

**HILL SAMUEL BANK LIMITED**

**REPORT AND ACCOUNTS 1999**



**Member of Lloyds TSB Group**

**HILL SAMUEL BANK LIMITED**

**DIRECTORS**

A E Moore CBE - Chairman

E St C Stobart - Chief Executive

A J Ling

R Nash

R R Seggins

**REGISTERED OFFICE**

71 Lombard Street  
London  
EC3P 3BS

Registered Number: 343544

## **HILL SAMUEL BANK LIMITED**

### **REPORT OF THE DIRECTORS**

#### **Results and dividend**

The profit and loss account on page 6 shows profit on ordinary activities after taxation for the year of £985,000 (1998: £11,823,000). The company did not pay any dividends during the year (1998: £500,000).

#### **Principal activities and business review**

The principal activity of the company was to act as a merchant bank. On 31 March 1999 all of the business, assets and liabilities of the company were transferred to Lloyds TSB Bank plc under the Lloyds TSB Act 1998. On the same day the company surrendered its authorisation under the Banking Act 1987 and ceased to trade.

#### **Directors**

The names of the directors are shown on page 1. The following changes took place in the year:

	Appointed	Resigned
P G Cummins		20 April
D H A Harrison		21 April
P B Miles		13 April
R Nash	1 August	
I T B Sproule		30 June
L H Tinsley		19 April

#### **Policy and practice on payment of creditors**

The company follows "The Better Payment Practice Code" published by the Department of Trade and Industry regarding the making of payments to suppliers. A copy of the code, and information about it, are available from the Department of Trade and Industry, No 1 Victoria Street, London SW1H 0ET.

The company's policy is to agree terms of payments 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 company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the company owed no amounts to trade creditors at 31 December 1999, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is nil.

## HILL SAMUEL BANK LIMITED

### REPORT OF THE DIRECTORS (Continued)

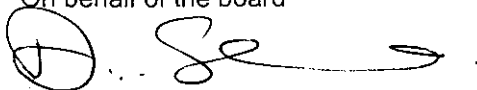
#### Year 2000

Lloyds TSB Group plc, of which the company is a subsidiary, recognised the far-reaching implications of the problems which might have arisen from the failure of systems to acknowledge dates before, on, or after 1 January 2000, and the group's policy was to ensure that the systems and business processes were not affected by these problems.

The successful implementation of the group's year 2000 programme represented the culmination of many years work. This comprehensive programme ensured the continued progress of the group's systems, processes and infrastructure.

All costs relating to the company's year 2000 preparations were borne by Lloyds TSB Bank plc and have been disclosed in that company's accounts.

On behalf of the board

A handwritten signature in black ink, appearing to be 'D A Saunders', written over a circular stamp or seal.

D A Saunders  
Secretary

11 May 2000

## **HILL SAMUEL BANK LIMITED**

### **REPORT OF THE AUDITORS TO THE MEMBER OF HILL SAMUEL BANK LIMITED**

We have audited the financial statements on pages 6 to 17 which have been prepared under the historical cost convention, and the accounting policies set out on pages 9 and 10.

#### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the annual report. As described below, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. 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 company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 company 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 United Kingdom by statute, the Auditing Practices Board and by 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 United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company 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.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements.

## HILL SAMUEL BANK LIMITED

### REPORT OF THE AUDITORS TO THE MEMBER OF HILL SAMUEL BANK LIMITED (Continued)

#### 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 company'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 the company's affairs as at 31 December 1999 and of its profit 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

11 May 2000

# HILL SAMUEL BANK LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	1999 £000	1998 £000
Interest receivable	4	6,262	63,256
Interest payable	5	4,914	50,020
Net interest income		<u>1,348</u>	<u>13,236</u>
Other operating income	6	1,840	1,755
Total income		<u>3,188</u>	<u>14,991</u>
Administration expenses	8	1,294	5,029
Profit on ordinary activities before provisions		<u>1,894</u>	<u>9,962</u>
Provisions for bad and doubtful debts		-	(5,837)
Write-off of loan to subsidiary undertaking		-	491
Amounts written off fixed asset investments		-	70
Appreciation in value of fixed asset investments		(144)	2,120
Profit on ordinary activities before taxation	10	<u>1,750</u>	<u>17,358</u>
Taxation on profit on ordinary activities	11	765	5,535
Profit on ordinary activities after taxation		<u>985</u>	<u>11,823</u>
Dividends		-	500
Retained profit for the year	21	<u>985</u>	<u>11,323</u>

As a consequence of the transfer of the company's business described in note 3, all of the company's results in the current and prior year relate to discontinued activities.

The notes on pages 9 to 17 form part of these accounts

# HILL SAMUEL BANK LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 1999

	Note	1999 £000	1998 £000
<b>Fixed assets</b>			
Interests in group undertakings	12	-	1
Other investments	13	-	58,752
			<u>58,753</u>
<b>Current assets</b>			
Debtors – amounts falling due within one year	14	-	650,455
Debtors – amounts falling due after more than one year	15	-	179,099
Cash at bank and in hand	16	-	210,227
		<u>-</u>	<u>1,039,781</u>
Creditors – amounts falling due within one year	17	-	445,041
			<u>-</u>
<b>Net current assets</b>			594,740
<b>Total assets less current liabilities</b>			<u>653,493</u>
Creditors – amounts falling due after more than one year	18	-	172,931
Provisions for liabilities and charges			
Deferred taxation	19	-	(246)
Other	20	-	2,038
		<u>-</u>	<u>478,770</u>
<b>Net assets</b>			<u>478,770</u>
<b>Capital &amp; reserves</b>			
Issued share capital	21	325,500	325,500
Share premium account	21	58,290	58,290
Profit and loss account	21	(383,790)	94,980
		<u>-</u>	<u>478,770</u>
<b>Shareholder's funds (equity)</b>			<u>478,770</u>

A E Moore Chairman

E St C Stobart Chief Executive

The notes on pages 9 to 17 form part of these accounts



# HILL SAMUEL BANK LIMITED

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 £000	1998 £000
Profit attributable to shareholders	985	11,823
Transfer (Note 3)	(479,755)	-
Total gains and losses recognised during the year	<u>(478,770)</u>	<u>11,823</u>

## HISTORICAL COST PROFITS AND LOSSES

There is no 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 in these accounts.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 £000	1998 £000
Profit attributable to shareholders	985	11,823
Dividends	-	(500)
Profit for the year	<u>985</u>	<u>11,323</u>
Transfer (Note 3)	(479,755)	-
Net (decrease) increase in shareholder's funds	<u>(478,770)</u>	<u>11,323</u>
Shareholder's funds at beginning of year	478,770	467,447
Shareholder's funds at end of year	<u>-</u>	<u>478,770</u>

The notes on pages 9 to 17 form part of these accounts

# HILL SAMUEL BANK LIMITED

## NOTES TO THE ACCOUNTS

### 1 FORMAT OF ACCOUNTS

As discussed in note 3, the company surrendered its authorisation under the Banking Act 1987 on 31 March 1999. Consequently, these accounts have been prepared in accordance with Schedule 4 to the Companies Act 1985. In previous years, accounts had been prepared in accordance with Schedule 9, which applies specifically to banks and banking groups. The comparative figures have been restated accordingly.

### 2 ACCOUNTING POLICIES

Accounting policies are unchanged from 1998.

#### (a) Accounting convention

The accounts have been prepared under the historical cost convention, in compliance with the requirements of Schedule 4 to the Companies Act 1985 and in accordance with applicable accounting standards. As permitted by Financial Reporting Standard 1 (revised), no cash flow statement is presented in these accounts, as the company 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 company is included, are publicly available.

In the opinion of the directors, disclosure of turnover is most appropriately represented for the company by Net Interest Income, comprised of interest on assets from the former banking business, less interest payable on associated funding, and Other Operating Income, comprised of fees and commissions received, dealing profits and other income from the former banking business. These changes represent an adaptation of the profit and loss account format laid down in Schedule 4 to the Companies Act 1985 due to the special nature of the company's business.

#### (b) Provisions for bad and doubtful debts and interest in suspense

Provisions for bad and doubtful debts were based on a regular appraisal of advances. Specific charges to the profit and loss account were made where necessary to provide for anticipated losses on identified risk advances. A general provision was also held for latent bad and doubtful debts which are present in any portfolio of advances but had not been specifically identified.

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

#### (c) Shares in group undertakings

Shares in group undertakings were stated at cost less any provisions for permanent diminution in value.

#### (d) Other investments

Other investments were held at cost, less any provision for permanent diminution in value. Certain debt securities were revalued in line with the retail price index annually and the cost was adjusted accordingly.

## HILL SAMUEL BANK LIMITED

### NOTES TO THE ACCOUNTS (Continued)

#### 2 ACCOUNTING POLICIES (Continued)

##### (e) Deferred taxation

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

##### (f) Pensions

As part of the transfer described in note 3, the contracts of employment of all of the company's employees at 31 March 1999 were transferred to Lloyds Bank Plc (subsequently renamed Lloyds TSB Bank plc). Most of these employees were members of the Lloyds TSB Group Pension Scheme No 2 (formerly the TSB Group pension scheme) which is of the defined benefit, final salary type. Contributions to the scheme were charged to the company's 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. The pension cost relating to the scheme was assessed in accordance with the advice of qualified actuaries, using the projected unit method. Variations from the regular cost were allocated by equal annual instalments over the average remaining service lives of current employees.

##### (g) Foreign currency translation

Assets, liabilities and results denominated in foreign currencies were expressed in sterling at the rates of exchange ruling on the dates of the respective balance sheets. Exchange profits or losses, which arose from normal trading activities, were included in the profit and loss account.

##### (h) Off balance sheet instruments

Profits and losses on off-balance sheet instruments which were being used to hedge exposures were recognised in a manner that reflected the accounting treatment of the assets or liabilities being hedged.

#### 3 LLOYDS TSB ACT 1998

On 31 March 1999, as part of the continuing integration of the Lloyds Bank and Hill Samuel Bank businesses, the business, assets and liabilities of the company were transferred to Lloyds Bank Plc (subsequently renamed Lloyds TSB Bank plc) under the Lloyds TSB Act 1998. No consideration was received by the company.

The company surrendered its authorisation under the Banking Act 1987 on 31 March 1999 and, on the same day, the company ceased to trade.

#### 4 INTEREST RECEIVABLE

	1999 £000	1998 £000
On amounts owed by fellow group undertakings	3,792	48,161
Other	2,470	15,095
	<u>6,262</u>	<u>63,256</u>

# HILL SAMUEL BANK LIMITED

## NOTES TO THE ACCOUNTS (Continued)

### 5 INTEREST PAYABLE

	1999 £000	1998 £000
On amounts owed to fellow group undertakings	2,425	21,407
Other	2,489	28,613
	<u>4,914</u>	<u>50,020</u>

### 6 OTHER OPERATING INCOME

Other operating income comprised:	1999 £000	1998 £000
Fees and commissions charged by former banking business	1,839	247
Dealing profits	1	(13)
Profits less (losses) on disposal of investment securities	-	(231)
Other	-	1,752
	<u>1,840</u>	<u>1,755</u>

### 7 SEGMENTAL ANALYSIS OF TURNOVER AND RESULTS

Based on the location at which the transactions and net assets are recorded, the company operated within the single segment of merchant banking in the United Kingdom until it ceased to trade on 31 March 1999.

### 8 DIRECTORS AND EMPLOYEES

The aggregate of the emoluments of the directors for their services to the company was £183,000 (1998 : £425,000). This included a payment of £30,000 to one director in respect of compensation for loss of office. For directors who served to 31 March 1999, the number to whom retirement benefits were accruing under a defined benefit pension scheme was 2 (1998 : 2). The number of directors who exercised share options was 5 (1998 : 7).

As part of the transfer described in note 3, the contracts of employment of all of the company's employees at 31 March 1999 were transferred to Lloyds Bank Plc (subsequently renamed Lloyds TSB Bank plc), on that day.

## HILL SAMUEL BANK LIMITED

### NOTES TO THE ACCOUNTS (Continued)

#### 8 DIRECTORS AND EMPLOYEES (Continued)

The company was a participating employer in the Lloyds TSB Group Pension Scheme No 2 (formerly the TSB Group pension scheme) which is of the defined benefit, final salary and also, for certain employees, the money purchase type. It is self-administered and is funded to cover future pension liabilities, based on accrued service to date, including expected future earnings and pension increases. Full actuarial valuations of the Lloyds TSB Group Pension Scheme No 2 are carried out every three years with interim reviews in the intervening years. At 30 June 1996, the date of the last full actuarial valuation before the transfer of the company's employees referred to above, the principal actuarial assumptions adopted were that, over the long term, the annual rate of return on new investments would be 2.5 per cent higher than the annual increase in pensionable remuneration and between 4.5 and 5 per cent higher than the annual increase in present and future pensions in payment, depending on members' entitlements, and 4.5 per cent higher than the annual increase in dividends receivable. The market value of the assets of the scheme at this date was £2,820 million. The actuarial value of the assets represented 148 per cent of the accrued liabilities allowing for future increases in pensions and pensionable remuneration.

*For funding purposes the surplus in the Lloyds TSB Group Pension Scheme No 2 is being eliminated by means of a contribution holiday.*

#### 9 TRANSACTIONS WITH DIRECTORS

The following information is required to be disclosed by Section 232 of the Companies Act 1985. No amounts were due to the company at 31 December 1999 (31 December 1998 : £30,000, in respect of a loan to one director of the company).

#### 10 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The auditors' remuneration was £15,000 (1998: £10,000). Fees paid during the year in respect of non-audit services were £nil (1998: £nil).

#### 11 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1999 £000	1998 £000
UK corporation tax	508	3,853
Overseas taxation	-	(143)
Prior year adjustments	257	1,825
	<u>765</u>	<u>5,535</u>

The charge for taxation on the profit for the year is based on the average UK corporation tax rate for the period to 31 March 1999, when the company's activities ceased, of 31 per cent (1998: 31 per cent).

# HILL SAMUEL BANK LIMITED

## NOTES TO THE ACCOUNTS (Continued)

### 12 INTERESTS IN GROUP UNDERTAKINGS

The company's interests in group undertakings comprised shares in subsidiary undertakings, all of which were unlisted:

	£000
At 1 January 1999	1
Transfer (Note 3)	(1)
At 31 December 1999	-

As the company is a wholly owned subsidiary undertaking of Lloyds TSB Bank plc, for which consolidated accounts are prepared, consolidated accounts for the company have not been prepared.

### 13 OTHER INVESTMENTS

Other investments at 31 December 1998 comprised listed equity shares with a book and market value of £24,000, being a cost of £94,000 less a provision of £70,000 and unlisted debt securities, due from a fellow group undertaking, with a book value and market value of £58,728,000. These investments were transferred as described in note 3.

### 14 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £000	1998 £000
Loans and advances	-	7,990
Amounts owed by group undertakings	-	627,333
Other debtors	-	5,444
Prepayments and accrued income	-	9,688
	-	650,455

In 1998 this included a loan of £402,436,000 to Lloyds TSB Group plc, which was interest free and repayable at the discretion of the directors of Lloyds TSB Group plc.

### 15 DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	1999 £000	1998 £000
Loans and advances	-	129,099
Amounts owed by group undertakings	-	50,000
	-	179,099

### 16 CASH AT BANK AND IN HAND

Cash at bank and in hand at 31 December 1998 included £210,227,000 deposited with fellow group undertakings.

# HILL SAMUEL BANK LIMITED

## NOTES TO THE ACCOUNTS (Continued)

### 17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £000	1998 £000
Deposits taken by banking business	-	10,340
Amounts owed to group undertakings	-	351,843
Other creditors	-	65,500
Corporation tax payable	-	5,152
Accruals and deferred income	-	12,206
	<u>-</u>	<u>445,041</u>

### 18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1999 £000	1998 £000
Deposits taken by banking business	-	100,636
Amounts owed to group undertakings	-	72,295
	<u>-</u>	<u>172,931</u>

### 19 DEFERRED TAX

	£000
At 1 January 1999	(246)
Released to profit and loss	16
Transfer (Note 3)	230
At 31 December 1999	<u>-</u>

The deferred tax asset transferred related to relief arising on timing differences.

### 20 OTHER PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring provisions £000	Other £000	Total £000
At 1 January 1999	1,249	789	2,038
Provisions applied	(283)	(4)	(287)
Transfer (Note 3)	(966)	(785)	(1,751)
At 31 December 1999	<u>-</u>	<u>-</u>	<u>-</u>

# HILL SAMUEL BANK LIMITED

## NOTES TO THE ACCOUNTS (Continued)

### 21 SHARE CAPITAL AND RESERVES

	Issued share capital £000	Share premium £000	Profit and loss account £000	Total shareholder's funds £000
At 1 January 1999	325,500	58,290	94,980	478,770
Retained profit	-	-	985	985
Transfer (Note 3)	-	-	(479,755)	(479,755)
At 31 December 1999	<u>325,500</u>	<u>58,290</u>	<u>(383,790)</u>	<u>-</u>

The company's authorised share capital comprises 500,000,000 ordinary shares of £1 each.

The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member. Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the group accounts of both companies may be obtained from the company secretary's office, Lloyds TSB Group plc, 71 Lombard Street, London, EC3P 3BS.

### 22 CONTINGENT LIABILITIES AND COMMITMENTS

As a consequence of its former banking activities, the company had various contingent liabilities and commitments at the end of 1998:

	1999 £000	1998 £000
Contingent liabilities:		
Guarantees	-	120
	<u>-</u>	<u>120</u>

On 31 March 1999, as part of the transfer described in note 3, all of the company's contingent liabilities and commitments were assumed by Lloyds Bank Plc (subsequently renamed Lloyds TSB Bank plc).



## HILL SAMUEL BANK LIMITED

### NOTES TO THE ACCOUNTS (Continued)

#### 23 DERIVATIVES

The company only used derivatives in its banking business to reduce its own exposure to fluctuations in exchange rates and interest rates. At 31 December 1998 the maturity of the notional principal amounts and the replacement cost of the instruments were:

	Under 1 Year £000	1 to 5 Years £000	Over 5 Years £000	Total £000
Interest rate contracts at 31 December 1998				
Notional principal amount	-	10,442	54,850	65,292
Net replacement cost	-	3	1,224	1,227

Of the above, interest rate contracts with a total notional principal of £32,646,000 and replacement cost of £3,000 were entered into with other group companies.

On 31 March 1999, as part of the transfer described in note 3, all of the company's off-balance sheet instruments were transferred to Lloyds Bank Plc (subsequently renamed Lloyds TSB Bank plc).

#### 24 DIRECTORS' INTERESTS

The interests of those who were directors of the company at 31 December 1999, but who were not also directors of Lloyds TSB Group plc, in the capital of Lloyds TSB Group plc were:

Ordinary shares of 25p each:

	At 31 December 1999	At 1 January 1999 (or later date of appointment)
A J Ling	34,653	33,297
R Nash	2,428	2,414
R R Seggins	54,849	15,686
E St C Stobart	5,044	2,717

## HILL SAMUEL BANK LIMITED

### NOTES TO THE ACCOUNTS (Continued)

#### 24 DIRECTORS' INTERESTS (Continued)

Options to acquire ordinary shares of 25p each:

	At 1 January 1999 (or later date of appointment)	During the year (or since appointment during the year)		At 31 December 1999
		Granted	Exercised	
A J Ling	38,246	282	1,219	37,309
R Nash	22,165	-	-	22,165
R R Seggins	70,030	5,004	47,076	27,958
E St C Stobart *	94,469	20,664	3,495	111,638

\* This director will receive additional Lloyds TSB Group shares on exercising share options held on 28 December 1995. These shares will compensate him for the special dividend of 68.3p per share which was paid to former TSB Group shareholders following the merger with Lloyds Bank, but which was not paid to option holders. In that regard he received 251 additional shares when he exercised the share options shown above.

None of these directors had any other interest in the capital of Lloyds TSB Group plc or its subsidiaries.

#### 25 DATE OF APPROVAL

The directors approved the accounts on 11 May 2000.