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HILL SAMUEL BANK LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31ST DECEMBER 1996

(Registered Number: 343544)

Member of Lloyds TSB Group



HILL SAMUEL BANK LIMITED

DIRECTORS

A E Moore CBE	-	Chairman
E St C Stobart	-	Chief Executive
G R Parris	-	Company Secretary

J A F Baer	G M McEnery
P J Brunsdon	P B Miles
P Bucks	A S Mounsdon
I D Cheyne	C Oakley
P G Cummins	D J F Rushton
J B Dyson	R R Seggins
K G Farquhar	G C Sharp
C R Forster	I T B Sproule
D H A Harrison	S D Taylor
J A Hobley	L H Tinsley
J Jawanmardi	J M Whitaker
A R Jesseman	P S Whitaker
W R Jones	J K S Wilkinson
N A J H Lusson	R Wilman
	G D Windebank

HILL SAMUEL BANK LIMITED **DIRECTORS' REPORT**

The Directors present the annual report and accounts of the company for the year ended 31st December 1996.

Principal Activities and Business Review

As a result of a review of the company's business, Lloyds TSB Group plc, the company's ultimate parent undertaking, decided to integrate the activities of the company with those of Lloyds Bank Plc. The process of integration commenced in June 1996 and continues.

During the year the company carried on the business of a merchant bank. The activities of the principal subsidiary undertakings are shown in note 19 to the accounts.

State of Affairs

During the year the company transferred Hill Samuel Asset Finance Limited and Hill Samuel Investments Limited to Lloyds Bank Plc and sold, for a cash consideration, the goodwill and certain assets of its Corporate Finance Division, its Project Advisory business and part of its Project Finance loan portfolio. Subsidiary undertakings of the company sold, for cash consideration, Hill Samuel S.A. Holdings Limited and Hill Samuel S.A. (Proprietary) Limited.

During the year the company transferred beneficial ownership of certain lending and other similar agreements to Lloyds Bank Plc. Since 31st December 1996, further such transfers have taken place and will continue to take place during the current year. It is anticipated that beneficial ownership of those lending and other assets not transferred under the subsisting arrangements will be transferred into the name of Lloyds Bank Plc under a scheme of transfer pursuant to a Bill, presently before Parliament, to provide, inter alia, for the transfer to, and vesting in, Lloyds Bank Plc of the undertaking of the company when such bill is enacted.

Results, Dividends and Reserves

The result and proposed transfer to reserves for the year is set out on page 7 of the accounts.

The Directors declared interim dividends of £420,000 and £70,000,000 on the ordinary share capital for the year ended 31st December 1996 (14 months to 31st December 1995 - £9,360,000) which were paid on 27th March 1996 and 28th November 1996 respectively.

The Directors do not recommend the payment of a final dividend. (14 months to 31st December 1995 - Nil).

Capital

The details of the loan capital and issued capital are shown in notes 28 and 29 to the accounts.

Directors

The present members of Board are shown on Page 1, all of whom were Directors for the whole of the year except C Oakley who was appointed a Director on 1st February 1996; P J Brunnsden, I D Cheyne, J B Dyson, K G Farquhar, D H A Harrison, J A Hobley, R R Seggins, S D Taylor, and J M Whitaker who were appointed Directors on 11th June 1996; A R Jesseman, G C Sharp and L H Tinsley who were appointed Directors on 28th June 1996; P G Cummins who was appointed a Director on 1st July 1996; J A F Baer, A S Mounsdon and R Wilman who were appointed Directors on 6th August 1996; A E Moore who was appointed Director and Chairman on 1st September 1996; P B Miles who was appointed a Director on 8th October 1996 and N A J H Lusson and G D Windebank who were appointed Directors on the 17th December 1996.

D W King, S J Fewster, J C Muncey, M C Rogers and I J N Stroud were appointed Directors during the year but had ceased to be so by 31st December 1996. B F Lea was appointed a director during the year but resigned after 31st December 1996.

J S Ross, C Lee and V Lee were members of the Board during the year ended 31st December 1996 but resigned subsequently.

The following were also members of the Board during the year ended 31st December 1996 but had ceased to be so on or by that date:-

P J Ashdown, S W Aulsebrook, C L Badcock, C P Barrington, J A Bennett, C W E R Buchan, A R L E Camu, M J E Chambers, F J Clutterbuck, D M N Confino, G D Connell, C M Cottrell, J M B Daniels, J W Foley, T C Frankland, H R Freedberg, M J Friend, R C G Gardner, G P Gonszor, R S Grainger, G R M Graham, M C Gray, N R Hill, W S James, J Jamilly, C P Joseph, A W Jukes, F A Kellett-Clarke, E J Llewellyn-Lloyd, The Rt Hon John MacGregor, R J Mackay, M S Mander, B G McNamara, R H Meddings, D R Murphy, R W N Perrin, S J Peters, J E Prescott, D P Pritchard, R D Ramsey, A J H Reed, R W Satow, J R Sclater, P C St Stellakis, D H Stewart, A A Stockham, P W Temple, J C G Trower, J R W Thirlwell, N T West, Sir Mark Wrightson.

Directors Interests

The interests of Directors in the shares and options of Lloyds TSB Group plc are shown in note 5 to the accounts.

None of the Directors has or has had a beneficial interest other than in the ordinary course of business, in any contract or arrangement of significance to which the company or its subsidiary undertakings were a party during the year.

Employment Policies

The company has a policy of consulting with employees, through a Staff Consultative Committee, in relation to matters likely to affect their interests. Employees are kept informed about matters of concern to them and the progress of the company and its financial performance, by the circulation of internal information bulletins and a newsletter, and the regular dissemination of details of the company's performance through divisional management channels.

The company's ultimate parent undertaking, Lloyds TSB Group plc, operates a "Save As You Earn" Share Option Scheme in which all employees are encouraged to participate and an Executive Share Option Scheme.

It is the company's policy not to discriminate against the disabled in recruitment, career development or promotion.

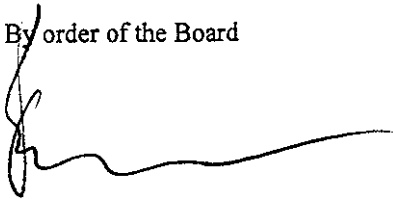
Premises and Equipment

Details of premises and equipment are set out in note 20.

Creditor Payment Policy

The company is responsible for agreeing terms and conditions with suppliers. In the UK standard terms are to pay all invoices on or before 30 days after the date of the invoice except where different arrangements have been specifically agreed with suppliers. It is the policy of the company to abide by the agreed terms of payment.

By order of the Board

A handwritten signature in black ink, appearing to be 'G. R. Parris', written over the text 'By order of the Board'.

G. R. Parris
Secretary
100 Wood Street
London
EC2P 2AJ

11th February 1997

HILL SAMUEL BANK LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the Auditor's Responsibilities Statement set out on page 6, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the accounts. The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the accounts on pages 7 to 35 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors are required to use a going concern basis in preparing the accounts unless this is inappropriate.

The Directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

HILL SAMUEL BANK LIMITED

AUDITOR'S RESPONSIBILITY STATEMENT

The auditor is responsible for forming an independent opinion on the financial statements presented by the Directors, based on the audit, and for reporting that opinion to members. The auditor also has the responsibility under the Companies Act 1985 to report to members if particular requirements are not met. These requirements are:-

- that the company has maintained proper accounting records and obtained proper returns from branches not visited by the auditor;
- that the financial statements are in agreement with the accounting records;
- that Directors' emoluments and other transactions with Directors are properly disclosed in the financial statements; and
- that all information and explanations have been obtained which, to the best of the auditor's knowledge and belief, are necessary for the purpose of the audit.

The auditor's opinion does not encompass the Directors' report on pages 2 to 4. However, the Companies Act 1985 requires the auditor to report to members if the matters contained in the Directors' report are inconsistent with the financial statements.

HILL SAMUEL BANK LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31st December 1996

		Year ended 31st December 1996	14 Months ended 31st December 1995
	Note	£m	£m
Interest receivable and similar income arising from debt securities		38.0	73.1
Other interest receivable and similar income		337.3	398.8
		-----	-----
		375.3	471.9
Interest payable		(347.1)	(439.7)
		-----	-----
Net interest income		28.2	32.2
Dividend income from equity shares		0.4	38.7
Fees and commissions receivable		20.5	27.4
Fees and commissions payable		(3.2)	(2.1)
Dealing profits		2.8	14.7
Profit/(loss) on exchange hedging operations		15.8	(20.1)
Other operating income		1.6	5.1
		37.9	63.7
		-----	-----
Total income		66.1	95.9
Administrative expenses	6	(53.4)	(76.7)
Depreciation and amortisation	20	(2.0)	(2.4)
Release of provisions for bad and doubtful debts	16	13.1	4.3
Amounts written off fixed asset investments	7	1.1	(3.3)
		(41.2)	(78.1)
		-----	-----
Total operating profit		24.9	17.8
Exceptional items			
Restructuring costs	8	(24.0)	-
Profit/(loss) on disposal of subsidiary undertakings and businesses	9	86.0	(0.8)
		-----	-----
Profit on ordinary activities before taxation	10&12	86.9	17.0
Taxation on profit on ordinary activities	11	1.2	4.8
		-----	-----
Profit on ordinary activities after taxation		88.1	21.8
Dividends paid		(70.4)	(9.4)
		-----	-----
RETAINED PROFIT FOR THE PERIOD	30	17.7	12.4
		=====	=====

The notes on pages 11 to 35 form part of these accounts.

HILL SAMUEL BANK LIMITED

BALANCE SHEET

31st December 1996

	Note	31st December 1996 £m	31st December 1995 £m
<u>ASSETS</u>			
Cash and balances at central banks		0.2	0.1
Treasury bills and other eligible bills	13	22.5	2.3
Loans and advances to banks	14	864.0	988.3
Loans and advances to customers	15	1,316.6	2,981.2
Debt securities	17	55.0	1,456.1
Equity shares	18	2.9	3.1
Investment in subsidiary undertakings	19	150.3	366.5
Tangible fixed assets	20	2.1	5.8
Other assets	21	37.2	639.3
Prepayments and accrued income		40.4	117.1
		-----	-----
TOTAL ASSETS		2,491.2	6,559.8
		=====	=====
<u>LIABILITIES</u>			
Deposits by banks	22	1,469.1	4,143.2
Customer accounts	23	419.9	1,063.1
Debt securities in issue	24	-	22.8
Other liabilities	25	88.0	795.3
Accruals and deferred income		48.0	79.5
Provisions for liabilities and charges	27	15.5	6.8
Subordinated loan capital	28	-	16.1
		-----	-----
		2,040.5	6,126.8
<u>CAPITAL RESOURCES</u>			
Called up share capital	29	325.5	325.5
Share premium account	30	58.3	58.3
Profit and loss reserve	30	66.9	49.2
Shareholders' funds - equity		450.7	433.0
		-----	-----
TOTAL LIABILITIES		2,491.2	6,559.8
		=====	=====

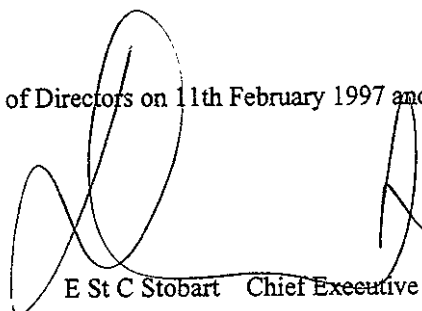
HILL SAMUEL BANK LIMITED

BALANCE SHEET continued

31st December 1996

		31st December 1996	31st December 1995
	Note	£m	£m
MEMORANDUM ITEMS			
Contingent liabilities:	32		
Acceptances and endorsements		4.5	146.5
Guarantees and assets pledged as collateral security		46.6	103.9
Other		11.9	6.8
		<u>63.0</u>	<u>257.2</u>
Commitments	33	<u>176.9</u>	<u>453.3</u>

These accounts were approved by the Board of Directors on 11th February 1997 and were signed on its behalf by:


E St C Stobart Chief Executive

The notes on pages 11 to 35 form part of these accounts

HILL SAMUEL BANK LIMITED

31st December 1996

Statement of Total Recognised Gains and Losses for the year ended 31st December 1996

In both the current and preceding periods the company made no recognised gains or losses other than those reported within the profit and loss account on page 7.

Reconciliation of Movements in Shareholders' Funds for the year ended 31st December 1996

	Year ended 31st December 1996	14 Months ended 31st December 1995
	£m	£m
Profit after taxation for the period	88.1	21.8
Dividends paid	(70.4)	(9.4)
	-----	-----
Net increase in shareholders' funds	17.7	12.4
Shareholders' funds at beginning of the period	433.0	420.6
	-----	-----
Shareholders' funds at end of the period	<u>450.7</u>	<u>433.0</u>

Historical Cost Profits and Losses

In both the current and preceding periods 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.

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 1

Accounting policies

Basis of preparation of the accounts

The following accounting policies, which are unchanged from 1995, have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

Group accounts have not been prepared as the company is a wholly-owned subsidiary undertaking of another body incorporated in Great Britain.

Accounting convention

The accounts are prepared under the historical cost convention as modified by the revaluation of certain shares held in subsidiary undertakings and debt securities held for dealing purposes in compliance with sections 255 and 255a, Schedule 9 and other requirements of the Companies Act 1985 and in accordance with the applicable accounting standards and with the Statements of Recommended Accounting Practice issued by the British Bankers Association.

As permitted by Financial Reporting Standard 1, no cash flow statement is presented in these accounts, as Lloyds TSB Group plc is the ultimate parent undertaking of the Bank and 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.

Treasury bills, debt securities and equity shares

Treasury bills, debt securities and equity shares intended for use on a continuing basis in the company's activities are classified as investment securities. Such shares and securities are stated in the balance sheet at cost less any provisions for permanent diminution in value. Investment securities which are redeemable at fixed dates, are stated in the balance sheet on the basis of amortised cost. The amortisation of premiums or discounts is included in interest income. Securities which were held for trading purposes are shown at market value for listed securities and Directors' estimate of market value for unlisted securities.

Provisions for bad and doubtful debts

Specific provisions are made for advances which are recognised to be bad or doubtful. In addition, general provisions are maintained to cover losses that, although not specifically identified, are known from experience to be present at the year end in respect of commercial exposures. Such provisions are offset against advances in the balance sheet. If the collection of interest is considered doubtful, it is suspended and excluded from interest income in the profit and loss account.

Off-balance sheet instruments

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

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 1

**Accounting policies
continued**

Corporate finance fees

Corporate finance fees are brought into account when work is completed and the fee is agreed.

Depreciation

Depreciation on leasehold buildings with less than 50 years unexpired is provided for by equal instalments over the unexpired term of the lease.

Computers and other equipment are depreciated on a straight line basis over their estimated lives of generally between three and ten years.

Pensions

The company is a member of the TSB Group pension scheme which is of the defined benefit, final salary type. Contributions to the scheme 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. The pension cost relating to the scheme is assessed in accordance with the advice of qualified actuaries, using the projected unit method. Variations from the regular costs are allocated by equal annual instalments over the average remaining service lives of current employees.

Deferred taxation

Deferred taxation is provided under the liability method on material timing differences where there is a reasonable probability that taxation will become payable in the foreseeable future, or in the case of an asset, that the timing difference will reverse in the foreseeable future.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at exchange rates ruling at the balance sheet date. Exchange differences, arising from movements in exchange rates, in respect of currency loan capital and the exchange cover for overseas subsidiary and fellow subsidiary undertakings are taken to profit and loss account.

Note 2

Ultimate parent undertaking

The company is a subsidiary undertaking of Lloyds TSB Group plc which is registered in Scotland. Its immediate parent undertaking is TSB Bank plc which is registered in England and Wales. The largest group in which the results of the company are consolidated is that headed by Lloyds TSB Group plc. The smallest group in which they are consolidated is that headed by TSB Bank plc.

Copies of the group accounts of both the ultimate parent undertaking and the immediate parent undertaking are available from Lloyds TSB Group plc, 71 Lombard Street, London, EC3P 3BS.

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 3

Directors' emoluments

No Director received any fees during the year (14 months to 31st December 1995 - £Nil). The aggregate emoluments of the Directors for management services including pension contributions amounted to £8.7m (14 months to 31st December 1995 - £13.3m). Amounts included in respect of bonuses are determined under the bonus arrangements for all executive Directors.

The emoluments of the Chairmen were £169,000 for Mr J R Sclater in respect of the period 1st January 1996 to 31st August 1996 (14 months to 31st December 1995 - £281,000) and £Nil for Mr A E Moore in respect of the period 1st September 1996 to 31st December 1996. No pension contributions were made in respect of the Chairmen. The emoluments, excluding pension contributions, of the highest paid Director were £361,000 (14 months to 31st December 1995 - £443,000).

During the year total payments by the company of £4,548,000 (14 months to 31st December 1995 - £359,000) were made to 32 Directors (14 months to 31st December 1995 - 7 Directors) in respect of compensation for loss of their executive office.

The number of Directors (including the Chairmen and highest paid Director) whose emoluments, excluding pension contributions, fell within the following bands were:

£		£		Year ended 31st December 1996	14 months ended 31st December 1995
0	to	5,000		22	2
5,001	to	10,000		1	-
10,001	to	15,000		3	-
15,001	to	20,000		1	2
20,001	to	25,000		4	-
25,001	to	30,000		1	2
30,001	to	35,000		1	4
40,001	to	45,000		5	-
50,001	to	55,000		5	-
55,001	to	60,000		2	1
60,001	to	65,000		2	-
65,001	to	70,000		2	-
80,001	to	85,000		4	-

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 3

**Directors' emoluments
continued**

				Year ended 31st December 1996	14 months ended 31st December 1995
£		£			
90,001	to	95,000		3	1
95,001	to	100,000		1	2
100,001	to	105,000		1	1
105,001	to	110,000		1	-
110,001	to	115,000		1	-
115,001	to	120,000		1	3
120,001	to	125,000		-	1
125,001	to	130,000		1	3
130,001	to	135,000		1	2
135,001	to	140,000		-	2
140,001	to	145,000		1	-
145,001	to	150,000		2	-
150,001	to	155,000		1	5
155,001	to	160,000		1	3
160,001	to	165,000		1	3
165,001	to	170,000		1	-
170,001	to	175,000		-	3
175,001	to	180,000		2	4
180,001	to	185,000		1	1
185,001	to	190,000		-	1
190,001	to	195,000		1	2
195,001	to	200,000		1	-
200,001	to	205,000		-	1
205,001	to	210,000		1	-
210,001	to	215,000		1	-
215,001	to	220,000		-	2
220,001	to	225,000		-	1
235,001	to	240,000		-	1
240,001	to	245,000		-	1
245,001	to	250,000		-	1
250,001	to	255,000		-	1
275,001	to	280,000		1	2
280,001	to	285,000		-	1
295,001	to	300,000		1	-

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 3

**Directors' emoluments
continued**

				Year ended 31st December 1996	14 months ended 31st December 1995
£		£			
310,001	to	315,000		-	1
315,001	to	320,000		-	1
320,001	to	325,000		-	1
325,001	to	330,000		1	2
330,001	to	335,000		-	1
335,001	to	340,000		1	-
360,001	to	365,000		1	-
415,001	to	420,000		-	1
440,001	to	445,000		-	1

Note 4

Transactions with Directors The following information is required to be disclosed by Section 232 of the Companies Act 1985. An aggregate amount of £235,000 was due to the company, at 31st December 1996, in respect of loans to four Directors of the company.

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 5

Directors' interests in shares and options of Lloyds TSB Group plc

The Directors who held office at 31st December 1996 had the following interests in the shares and options over shares of Lloyds TSB Group plc as recorded in the register of Directors' shares and debenture interests, other than those of Mr A E Moore, who was also a director of Lloyds TSB Group plc, and whose interests in Lloyds TSB Group plc are shown in the accounts of that company.

	31st December 1996		1st January 1996 *(or on date appointed, if later)	
	Ordinary shares of 25p each held beneficially	Options over ordinary shares of 25p	Ordinary shares of 25p each held beneficially	Options over ordinary shares of 25p
J A F Baer *	-	1,363	-	1,363
P J Brunsdon *	32,401	51,842	36,128	53,629
P Bucks	1,320	59,798	7,416	143,288
I D Cheyne *	88,546	60,560	100,980	60,560
P G Cummins *	2,403	3,039	2,361	3,039
J B Dyson *	36,625	44,008	36,322	44,899
K G Farquhar *	12,112	28,928	16,179	28,928
C R Forster	1,100	46,671	4,206	114,472
D H A Harrison *	-	135,864	-	135,864
J A Hobley *	17,107	36,714	17,107	36,714
J Jawanmardi	-	70,810	-	61,560
A R Jesseman *	68,780	45,152	52,465	35,152
W R Jones	14,487	193,857	12,935	180,107
B F Lea *	-	8,250	-	-
V Lee	-	24,744	-	16,494
C Lee	-	8,250	-	-
N A J H Lusson *	5,516	4,486	5,516	4,486
G M McEnery	-	25,845	-	102,564
P B Miles *	59,789	25,902	12,469	72,504
A S Mounsdon *	71,346	8,739	71,259	8,062
C Oakley *	-	20,756	-	102,910
G R Parris	2,075	131,687	6,717	120,687
J S Ross	27,052	49,921	18,682	60,651
D J F Rushton	-	64,078	-	121,902
R R Seggins *	31,252	57,530	30,784	57,530
G C Sharp *	36,354	8,566	36,245	7,968
I T B Sproule	69,020	46,696	5,271	101,438

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 5

**Directors' interests in shares
and options of Lloyds TSB
Group plc continued**

	31st December 1996		1st January 1996 *(or on date appointed, if later)	
	Ordinary shares of 25p each held beneficially	Options over ordinary shares of 25p	Ordinary shares of 25p each held beneficially	Options over ordinary shares of 25p
S D Taylor *	11,177	30,295	11,177	30,295
E St C Stobart	3,139	89,015	7,216	141,395
L H Tinsley *	24,978	7,687	25,733	8,458
J M Whitaker *	52,202	51,150	52,435	52,041
P S Whitaker	16,886	88,582	16,886	79,332
J KS Wilkinson	-	28,130	6,153	16,324
R Wilman *	181	-	179	-
G D Windebank *	5,137	4,888	5,137	4,888

The options to purchase shares were granted under the terms of Lloyds TSB Group's Executive Share Option and Share Save Schemes. According to the register of Directors' interests, increases in the options shown above arose as a result of the grant of further options to the Directors or their immediate families. No options were exercised during the year by the Directors who held office at 31 December 1996 except as listed below.

	Number of options over ordinary <u>shares exercised</u>	<u>Date</u>	<u>Exercise Price</u>
P J Brunsdon	1,787	1.8.96	100.59p
P Bucks	73,529	30.5.96	136.00p
P Bucks	18,461	30.5.96	162.50p
J B Dyson	1,489	1.8.96	100.59p
C R Forster	5,687	1.1.96	96.00p
C R Forster	22,058	6.8.96	136.00p
C R Forster	13,651	6.8.96	146.50p
C R Forster	16,194	6.8.96	123.50p
C R Forster	18,461	6.8.96	162.50p

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 5

**Directors' interests in shares
and options of Lloyds TSB
Group plc continued**

	<u>Number of options over ordinary shares exercised</u>	<u>Date</u>	<u>Exercise Price</u>
G M McEnery	30,716	22.4.96	146.50p
G M McEnery	32,388	22.4.96	123.50p
G M McEnery	24,615	22.4.96	162.50p
P B Miles	12,168	25.11.96	88.02p
P B Miles	8,112	25.11.96	105.03p
P B Miles	8,112	25.11.96	137.94p
P B Miles	8,112	25.11.96	197.49p
P B Miles	10,816	25.11.96	137.20p
C Oakley	12,307	15.3.96	162.50p
C Oakley	32,388	15.3.96	123.50p
C Oakley	13,651	15.3.96	146.50p
C Oakley	22,058	15.3.96	136.00p
C Oakley	10,000	15.3.96	54.44p
J S Ross	21,230	5.3.96	162.50p
D J F Rushton	5,687	1.2.96	96.00p
D J F Rushton	32,388	17.2.96	123.50p
D J F Rushton	30,769	7.3.96	162.50p
I T B Sproule	5,687	7.3.96	96.00p
I T B Sproule	20,477	5.3.96	146.50p
I T B Sproule	16,194	5.3.96	123.50p
I T B Sproule	19,384	5.3.96	162.50p
E St C Stobart	5,687	21.3.96	96.00p
E St C Stobart	16,194	30.10.96	123.50p
E St C Stobart	51,999	30.10.96	162.50p
L H Tinsley	1,489	26.10.96	100.59p
J M Whitaker	1,489	1.8.96	100.59p

HILL SAMUEL BANK LIMITEDNOTES TO THE ACCOUNTS31st December 1996**Note 6****Administrative expenses**

	Year ended 31st December 1996 £m	14 Months ended 31st December 1995 £m
Staff costs:		
- Wages and salaries	25.6	34.2
- Social security costs	1.5	2.4
- Other pension costs (Note 35)	(0.7)	-
	26.4	36.6
Other administrative expenses	27.0	40.1
	53.4	76.7
	==	==

Note 7**Amounts released/(written off) fixed asset investments**

	Year ended 31st December 1996 £m	14 Months ended 31st December 1995 £m
Investment in subsidiary undertakings	-	(0.9)
Investment debt securities (Note 17)	1.1	(2.4)
	1.1	(3.3)
	==	==

Note 8**Restructuring costs**

Restructuring costs of £24.0m (including £16.8m in respect of redundancy costs) arose as a result of the decision by Lloyds TSB Group plc to integrate the activities of the company with those of Lloyds Bank Plc.

The taxation relief attributable to restructuring costs amounted to £7.1m.

Note 9**Profit/(loss) on disposal of subsidiary undertakings and businesses**

	Year ended 31st December 1996 £m	14 Months ended 31st December 1995 £m
Profit on disposal of Hill Samuel Asset Finance Limited	75.5	-
Profit on disposal of Hill Samuel Investments Limited	9.5	-
Profit on disposal of Corporate Finance and Project Finance businesses	1.0	-
(Loss) on liquidation of Glendaruel Investments Limited	-	(0.8)
	86.0	(0.8)
	==	==

The taxation charge attributable to the disposal of the subsidiary undertakings and businesses amounted to £Nil (14 months to 31st December 1995 - £Nil).

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 10

Profit on ordinary activities before taxation

	Year ended 31st December 1996	14 Months ended 31st December 1995
	£m	£m
The profit is stated after taking account of the following:		
Income:		
Dividends from subsidiary undertakings	0.1	38.4
Profits less losses on disposal of investment securities	4.7	0.3
Charges:		
Auditor's remuneration		
- audit	0.1	0.2
- non-audit services	0.1	0.1
Property lease rentals	2.2	2.4

The profit on exchange hedging operations of £15.8m (14 months ended 31st December 1995 - loss £20.1m) arose from the exchange movements on forward contracts entered into to cover the exchange exposures arising on the net assets of overseas subsidiary and fellow subsidiary undertakings.

Note 11

Taxation on profit on ordinary activities

	Year ended 31st December 1996	14 Months ended 31st December 1995
	£m	£m
The (charge)/relief for taxation, which is based on the profit for the period, comprises:		
Group relief receivable at 33 per cent	1.1	9.8
UK Corporation tax and other	0.8	(1.0)
Deferred taxation	0.7	(1.9)
Overseas taxation	(0.5)	(0.7)
Prior year adjustments	(0.9)	(1.4)
	<u>1.2</u>	<u>4.8</u>

Note 12

Segmental information

Based on the location at which transactions and net assets are recorded, the company operates predominantly in Great Britain within the single segment of merchant banking and consequently a segmental analysis is not given.

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 13

**Treasury bills and other
eligible bills**

	31st December 1996		31st December 1995	
	Book Value £m	Valuation £m	Book Value £m	Valuation £m
Treasury bills				
Investment securities	22.5	22.5	2.3	2.3
	=====	=====	=====	=====
The movement on treasury bills held for investment purposes is as follows:			Cost £m	Book Value £m
At 1st January 1996			2.3	2.3
Exchange differences			(0.2)	(0.2)
Acquisitions			31.6	31.6
Disposals			(11.2)	(11.2)
			-----	-----
At 31st December 1996			22.5	22.5
			=====	=====

Note 14

**Loans and advances to
banks**

	31st December 1996	31st December 1995
	£m	£m
Repayable:		
- On demand	236.4	10.3
- Within three months	475.5	276.4
- Between three months and up to one year	15.3	143.9
- Between one year and up to five years	31.1	313.1
- Over five years	105.7	244.6
	-----	-----
	864.0	988.3
	=====	=====
Amounts include:		
Due from subsidiary undertakings	4.7	0.8
	=====	=====
Due from other group undertakings	698.6	201.0
	=====	=====

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 15

Loans and advances to customers

	31st December 1996	31st December 1995
	£m	£m
Repayable:		
- On demand	441.8	358.8
- Within three months	130.7	533.1
- Between three months and up to one year	10.4	544.4
- Between one year and up to five years	236.5	919.4
- Over five years	508.7	649.5
Provisions for bad and doubtful debts (note 16)	(11.5)	(24.0)
	<u>1,316.6</u>	<u>2,981.2</u>

Amounts include:

Due from subsidiary undertakings	<u>172.8</u>	<u>1,199.4</u>
Due from other group undertakings	<u>262.6</u>	<u>185.7</u>

The amounts due from other group undertakings include an amount due from Lloyds TSB Group plc of £262.4m. This amount includes interest-free loans of £252.4m made by the company which are repayable at the option of Lloyds TSB Group plc.

Advances to customers include the following amounts in respect of non-performing debts:

	31st December 1996	31st December 1995
	£m	£m
Advances to customers on which interest has been placed in suspense	8.4	2.3
Interest in suspense	(0.7)	(0.7)
	<u>7.7</u>	<u>1.6</u>
Provisions	(4.7)	(0.7)
	<u>3.0</u>	<u>0.9</u>

In the opinion of the Directors, there are no significant concentrations of credit risk or material problem country exposures.

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 16

Provisions for bad and doubtful debts

	Specific £m	General £m	Total £m
At 1st January 1996	2.0	22.0	24.0
Charge/(release) for the year	2.1	(15.2)	(13.1)
Amounts written off	(0.7)	-	(0.7)
Other movements	1.3	-	1.3
	-----	-----	-----
At 31st December 1996	<u>4.7</u>	<u>6.8</u>	<u>11.5</u>

Note 17

Debt securities

	31st December 1996		31st December 1995	
	Book Value £m	Valuation £m	Book Value £m	Valuation £m
Investment securities				
Issued by public bodies:				
Government securities	-	-	151.0	153.1
Other public sector securities	-	-	137.8	141.3
	-----	-----	-----	-----
	-	-	288.8	294.4
	-----	-----	-----	-----
Issued by other issuers:				
Bank and building society certificates of deposit	-	-	6.5	6.5
Other debt securities	55.0	55.0	1,117.0	1,136.6
	-----	-----	-----	-----
	55.0	55.0	1,123.5	1,143.1
	-----	-----	-----	-----
	55.0	55.0	1,412.3	1,437.5
	-----	-----	-----	-----

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 17

Debt securities continued

	31st December		31st December	
	1996	1996	1995	1995
	Book Value	Valuation	Book Value	Valuation
	£m	£m	£m	£m
Other debt securities				
Issued by public bodies:				
Government securities	-	-	15.9	15.9
Other public sector securities	-	-	1.3	1.3
	----	----	----	----
	-	-	17.2	17.2
Issued by other issuers:				
Other debt securities	-	-	26.6	26.6
	----	----	----	----
	-	-	43.8	43.8
	----	----	-----	-----
Total debt securities	55.0	55.0	1,456.1	1,481.3
	=====	=====	=====	=====
Amounts include:				
Due from other group undertakings	55.0	55.0	62.7	63.0
	=====	=====	=====	=====
Analysed by maturity:				
- Due within one year	-	-	152.2	154.5
- Due after one year	55.0	55.0	1,303.9	1,326.8
	=====	=====	-----	-----
	55.0	55.0	1,456.1	1,481.3
	=====	=====	=====	=====
Analysed by listing status:				
Listed	-	-	1,168.4	1,189.4
Unlisted	55.0	55.0	287.7	291.9
	----	----	-----	-----
Total debt securities	55.0	55.0	1,456.1	1,481.3
	=====	=====	=====	=====

NOTES TO THE ACCOUNTS

31st December 1996

Note 17

Debt securities continued

	Cost £m	Discounts and Premiums £m	Provisions £m	Book Value £m
The movement on debt securities held for investment purposes is as follows:				
At 1st January 1996	1,412.0	2.7	(2.4)	1,412.3
Exchange differences	(12.4)	(0.1)	-	(12.5)
Acquisitions	2.4	-	-	2.4
Disposals	(1,345.7)	(3.1)	-	(1,348.8)
Provisions (made) released (Note 7)	-		1.1	1.1
Amortisation of discounts and premiums	-	0.5	-	0.5
At 31st December 1996	<u>56.3</u>	<u>-</u>	<u>(1.3)</u>	<u>55.0</u>
	31st December 1996		31st December 1995	
	£m		£m	
Unamortised discounts/(premiums) on investment securities	<u>-</u>		<u>14.7</u>	

Note 18

Equity shares

	31st December		31st December	
	1996	1996	1995	1995
	Book Value	Valuation	Book Value	Valuation
	£m	£m	£m	£m
Investment securities				
Listed	2.4	3.2	2.4	4.6
Unlisted	0.5	0.5	0.7	1.6
	----	----	----	----
Total equity shares	2.9	3.7	3.1	6.2
	=====	=====	=====	=====
			Cost	Book Value
			£m	£m
The movement on equity shares held for investment purposes is as follows:				
At 1st January 1996			3.1	3.1
Exchange differences			(0.1)	(0.1)
Acquisitions			0.2	0.2
Disposals			(0.3)	(0.3)
			----	----
At 31st December 1996			2.9	2.9
			=====	=====

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 19

Investment in subsidiary undertakings

	Shares in Subsidiary Undertakings	Loans to Subsidiary Undertakings	Provisions	Total Investments
	£m	£m	£m	£m
At 1st January 1996	319.9	50.4	(3.8)	366.5
Acquisitions	2.0	-	-	2.0
Disposals/repayments	(168.2)	(50.0)		(218.2)
Written off	-	(0.4)	0.4	-
	-----	-----	-----	-----
At 31st December 1996	153.7	-	(3.4)	150.3
	=====	=====	=====	=====

In the opinion of the Directors the value of the company's investment in each of its subsidiary undertakings is not less than the value stated in the balance sheet. The movement in the year in the cost of investment in subsidiary undertakings is comprised chiefly of the transfers of Hill Samuel Asset Finance Limited and Hill Samuel Investments Limited to fellow subsidiary undertakings. In addition Hill Samuel International Limited repaid £50m 10% debenture to the company.

At 31st December 1996 the company owned, indirectly, 100 per cent of the equity capital of the principal subsidiary undertakings listed below:

Name	Country of Incorporation/ Registration	Principal Activities
Hill Samuel & Co BV	Netherlands	Holding and financing company
Hill Samuel Pacific Limited	Hong Kong	Financial services
Hill Samuel Merchant Bank Asia Limited	Singapore	Merchant bankers
Hill Samuel Jersey Limited	Jersey	Merchant bankers

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 20

Tangible fixed assets

	Short Leasehold		
	Premises £m	Equipment £m	Total £m
Cost			
At 1st January 1996	0.4	21.7	22.1
Additions	-	0.8	0.8
Disposals	(0.4)	(15.0)	(15.4)
	----	----	----
At 31st December 1996	-	7.5	7.5
	----	----	----
Depreciation			
At 1st January 1996	0.3	16.0	16.3
Charge for the year	-	2.0	2.0
Disposals	(0.3)	(12.6)	(12.9)
	----	----	----
At 31st December 1996	-	5.4	5.4
	----	----	----
Net book value			
At 31st December 1996	-	2.1	2.1
	==	==	==
At 31st December 1995	0.1	5.7	5.8
	==	==	==

Note 21

Other assets

	31st December 1996	31st December 1995
	£m	£m
Deferred taxation (note 26)	1.1	0.5
Income tax recoverable	5.5	3.9
Group relief receivable	-	10.3
Dividend receivable	-	37.0
Surplus on valuation of exchange and interest rate contracts	10.0	554.1
Other	20.6	33.5
	-----	-----
	37.2	639.3
	==	==

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 22

Deposits by banks

	31st December 1996	31st December 1995
	£m	£m
Repayable:		
- On demand	453.0	1,041.6
- Within three months	760.1	2,210.8
- Between three months and up to one year	2.8	628.7
- Between one year and up to five years	203.2	39.2
- Over five years	50.0	222.9
	<u>1,469.1</u>	<u>4,143.2</u>
Amounts include:		
Due to subsidiary undertakings	<u>23.6</u>	<u>402.1</u>
Due to other group undertakings	<u>1,170.1</u>	<u>2,745.6</u>

Note 23

Customer accounts

	31st December 1996	31st December 1995
	£m	£m
Repayable:		
- On demand	183.3	379.7
- Within three months	84.8	454.8
- Between three months and up to one year	39.3	58.0
- Between one year and up to five years	1.2	54.4
- Over five years	111.3	116.2
	<u>419.9</u>	<u>1,063.1</u>
Amounts include:		
Due to subsidiary undertakings	<u>35.1</u>	<u>121.7</u>
Due to other group undertakings	<u>139.5</u>	<u>33.5</u>

Note 24

Debt securities in issue

	31st December 1996	31st December 1995
	£m	£m
Certificates of deposit repayable:		
- Within three months	<u>-</u>	<u>22.8</u>

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 25

Other liabilities

	31st December 1996	31st December 1995
	£m	£m
Deficit on valuation of exchange and interest rate contracts	10.0	724.2
Amounts due under deferred purchase agreement	61.3	57.0
Group relief payable	1.4	-
Taxation payable	0.1	0.1
Other	15.2	14.0
	-----	-----
	88.0	795.3
	=====	=====

Note 26

Deferred taxation

	£m
At 1st January 1996	(0.5)
Debit/(credit) in the profit and loss account:	
- current year	(0.7)
- prior year	0.1

At 31st December 1996	(1.1)
	=====

	31st December 1996	31st December 1995
	£m	£m
The balance of deferred taxation comprises:		
Accelerated capital allowances	(0.6)	(0.2)
Other timing differences	(0.5)	(0.3)
	-----	-----
	(1.1)	(0.5)
	=====	=====

The balance at 31st December 1996 represents relief arising chiefly on timing differences which will reverse in the short-term. Deferred taxation has been provided in full.

Note 27

Provisions for liabilities and charges

	£m
At 1st January 1996	6.8
Charge against profits	23.2
Provisions utilised	(14.5)

At 31st December 1996	15.5
	=====

The balance at 31st December 1996 includes restructuring provisions of £13.3m (31st December 1995 - £Nil).

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 28

Subordinated loan capital

	31st December 1996	31st December 1995
	£m	£m
Unsecured subordinated loan capital was due to a fellow subsidiary undertaking as follows:		
- US\$25m floating rate note due 2009	-	16.1

Interest was payable at ½ per cent per annum above the six months US dollar interbank rate, with a minimum of 5½ per cent per annum, on a revolving basis. This loan was repaid on 31st May 1996.

Note 29

Share capital

	31st December 1996	31st December 1995
	£m	£m
Authorised, ordinary shares of £1 each	500.0	500.0
Allotted, called-up and fully paid ordinary shares of £1 each	325.5	325.5

Note 30

Reserves

	£m
(i) Share premium:	
At 1st January 1996 and 31st December 1996	58.3
(ii) Profit and loss reserve:	
At 1st January 1996	49.2
Profit retained	17.7
At 31st December 1996	66.9
(iii) Total reserves at 31st December 1996	125.2

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 31

**Assets and liabilities
denominated in foreign
currencies**

	31st December 1996 £m	31st December 1995 £m
The aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:		
Assets	1,180.8	3,024.4
Liabilities	1,180.8	3,091.6

Due to off-balance sheet items the above should not be taken as a measure of the company's exposure to foreign exchange risk.

Note 32

Contingent liabilities

	31st December 1996 Contract Amount £m	31st December 1995 Contract Amount £m
Acceptances and endorsements	4.5	146.5
Guarantees and assets pledged as collateral security		
- Guarantees	46.6	59.2
- Irrevocable letters of credit	-	44.7
Performance bonds and other transaction related contingencies	11.9	6.8
Other contingent liabilities	-	-
	63.0	257.2
Amounts include:		
Acceptances in respect of other group undertakings	-	100.0

Acceptances which are entered into on behalf of customers and in respect of which there are corresponding obligations by customers, are not included in the balance sheet.

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 33

Commitments

	31st December 1996 Contract Amount £m	31st December 1995 Contract Amount £m
The amounts shown below are intended to provide an indication of the volume of business transacted and not the underlying credit or other risks:		
Documentary credits and short term trade-related transactions	-	11.6
Forward asset purchases and forward deposits placed	-	8.0
Undrawn note issuance and revolving underwriting facilities	-	0.8
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- One year and over	110.8	345.0
- Less than one year	66.1	84.4
Other commitments	-	3.5
	<u>176.9</u>	<u>453.3</u>
Future capital expenditure not provided in these accounts comprises:		
- Contracted	-	0.2
Annual commitments under property operating leases are as follows:		
Expiring:		
- Within one year	0.8	-
- Within two to five years	0.2	0.2
- In more than five years	0.1	1.9
	<u>1.1</u>	<u>2.1</u>

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 34

Derivatives

During the year the company ceased to trade in derivatives and thus, those derivatives held at 31st December 1996, that are marked to market are mirrored with Lloyds Bank Plc. The remainder are used to reduce the company's exposure to fluctuations in interest and exchange rates arising from banking transactions.

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

	31st December 1996 Notional Principal Amounts £m	31st December 1995 Notional Principal Amounts £m
Exchange rate contracts		
Spot, forwards and futures	3	3,605
Currency swaps	116	806
Options purchased	-	-
	----	-----
	119	4,411
	=====	=====
Interest rate contracts		
Interest rate swaps	595	29,848
Forward rate agreements	-	7,602
Options purchased	113	1,705
Options written	113	1,365
Futures	-	16,680
	-----	-----
	821	57,200
	=====	=====
Replacement cost	56	536
	=====	=====
Risk weighted amount	1	160
	=====	=====

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 34

Derivatives continued

The maturity of the notional principal amount and replacement cost of instruments entered into with third parties was:

	1 Year or Less £m	1 to 5 Years £m	Over 5 Years £m	Total £m
At 31st December 1996				
Exchange rate contracts				
Notional principal amount	18	70	31	119
	==	==	==	==
Net replacement cost	-	3	20	23
	==	==	==	==
Interest rate contracts				
Notional principal amount	68	515	238	821
	==	==	==	==
Net replacement cost	1	6	26	33
	==	==	==	==
At 31st December 1995				
Exchange rate contracts				
Notional principal amount	3,744	427	240	4,411
	==	==	==	==
Net replacement cost	63	21	9	93
	==	==	==	==
Interest rate contracts				
Notional principal amount	19,673	35,754	1,773	57,200
	==	==	==	==
Net replacement cost	67	307	69	443
	==	==	==	==

The notional principal amount does not represent the company's real exposure to credit risk which is limited to the current cost of replacing contracts at current market rates should the counterparties default. An analysis of the replacement cost of instruments entered into with third parties by counterparty type is set out below.

	31st December 1996 £m	31st December 1995 £m
OECD banks	48	478
Other	8	58
	==	==
	56	536
	==	==

HILL SAMUEL BANK LIMITED

NOTES TO THE ACCOUNTS

31st December 1996

Note 35

Pensions

The company is a member of the TSB Group pension scheme which is of the defined benefit, final salary 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. Formal actuarial valuations are carried out annually, the latest available being at 30th June 1996.

The valuation showed that the actuarial values of the assets were in excess of the benefits accrued to members. For funding purposes the surplus is being eliminated by means of a contribution holiday which is expected to eliminate the surplus over a period not less than the average remaining service life of current employees.

The pension credit reflected in the profit and loss account represents an amount of £1.1m relating to the TSB Group pension scheme less contributions paid to an unapproved pension scheme in respect of certain senior executives.

Further details of the most recent actuarial valuations and main actuarial assumptions are disclosed in the accounts of Lloyds TSB Group plc.

The actuaries to the scheme are employed by Sedgwick Noble Lowndes Limited.

REPORT OF THE AUDITOR

To the members of Hill Samuel Bank Limited.

We have audited the accounts on pages 7 to 35.

Respective responsibilities of Directors and auditor

As described on page 5 the company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we consider 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 31st December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

11th February 1997

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London