



Lloyds Bank Plc  
*Report and Accounts*  
1997



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## Directors' report

**Results and dividends**

The consolidated profit and loss account on page 5 shows a profit attributable to shareholders for the year ended 31 December 1997 of £1,080 million. An interim dividend of £300 million for the year ended 31 December 1997 will be paid on 31 March 1998.

**Principal activities**

The Bank is a wholly-owned subsidiary of Lloyds TSB Group plc. 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**

Profit before tax for the Lloyds Bank Group was £1,579 million in 1997, compared with £1,893 million in 1996. The lower profit resulted from the sale during the year of a number of businesses which no longer fit the Group's strategy and also from the transfer of the life assurance, insurance broking and other businesses to the Bank's parent company. Excluding these disposals profit before tax from continuing operations rose by £19 million, or 1 per cent, to £1,398 million.

Total income from continuing operations increased by 16 per cent to £4,618 million and costs rose by 19 per cent to £2,932 million. However, both income and operating expenses were boosted significantly as a result of inter group charges between Lloyds Bank and TSB Bank, reflecting the increased cross utilisation of Group resources, following the merger of Lloyds Bank and TSB Group at the end of 1995. In addition, operating expenses were affected by restructuring costs. In April 1997 the Group acquired 100 per cent control of Losango Consumer Finance in Brazil and this has also increased income and operating expenses which previously were included in associated undertakings.

Each of the main businesses improved its performance in 1997. The biggest improvement came from Retail Banking and Mortgages, where

pre-tax profit increased by £165 million, or 25 per cent, to £818 million. There was good growth in mortgages and other personal lending and in retail deposits. Although pressure on interest margins on some UK lending products is evident and this trend is likely to continue, the volume and value of interest-free funds have increased. Helped also by a change in the mix of assets, the net interest margin improved by 10 basis points to 4.08 per cent. Profit from Wholesale Markets rose by 27 per cent to £523 million. International Banking profit increased by 11 per cent to £379 million.

Credit quality continued to improve in 1997. Non-performing loans fell to £1,446 million, or 1.7 per cent of lending, from £1,475 million, or 2.1 per cent of lending, in 1996. The domestic charge for bad and doubtful debts dropped to £237 million from £240 million and the charge as a percentage of lending improved to 0.38 per cent from 0.44 per cent, reflecting the lower charge and growth in the higher quality mortgage portfolio. However, as a result of the expected higher provisions overseas, following the acquisition of the consumer finance business in Brazil, the total charge for bad and doubtful debts rose to £318 million from £209 million. At the year-end provisions for bad debts totalled £2,150 million, representing over 100 per cent of non-performing lending.

Shareholders' funds grew by 24 per cent to £4,697 million, mainly from retained profits. Risk-weighted assets increased by 10 per cent to £71.8 billion. At the end of 1997 the risk asset ratios, the international standard for measuring capital adequacy, improved to 10.3 per cent for total capital and to 6.7 per cent for tier 1 capital.

Despite an increasingly challenging environment, the Group expects to make further progress in 1998. The private bill to bring the businesses of TSB Bank plc into Lloyds Bank Plc is proceeding through parliament and it is anticipated that it will be enacted in a few months' time.

## Directors' report

### Group structure

In July 1997, as part of an internal reorganisation, the Bank's interest in the Lloyds TSB Financial Services Holdings Group, formerly Lloyds Abbey Life Group, (except for Lloyds UDT Limited and Black Horse Agencies Limited) was sold to its parent company, resulting in a loss of £191 million. In addition, Lloyds Private Banking Limited and Lloyds Bank Stockbrokers Limited were sold to the Bank's parent company; the Bank made neither a profit nor a loss on these transactions.

In August 1997, the Business Technology Finance Division of Lloyds UDT Limited was sold, resulting in a profit of £25 million, and in the same month the interest in Schröder Münchmeyer Hengst & Co. was sold, resulting in a profit of £32 million.

In October 1997, the Bank sold a 49.9 per cent interest in Cardnet, a division of its card services operations responsible for the processing of credit and debit card transactions on behalf of retailers and providing other related services, resulting in a profit of £30 million. In the same month, the Group sold the commercial business of Black Horse Agencies Limited, making neither a profit nor a loss on the transaction.

In November 1997, the Group sold Endeavour Personal Finance Limited to a fellow group undertaking making neither a profit nor a loss on the transaction.

In January 1998, the Bank completed the sale of International Factors Limited. The profit of approximately £160 million will be included in the accounts for the year ending 31 December 1998.

### Directors

The names of the directors of the Bank are shown on page 3.

Sir Robin Ibbs and Mr D B Pirrie left the board on 7 February 1997 and 31 May 1997 respectively.

Mr G F Pell and Mr D P Pritchard have been appointed directors from 1 March 1998.

### 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 2000 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 team meetings, briefings, internal communications and opinion surveys. There are well established procedures, including regular meetings with the 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's policy is to agree terms of payment with suppliers and these normally provide for payment 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 to be shown in this report, to comply with the provisions of paragraph 12(3) of part VI of schedule 7 to the Companies Act 1985, is 28. 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 1997 bears to the aggregate of the amounts invoiced by suppliers during the year.

Directors' report

**Statement of going concern**

The directors are satisfied that the Bank and the Group have adequate resources to continue to operate for the foreseeable future and are financially sound. For this reason, they continue to adopt the going concern basis in preparing the accounts.

On behalf of the board

M R Hatcher

Secretary

10 February 1998



Directors

Sir Brian Pitman

*Chairman*

Sir Nicholas Goodison

*Deputy Chairman*

J T Davies (*until 31 July 1998*)

*Deputy Chairman*

P B Ellwood

*Chief Executive*

A E Moore CBE

*Deputy Chief Executive and  
Treasurer (until 30 April 1998:  
Deputy Chairman from  
1 August 1998)*

M K Atkinson

R C Carefull

M E Fairey (*Deputy Chief Executive  
from 1 March 1998*)

A H Longhurst (*until 15 April 1998*)

S A Maran

G F Pell (*from 1 March 1998*)

D P Pritchard (*from 1 March 1998*)

## Auditors' report

### To the members of Lloyds Bank Plc.

We have audited the financial statements on pages 5 to 24 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 page 9.

#### Respective responsibilities of directors and auditors

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group as at the end of the year and of the profit or loss for the 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 a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

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

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

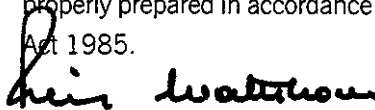
#### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse

Chartered Accountants and Registered Auditors

London

10 February 1998

## Consolidated profit and loss account

for the year ended 31 December 1997

	Note	Continuing operations		Discontinued operations		Total	
		1997 £ million	1996 £ million	1997 £ million	1996 £ million	1997 £ million	1996 £ million
Interest receivable:							
Interest receivable and similar income arising from debt securities		523	470	8	10	531	480
Other interest receivable and similar income		8,045	6,678	80	103	8,125	6,781
Interest payable		5,542	4,654	54	68	5,596	4,722
Write-down of finance lease receivables	5	58	-	-	-	58	-
<b>Net interest income</b>		<b>2,968</b>	<b>2,494</b>	<b>34</b>	<b>45</b>	<b>3,002</b>	<b>2,539</b>
<b>Other income</b>							
Dividend income from equity shares		9	6	-	-	9	6
Fees and commissions receivable		1,376	1,278	283	392	1,659	1,670
Fees and commissions payable		(173)	(106)	(16)	(25)	(189)	(131)
Dealing profits (before expenses)		188	194	7	5	195	199
Income from long-term assurance business		-	-	125	294	125	294
Other operating income		250	103	9	53	259	156
	6	1,650	1,475	408	719	2,058	2,194
<b>Total income</b>		<b>4,618</b>	<b>3,969</b>	<b>442</b>	<b>764</b>	<b>5,060</b>	<b>4,733</b>
<b>Operating expenses</b>							
Administrative expenses	2	2,523	2,287	140	239	2,663	2,526
Restructuring costs		247	10	-	-	247	10
Total administrative expenses		2,770	2,297	140	239	2,910	2,536
Depreciation	22	162	164	5	6	167	170
		2,932	2,461	145	245	3,077	2,706
<b>Trading surplus</b>		<b>1,686</b>	<b>1,508</b>	<b>297</b>	<b>519</b>	<b>1,983</b>	<b>2,027</b>
<b>Provisions for bad and doubtful debts</b>	14						
Specific		293	179	12	13	305	192
General		13	19	-	(2)	13	17
		306	198	12	11	318	209
Amounts written off fixed asset investments	3	3	5	-	-	3	5
<b>Operating profit</b>		<b>1,377</b>	<b>1,305</b>	<b>285</b>	<b>508</b>	<b>1,662</b>	<b>1,813</b>
Income from associated undertakings		21	74	-	6	21	80
Loss on sale of businesses	4	-	-	104	-	104	-
<b>Profit on ordinary activities before tax</b>	6	<b>1,398</b>	<b>1,379</b>	<b>181</b>	<b>514</b>	<b>1,579</b>	<b>1,893</b>
Tax on profit on ordinary activities	8					490	582
<b>Profit on ordinary activities after tax</b>						<b>1,089</b>	<b>1,311</b>
Minority interests (equity)						9	138
<b>Profit for the year attributable to shareholders</b>	9					<b>1,080</b>	<b>1,173</b>
Dividends	10					300	1,120
<b>Retained profit</b>	38					<b>780</b>	<b>53</b>

Balance sheets  
at 31 December 1997

	Note	Group		Bank	
		1997 £ million	1996 £ million	1997 £ million	1996 £ million
<b>Assets</b>					
Cash and balances at central banks		638	921	471	841
Items in course of collection from banks		1,689	1,794	1,669	1,783
Treasury bills and other eligible bills	11	3,566	3,181	2,996	2,115
Loans and advances to banks	12	20,860	18,070	41,282	31,041
Loans and advances to customers	13	82,710	67,546	32,280	29,513
Debt securities	17	12,233	9,182	11,780	7,145
Equity shares	18	94	175	18	41
Interests in associated undertakings	20	8	129	2	5
Shares in group undertakings	21	-	-	3,702	4,562
Tangible fixed assets	22	1,182	1,384	812	992
Other assets	25	4,135	4,341	3,716	4,206
Prepayments and accrued income	26	2,051	1,903	1,884	1,403
Long-term assurance business attributable to shareholders	27	-	1,118	-	-
		<b>129,166</b>	109,744	<b>100,612</b>	83,647
Long-term assurance assets attributable to policyholders	27	-	10,432	-	-
Total assets		<b>129,166</b>	120,176	<b>100,612</b>	83,647

The directors approved the accounts on 10 February 1998.

Sir Brian Pitman Chairman

P B Ellwood Chief Executive

M K Atkinson Finance Director

Brian Pitman

P B Ellwood

M K Atkinson



Balance sheets  
at 31 December 1997

	Note	Group		Bank	
		1997 £ million	1996 £ million	1997 £ million	1996 £ million
<b>Liabilities</b>					
Deposits by banks	29	27,831	16,505	27,068	18,660
Customer accounts	30	69,447	64,923	48,566	43,251
Items in course of transmission to banks		747	849	727	839
Debt securities in issue	31	11,795	10,917	8,287	7,368
Other liabilities	32	7,218	7,067	6,188	6,022
Accruals and deferred income	33	2,505	1,984	1,728	1,158
Provisions for liabilities and charges:					
Deferred tax	34	499	373	(282)	(246)
Other provisions for liabilities and charges	35	378	218	310	157
Subordinated liabilities:					
Undated loan capital	36	1,515	1,284	1,415	1,184
Dated loan capital	36	2,494	1,843	1,908	1,480
Minority interests (equity)		40	7	-	-
Called-up share capital	37	1,470	1,458	1,470	1,458
Share premium account	38	857	669	857	669
Revaluation reserve	38	(216)	(121)	278	619
Profit and loss account	38	2,586	1,768	2,092	1,028
Shareholders' funds (equity)		4,697	3,774	4,697	3,774
		129,166	109,744	100,612	83,647
Long-term assurance liabilities to policyholders		-	10,432	-	-
Total liabilities		129,166	120,176	100,612	83,647
<b>Memorandum items</b>					
42					
Contingent liabilities:					
Acceptances and endorsements		427	636	399	578
Guarantees and assets pledged as collateral security		2,163	1,714	3,172	2,579
Other contingent liabilities		1,640	1,856	1,494	1,600
		4,230	4,206	5,065	4,757
Commitments:					
Commitments arising out of sale and option to resell transactions		13	9	13	9
Other commitments		16,891	16,184	15,086	14,846
		16,904	16,193	15,099	14,855

Statement of total recognised gains and losses  
for the year ended 31 December 1997

	1997 £ million	1996 £ million
Profit attributable to shareholders	1,080	1,173
Premises revaluation deficit	(108)	–
Currency translation differences on foreign currency net investments	(68)	(81)
Total recognised gains and losses relating to the year	904	1,092

Historical cost profits and losses  
for the year ended 31 December 1997

	1997 £ million	1996 £ million
Profit on ordinary activities before tax	1,579	1,893
Realisation of premises revaluation deficit	(13)	(7)
Historical cost profit on ordinary activities before tax	1,566	1,886
Historical cost profit for the year retained after tax, minority interests and dividends	767	46

Reconciliation of movements in shareholders' funds  
for the year ended 31 December 1997

	1997 £ million	1996 £ million
Profit attributable to shareholders	1,080	1,173
Dividends	(300)	(1,120)
Retained profit	780	53
Premises revaluation deficit	(108)	–
Currency translation differences on foreign currency net investments	(68)	(81)
Issue of shares	200	750
Premiums on acquisitions	(164)	(147)
Discount on acquisition	102	–
Goodwill written back on sale of businesses	181	–
Net increase in shareholders' funds	923	575
Shareholders' funds at beginning of year	3,774	3,199
Shareholders' funds at end of year	4,697	3,774

## Notes to the accounts

**1 Accounting policies**

Accounting policies are unchanged from 1996.

The presentation of dealing profits has been changed to give an improved analysis of results. It now includes interest, dividends and funding costs related to trading activities. As a result of this change, dealing profits in 1997 have been increased by £149 million (1996: £113 million) and net interest income and dividend income from equity shares have been reduced by a corresponding amount. Comparative 1996 figures have been restated to reflect the new presentation.

**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 f, g, h and i) in compliance with Sections 255 and 255A, Schedule 9 and other requirements of the Companies Act 1985, in accordance with applicable accounting standards 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.

**c Premiums on acquisitions**

Premiums arising on acquisitions of or by group and associated undertakings are taken direct to reserves in the year of acquisition. The gain or loss on disposal of a group undertaking is calculated by comparing the carrying value of the net assets sold and the related premium with the proceeds received.

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

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

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

**e 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.

**f Debt securities and equity shares**

Premiums and discounts on debt securities, apart from those held for dealing purposes, are amortised from purchase to maturity in equal annual instalments. Debt securities acquired in exchange for advances to countries experiencing payment difficulties, either collateralised or due to be collateralised by US Treasury securities, are included in the Bank's portfolio of investment securities at an amount based on the market value at the date of exchange as adjusted for the amortisation of discount on acquisition. Equity shares, 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.

**g Shares in group undertakings**

Shares in group undertakings are stated in the balance sheet of the Bank at its share of net tangible assets.

**h Interests in associated undertakings**

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

**1 Accounting policies (continued)****i 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.

**j 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.

**k 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.

**l 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. 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.

**m 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, offset by those on any related currency borrowings, 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.

**n 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.

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.

**o 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.

## Notes to the accounts

2 Administrative expenses	1997 £m	1996 £m
Salaries and profit sharing	1,343	1,398
Social security costs	103	100
Other pension costs	(41)	(17)
Staff costs	1,405	1,481
Other administrative expenses	1,258	1,045
	<b>2,663</b>	<b>2,526</b>

The average number of persons on a headcount basis employed by the Group during the year was as follows:	1997	1996
UK	51,651	56,734
Overseas	10,557	8,265
	<b>62,208</b>	<b>64,999</b>

The auditors' remuneration was £2,682,000 (1996: £2,934,000), of which £889,000 (1996: £817,000) related to Lloyds Bank Plc. Fees paid to Price Waterhouse in respect of non-audit services were £8,345,000 (1996: £2,548,000), of which £5,369,000 (1996: £1,898,000) related to UK companies.

There was a net credit in respect of pension costs for the Group in 1997 of £41 million (1996: credit of £17 million), which included a credit of £59 million (1996: credit of £38 million) relating to the main pension scheme.

Full actuarial valuations of the main scheme are carried out every three years with interim reviews in the intervening years. At 30 June 1996, the date of the latest full actuarial valuation, the principal actuarial assumptions adopted were that, over the long term, the annual rate of return on new investments would be 2.5 per cent higher than the annual increase in pensionable remuneration and 5 per cent higher than the annual increase in present and future pensions in payment, and 4.5 per cent higher than the annual increase in dividends receivable. The market value of the assets of the main scheme at this date was £5,250 million. The actuarial value of the assets represented 132 per cent of the accrued liabilities allowing for future increases in pensions and pensionable remuneration.

For funding purposes, the surplus of the main scheme is being eliminated by means of a contribution holiday. Contribution rates to other schemes have been adjusted to take account of surpluses and deficiencies. The pensions prepayment of £309 million (1996: £244 million) for the Group and the Bank is included in prepayments and accrued income.

The Group operates a number of schemes which provide post-retirement health care benefits to certain employees, retired employees and their dependent relatives. The total cost for the Group in 1997 was £3 million (1996: £8 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 31 December 1997. 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.

3 Amounts written off fixed asset investments	1997 £m	1996 £m
Debt securities	3	4
Equity shares	-	1
	<b>3</b>	<b>5</b>

4 Profit (loss) before tax on sale of businesses	1997 £m	1996 £m
Profit on sale of Schröder Münchmeyer Hengst & Co. (after charging goodwill of £3 million previously written off to reserves) (tax: £14 million)	32	-
Profit on sale of the Business Technology Finance Division of Lloyds UDT Limited (after charging goodwill of £13 million previously written off to reserves) (tax: £12 million)	25	-
Profit on sale of 49.9 per cent interest in Cardnet (tax: nil)	30	-
Loss on sale of Lloyds TSB Financial Services Holdings plc (after charging goodwill of £165 million previously written off to reserves) (tax: nil)	(191)	-
	<b>(104)</b>	<b>-</b>

In January 1998 International Factors Limited was sold. This produced a profit before tax of approximately £160 million (tax: nil), which will be included in the accounts for the year ending 31 December 1998.

#### 5 Write-down of finance lease receivables

Following the reduction in the corporation tax rate from 33 per cent to 31 per cent from 1 April 1997, the deferred tax liability in respect of the leasing business of Lloyds Leasing has reduced by £58 million. However, as the benefit of this reduction will be passed on to customers the value of the future rentals receivable has been similarly reduced. Accordingly, both profit before tax and the tax charge have been reduced by £58 million. There is, therefore, no effect on profit attributable to shareholders.

6 Profit on ordinary activities before tax	1997 £m	1996 £m
Profit on ordinary activities before tax is stated after taking account of:		
<i>Income from:</i>		
Equipment leased to customers and banks and hire purchase contracts: aggregate amounts receivable	1,732	1,604
Profit less losses from securities trading	106	69
Profit less losses on disposal of other investment securities	41	33
<i>Charges:</i>		
Rental of premises	149	139
Hire of equipment	42	41
Interest on subordinated liabilities (loan capital)	262	232
Finance lease depreciation	7	8

Of the Group's non-interest income, £122 million relates to income from other Lloyds TSB Group companies.

## Notes to the accounts

## 7 Segment analysis

Class of business:	Profit on ordinary activities before tax	
	1997 £m	1996* £m
Retail Banking and Mortgages	818	653
Wholesale Markets	523	413
International Banking	379	341
Central group items	(17)	(18)
Write-down of finance lease receivables	(58)	-
Restructuring costs	(247)	(10)
Continuing operations	1,398	1,379
Discontinued operations	181	514
	1,579	1,893

## Geographical area:\*\*

	Continuing operations		Dis-continued operations	Total
	Domestic	Inter-national		
	1997 £m	1997 £m	1997 £m	1997 £m
Interest receivable	6,260	2,308	88	8,656
Dividend income from equity shares	4	5	-	9
Fees and commissions receivable	1,129	247	283	1,659
Dealing profits (before expenses)	146	42	7	195
Income from long-term assurance business	-	-	125	125
Other operating income	165	85	9	259
Total gross income	7,704	2,687	512	10,903
Profit on ordinary activities before tax	984	414	181	1,579

	Continuing operations		Dis-continued operations	Total
	Domestic	Inter-national		
	1996 £m	1996 £m	1996 £m	1996 £m
Interest receivable	5,246	1,902	113	7,261
Dividend income from equity shares	5	1	-	6
Fees and commissions receivable	1,050	228	392	1,670
Dealing profits (before expenses)	145	49	5	199
Income from long-term assurance business	-	-	294	294
Other operating income	35	68	53	156
Total gross income	6,481	2,248	857	9,586
Profit on ordinary activities before tax	1,038	341	514	1,893

## 7 Segment analysis (continued)

Class of business:	Net assets†		Assets‡	
	1997 £m	1996* £m	1997 £m	1996* £m
Retail Banking and Mortgages	2,624	1,338	56,340	44,982
Wholesale Markets	1,973	1,106	54,944	47,401
International Banking	132	61	16,944	14,108
Central group items	2	5	102	121
Continuing operations	4,731	2,510	128,330	106,612
Discontinued operations	6	1,271	836	3,132
	4,737	3,781	129,166	109,744
Geographical area:**				
Domestic	4,716	2,765	109,274	89,782
International	15	(255)	19,056	16,830
Continuing operations	4,731	2,510	128,330	106,612
Discontinued operations	6	1,271	836	3,132
	4,737	3,781	129,166	109,744

\*1996 figures have been restated to take account of organisational changes.

\*\*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, no segment analysis of turnover is given.

## 8 Tax on profit on ordinary activities

	1997 £m	1996 £m
UK corporation tax	408	486
Relief for overseas tax	(33)	(40)
Overseas tax	46	38
Deferred tax: current year	111	77
: prior year adjustment relating to rate change	(51)	-
	481	561
Associated undertakings	9	21
	490	582

The charge for tax on the profit for the year is based on an average UK corporation tax rate of 31.5 per cent (1996: 33 per cent).

The UK corporation tax charge includes £27 million (1996: £48 million) in respect of notional tax on franked investment income and on the shareholders' interest in the increase in the value of the long-term assurance business.

## Notes to the accounts

**9 Profit for the financial year attributable to shareholders**

The profit attributable to shareholders includes a profit of £886 million (1996: £964 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.

10 Dividends	1997 £m	1996 £m
First interim	300	250
Second interim	-	570
Final	-	300
	<b>300</b>	<b>1,120</b>

11 Treasury bills and other eligible bills	1997 Balance sheet £m	1997 Valuation £m	1996 Balance sheet £m	1996 Valuation £m
<b>Group</b>				
Investment securities:				
Treasury bills and similar securities	45	47	263	265
Other eligible bills	1,239	1,292	1,532	1,532
	<b>1,284</b>	<b>1,339</b>	<b>1,795</b>	<b>1,797</b>
Other securities:				
Treasury bills and similar securities	2,228		1,364	
Other eligible bills	54		22	
	<b>2,282</b>		<b>1,386</b>	
	<b>3,566</b>		<b>3,181</b>	

Included above:  
Unamortised discounts  
net of premiums on  
investment securities

	5	12
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Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Total £m
At 1 January 1997	1,780	15	1,795
Exchange and other adjustments	(2)	1	(1)
Adjustments on acquisitions and disposals	11	-	11
Additions	12,758	-	12,758
Bills sold or matured	(13,268)	(103)	(13,371)
Amortisation of premiums and discounts	-	92	92
At 31 December 1997	<b>1,279</b>	<b>5</b>	<b>1,284</b>

11 Treasury bills and other eligible bills (continued)	1997 Balance sheet £m	1997 Valuation £m	1996 Balance sheet £m	1996 Valuation £m
<b>Bank</b>				
Investment securities:				
Treasury bills and similar securities	24	24	69	69
Other eligible bills	1,239	1,292	1,396	1,396
	<b>1,263</b>	<b>1,316</b>	<b>1,465</b>	<b>1,465</b>
Other securities:				
Treasury bills and similar securities	1,679		629	
Other eligible bills	54		21	
	<b>1,733</b>		<b>650</b>	
	<b>2,996</b>		<b>2,115</b>	

Included above:  
Unamortised discounts  
net of premiums on  
investment securities

	4	9
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Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Total £m
At 1 January 1997	1,453	12	1,465
Exchange and other adjustments	-	1	1
Additions	12,698	-	12,698
Bills sold or matured	(12,893)	(97)	(12,990)
Amortisation of premiums and discounts	-	89	89
At 31 December 1997	<b>1,258</b>	<b>5</b>	<b>1,263</b>

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.

12 Loans and advances to banks	Group		Bank	
	1997 £m	1996 £m	1997 £m	1996 £m
Lending to banks	1,657	4,476	23,262	18,786
Deposits placed with banks	19,302	13,701	18,119	12,361
	<b>20,959</b>	<b>18,177</b>	<b>41,381</b>	<b>31,147</b>
Equipment leased to banks	-	1	-	-
Total loans and advances to banks	<b>20,959</b>	<b>18,178</b>	<b>41,381</b>	<b>31,147</b>
Provisions for bad and doubtful debts	(60)	(58)	(60)	(57)
Interest held in suspense	(39)	(50)	(39)	(49)
	<b>20,860</b>	<b>18,070</b>	<b>41,282</b>	<b>31,041</b>

## Notes to the accounts

12 Loans and advances to banks (continued)	Group		Bank	
	1997 £m	1996 £m	1997 £m	1996 £m
Repayable on demand	5,699	4,996	20,601	5,086
Other loans and advances by residual maturity repayable:				
3 months or less	11,808	9,508	14,139	21,248
1 year or less but over 3 months	2,656	2,436	3,682	2,391
5 years or less but over 1 year	407	712	2,465	1,684
Over 5 years	389	526	494	738
Provisions for bad and doubtful debts	(60)	(58)	(60)	(57)
Interest held in suspense	(39)	(50)	(39)	(49)
	<u>20,860</u>	<u>18,070</u>	<u>41,282</u>	<u>31,041</u>
Included above:				
Due from group undertakings – all unsubordinated			21,679	14,401
Due from fellow group undertakings – all unsubordinated	842	3,781	816	3,762

13 Loans and advances to customers	Group		Bank	
	1997 £m	1996 £m	1997 £m	1996 £m
Lending to customers	77,703	63,596	33,863	31,331
Hire purchase debtors	1,455	1,330	-	-
Equipment leased to customers	5,749	4,726	-	-
	<u>84,907</u>	<u>69,652</u>	<u>33,863</u>	<u>31,331</u>
Total loans and advances to customers	84,907	69,652	33,863	31,331
Provisions for bad and doubtful debts	(2,090)	(1,927)	(1,507)	(1,663)
Interest held in suspense	(107)	(179)	(76)	(155)
	<u>82,710</u>	<u>67,546</u>	<u>32,280</u>	<u>29,513</u>
Loans and advances by residual maturity repayable:				
3 months or less	17,680	17,567	19,413	17,375
1 year or less but over 3 months	5,080	4,332	3,598	3,392
5 years or less but over 1 year	14,685	10,753	6,357	5,580
Over 5 years	47,462	37,000	4,495	4,984
Provisions for bad and doubtful debts	(2,090)	(1,927)	(1,507)	(1,663)
Interest held in suspense	(107)	(179)	(76)	(155)
	<u>82,710</u>	<u>67,546</u>	<u>32,280</u>	<u>29,513</u>
Of which repayable on demand or at short notice	10,106	9,630	10,042	8,766
Included above:				
Due from group undertakings – all unsubordinated			7,772	6,247
Due from fellow group undertakings – all unsubordinated	2,431	562	2,396	443
Due from associated undertakings – all unsubordinated	38	29	-	29

The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts amounted to £2,236 million (1996: £2,452 million).

14 Provisions for bad and doubtful debts	1997	1997	1996	1996
	Specific £m	General £m	Specific £m	General £m
<b>Group</b>				
At 1 January	1,579	406	1,990	390
Exchange and other adjustments	59	3	(81)	(1)
Transfer from general to specific provisions	110	(110)	-	-
Adjustments on acquisitions and disposals	103	7	-	-
Advances written off	(441)	-	(564)	-
Reclassification of provision for collateralised bonds	-	-	(15)	-
Recoveries of advances written off in previous years	116	-	57	-
Charge (release) to profit and loss account:				
New and additional provisions	641	13	417	26
Releases and recoveries	(336)	-	(225)	(9)
	<u>305</u>	<u>13</u>	<u>192</u>	<u>17</u>
At 31 December	1,831	319	1,579	406
	<u>2,150</u>		<u>1,985</u>	
In respect of:				
Loans and advances to banks	60		58	
Loans and advances to customers	2,090		1,927	
	<u>2,150</u>		<u>1,985</u>	
<b>Bank</b>				
At 1 January	1,378	342	1,721	325
Exchange and other adjustments	44	-	(61)	-
Transfer from general to specific provisions	100	(100)	-	-
Advances written off	(333)	-	(455)	-
Reclassification of provision for collateralised bonds	-	-	(15)	-
Transfer to group undertaking	-	(8)	-	-
Recoveries of advances written off in previous years	92	-	37	-
Charge (release) to profit and loss account:				
New and additional provisions	339	-	340	17
Releases and recoveries	(287)	-	(189)	-
	<u>52</u>	<u>-</u>	<u>151</u>	<u>17</u>
At 31 December	1,333	234	1,378	342
	<u>1,567</u>		<u>1,720</u>	
In respect of:				
Loans and advances to banks	60		57	
Loans and advances to customers	1,507		1,663	
	<u>1,567</u>		<u>1,720</u>	

## Notes to the accounts

15 Interest held in suspense and non-performing lending	1997	1996
	£m	£m
<b>Group</b>		
At 1 January	229	241
Exchange and other adjustments	(5)	5
Adjustments on acquisitions and disposals	3	-
Interest written off	(140)	(61)
Interest taken to income	(15)	(28)
Interest suspended during the year	74	72
At 31 December	146	229
<b>In respect of:</b>		
Loans and advances to banks	39	50
Loans and advances to customers	107	179
	146	229
<b>Non-performing lending comprises:</b>		
Loans and advances – category 1	920	798
Loans and advances – category 2	526	677
	1,446	1,475
<b>Provisions</b>	(680)	(515)
Interest held in suspense	(146)	(229)
	620	731
<b>Bank</b>		
At 1 January	204	216
Exchange and other adjustments	(3)	4
Interest written off	(131)	(51)
Interest taken to income	(12)	(24)
Interest suspended during the year	57	59
At 31 December	115	204
<b>In respect of:</b>		
Loans and advances to banks	39	49
Loans and advances to customers	76	155
	115	204
<b>Non-performing lending comprises:</b>		
Loans and advances – category 1	407	654
Loans and advances – category 2	467	584
	874	1,238
<b>Provisions</b>	(348)	(428)
Interest held in suspense	(115)	(204)
	411	606

## 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.

16 Concentrations of exposure	Group		Bank	
	1997	1996	1997	1996
	£m	£m	£m	£m
Loans and advances to customers				
<i>Domestic:</i>				
Agriculture, forestry and fishing	1,924	1,804	644	609
Manufacturing	2,850	2,997	2,245	2,552
Construction	745	806	678	787
Transport, distribution and hotels	3,650	3,133	2,748	2,534
Property companies	1,827	1,581	1,806	1,534
Financial, business and other services	5,665	5,902	4,972	5,645
Personal: mortgages*	39,632	29,672	844	1,236
: other	6,221	4,350	4,501	4,078
Lease financing	5,693	4,691	-	-
Hire purchase	1,455	1,320	-	-
Due from fellow group undertakings	2,431	562	10,168	6,690
Other	1,114	622	866	474
Total domestic	73,207	57,440	29,472	26,139
<i>International:</i>				
Latin America	3,307	2,991	1,947	2,426
New Zealand	5,430	5,793	-	-
Rest of the world	2,963	3,428	2,444	2,766
Total international	11,700	12,212	4,391	5,192
	84,907	69,652	33,863	31,331
Provisions for bad and doubtful debts†	(2,090)	(1,927)	(1,507)	(1,663)
Interest held in suspense†	(107)	(179)	(76)	(155)
	82,710	67,546	32,280	29,513

\*On 31 December 1997 the mortgage portfolio of TSB Bank plc and the staff mortgage portfolio of Lloyds Bank Plc were transferred to Cheltenham & Gloucester plc, a subsidiary undertaking of Lloyds Bank Plc.

†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

17 Debt securities	1997 Balance sheet £m	1997 Valuation £m	1996 Balance sheet £m	1996 Valuation £m
<b>Group</b>				
<i>Investment securities:</i>				
Government securities	1,502	1,856	2,024	2,301
Other public sector securities	34	34	92	94
Bank and building society certificates of deposit	3,321	3,322	2,524	2,559
Other debt securities	691	692	891	892
	<u>5,548</u>	<u>5,904</u>	<u>5,531</u>	<u>5,846</u>
<i>Other securities:</i>				
Government securities	4,467	4,467	1,751	1,751
Other public sector securities	89	89	135	135
Bank and building society certificates of deposit	78	78	140	140
Other debt securities	2,051	2,051	1,625	1,625
	<u>12,233</u>	<u>12,589</u>	<u>9,182</u>	<u>9,497</u>
Due within 1 year	4,583		3,252	
Due 1 year and over	7,650		5,930	
	<u>12,233</u>		<u>9,182</u>	
Unamortised discounts net of premiums on investment securities	838		809	
Listed: collateralised bonds : other	852 7,328	1,208 7,327	770 4,970	1,046 4,974
Unlisted	4,053	4,054	3,442	3,477
	<u>12,233</u>	<u>12,589</u>	<u>9,182</u>	<u>9,497</u>
Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Provisions £m	Total £m
At 1 January 1997	5,426	111	6	5,531
Exchange and other adjustments	(1)	-	-	(1)
Adjustments on acquisitions and disposals	(191)	-	-	(191)
Additions	15,769	-	-	15,769
Securities sold or matured	(15,593)	5	(2)	(15,586)
Charge for the year	-	-	3	(3)
Amortisation of premiums and discounts	-	29	-	29
At 31 December 1997	<u>5,410</u>	<u>145</u>	<u>7</u>	<u>5,548</u>

17 Debt securities (continued)	1997 Balance sheet £m	1997 Valuation £m	1996 Balance sheet £m	1996 Valuation £m
<b>Bank</b>				
<i>Investment securities:</i>				
Government securities	1,472	1,827	1,367	1,641
Other public sector securities	30	30	17	17
Bank and building society certificates of deposit	3,320	3,320	2,173	2,208
Other debt securities	484	485	240	241
	<u>5,306</u>	<u>5,662</u>	<u>3,797</u>	<u>4,107</u>
<i>Other securities:</i>				
Government securities	4,323	4,323	1,711	1,711
Bank and building society certificates of deposit	21	21	56	56
Other debt securities	2,130	2,130	1,581	1,581
	<u>11,780</u>	<u>12,136</u>	<u>7,145</u>	<u>7,455</u>
Included above:				
Due from group undertakings - all unsecured	176		206	
	<u>4,248</u>		<u>2,428</u>	
Due within 1 year	4,248		2,428	
Due 1 year and over	7,532		4,717	
	<u>11,780</u>		<u>7,145</u>	
Unamortised discounts net of premiums on investment securities	747		768	
Listed: collateralised bonds : other	852 7,214	1,208 7,215	770 3,760	1,046 3,762
Unlisted	3,714	3,713	2,615	2,647
	<u>11,780</u>	<u>12,136</u>	<u>7,145</u>	<u>7,455</u>
Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Total £m	
At 1 January 1997	3,705	92	3,797	
Exchange and other adjustments	42	-	42	
Additions	15,101	1	15,102	
Securities sold or matured	(13,664)	1	(13,663)	
Amortisation of premiums and discounts	-	28	28	
At 31 December 1997	<u>5,184</u>	<u>122</u>	<u>5,306</u>	

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

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



## Notes to the accounts

21 Shares in group undertakings	Bank £m	
At 1 January 1997	4,562	
Acquisitions	890	
Disposals	(1,988)	
Revaluations	238	
At 31 December 1997	3,702	
	1997	1996
	£m	£m
Shares in banks	2,794	2,349
Shares in other group undertakings	908	2,213
Total – all unlisted	3,702	4,562
On a historical cost basis, shares in group undertakings would have been included as follows:		
Cost	3,240	4,001
Provisions	(2)	(147)
	3,238	3,854

During 1997, as part of an internal reorganisation of the Lloyds TSB Group, the following group undertakings were sold to the Bank's parent company: Lloyds TSB Financial Services Holdings plc (formerly Lloyds Abbey Life plc) and its subsidiaries (except for Lloyds UDT Limited and Black Horse Agencies Limited) for a consideration of £1,419 million; Lloyds Private Banking Limited and Lloyds Bank Stockbrokers Limited for a consideration equivalent to net asset value.

In addition, during 1997 the Group disposed of its interest in Schröder Münchmeyer Hengst & Co., for a consideration of DM312 million, and Endeavour Personal Finance Limited for a consideration equivalent to net asset value. The Group also disposed of a 49.9 per cent interest in Cardnet for a consideration of £65 million.

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

	Country of registration/incorporation	Percentage of equity share capital and voting rights held	Nature of business
Cheltenham & Gloucester plc	England	*100%	Mortgage lending and retail investments
Lloyds Bank (BLSA) Limited	England	100%	Banking and financial services
Lloyds Bank Factors Limited	England	100%	Credit factoring
Lloyds Leasing Limited	England	100%	Financial leasing
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 UDT Limited	England	100%	Consumer credit, leasing and related services

\*Indirect interest.

The country of registration/incorporation is also the principal area of operation for each of the above group undertakings except as follows: Lloyds Bank (BLSA) Limited operates in Spain, Argentina, Ecuador and Uruguay. The National Bank of New Zealand Limited also operates through representative offices in Hong Kong, Japan, the UK and USA.

22 Tangible fixed assets	Group		Bank	
	Premises £m	Equipment £m	Premises £m	Equipment £m
Cost or valuation:				
At 1 January 1997	977	1,313	732	1,009
Exchange and other adjustments	(13)	(4)	(2)	-
Adjustments on acquisitions and disposals	6	(6)	-	-
Additions	62	134	58	87
Disposals	(91)	(103)	(78)	(60)
Premises revaluation	(126)	-	(124)	-
At 31 December 1997	815	1,334	586	1,036
Depreciation:				
At 1 January 1997	123	783	110	639
Exchange and other adjustments	(1)	(2)	-	(1)
Adjustments on acquisitions and disposals	4	(6)	-	-
Charge for the year	36	131	33	89
Disposals	(4)	(79)	(3)	(48)
Premises revaluation	(18)	-	(9)	-
At 31 December 1997	140	827	131	679
Balance sheet amount at 31 December 1997	675	507	455	357
	1,182		812	
Balance sheet amount at 31 December 1996	854	530	622	370
	1,384		992	

Equipment includes assets held under finance leases which at 31 December 1997 amounted to £nil, net of accumulated depreciation of £107 million (1996: £7 million, net of accumulated depreciation of £100 million).

	Group		Bank	
	1997 £m	1996 £m	1997 £m	1996 £m
Balance sheet amount of premises comprises:				
Freeholds	454	573	265	373
Leaseholds 50 years and over unexpired	45	125	27	110
Leaseholds less than 50 years unexpired	176	156	163	139
	675	854	455	622
Balance sheet amount of premises comprises:				
Valued in 1997	459	-	253	-
Valued in 1995	-	638	-	430
At cost	216	216	202	192
	675	854	455	622
On a historical cost basis, premises would have been included as follows:				
Cost	902	945	653	682
Accumulated depreciation	(192)	(172)	(179)	(153)
	710	773	474	529
Land and buildings occupied for own activities	582	791	382	576

## Notes to the accounts

**22 Tangible fixed assets (continued)**

The valuation included in the balance sheet in 1997 relates to both UK and overseas premises, the majority of which were carried out by the Group's professionally qualified staff who are Corporate Members of the Royal Institution of Chartered Surveyors or, in the case of certain overseas premises, by local management. The remainder were carried out by local valuers, principally Weatherall in Spain. As a result, the net book value of these premises has been written down by £108 million. The shortfall, which is not considered to be permanent, has been debited to the revaluation reserve. The accounting policy for valuations is set out on page 9 in accounting policy i.

**23 Lease commitments**

Commitments under non-cancellable operating leases were:

	1997		1996	
	Premises £m	Equipment £m	Premises £m	Equipment £m
<b>Group</b>				
Leases on which the commitment is due to expire in:				
1 year or less	1	19	2	23
5 years or less but over 1 year	11	10	17	23
Over 5 years	123	-	118	-
	<b>135</b>	<b>29</b>	<b>137</b>	<b>46</b>
<b>Bank</b>				
Leases on which the commitment is due to expire in:				
1 year or less	1	19	1	20
5 years or less but over 1 year	6	8	5	21
Over 5 years	103	-	96	-
	<b>110</b>	<b>27</b>	<b>102</b>	<b>41</b>

**24 Capital commitments**

Capital expenditure contracted but not provided for at 31 December 1997 amounted to £3 million for the Group and £1 million for the Bank (1996: Group £14 million; Bank £10 million).

**25 Other assets**

	Group		Bank	
	1997 £m	1996 £m	1997 £m	1996 £m
Foreign exchange and interest rate contracts	3,649	3,725	3,307	3,730
Other assets	486	616	409	476
	<b>4,135</b>	<b>4,341</b>	<b>3,716</b>	<b>4,206</b>

**26 Prepayments and accrued income**

	Group		Bank	
	1997 £m	1996 £m	1997 £m	1996 £m
Interest receivable	793	681	1,044	665
Other debtors and prepayments	1,258	1,222	840	738
	<b>2,051</b>	<b>1,903</b>	<b>1,884</b>	<b>1,403</b>

Included within the Group's other debtors and prepayments is £215 million (1996: £154 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 £16 million lower in 1997 (1996: £95 million).

**27 Long-term assurance business**

	1996 £m
The value of long-term assurance business attributable to shareholders included in the consolidated balance sheet at 31 December 1996 comprised:	
Net tangible assets of life companies including surplus	351
Value of long-term assurance business in force	767
	<b>1,118</b>
The long-term assurance assets attributable to policyholders at 31 December 1996 comprised:	
Investments	10,839
Value of policies in force	767
Premises and equipment	31
Net current liabilities	(87)
	<b>11,550</b>
Long-term assurance business attributable to shareholders	<b>(1,118)</b>
	<b>10,432</b>
Investments shown above comprised:	
Fixed interest securities	2,267
Stocks, shares and unit trusts	7,083
Investment properties	524
Mortgages and loans	31
Deposits	934
	<b>10,839</b>

The increase in the value of the long-term assurance business included in the consolidated profit and loss account for the year ended 31 December 1997 amounted to £125 million before tax; £91 million after tax (1996: £294 million before tax; £204 million after tax).

As described in note 21, during the year the Bank sold Lloyds TSB Financial Services Holdings plc (formerly Lloyds Abbey Life plc) and its subsidiaries, except for Lloyds UDT Limited and Black Horse Agencies Limited, to its parent company. At 31 December 1997, therefore, the Bank had no life assurance subsidiaries.

## Notes to the accounts

28 Assets and liabilities denominated in foreign currencies	Group		Bank	
	1997	1996	1997	1996
	£m	£m	£m	£m
Assets: denominated in sterling	95,554	81,943	75,483	64,943
: denominated in other currencies	33,612	27,801	25,129	18,704
	<u>129,166</u>	<u>109,744</u>	<u>100,612</u>	<u>83,647</u>
Liabilities: denominated in sterling	95,431	81,143	75,446	64,873
: denominated in other currencies	33,735	28,601	25,166	18,774
	<u>129,166</u>	<u>109,744</u>	<u>100,612</u>	<u>83,647</u>

29 Deposits by banks	Group		Bank	
	1997	1996	1997	1996
	£m	£m	£m	£m
Repayable on demand	8,475	2,481	8,938	3,248
Other deposits by banks with agreed maturity dates or periods of notice by residual maturity repayable:				
3 months or less	12,207	12,040	13,304	13,139
1 year or less but over 3 months	3,499	1,539	2,682	1,788
5 years or less but over 1 year	3,535	432	2,086	472
Over 5 years	115	13	58	13
	<u>27,831</u>	<u>16,505</u>	<u>27,068</u>	<u>18,660</u>
Included above:				
Due to group undertakings			3,629	3,570
Due to fellow group undertakings	11,496	2,183	8,198	2,111

30 Customer accounts	Group		Bank	
	1997	1996	1997	1996
	£m	£m	£m	£m
Repayable on demand	46,077	42,488	29,383	26,090
Other customer accounts with agreed maturity dates or periods of notice by residual maturity repayable:				
3 months or less	19,753	19,562	16,497	14,937
1 year or less but over 3 months	2,197	2,423	1,494	1,549
5 years or less but over 1 year	1,227	430	1,032	571
Over 5 years	193	20	160	104
	<u>69,447</u>	<u>64,923</u>	<u>48,566</u>	<u>43,251</u>
Included above:				
Due to group undertakings			1,918	1,162
Due to fellow group undertakings	970	302	1,279	302

31 Debt securities in issue	Group		Bank	
	1997	1996	1997	1996
	£m	£m	£m	£m
Bonds and medium-term notes by residual maturity repayable:				
1 year or less	862	45	308	-
2 years or less but over 1 year	242	212	192	15
5 years or less but over 2 years	171	320	-	-
	<u>1,275</u>	<u>577</u>	<u>500</u>	<u>15</u>
Other debt securities by residual maturity repayable:				
3 months or less	7,920	8,524	5,601	5,992
1 year or less but over 3 months	2,360	1,706	1,945	1,256
5 years or less but over 1 year	240	110	241	105
	<u>10,520</u>	<u>10,340</u>	<u>7,787</u>	<u>7,353</u>
	<u>11,795</u>	<u>10,917</u>	<u>8,287</u>	<u>7,368</u>

Included above:  
Due to group undertakings 15 161

32 Other liabilities	Group		Bank	
	1997	1996	1997	1996
	£m	£m	£m	£m
Foreign exchange and interest rate contracts	4,417	5,168	3,938	5,031
Current tax	481	403	305	238
Dividends	300	300	300	300
Other liabilities	2,020	1,196	1,645	453
	<u>7,218</u>	<u>7,067</u>	<u>6,188</u>	<u>6,022</u>

33 Accruals and deferred income	Group		Bank	
	1997	1996	1997	1996
	£m	£m	£m	£m
Interest payable	1,046	880	690	438
Other creditors and accruals	1,459	1,104	1,038	720
	<u>2,505</u>	<u>1,984</u>	<u>1,728</u>	<u>1,158</u>

## Notes to the accounts

34 Deferred tax	Group		Bank	
	1997 £m	1996 £m	1997 £m	1996 £m
Short-term timing differences	(75)	(50)	(70)	(32)
Pensions prepayment	91	73	91	73
Restructuring provision	(35)	-	(35)	-
Provision for Emerging Markets Debt	(254)	(232)	(254)	(232)
Accelerated depreciation allowances	845	657	33	-
Advance corporation tax recoverable	(73)	(75)	(47)	(55)
	<b>499</b>	<b>373</b>	<b>(282)</b>	<b>(246)</b>
	Group £m		Bank £m	
At 1 January 1997	373		(246)	
Exchange and other adjustments	(21)		8	
Adjustments on acquisitions and disposals	87		-	
Tax provided: current year	111		(57)	
: prior year adjustment relating to rate change	(51)		13	
At 31 December 1997	<b>499</b>		<b>(282)</b>	
	Group £m		Bank £m	
	1997	1996	1997	1996
	£m	£m	£m	£m

Potential tax for which no provision has been made relating to accelerated depreciation allowances on:

Equipment used in the business	-	43	-	43
Equipment leased to customers	72	72	-	-
	<b>72</b>	<b>115</b>	<b>-</b>	<b>43</b>

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.

35 Other provisions for liabilities and charges	Pension obligations £m	Other £m	Total £m
At 1 January 1997	44	174	218
Exchange and other adjustments	(4)	-	(4)
Provisions applied	(1)	(25)	(26)
Other movements	(17)	6	(11)
Charge to profit and loss account	2	199	201
At 31 December 1997	<b>24</b>	<b>354</b>	<b>378</b>
<b>Bank</b>			
At 1 January 1997	-	157	157
Exchange and other adjustments	-	1	1
Provisions applied	-	(12)	(12)
Other movements	-	(4)	(4)
Charge to profit and loss account	-	168	168
At 31 December 1997	<b>-</b>	<b>310</b>	<b>310</b>

36 Subordinated liabilities	1997 £m	1996 £m
<i>* Undated loan capital:</i>		
† Primary Capital Undated Floating Rate Notes:		
Series 1 (US\$750 million)	456	439
Series 2 (US\$500 million)	304	293
Series 3 (US\$600 million)	364	351
‡ Subordinated 5.57% Step-up Coupon Notes (¥20 billion)	93	101
• 8% Undated Subordinated Step-up Notes	198	-
Bank	<b>1,415</b>	<b>1,184</b>
11% Perpetual Subordinated Bonds	100	100
Group	<b>1,515</b>	<b>1,284</b>
<i>Dated loan capital:</i>		
†† Guaranteed Floating Rate Notes 1997	-	33
10% Subordinated Bonds 1998	150	150
† Variable Rate Subordinated Notes 1998	40	80
†† Guaranteed Floating Rate Notes 1998 (US\$46 million)	28	54
11% Subordinated Serial Bonds 1998	20	40
† Subordinated Floating Rate Notes 1999	227	226
† Subordinated Floating Rate Notes 2004	100	100
7% Subordinated Bonds 2004	398	398
Subordinated Floating Rate Loan 2006	100	100
* 7% Subordinated Bonds 2007	298	-
† 10% Guaranteed Subordinated Loan Stock 2008	119	-
9% Subordinated Bonds 2009	99	99
† 12% Guaranteed Subordinated Bonds 2011	129	-
9% Subordinated Bonds 2023	200	200
Bank	<b>1,908</b>	<b>1,480</b>
§ Subordinated Fixed Rate Bonds 2003 (NZ\$200 million)	70	83
† Subordinated Floating Rate Notes 2003	18	18
† Subordinated Floating Rate Notes 2004	25	25
† Subordinated Floating Rate Notes 2005	25	25
† Subordinated Floating Rate Notes 2006	150	150
† Subordinated Floating Rate Notes 2007	200	-
§ Subordinated Fixed Rate Bonds 2007 (NZ\$150 million)	53	62
Subordinated floating rate loan on rolling 6 year notice	45	-
Group	<b>2,494</b>	<b>1,843</b>
Total subordinated liabilities : Group	<b>4,009</b>	<b>3,127</b>
: Bank	<b>3,323</b>	<b>2,664</b>

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

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

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

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

\* Issued during 1997 to finance the general business of the Group.

‡ Exchangeable at the election of the Bank for further subordinated floating rate notes.

† Liabilities transferred from the ultimate parent company during 1997.

• 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.

## Notes to the accounts

**36 Subordinated liabilities (continued)**

The total dated subordinated liabilities of the Group are repayable as follows:

	1997 £m	1996 £m
1 year or less	238	120
2 years or less but over 1 year	227	237
5 years or less but over 2 years	15	237
Over 5 years	2,014	1,249
	<b>2,494</b>	<b>1,843</b>

**37 Called-up share capital**

	1997 £m	1996 £m
Authorised: ordinary shares of £1 each*	1,650	1,650
Issued and fully paid: ordinary shares of £1 each		
At 1 January	1,458	1,313
issued under employee share schemes	-	1
issued to Lloyds TSB Group plc	12	144
	<b>1,470</b>	<b>1,458</b>

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

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

**38 Reserves**

	Group £m	Bank £m	Associated undertakings £m
Share premium account:			
At 1 January 1997	669	669	-
Premium arising on issue of shares	188	188	-
At 31 December 1997	<b>857</b>	<b>857</b>	-
Revaluation reserve:			
At 1 January 1997	(121)	619	-
Increase in net tangible assets of subsidiary and associated undertakings	-	238	-
Premises revaluation deficit	(108)	(115)	-
Transfer from (to) profit and loss account	13	(464)	-
At 31 December 1997	<b>(216)</b>	<b>278</b>	-
Profit and loss account:			
At 1 January 1997	1,768	1,028	80
Exchange and other adjustments	(68)	14	(10)
Goodwill written back on sale of businesses	181	-	-
Disposal of interest in associated undertaking	-	-	(73)
Premiums on acquisitions	(164)	-	-
Discount on acquisition	102	-	-
Transfer (to) from revaluation reserve	(13)	464	-
Retained profit	780	586	-
At 31 December 1997	<b>2,586</b>	<b>2,092</b>	<b>(3)</b>

**38 Reserves (continued)**

The Group profit and loss account reserves at 31 December 1996 included £366 million not 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. As described in note 21, the life assurance businesses were sold to the Bank's parent company during the year.

The cumulative amount of premiums on acquisitions written off against profit and loss account reserves during the current and previous years amounted to £1,050 million of which £965 million has been written off over the last 10 years.

**39 Directors' interests**

The interests, all beneficial, of Mr R C Carefull, the only director who was not also a director of Lloyds TSB Group plc, in the capital of Lloyds TSB Group plc were:

Shares:	At 1 January 1997	Granted during the year	Exercised during the year	At 31 December 1997
				5,662
				7,209
Options to acquire shares:				
	At 1 January 1997	Granted during the year	Exercised during the year	At 31 December 1997
	136,715	39,000	36,566	139,149

Options are exercisable between 1998 and 2007.

Mr Carefull 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 optionholders. In that regard he received 4,795 additional shares when he exercised the share options shown above.

Mr Carefull had no other interest in the capital of Lloyds TSB Group plc or its subsidiaries.

**40 Directors' emoluments**

The aggregate of the emoluments of the directors for their services to the Company was £2,946,000 (1996: £4,969,000).

The aggregate of the amount of the gains made by directors on the exercise of Lloyds TSB Group plc share options was £6,892,000 (1996: £5,487,000).

The number of directors to whom retirement benefits are accruing under defined benefit pension schemes is 6 (1996: 9).

As in previous years, Sir Nicholas Goodison received a payment equivalent to 22.5 per cent of his salary, to enable him to contribute to a retirement annuity plan. If the plan does not provide him with a pension at age 65 equal to two thirds of final salary, the Group has undertaken to make up the difference, subject to a maximum annual payment by the Group equivalent to 31.67 per cent of his final salary. Provision has been made by the Group, which, at 31 December 1997, represents an accrued pension of £70,982 per annum (ie 27.3 per cent of his current salary for his services to the Lloyds TSB Group).

The total for the highest paid director (Sir Nicholas Goodison) for his services to the Company, including the £5,196,000 gain on the exercise of Lloyds TSB Group plc share options and the relevant proportion of a payment of £58,500 relating to the retirement annuity plan mentioned above, was £5,436,000. The total for the highest paid director in 1996 (Sir Brian Pitman) for his services to the Company, including the gain of £1,625,000 on the exercise of share options, was £2,209,000.

Compensation for loss of office totalling £788,140 was paid to two former directors (1996: nil).

## Notes to the accounts

**41 Transactions with related parties**

At 31 December 1997, transactions, arrangements and agreements entered into by the Bank or its subsidiaries with directors and connected persons and with officers of the Bank included:

	1997 Number of persons	1997 Total £000	1996 Number of persons	1996 Total £000
Loans and credit card transactions:				
Directors and connected persons	7	198	8	195
Officers	24	2,300	22	2,108

The Bank provides certain banking and financial services to associated undertakings. These are conducted on similar terms to third party transactions and are not material to the Group's results. Details of lending to associated undertakings is set out in note 13.

**42 Contingent liabilities and commitments**

	Group		Bank	
	1997 £m	1996 £m	1997 £m	1996 £m
<i>Contingent liabilities:</i>				
Acceptances and endorsements	427	636	399	578
Guarantees	2,163	1,714	3,172	2,579
Other:				
Other items serving as direct credit substitutes	403	366	395	405
Performance bonds and other transaction-related contingencies	1,229	1,313	1,099	1,136
Other contingent liabilities	8	177	-	59
	1,640	1,856	1,494	1,600
	4,230	4,206	5,065	4,757

*Commitments:*

Documentary credits and other short-term trade-related transactions	224	303	166	228
Forward asset purchases and forward forward deposits placed	2,032	1,988	1,868	1,869
Undrawn note issuing and revolving underwriting facilities	87	85	-	-
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year maturity	10,367	8,172	9,211	7,361
1 year or over maturity	4,178	5,322	3,838	5,076
Other commitments	16	323	16	321
	16,904	16,193	15,099	14,855

*Incurred on behalf of group undertakings:*

Contingent liabilities			1,124	1,067
Commitments			493	331
			1,617	1,398

*Incurred on behalf of fellow group undertakings:*

Contingent liabilities	52	-	30	-
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**43 Derivatives**

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

**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:

	Notional principal amount £m	Fair values	
		Assets £m	Liabilities £m
<b>31 December 1997</b>			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	137,723	2,585	2,920
Currency swaps	11,587	356	187
Options purchased	2,895	23	17
Options written	2,912	16	33
	155,117	2,980	3,157
<i>Interest rate contracts:</i>			
Interest rate swaps	475,850	4,035	4,942
Forward rate agreements	241,010	197	151
Options purchased	1,526	6	-
Options written	1,390	-	6
Futures	104,140	7	1
	823,916	4,245	5,100
Equity contracts	1,360	264	-
Effect of netting		(3,840)	(3,840)
Balances arising from off-balance sheet financial instruments		3,649	4,417
<b>31 December 1996</b>			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	199,057	3,331	3,890
Currency swaps	8,928	295	109
Options purchased	3,093	44	20
Options written	1,954	9	16
	213,032	3,679	4,035
<i>Interest rate contracts:</i>			
Interest rate swaps	395,080	3,970	5,138
Forward rate agreements	236,001	425	379
Options purchased	2,855	5	-
Options written	2,258	-	11
Futures	113,738	-	-
	749,932	4,400	5,528
Equity contracts	402	41	-
Effect of netting		(4,395)	(4,395)
Balances arising from off-balance sheet financial instruments		3,725	5,168



## Notes to the accounts

**43 Derivatives (continued)***Non-trading*

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

	1997 Notional principal amount £m	1996 Notional principal amount £m
<i>Exchange rate contracts:</i>		
Spot, forwards and futures	935	2,155
Currency swaps	172	257
Options purchased	-	59
Options written	-	59
	<u>1,107</u>	<u>2,530</u>
<i>Interest rate contracts:</i>		
Forwards and futures	24	642
Interest rate swaps	4,689	6,286
Options purchased	2	88
Options written	-	92
	<u>4,715</u>	<u>7,108</u>

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

	Under 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
<b>31 December 1997</b>				
<i>Exchange rate contracts:</i>				
Notional principal amount	148,490	7,242	492	156,224
Net replacement cost	1,642	251	35	1,928
<i>Interest rate contracts:</i>				
Notional principal amount	509,402	297,801	21,428	828,631
Net replacement cost	226	942	409	1,577
<i>Equity contracts:</i>				
Notional principal amount	44	1,114	202	1,360
Net replacement cost	3	230	31	264
<b>31 December 1996</b>				
<i>Exchange rate contracts:</i>				
Notional principal amount	206,746	8,155	659	215,560
Net replacement cost	2,218	196	25	2,439
<i>Interest rate contracts:</i>				
Notional principal amount	529,124	221,027	6,889	757,040
Net replacement cost	829	898	114	1,841
<i>Equity contracts:</i>				
Notional principal amount	7	329	66	402
Net replacement cost	-	35	6	41

The notional principal amount does not represent the Bank'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 net replacement cost of instruments entered into with third parties by counterparty type is set out below:

	1997 £m	1996 £m
OECD banks	3,332	3,189
Other	437	1,132
	<u>3,769</u>	<u>4,321</u>

**43 Derivatives (continued)****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:

	Notional principal amount £m	Fair values	
		Assets £m	Liabilities £m
<b>31 December 1997</b>			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	130,479	2,108	2,546
Currency swaps	11,310	311	161
Options purchased	2,219	12	12
Options written	2,077	11	9
	<u>146,085</u>	<u>2,442</u>	<u>2,728</u>
<i>Interest rate contracts:</i>			
Interest rate swaps	475,978	4,238	4,899
Forward rate agreements	240,436	192	146
Options purchased	968	5	-
Options written	1,044	-	5
Futures	102,960	6	-
	<u>821,386</u>	<u>4,441</u>	<u>5,050</u>
Equity contracts	1,360	264	-
Effect of netting		<u>(3,840)</u>	<u>(3,840)</u>
Balances arising from off-balance sheet financial instruments		<u>3,307</u>	<u>3,938</u>
<b>31 December 1996</b>			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	198,022	3,247	3,836
Currency swaps	8,350	272	73
Options purchased	2,186	37	8
Options written	1,963	9	16
	<u>210,521</u>	<u>3,565</u>	<u>3,933</u>
<i>Interest rate contracts:</i>			
Interest rate swaps	393,359	4,091	5,105
Forward rate agreements	233,569	423	377
Options purchased	1,953	5	-
Options written	2,258	-	11
Futures	112,660	-	-
	<u>743,799</u>	<u>4,519</u>	<u>5,493</u>
Equity contracts	402	41	-
Effect of netting		<u>(4,395)</u>	<u>(4,395)</u>
Balances arising from off-balance sheet financial instruments		<u>3,730</u>	<u>,5,031</u>

## Notes to the accounts

**43 Derivatives (continued)***Non-trading*

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

	1997 Notional principal amount £m	1996 Notional principal amount £m
<i>Exchange rate contracts:</i>		
Spot, forwards and futures	627	431
Currency swaps	140	197
	<u>767</u>	<u>628</u>
<i>Interest rate contracts:</i>		
Forward rate agreements	12	507
Interest rate swaps	1,029	1,374
Options purchased	2	-
	<u>1,043</u>	<u>1,881</u>

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

	Under 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
<b>31 December 1997</b>				
<i>Exchange rate contracts:</i>				
Notional principal amount	139,717	6,591	544	146,852
Net replacement cost	1,206	118	34	1,358
<i>Interest rate contracts:</i>				
Notional principal amount	503,142	295,975	23,312	822,429
Net replacement cost	189	933	628	1,750
<i>Equity contracts:</i>				
Notional principal amount	44	1,114	202	1,360
Net replacement cost	3	230	31	264
<b>31 December 1996</b>				
<i>Exchange rate contracts:</i>				
Notional principal amount	202,846	7,707	596	211,149
Net replacement cost	2,077	170	18	2,265
<i>Interest rate contracts:</i>				
Notional principal amount	522,920	214,539	8,221	745,680
Net replacement cost	831	873	217	1,921
<i>Equity contracts:</i>				
Notional principal amount	7	329	66	402
Net replacement cost	-	35	6	41

The notional principal amount does not represent the Bank'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 net replacement cost of instruments entered into with third parties by counterparty type is set out below:

	1997 £m	1996 £m
OECD banks	2,893	3,214
Other	479	1,013
	<u>3,372</u>	<u>4,227</u>

**44 Acquisitions**

a) In March 1997 the Group announced that a contract had been signed to acquire the consumer finance business, together with certain other assets, of its Brazilian associate Banco Multiplic SA (BMSA). The Group assumed control of the consumer finance business, which trades as Losango, on 1 April 1997 and its results have been consolidated in full since that date. The premium on acquisition of £161 million has been written off directly to reserves. In consideration, the Group relinquished its investment in BMSA to Multiplic Empreendimentos e Comercio SA, the other principal shareholder, and paid US\$81 million in cash.

A summarised profit and loss account for Losango for the period from 1 January 1997 to 31 March 1997 is set out below:

	£m
Net interest income	84
Other income and charges	2
	<u>86</u>
Administrative expenses	(25)
Provisions for bad and doubtful debts	(38)
	<u>23</u>
Profit on ordinary activities before tax	23
Tax	(12)
	<u>11</u>
Profit after tax	11
Profit after tax year ended 31 December 1996	<u>123</u>

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

The balance sheet of Losango as at 1 April 1997 was as follows:

	Book value at 1 April £m	Fair value adjustments £m	Fair value at acquisition £m
Cash and balances at central banks	11		11
Treasury and other eligible bills	11		11
Loans and advances to customers	606	(22)	584
Debt securities	4		4
Tangible fixed assets	43	(6)	37
Other assets	52		52
Deposits by banks	(26)		(26)
Debt securities in issue	(571)		(571)
Other liabilities	(90)		(90)
	<u>40</u>	<u>(28)</u>	<u>12</u>
Net assets acquired			12
Goodwill			<u>161</u>
Consideration			<u>173</u>
Satisfied by:			
Investment in BMSA			123
Cash			49
Related costs of acquisition			1
			<u>173</u>

Fair value adjustments have been made to the carrying value of Losango's fixed assets and loan portfolio. The adjustment to fixed assets has been made to reflect a permanent diminution in the value of properties held. The adjustment to the loan portfolio reflects the provision required to state the loan portfolio at its expected recoverable amount.

b) During 1997 the Group acquired further shares in its associate, Banco Anglo Colombiano SA, for a consideration of £7 million, with the result that its interest increased from 49 per cent to 61 per cent. The transaction has been accounted for in accordance with acquisition accounting principles and goodwill amounting to £3 million has been written off directly to reserves. With effect from 1 October 1997 Banco Anglo Colombiano SA has been accounted for as a group undertaking. The effect on the results of the Group is not material.