and futures | 936 | 7 | 1 |
| Currency swaps | 191 | 11 | 3 |
| | 1,127 | 18 | 4 |
| *Interest rate contracts:* | | | |
| Interest rate swaps | 2,583 | 20 | 45 |
| Forward rate agreements | 883 | – | 3 |
| Options written | 8 | – | – |
| | 3,474 | 20 | 48 |

The aggregate carrying value of non-trading derivative contracts with a positive fair value was £1 million (1998: £1 million) and with a negative fair value was £1 million (1998: £1 million).

The maturity of the notional principal amounts and replacement cost of both trading and non-trading instruments entered into with third parties was:

| | Under 1 year £m | 1 to 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|
| **31 December 1999** | | | | |
| *Exchange rate contracts:* | | | | |
| Notional principal amount | **90,281** | **4,125** | **671** | **95,077** |
| Net replacement cost | **996** | **137** | **13** | **1,146** |
| *Interest rate contracts:* | | | | |
| Notional principal amount | **258,197** | **212,598** | **47,887** | **518,682** |
| Net replacement cost | **305** | **392** | **299** | **996** |
| *Equity contracts:* | | | | |
| Notional principal amount | **204** | **1,776** | **413** | **2,393** |
| Net replacement cost | **39** | **528** | **79** | **646** |
| 31 December 1998 | | | | |
| *Exchange rate contracts:* | | | | |
| Notional principal amount | 143,387 | 6,526 | 716 | 150,629 |
| Net replacement cost | 1,416 | 185 | 15 | 1,616 |
| *Interest rate contracts:* | | | | |
| Notional principal amount | 471,656 | 309,973 | 46,681 | 828,310 |
| Net replacement cost | 524 | 821 | 710 | 2,055 |
| *Equity contracts:* | | | | |
| Notional principal amount | 134 | 2,721 | 976 | 3,831 |
| Net replacement cost | 24 | 377 | 101 | 502 |

### 45 Financial instruments (continued)

#### a) Derivatives (continued)

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 with a positive value should the counterparty default. To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting or collateralisation, where security is provided against the exposure.

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

| | **1999 £m** | 1998 £m |
|---|---|---|
| OECD banks | **2,449** | 2,955 |
| Other | **339** | 1,218 |
| | **2,788** | 4,173 |

**Bank**

*Trading*

The notional principal amounts and fair values (which, after netting, are the carrying values) of trading instruments entered into with third parties were as follows:

| **31 December 1999** | Notional principal amount £m | Fair values Assets £m | Fair values Liabilities £m |
|---|---|---|---|
| *Exchange rate contracts:* | | | |
| Spot, forwards and futures | **77,356** | **1,534** | **1,419** |
| Currency swaps | **5,476** | **143** | **232** |
| Options purchased | **1,172** | **14** | **–** |
| Options written | **1,036** | **–** | **9** |
| | **85,040** | **1,691** | **1,660** |
| *Interest rate contracts:* | | | |
| Interest rate swaps | **381,423** | **4,111** | **3,984** |
| Forward rate agreements | **84,773** | **83** | **66** |
| Options purchased | **4,418** | **97** | **–** |
| Options written | **2,571** | **–** | **72** |
| Futures | **38,873** | **–** | **–** |
| | **512,058** | **4,291** | **4,122** |
| Equity contracts | **4,472** | **646** | **636** |
| Effect of netting | | **(3,950)** | **(3,950)** |
| Balances arising from off-balance sheet financial instruments | | **2,678** | **2,468** |

**45 Financial instruments (continued)**

**a) Derivatives (continued)**

| 31 December 1998 | Notional principal amount £m | Fair values Assets £m | Liabilities £m |
|---|---|---|---|
| *Exchange rate contracts:* | | | |
| Spot, forwards and futures | 127,216 | 1,928 | 1,560 |
| Currency swaps | 9,782 | 108 | 341 |
| Options purchased | 1,471 | 15 | 12 |
| Options written | 1,231 | – | – |
| | 139,700 | 2,051 | 1,913 |
| *Interest rate contracts:* | | | |
| Interest rate swaps | 566,293 | 8,219 | 9,140 |
| Forward rate agreements | 187,997 | 349 | 330 |
| Options purchased | 752 | 3 | – |
| Options written | 995 | – | 4 |
| Futures | 60,808 | – | – |
| | 816,845 | 8,571 | 9,474 |
| Equity contracts | 3,831 | 502 | 502 |
| Effect of netting | | (7,346) | (7,346) |
| Balances arising from off-balance sheet financial instruments | | 3,778 | 4,543 |

*Non-trading*

The notional principal amounts of non-trading instruments entered into with third parties were as follows:

| **31 December 1999** | Notional principal amount £m | Fair values Positive £m | Negative £m |
|---|---|---|---|
| *Exchange rate contracts:* | | | |
| Spot, forwards and futures | **187** | **3** | **1** |
| Currency swaps | **354** | **17** | – |
| | **541** | **20** | **1** |
| *Interest rate contracts:* | | | |
| Interest rate swaps | **1,365** | **33** | **18** |
| Forward rate agreements | **23** | – | – |
| | **1,388** | **33** | **18** |

| 31 December 1998 | Notional principal amount £m | Fair values Positive £m | Negative £m |
|---|---|---|---|
| *Exchange rate contracts:* | | | |
| Spot, forwards and futures | 960 | 7 | – |
| Currency swaps | 434 | 19 | 1 |
| | 1,394 | 26 | 1 |
| *Interest rate contracts:* | | | |
| Interest rate swaps | 696 | 12 | 11 |
| Forward rate agreements | 883 | – | 3 |
| Options purchased | – | – | – |
| Options written | 8 | – | – |
| | 1,587 | 12 | 14 |

**45 Financial instruments (continued)**

**a) Derivatives (continued)**

The maturity of the notional principal amounts and replacement cost of both trading and non-trading instruments entered into with third parties was:

| | Under 1 year £m | 1 to 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|
| **31 December 1999** | | | | |
| *Exchange rate contracts:* | | | | |
| Notional principal amount | **81,792** | **3,064** | **725** | **85,581** |
| Net replacement cost | **858** | **46** | **12** | **916** |
| *Interest rate contracts:* | | | | |
| Notional principal amount | **253,802** | **210,463** | **49,181** | **513,446** |
| Net replacement cost | **287** | **366** | **516** | **1,169** |
| *Equity contracts:* | | | | |
| Notional principal amount | **290** | **3,356** | **826** | **4,472** |
| Net replacement cost | **39** | **528** | **79** | **646** |
| 31 December 1998 | | | | |
| *Exchange rate contracts:* | | | | |
| Notional principal amount | 134,927 | 5,497 | 670 | 141,094 |
| Net replacement cost | 1,281 | 79 | 16 | 1,376 |
| *Interest rate contracts:* | | | | |
| Notional principal amount | 467,473 | 304,704 | 46,255 | 818,432 |
| Net replacement cost | 502 | 739 | 697 | 1,938 |
| *Equity contracts:* | | | | |
| Notional principal amount | 134 | 2,721 | 976 | 3,831 |
| Net replacement cost | 24 | 377 | 101 | 502 |

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

| | **1999 £m** | 1998 £m |
|---|---|---|
| OECD banks | **2,528** | 2,779 |
| Other | **203** | 1,037 |
| | **2,731** | 3,816 |

**45 Financial instruments (continued)**

**b) Interest rate sensitivity gap analysis for the non-trading book**

The table below summarises the repricing mismatches of the Group's non-trading assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

| **As at 31 December 1999** | 3 months or less £m | 6 months or less but over 3 months £m | 1 year or less but over 6 months £m | 5 years or less but over 1 year £m | Over 5 years £m | Non-interest bearing £m | Total £m |
|---|---|---|---|---|---|---|---|
| *Assets:* | | | | | | | |
| Treasury bills and other eligible bills | **896** | **108** | **134** | **60** | **–** | **–** | **1,198** |
| Loans and advances to banks | **13,418** | **1,640** | **1,074** | **334** | **277** | **71** | **16,814** |
| Loans and advances to customers | **58,642** | **3,788** | **4,532** | **29,638** | **8,059** | **(149)** | **104,510** |
| Debt securities and equity shares | **3,056** | **725** | **675** | **524** | **1,041** | **53** | **6,074** |
| Other assets | **230** | **–** | **–** | **5** | **27** | **8,883** | **9,145** |
| Total assets | **76,242** | **6,261** | **6,415** | **30,561** | **9,404** | **8,858** | **137,741** |
| *Liabilities:* | | | | | | | |
| Deposits by banks | **15,095** | **852** | **114** | **17** | **–** | **745** | **16,823** |
| Customer accounts | **81,569** | **1,586** | **903** | **1,321** | **110** | **7,387** | **92,876** |
| Debt securities in issue | **6,618** | **1,446** | **1,397** | **1,109** | **407** | **–** | **10,977** |
| Other liabilities | **149** | **–** | **5** | **–** | **2** | **6,625** | **6,781** |
| Subordinated liabilities – loan capital | **500** | **50** | **–** | **701** | **5,385** | **150** | **6,786** |
| Minority interests and shareholders' funds | **–** | **–** | **–** | **–** | **–** | **10,130** | **10,130** |
| Total liabilities | **103,931** | **3,934** | **2,419** | **3,148** | **5,904** | **25,037** | **144,373** |
| | **(27,689)** | **2,327** | **3,996** | **27,413** | **3,500** | **(16,179)** | **(6,632)** |
| Net balances with group trading books | **1,372** | **272** | **733** | **4,051** | **204** | **–** | **6,632** |
| Off-balance sheet items | **3,526** | **527** | **(1,576)** | **(4,280)** | **1,803** | **–** | **–** |
| Interest rate repricing gap | **(22,791)** | **3,126** | **3,153** | **27,184** | **5,507** | **(16,179)** | **–** |
| Cumulative interest rate repricing gap | **(22,791)** | **(19,665)** | **(16,512)** | **10,672** | **16,179** | **–** | **–** |

| As at 31 December 1998 | 3 months or less £m | 6 months or less but over 3 months £m | 1 year or less but over 6 months £m | 5 years or less but over 1 year £m | Over 5 years £m | Non-interest bearing £m | Total £m |
|---|---|---|---|---|---|---|---|
| *Assets:* | | | | | | | |
| Treasury bills and other eligible bills | 1,688 | 2 | 3 | 4 | 12 | – | 1,709 |
| Loans and advances to banks | 14,958 | 1,360 | 905 | 250 | 240 | 51 | 17,764 |
| Loans and advances to customers | 56,124 | 3,808 | 5,076 | 25,117 | 7,082 | 1,221 | 98,428 |
| Debt securities and equity shares | 1,827 | 564 | 302 | 287 | 1,107 | (10) | 4,077 |
| Other assets | 324 | 9 | – | 2 | – | 6,665 | 7,000 |
| Total assets | 74,921 | 5,743 | 6,286 | 25,660 | 8,441 | 7,927 | 128,978 |
| *Liabilities:* | | | | | | | |
| Deposits by banks | 14,476 | 1,165 | 749 | 45 | 18 | 460 | 16,913 |
| Customer accounts | 78,948 | 1,995 | 1,615 | 1,125 | 99 | 6,646 | 90,428 |
| Debt securities in issue | 6,801 | 1,755 | 1,119 | 430 | 165 | – | 10,270 |
| Other liabilities | 304 | – | 11 | – | 2 | 6,508 | 6,825 |
| Subordinated liabilities – loan capital | 500 | 278 | – | 649 | 2,684 | 194 | 4,305 |
| Minority interests and shareholders' funds | – | – | – | – | – | 7,163 | 7,163 |
| Total liabilities | 101,029 | 5,193 | 3,494 | 2,249 | 2,968 | 20,971 | 135,904 |
| | (26,108) | 550 | 2,792 | 23,411 | 5,473 | (13,044) | (6,926) |
| Net balances with group trading books | 2,413 | (287) | 750 | 3,401 | 640 | 9 | 6,926 |
| Off-balance sheet items | (2,370) | 5,559 | 3,694 | (6,339) | (544) | – | – |
| Interest rate repricing gap | (26,065) | 5,822 | 7,236 | 20,473 | 5,569 | (13,035) | – |
| Cumulative interest rate repricing gap | (26,065) | (20,243) | (13,007) | 7,466 | 13,035 | – | – |

The table above does not take into account the effect of interest rate options used by the Group to hedge its exposure; details of options are given on page 31.

**45 Financial instruments (continued)**

**c) Fair value analysis**

The table below shows a comparison by category of book values and fair values of the Group's on-balance sheet financial assets and liabilities.

| **As at 31 December 1999** | Trading book | | Non-trading book | |
|---|---|---|---|---|
| Assets: | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Treasury bills and other eligible bills | **867** | **867** | **1,198** | **1,197** |
| Loans and advances to banks and customers | **200** | **200** | **–** | **–** |
| Debt securities and equity shares | **8,322** | **8,322** | **5,645** | **5,784** |
| Liabilities: | | | | |
| Deposits by banks and customers | **1,116** | **1,116** | **–** | **–** |
| Debt securities in issue | **1,283** | **1,283** | **6,937** | **6,934** |
| Subordinated liabilities | **–** | **–** | **5,817** | **5,991** |

| As at 31 December 1998 | Trading book | | Non-trading book | |
|---|---|---|---|---|
| Assets: | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Treasury bills and other eligible bills | 1,441 | 1,441 | 1,710 | 1,751 |
| Loans and advances to banks and customers | 833 | 833 | – | – |
| Debt securities and equity shares | 8,278 | 8,278 | 3,571 | 3,815 |
| Liabilities: | | | | |
| Deposits by banks and customers | 1,023 | 1,023 | – | – |
| Debt securities in issue | 1,583 | 1,583 | 7,363 | 7,619 |
| Subordinated liabilities | – | – | 3,355 | 3,478 |

The disclosures in this note cover all on-balance sheet financial instruments held in the trading book together with those held in the banking book for which there is a readily obtainable market price.

Fair values of all derivative instruments are disclosed above.

Fair values are determined by reference to quoted market prices or, where no market price is available, using internal models which discount expected future cash flows at prevailing interest rates.

**45 Financial instruments (continued)**

**d) Currency exposures**

*Structural currency exposures*

Structural currency exposures arise from the Group's investments in its overseas operations. The structural position is managed after having regard to the currency composition of the Group's risk-weighted assets, the objective being to limit the effect of exchange rate movements on the published risk asset ratio.

The Group's main overseas operations are in New Zealand, the Americas and Europe. Details of the Group's structural foreign currency exposures are as follows:

| Functional currency of Group operation | **1999 £m** | 1998 £m |
|---|---|---|
| New Zealand dollar | **716** | 650 |
| Euro (and component former currencies) | **335** | 289 |
| US dollar | **160** | 156 |
| Swiss franc | **108** | 116 |
| Other non-sterling | **371** | 302 |
| Total | **1,690** | 1,513 |

*Non-structural currency exposures*

All foreign exchange exposures in the non-trading book are transferred to the trading area where they are monitored and controlled.

**e) Unrecognised gains and losses on hedging instruments**

The Group uses a variety of financial instruments to hedge exposures in its banking book; these hedges are accounted for on an accruals basis, in line with the underlying instruments being hedged. Any gains or losses that would occur if these instruments were carried at market value are therefore not recognised.

At 31 December 1999, the unrecognised gains on financial instruments used for hedging were £161 million (1998: £376 million) and unrecognised losses were £253 million (1998: £648 million).

The net losses arising in 1998 and earlier years and recognised in 1999 amounted to £136 million. Net gains of £42 million arose in 1999 but were not recognised in the year.

Of the net losses of £92 million at 31 December 1999, £56 million of net gains are expected to be recognised in the year ending 31 December 2000 and £148 million of net losses in later years.

# Notes to the accounts

## 46 Acquisitions

a) On 1 January 1999, the Bank's subsidiary, Lloyds Bank Subsidiaries Limited, acquired from a fellow group undertaking the issued share capital of Lloyds Bank (Channel Islands) Unit Trust Managers Limited for a cash consideration of £0.1 million. Due to the short-term nature of the assets and liabilities in the business acquired, the discount on acquisition of £23 million has been released to the profit and loss account in the current year. There were no fair value adjustments made to the assets acquired. The results of this business have been included in the consolidated accounts from the date of acquisition; the effect on the results of the Group is not material.

b) In February 1999, the Bank acquired the registrar services and investment trust savings scheme administration businesses of Bank of Scotland for a cash consideration of approximately £11 million. The premium on acquisition of £11 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of twenty years. There were no fair value adjustments made to the assets acquired. The results of this business have been included in the consolidated accounts from the date of acquisition; the effect on the results of the Group is not material.

c) On 30 June 1999, the Bank acquired from its ultimate parent company Lloyds TSB Group plc, the issued share capital of Lloyds TSB Financial Services Holdings plc, the holding company for all the Lloyds TSB Group's UK life assurance, general insurance and investment businesses. The consideration was £2,771 million, which was equal to the fair value of the net assets acquired; no fair value adjustments were made. The consideration was satisfied by the issue to Lloyds TSB Group plc of 33 million shares and the payment of £1,769 million in cash. The results of the Lloyds TSB Financial Services Holdings group have been consolidated in full from the date of acquisition and are shown separately in the profit and loss account on page 7.

A summarised profit and loss account for Lloyds TSB Financial Services Holdings group for the six month period ended 30 June 1999 is set out below:

| | £m |
|---|---|
| Net interest income | **36** |
| Fees and commissions receivable | **345** |
| General insurance premium income | **190** |
| Increase in value of long term assurance business | **156** |
| Other income and charges (net) | **(48)** |
| | **643** |
| Total income | **679** |
| Administrative expenses | **177** |
| Trading surplus | **502** |
| General insurance claims | **84** |
| Profit on ordinary activities before tax | **418** |
| Tax | **136** |
| Profit after tax for the six months to 30 June 1999 | **282** |
| Profit after tax for the year ended 31 December 1998 | 353 |

## 46 Acquisitions (continued)

The balance sheet of the Lloyds TSB Financial Services Holdings group at 30 June 1999 was as follows:

| | Fair value at acquisition £m |
|---|---|
| Loans and advances to banks | **720** |
| Debt securities | **102** |
| Equity shares | **155** |
| Tangible fixed assets | **24** |
| Other assets and prepayments | **1,572** |
| Long-term assurance business attributable to shareholders | **2,299** |
| Customer accounts | **(456)** |
| Other liabilities and accruals | **(1,485)** |
| Provisions for liabilities and charges | **(160)** |
| Net assets acquired | **2,771** |

d) On 30 June 1999, as part of a restructuring of the Lloyds TSB Group, the Bank acquired the issued share capital of all the other subsidiary undertakings directly owned by Lloyds TSB Group plc. The total consideration for the transfer of these companies was £1,149 million, which was equal to the fair value of the net assets acquired; no fair value adjustments were made. The consideration was satisfied by the issue to Lloyds TSB Group plc of 37 million shares. None of the companies acquired carry out any significant trading activities and they have had no material effect on the nature and focus of the Group's business. The results of these companies have been included in the consolidated accounts from the date of acquisition; the effect on the results of the Group is not material.

e) During 1999 the Group acquired further shares in its Colombian subsidiaries, Banco Anglo SA, Sociedad Inversionista Anglo Colombiano SA and Sociedad Fiduciaria Anglo SA. The total consideration was £16 million, which was settled in cash. The premium on acquisition of £11 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of 20 years. There were no fair value adjustments made.

f) On 23 June 1999 the Lloyds TSB Group announced an agreement with Scottish Widows providing for the transfer of Scottish Widows' business to subsidiaries of Lloyds TSB Bank plc. The transfer was approved by the members of Scottish Widows at a Special General Meeting on 22 December 1999 and is now subject to the sanction of the Court of Session. If this sanction is received, completion is expected to take place in March 2000. The consideration for the transfer is yet to be determined, but will not exceed £6.1bn.