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

Directors

Sir Brian Pitman
Chairman

Sir Nicholas Goodison
Deputy Chairman

A E Moore CBE
Deputy Chairman
(from 1 August 1998)

P B Ellwood
Chief Executive

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

M K Atkinson

R C Carefull

S A Maran

G F Pell *(from 1 March 1998)*

D P Pritchard *(from 1 March 1998)*

Directors' report

Results and dividends

The consolidated profit and loss account on page 7 shows a profit attributable to shareholders for the year ended 31 December 1998 of £1,449 million. Interim dividends of £150 million and £300 million for the year ended 31 December 1998 were paid on 30 June and 1 October respectively. A third interim dividend of £650 million will be paid on 31 March 1999.

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 and future developments

Profit before tax for the Lloyds Bank Group was £1,999 million in 1998, compared with £1,579 million in 1997.

Total income increased by 2 per cent to £5,136 million and expenses fell by 8 per cent to £2,821 million. However, both income and operating expenses were significantly affected by the sale in 1997 of Lloyds TSB Financial Services Holdings (formerly Lloyds Abbey Life) to the Bank's parent company, internal 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, and a number of business disposals. In September 1998 the Group completed the purchase of Countrywide Banking Corporation, by its subsidiary The National Bank of New Zealand (NBNZ). A restructuring provision of £38 million has been made to cover the costs of integrating Countrywide and NBNZ.

Total profit before tax from UK Retail Banking and Mortgages rose by £310 million or 40 per cent to £1,085 million. There was good growth in mortgages and other personal lending and in retail deposits. Wholesale Markets pre-tax profit increased by £18 million, or 3 per cent, to £557 million. Both our Corporate and Institutional Banking Division and Commercial Banking increased their profits, but a combination of reduced opportunities resulting from the convergence of European currencies and the Group's policy of avoiding excessive risk led to a decrease of £52 million in treasury earnings. International Banking pre-tax profit was £79 million lower at £310 million, after the £38 million restructuring provision for the integration of Countrywide in New Zealand and a lower release of provisions from the Emerging Markets Debt portfolio.

The total charge for bad and doubtful debts rose to £424 million from £318 million in 1997. The domestic charge for bad and doubtful debts increased to £259 million from £237 million in 1997. Provisions overseas increased to £165 million from £81 million in 1997, largely as a result of a lower release of provisions from the Emerging Markets Debt portfolio. Non-performing lending fell to £918 million from £1,446 million in December 1997, largely as a result of repayments of principal and write-offs of residual balances following the restructuring of a number of significant exposures in our Wholesale Markets lending book and some mortgage lending returning to performing status. Non-performing lending represented 1.0 per cent of total lending, down from 1.7 per cent in December 1997.

Shareholders' funds grew by 9 per cent to £5,130 million, mainly from retained profits. Risk-weighted assets increased by 4 per cent to £76 billion. At the end of 1998 the risk asset ratios, the international standard for measuring capital adequacy, were 10.1 per cent for total capital and 6.5 per cent for tier 1 capital.

The private bill to bring the businesses of Lloyds Bank and TSB Bank together proceeded through Parliament and received royal assent in July 1998. We are currently coming to the end of a significant pilot in the Norwich area which has tested the bringing together of the two branch networks under the single Lloyds TSB brand. Initial results have been very encouraging and we plan to move to a single brand on a national basis in the middle of 1999.

Directors' report

Group structure

During 1998 the Bank sold International Factors Limited, resulting in a profit of £158 million, and Black Horse Agencies Limited, resulting in a loss of £43 million. In addition in October 1998, the Bank temporarily disposed of Lloyds Bank (BLSA) Limited to its parent company Lloyds TSB Group plc, to facilitate the transfer of its Spanish operations to the Bank. Lloyds Bank (BLSA) Limited was repurchased in December 1998; these transactions gave rise to neither profit nor loss.

In January 1998 the Bank purchased from a fellow group undertaking the remaining share capital of TSB Bank Channel Islands that it did not already own for a consideration of £80 million.

Directors

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

Mr A H Longhurst and Mr J T Davies left the board on 15 April 1998 and 31 July 1998 respectively.

Employees

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

In the UK, the Bank supports Opportunity 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 such measures as team meetings, briefings, internal communications and opinion surveys. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions.

Financial involvement is encouraged through profit sharing and share option schemes, which are available for most staff.

Policy and practice on payment of creditors

The Bank does not follow a code relating to payments to suppliers. Its policy is to agree terms of payment and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Bank to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

The number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is 26. 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 1998 bears to the aggregate of the amounts invoiced by suppliers during the year.

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.

Year 2000

The Bank is well advanced with a comprehensive programme of work to overcome the far-reaching implications of the Year 2000 problem. This programme was started in 1995 and, as well as addressing the Bank's core IT systems, covers individual systems in every area of the Bank and the Group. Our principal risk is a failure to maintain services to our customers and a major objective of the Year 2000 programme is to avoid any disruption to customers arising from the century date change. We are also working with our customers, counterparties, suppliers and other members of the financial services community to minimise the impact on the Bank and the Group should they fail to address adequately the Year 2000 issues. In addition, we are working closely with the regulators responsible for the markets in which we operate to minimise systemic risk.

The programme is well advanced and most of the necessary changes have now been tested and proven across the Group. The vast majority of business critical systems are already Year 2000 compliant and plans are in place to resolve the small number of outstanding issues.

Whilst we are very confident that our conversion processes will be successful, significant activity is under way to establish Year 2000 business continuity plans. Our objective is to ensure that we are able to mitigate risk and that we have identified continuity plans that can be invoked in the event that any systemic threats materialise.

Costs incurred to the end of December 1998, including capital expenditure and internal costs directly related to ensuring that systems are Year 2000 compliant, are £83 million and we anticipate that the total cost will be in the region of £109 million.

Economic and Monetary Union

In preparing for the initial UK 'opt-out' of Economic and Monetary Union, all the relevant business units in the Group successfully managed the conversion process at the beginning of January 1999, to ensure a smooth transition to the single currency. The Group now provides euro accounts and the ability for customers to make and receive payments in euros. More products are being developed and will be introduced gradually throughout 1999. Costs incurred to the end of December 1998 are £20 million.

We are already well advanced with our plans for a possible UK 'opt-in' scenario.

On behalf of the board

M R Hatcher
Secretary
11 February 1999

Auditors' report

To the members of Lloyds Bank Plc

We have audited the financial statements on pages 7 to 27 which have been prepared under the historical cost convention, as modified by the revaluation of investments and premises and the accounting policies set out on pages 11 and 12.

Respective responsibilities of directors and auditors

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on 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.

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

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

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 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
11 February 1999

Consolidated profit and loss account

for the year ended 31 December 1998

	Note	1998 £ million	1997 £ million
Interest receivable:			
Interest receivable and similar income arising from debt securities		**519**	531
Other interest receivable and similar income		**9,931**	8,175
Interest payable		**6,980**	5,596
Write-down of finance lease receivables	7	**32**	58
Net interest income		**3,438**	3,052
Other income			
Dividend income from equity shares		**4**	9
Fees and commissions receivable		**1,374**	1,659
Fees and commissions payable		**(303)**	(239)
Dealing profits (before expenses)		**184**	195
Income from long-term assurance business		**–**	125
Other operating income		**439**	259
	8	**1,698**	2,008
Total income		**5,136**	5,060
Operating expenses			
Administrative expenses	2	**2,596**	2,663
Restructuring costs	4	**74**	247
Total administrative expenses		**2,670**	2,910
Depreciation		**147**	167
Amortisation of goodwill	24	**4**	–
Depreciation and amortisation		**151**	167
Total operating expenses		**2,821**	3,077
Trading surplus		**2,315**	1,983
Provisions for bad and doubtful debts	16		
Specific		**420**	305
General		**4**	13
		424	318
Amounts written off fixed asset investments	5	**15**	3
Operating profit		**1,876**	1,662
Income from associated undertakings		**8**	21
Profit (loss) on sale of businesses	6	**115**	(104)
Profit on ordinary activities before tax	8	**1,999**	1,579
Tax on profit on ordinary activities	10	**537**	490
Profit on ordinary activities after tax		**1,462**	1,089
Minority interests (equity)		**13**	9
Profit for the year attributable to shareholders	11	**1,449**	1,080
Dividends	12	**1,100**	300
Retained profit	40	**349**	780

An analysis of profit on ordinary activities before tax between continuing and discontinued operations for the year ended 31 December 1997 is given on page 12 in note 3. In 1998 all activities were continuing.

Balance sheets

at 31 December 1998

		Group		Bank	
	Note	**1998 £ million**	1997 £ million	**1998 £ million**	1997 £ million
Assets					
Cash and balances at central banks		**854**	638	**737**	471
Items in course of collection from banks		**1,590**	1,689	**1,577**	1,669
Treasury bills and other eligible bills	*13*	**3,151**	3,566	**2,665**	2,996
Loans and advances to banks	*14*	**18,927**	20,860	**38,841**	41,282
Loans and advances to customers	*15*	**91,141**	82,710	**35,527**	32,280
Debt securities	*19*	**12,309**	12,233	**11,630**	11,780
Equity shares	*20*	**43**	94	**25**	18
Interests in associated undertakings	*22*	**4**	8	**2**	2
Shares in group undertakings	*23*	**–**	–	**3,920**	3,702
Intangible fixed assets	*24*	**216**	–	**–**	–
Tangible fixed assets	*25*	**1,217**	1,182	**828**	812
Other assets	*28*	**5,154**	4,135	**4,450**	3,716
Prepayments and accrued income	*29*	**2,135**	2,051	**1,904**	1,884
Total assets		**136,741**	129,166	**102,106**	100,612

The directors approved the accounts on 11 February 1999.

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

Balance sheets

at 31 December 1998

		Group		Bank	
	Note	**1998 £ million**	1997 £ million	**1998 £ million**	1997 £ million
Liabilities					
Deposits by banks	*31*	**27,998**	27,831	**26,773**	27,068
Customer accounts	*32*	**75,586**	69,447	**49,583**	48,566
Items in course of transmission to banks		**725**	747	**711**	727
Debt securities in issue	*33*	**11,840**	11,795	**8,574**	8,287
Other liabilities	*34*	**7,168**	7,218	**6,393**	6,188
Accruals and deferred income	*35*	**2,594**	2,505	**1,543**	1,728
Provisions for liabilities and charges:					
Deferred tax	*36*	**1,200**	499	**(181)**	(282)
Other provisions for liabilities and charges	*37*	**303**	378	**226**	310
Subordinated liabilities:					
Undated loan capital	*38*	**1,518**	1,515	**1,418**	1,415
Dated loan capital	*38*	**2,637**	2,494	**1,936**	1,908
Minority interests (equity)		**42**	40	**–**	–
Called-up share capital	*39*	**1,472**	1,470	**1,472**	1,470
Share premium account	*40*	**879**	857	**879**	857
Revaluation reserve	*40*	**(197)**	(216)	**573**	278
Profit and loss account	*40*	**2,976**	2,586	**2,206**	2,092
Shareholders' funds (equity)		**5,130**	4,697	**5,130**	4,697
Total liabilities		**136,741**	129,166	**102,106**	100,612
Memorandum items	*44*				
Contingent liabilities:					
Acceptances and endorsements		**399**	427	**398**	399
Guarantees and assets pledged as collateral security		**2,117**	2,163	**2,815**	3,172
Other contingent liabilities		**1,569**	1,640	**1,538**	1,494
		4,085	4,230	**4,751**	5,065
Commitments:					
Commitments arising out of sale and option to resell transactions		**25**	13	**25**	13
Other commitments		**19,027**	16,891	**17,201**	15,086
		19,052	16,904	**17,226**	15,099

Statement of total recognised gains and losses

for the year ended 31 December 1998

	1998 **£ million**	1997 £ million
Profit attributable to shareholders	**1,449**	1,080
Premises revaluation deficit	**–**	(108)
Currency translation differences on foreign currency net investments	**(8)**	(68)
Total recognised gains and losses relating to the year	**1,441**	904

Historical cost profits and losses

for the year ended 31 December 1998

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

Reconciliation of movements in shareholders' funds

for the year ended 31 December 1998

	1998 **£ million**	1997 £ million
Profit attributable to shareholders	**1,449**	1,080
Dividends	**(1,100)**	(300)
Retained profit	**349**	780
Premises revaluation deficit	**–**	(108)
Currency translation differences on foreign currency net investments	**(8)**	(68)
Issue of shares	**24**	200
Premiums on acquisitions	**–**	(164)
Discount on acquisition	**–**	102
Goodwill written back on sale of businesses	**68**	181
Net increase in shareholders' funds	**433**	923
Shareholders' funds at beginning of year	**4,697**	3,774
Shareholders' funds at end of year	**5,130**	4,697

Notes to the accounts

1 Accounting policies

Accounting policies are unchanged from 1997, except for the treatment of premiums on acquisitions.

During 1998 the Group has implemented the requirements of Financial Reporting Standard 10, 'Goodwill and Intangible Assets'. Premiums arising on acquisitions of or by group undertakings are now capitalised; previously these amounts were written off directly to reserves in the year of acquisition.

As permitted by the transitional arrangements of Financial Reporting Standard 10, premiums arising on acquisitions made in earlier years amounting to £1,050 million and taken directly to reserves in accordance with the Group's previous accounting policy, have not been reinstated by means of a prior year adjustment. These amounts will continue to be charged to the profit and loss account on a subsequent disposal of the businesses to which they relate. The effect of this change in accounting policy in the current year has been to reduce profit before tax by £4 million and increase reserves by £216 million.

In addition, in 1998 the Group has adopted the requirements of Financial Reporting Standard 9, 'Associates and Joint Ventures', and Financial Reporting Standard 11, 'Impairment of Fixed Assets and Goodwill', although their effect has not been significant.

The presentation in the profit and loss account of certain commissions paid by the Group's consumer finance business has been changed. Previously these amounts were included within net interest income; they have now been included within fees and commissions payable. The effect of this change in the current year has been to increase net interest income by £46 million and reduce other income by the same amount. Comparative figures have been restated to reflect this revised treatment (1997: £50 million).

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

b Basis of consolidation

Assets, liabilities and results of group undertakings and the share of results of associated undertakings are included in the consolidated accounts on the basis of accounts made up to 31 December.

c Premiums on acquisitions

Premiums arising on acquisitions of or by group and associated undertakings are capitalised and amortised on a straight line basis over their estimated useful lives, which will not exceed 20 years.

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.

1 Accounting policies (continued)

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's or Bank's share of the net tangible assets of the relevant undertakings.

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. Pension arrangements for staff joining the Lloyds Bank pension scheme after 1 January 1996 are through a money purchase element of that scheme. 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.

1 Accounting policies (continued)

n Long-term assurance business
The value placed on the Group's long-term assurance business attributable to shareholders represented 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 were determined on a post-tax basis, were included in the profit and loss account. For the purpose of presentation, the change in this value was 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.

2 Administrative expenses

	1998 £m	1997 £m
Salaries and profit sharing	**1,261**	1,343
Social security costs	**92**	103
Other pension costs	**(46)**	(41)
Staff costs	**1,307**	1,405
Other administrative expenses	**1,289**	1,258
	2,596	2,663

The average number of persons on a headcount basis employed by the Group during the year was as follows:	1998	1997
UK	**46,735**	51,651
Overseas	**11,911**	10,557
	58,646	62,208

Details of directors' emoluments, pensions and interests are given on page 24.

The auditors' remuneration was £2,708,000 (1997: £2,682,000), of which £889,000 (1997: £889,000) related to Lloyds Bank Plc. Fees paid to PricewaterhouseCoopers in respect of non-audit services were £13,126,000 (1997: £8,345,000), of which £10,487,000 (1997: £5,369,000) related to UK companies. Non-audit fees comprise management consultancy of £10,317,000 and regulatory and other advisory work of £2,809,000. The aggregate non-audit fees paid to PricewaterhouseCoopers in 1998 includes £4,857,000 paid to Price Waterhouse and £495,000 paid to Coopers & Lybrand prior to the date of appointment of PricewaterhouseCoopers as auditors. Non-audit fees in 1997 comprise solely amounts paid to the previous auditors Price Waterhouse.

There was a net credit in respect of pension costs for the Group in 1998 of £46 million (1997: credit of £41 million), which included a credit of £58 million (1997: credit of £59 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, 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.

2 Administrative expenses (continued)

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 £367 million for the Group and £360 million for the Bank (1997: £309 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 1998 was £2 million (1997: £3 million). The latest actuarial valuation of the liability was carried out at 31 December 1997. This valuation showed the Group's liability to be £57 million, which had been fully provided for at that date. The principal actuarial assumptions adopted were that, over the long term, the valuation discount rate and the rate of increase in medical costs would be 4.5 per cent and 2.5 per cent respectively higher than annual price inflation.

3 Analysis of 1997 profit on ordinary activities before tax

	Continuing operations 1997 £m	Discontinued operations 1997 £m	Total 1997 £m
Interest receivable:			
Interest receivable and similar income arising from debt securities	523	8	531
Other interest receivable and similar income	8,095	80	8,175
Interest payable	5,542	54	5,596
Write-down of finance lease receivables	58	–	58
Net interest income	3,018	34	3,052
Other income			
Dividend income from equity shares	9	–	9
Fees and commissions receivable	1,376	283	1,659
Fees and commissions payable	(223)	(16)	(239)
Dealing profits (before expenses)	188	7	195
Income from long-term assurance business	–	125	125
Other operating income	250	9	259
	1,600	408	2,008
Total income	4,618	442	5,060
Operating expenses			
Administrative expenses	2,523	140	2,663
Restructuring costs	247	–	247
Total administrative expenses	2,770	140	2,910
Depreciation	162	5	167
Total operating expenses	2,932	145	3,077
Trading surplus	1,686	297	1,983
Provisions for bad and doubtful debts			
Specific	293	12	305
General	13	–	13
	306	12	318
Amounts written off fixed asset investments	3	–	3
Operating profit	1,377	285	1,662
Income from associated undertakings	21	–	21
Loss on sale of businesses	–	(104)	(104)
Profit on ordinary activities before tax	1,398	181	1,579

Notes to the accounts

4 Restructuring costs

In December 1998 The National Bank of New Zealand announced to its staff and customers a reorganisation plan following its acquisition of Countrywide. A restructuring provision of £38 million (tax credit: £11 million) has been made to cover the cost of integrating and reorganising Countrywide following its acquisition, which principally relates to the cost of redundancies and branch closures.

The other restructuring costs incurred in 1998 of £36 million (tax credit: £11 million) and in 1997 of £247 million (tax credit: £77 million) relate to the ongoing integration of the Lloyds Bank and TSB Bank businesses.

5 Amounts written off fixed asset investments

	1998 £m	1997 £m
Debt securities	**9**	3
Equity shares	**6**	–
	15	3

6 Profit (loss) before tax on sale of businesses

	1998 £m	1997 £m
Profit on sale of International Factors Limited (tax: nil)	**158**	–
Loss on sale of Black Horse Agencies Limited (after charging goodwill of £68 million previously written off to reserves) (tax: nil)	**(43)**	–
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)
	115	(104)

The results of these businesses up to the date of sale are not material.

7 Write-down of finance lease receivables

Following the 1998 Finance Act the corporation tax rate will reduce from 31 per cent to 30 per cent from 1 April 1999; as a result the deferred tax liability in respect of the leasing business of Lloyds Leasing has reduced by £32 million (1997: £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 £32 million (1997: £58 million). There is, therefore, no effect on profit attributable to shareholders.

8 Profit on ordinary activities before tax

	1998 £m	1997 £m
Profit on ordinary activities before tax is stated after taking account of:		
Income from:		
Equipment leased to customers and banks and hire purchase contracts: aggregate amounts receivable	**3,685**	2,401
Profit less losses from securities trading	**75**	106
Profit less losses on disposal of investment securities	**43**	41
Charges:		
Rental of premises	**146**	149
Hire of equipment	**34**	42
Interest on subordinated liabilities (loan capital)	**313**	262
Finance lease depreciation	–	7

Of the Group's non-interest income, £297 million (1997: £122 million) relates to income from other Lloyds TSB Group companies.

Notes to the accounts

9 Segment analysis

	Profit on ordinary activities before tax 1998 £m	1997* £m
Class of business:		
UK Retail Banking and Mortgages		
Profit before restructuring provision	**1,085**	775
Restructuring provision	**(36)**	(247)
	1,049	528
Wholesale Markets		
Profit before write-down of finance lease receivables	**557**	539
Write-down of finance lease receivables	**(32)**	(58)
	525	481
International Banking		
Profit before restructuring provision	**348**	389
Restructuring provision	**(38)**	–
	310	389
Central group items	**115**	–
Continuing operations	**1,999**	1,398
Discontinued operations	–	181
	1,999	1,579

Geographical area:**	Domestic 1998 £m	International 1998 £m	Continuing operations 1998 £m	Discontinued operations 1998 £m	Total 1998 £m
Interest receivable	**8,061**	**2,389**	**10,450**	–	**10,450**
Dividend income from equity shares	**4**	–	**4**	–	**4**
Fees and commissions receivable	**1,115**	**259**	**1,374**	–	**1,374**
Dealing profits (before expenses)	**129**	**55**	**184**	–	**184**
Other operating income	**350**	**89**	**439**	–	**439**
Total gross income	**9,659**	**2,792**	**12,451**	–	**12,451**
Profit on ordinary activities before tax	**1,732**	**267**	**1,999**	–	**1,999**

	Domestic 1997 £m	International 1997 £m	Continuing operations 1997 £m	Discontinued operations 1997 £m	Total 1997 £m
Interest receivable	6,310	2,308	8,618	88	8,706
Dividend income from equity shares	4	5	9	–	9
Fees and commissions receivable	1,129	247	1,376	283	1,659
Dealing profits (before expenses)	146	42	188	7	195
Income from long-term assurance business	–	–	–	125	125
Other operating income	165	85	250	9	259
Total gross income	7,754	2,687	10,441	512	10,953
Profit on ordinary activities before tax	984	414	1,398	181	1,579

9 Segment analysis (continued)

	Net assets† 1998 £m	Net assets† 1997* £m	Assets 1998 £m	Assets 1997* £m
Class of business:				
Retail Banking and Mortgages	**2,810**	2,558	**59,398**	55,653
Wholesale Markets	**1,954**	2,041	**59,848**	56,783
International Banking	**408**	132	**17,453**	15,869
Central group items	–	–	**42**	25
Continuing operations	**5,172**	4,731	**136,741**	128,330
Discontinued operations	–	6	–	836
	5,172	4,737	**136,741**	129,166
Geographical area:**				
Domestic	**5,127**	4,716	**115,033**	109,274
International	**45**	15	**21,708**	19,056
Continuing operations	**5,172**	4,731	**136,741**	128,330
Discontinued operations	–	6	–	836
	5,172	4,737	**136,741**	129,166

*1997 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.

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

10 Tax on profit on ordinary activities

	1998 £m	1997 £m
UK corporation tax	**378**	408
Relief for overseas tax	**(34)**	(33)
Overseas tax	**110**	46
Deferred tax: current year	**114**	111
: prior year adjustment relating to rate change	**(33)**	(51)
	535	481
Associated undertakings	**2**	9
	537	490

The charge for tax on the profit for the year is based on an average UK corporation tax rate of 31 per cent (1997: 31.5 per cent).

The UK corporation tax charge includes £2 million (1997: £27 million) in respect of notional tax on franked investment income and, in 1997, on the shareholders' interest in the increase in the value of the long-term assurance business.

Notes to the accounts

11 Profit for the financial year attributable to shareholders

The profit attributable to shareholders includes a profit of £1,238 million (1997: £886 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.

12 Dividends

	1998 £m	1997 £m
First interim	**150**	300
Second interim	**300**	–
Third interim	**650**	–
	1,100	300

13 Treasury bills and other eligible bills

	1998 Balance sheet £m	1998 Valuation £m	1997 Balance sheet £m	1997 Valuation £m
Group				
Investment securities:				
Treasury bills and similar securities	**346**	**346**	45	47
Other eligible bills	**1,364**	**1,405**	1,239	1,292
	1,710	**1,751**	1,284	1,339
Other securities:				
Treasury bills and similar securities	**1,429**		2,228	
Other eligible bills	**12**		54	
	1,441		2,282	
	3,151		3,566	
Included above: Unamortised discounts net of premiums on investment securities	**8**		5	

Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Total £m
At 1 January 1998	**1,279**	**5**	**1,284**
Exchange and other adjustments	**1**	**–**	**1**
Additions	**27,599**	**–**	**27,599**
Bills sold or matured	**(27,173)**	**(74)**	**(27,247)**
Amortisation of premiums and discounts	**–**	**73**	**73**
At 31 December 1998	**1,706**	**4**	**1,710**

13 Treasury bills and other eligible bills (continued)

	1998 Balance sheet £m	1998 Valuation £m	1997 Balance sheet £m	1997 Valuation £m
Bank				
Investment securities:				
Treasury bills and similar securities	**346**	**346**	24	24
Other eligible bills	**1,364**	**1,405**	1,239	1,292
	1,710	**1,751**	1,263	1,316
Other securities:				
Treasury bills and similar securities	**943**		1,679	
Other eligible bills	**12**		54	
	955		1,733	
	2,665		2,996	
Included above: Unamortised discounts net of premiums on investment securities	**8**		4	

Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Total £m
At 1 January 1998	**1,258**	**5**	**1,263**
Exchange and other adjustments	**22**	**–**	**22**
Additions	**27,598**	**–**	**27,598**
Bills sold or matured	**(27,172)**	**(74)**	**(27,246)**
Amortisation of premiums and discounts	**–**	**73**	**73**
At 31 December 1998	**1,706**	**4**	**1,710**

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.

14 Loans and advances to banks

	Group		Bank	
	1998 £m	1997 £m	1998 £m	1997 £m
Lending to banks	**1,808**	1,657	**22,457**	23,262
Deposits placed with banks	**17,213**	19,302	**16,480**	18,119
	19,021	20,959	**38,937**	41,381
Equipment leased to banks	**4**	–	**–**	–
Total loans and advances to banks	**19,025**	20,959	**38,937**	41,381
Provisions for bad and doubtful debts	**(58)**	(60)	**(56)**	(60)
Interest held in suspense	**(40)**	(39)	**(40)**	(39)
	18,927	20,860	**38,841**	41,282

Notes to the accounts

14 Loans and advances to banks (continued)

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Repayable on demand	**2,075**	5,699	**9,041**	20,601
Other loans and advances by residual maturity repayable:				
3 months or less	**13,617**	11,808	**16,360**	14,139
1 year or less but over 3 months	**2,355**	2,656	**3,199**	3,682
5 years or less but over 1 year	**534**	407	**8,778**	2,465
Over 5 years	**444**	389	**1,559**	494
Provisions for bad and doubtful debts	**(58)**	(60)	**(56)**	(60)
Interest held in suspense	**(40)**	(39)	**(40)**	(39)
	18,927	20,860	**38,841**	41,282
Included above:				
Due from group undertakings – all unsubordinated			**21,080**	21,679
Due from fellow group undertakings – all unsubordinated	**1,017**	842	**693**	816

15 Loans and advances to customers

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Lending to customers	**80,944**	75,744	**37,015**	33,863
Hire purchase debtors	**3,597**	3,414	**–**	–
Equipment leased to customers	**8,535**	5,749	**–**	–
Total loans and advances to customers	**93,076**	84,907	**37,015**	33,863
Provisions for bad and doubtful debts	**(1,858)**	(2,090)	**(1,444)**	(1,507)
Interest held in suspense	**(77)**	(107)	**(44)**	(76)
	91,141	82,710	**35,527**	32,280
Loans and advances by residual maturity repayable:				
3 months or less	**16,725**	17,680	**20,168**	19,413
1 year or less but over 3 months	**6,238**	5,080	**4,566**	3,598
5 years or less but over 1 year	**17,141**	14,685	**6,635**	6,357
Over 5 years	**52,972**	47,462	**5,646**	4,495
Provisions for bad and doubtful debts	**(1,858)**	(2,090)	**(1,444)**	(1,507)
Interest held in suspense	**(77)**	(107)	**(44)**	(76)
	91,141	82,710	**35,527**	32,280
Of which repayable on demand or at short notice	**9,030**	10,106	**9,208**	10,042
Included above:				
Due from group undertakings – all unsubordinated			**9,431**	7,772
Due from fellow group undertakings – all unsubordinated	**3,045**	2,431	**3,011**	2,396
Due from associated undertakings – all unsubordinated	**–**	38	**–**	–

The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts amounted to £3,414 million (1997: £3,013 million).

16 Provisions for bad and doubtful debts

	1998 Specific £m	1998 General £m	1997 Specific £m	1997 General £m
Group				
At 1 January	**1,831**	**319**	1,579	406
Exchange and other adjustments	**(36)**	**(1)**	59	3
Transfer from general to specific provisions	**–**	**–**	110	(110)
Adjustments on acquisitions and disposals	**12**	**5**	103	7
Transfer from fellow group undertaking	**38**	**–**	–	–
Advances written off	**(794)**	**–**	(441)	–
Recoveries of advances written off in previous years	**118**	**–**	116	–
Charge (release) to profit and loss account:				
New and additional provisions	**723**	**7**	641	13
Releases and recoveries	**(303)**	**(3)**	(336)	–
	420	**4**	305	13
At 31 December	**1,589**	**327**	1,831	319
	1,916		2,150	
In respect of:				
Loans and advances to banks	**58**		60	
Loans and advances to customers	**1,858**		2,090	
	1,916		2,150	
Bank				
At 1 January	**1,333**	**234**	1,378	342
Exchange and other adjustments	**(17)**	**–**	44	–
Transfer from general to specific provisions	**–**	**–**	100	(100)
Advances written off	**(349)**	**–**	(333)	–
Transfer from (to) fellow group undertaking	**39**	**–**	–	(8)
Recoveries of advances written off in previous years	**86**	**–**	92	–
Charge (release) to profit and loss account:				
New and additional provisions	**421**	**6**	339	–
Releases and recoveries	**(252)**	**(1)**	(287)	–
	169	**5**	52	–
At 31 December	**1,261**	**239**	1,333	234
	1,500		1,567	
In respect of:				
Loans and advances to banks	**56**		60	
Loans and advances to customers	**1,444**		1,507	
	1,500		1,567	

Notes to the accounts

17 Interest held in suspense and non-performing lending

	1998 £m	1997 £m
Group		
At 1 January	**146**	229
Exchange and other adjustments	**(2)**	(5)
Adjustments on acquisitions and disposals	**1**	3
Interest written off	**(49)**	(140)
Interest taken to income	**(12)**	(15)
Interest suspended during the year	**22**	74
Transfer from fellow group undertaking	**11**	–
At 31 December	**117**	146
In respect of:		
Loans and advances to banks	**40**	39
Loans and advances to customers	**77**	107
	117	146
Non-performing lending comprises:		
Loans and advances – category 1	**501**	920
Loans and advances – category 2	**417**	526
	918	1,446
Provisions	**(478)**	(680)
Interest held in suspense	**(117)**	(146)
	323	620
Bank		
At 1 January	**115**	204
Exchange and other adjustments	**(2)**	(3)
Interest written off	**(42)**	(131)
Interest taken to income	**(10)**	(12)
Interest suspended during the year	**12**	57
Transfer from fellow group undertaking	**11**	–
At 31 December	**84**	115
In respect of:		
Loans and advances to banks	**40**	39
Loans and advances to customers	**44**	76
	84	115
Non-performing lending comprises:		
Loans and advances – category 1	**199**	407
Loans and advances – category 2	**345**	467
	544	874
Provisions	**(255)**	(348)
Interest held in suspense	**(84)**	(115)
	205	411

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.

18 Concentrations of exposure

	Group		Bank	
	1998 £m	1997* £m	1998 £m	1997 £m
Loans and advances to customers				
Domestic:				
Agriculture, forestry and fishing	**1,962**	1,915	**657**	644
Manufacturing	**2,777**	2,750	**2,585**	2,245
Construction	**634**	705	**616**	678
Transport, distribution and hotels	**3,057**	3,558	**2,605**	2,748
Property companies	**2,060**	1,823	**2,050**	1,806
Financial, business and other services	**4,278**	5,231	**3,937**	4,972
Personal: mortgages	**42,645**	39,632	**636**	844
: other	**5,717**	4,948	**5,222**	4,501
Lease financing	**8,398**	5,693	**-**	–
Hire purchase	**3,578**	3,414	**-**	–
Due from fellow group undertakings	**3,045**	2,431	**12,442**	10,168
Other	**1,469**	1,107	**1,433**	866
Total domestic	**79,620**	73,207	**32,183**	29,472
International:				
Latin America	**2,939**	3,307	**1,749**	1,947
New Zealand	**7,310**	5,430	**-**	–
Rest of the world	**3,207**	2,963	**3,083**	2,444
Total international	**13,456**	11,700	**4,832**	4,391
	93,076	84,907	**37,015**	33,863
Provisions for bad and doubtful debts†	**(1,858)**	(2,090)	**(1,444)**	(1,507)
Interest held in suspense†	**(77)**	(107)	**(44)**	(76)
	91,141	82,710	**35,527**	32,280

*Figures have been restated to reflect the reclassification of certain advances as hire purchase contracts.

†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.

19 Debt securities

	1998 Balance sheet £m	1998 Valuation £m	1997 Balance sheet £m	1997 Valuation £m
Group				
Investment securities:				
Government securities	**995**	**1,226**	1,502	1,856
Other public sector securities	**12**	**12**	34	34
Bank and building society certificates of deposit	**2,448**	**2,453**	3,321	3,322
Other debt securities	**578**	**579**	691	692
	4,033	**4,270**	5,548	5,904
Other securities:				
Government securities	**4,596**	**4,596**	4,467	4,467
Other public sector securities	**5**	**5**	89	89
Bank and building society certificates of deposit	**619**	**619**	78	78
Other debt securities	**3,056**	**3,056**	2,051	2,051
	12,309	**12,546**	12,233	12,589
Due within 1 year	**4,873**		4,583	
Due 1 year and over	**7,436**		7,650	
	12,309		12,233	
Unamortised discounts net of premiums on investment securities	**871**		838	
Listed: collateralised bonds	**866**	**1,102**	852	1,208
: other	**7,359**	**7,355**	7,328	7,327
Unlisted	**4,084**	**4,089**	4,053	4,054
	12,309	**12,546**	12,233	12,589

Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Provisions £m	Total £m
At 1 January 1998	**5,410**	**145**	**7**	**5,548**
Exchange and other adjustments	**8**	**2**	**–**	**10**
Additions	**13,755**	**–**	**–**	**13,755**
Securities sold or matured	**(15,304)**	**(3)**	**(4)**	**(15,303)**
Charge for the year	**–**	**–**	**9**	**(9)**
Amortisation of premiums and discounts	**–**	**32**	**–**	**32**
At 31 December 1998	**3,869**	**176**	**12**	**4,033**

19 Debt securities (continued)

	1998 Balance sheet £m	1998 Valuation £m	1997 Balance sheet £m	1997 Valuation £m
Bank				
Investment securities:				
Government securities	**965**	**1,196**	1,472	1,827
Other public sector securities	**8**	**9**	30	30
Bank and building society certificates of deposit	**2,448**	**2,453**	3,320	3,320
Other debt securities	**397**	**397**	484	485
	3,818	**4,055**	5,306	5,662
Other securities:				
Government securities	**4,500**	**4,500**	4,323	4,323
Bank and building society certificates of deposit	**186**	**186**	21	21
Other debt securities	**3,126**	**3,126**	2,130	2,130
	11,630	**11,867**	11,780	12,136
Included above:				
Due from group undertakings – all unsubordinated	**129**		176	
Due within 1 year	**4,319**		4,248	
Due 1 year and over	**7,311**		7,532	
	11,630		11,780	
Unamortised discounts net of premiums on investment securities	**703**		747	
Listed: collateralised bonds	**866**	**1,102**	852	1,208
: other	**7,281**	**7,277**	7,214	7,215
Unlisted	**3,483**	**3,488**	3,714	3,713
	11,630	**11,867**	11,780	12,136

Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Total £m
At 1 January 1998	**5,184**	**122**	**5,306**
Exchange and other adjustments	**9**	**2**	**11**
Additions	**13,677**	**–**	**13,677**
Securities sold or matured	**(15,203)**	**(1)**	**(15,204)**
Amortisation of premiums and discounts	**–**	**28**	**28**
At 31 December 1998	**3,667**	**151**	**3,818**

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

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

Notes to the accounts

20 Equity shares

	1998 Balance sheet £m	1998 Valuation £m	1997 Balance sheet £m	1997 Valuation £m
Group				
Investment securities:				
Listed	**9**	**27**	5	30
Unlisted	**32**	**47**	78	89
	41	**74**	83	119
Other securities:				
Listed	**–**		10	
Unlisted	**2**		1	
	2		11	
	43		94	

Movements in investment securities comprise:	Cost £m	Provisions £m	Total £m
At 1 January 1998	**91**	**8**	**83**
Exchange and other adjustments	**(2)**	**–**	**(2)**
Additions	**50**	**–**	**50**
Disposals	**(86)**	**(2)**	**(84)**
Charge for the year	**–**	**6**	**(6)**
At 31 December 1998	**53**	**12**	**41**

	1998 Balance sheet £m	1998 Valuation £m	1997 Balance sheet £m	1997 Valuation £m
Bank				
Investment securities:				
Listed	**11**	**9**	1	1
Unlisted	**13**	**13**	13	15
	24	**22**	14	16
Other securities:				
Listed	**–**		4	
Unlisted	**1**		–	
	1		4	
	25		18	

Movements in investment securities comprise:	Cost £m
At 1 January 1998	**14**
Additions	**38**
Disposals	**(28)**
At 31 December 1998	**24**

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

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

21 Assets transferred under sale and repurchase transactions

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

	Group		Bank	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Treasury bills and other eligible bills	**558**	1,439	**558**	1,104
Debt securities	**2,389**	1,217	**2,339**	976
	2,947	2,656	**2,897**	2,080

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

22 Interests in associated undertakings

	Group £m	Bank £m
At 1 January 1998	**8**	**2**
Exchange and other adjustments	**(1)**	–
Adjustments on acquisition	**2**	–
Transfers	**(6)**	–
Retained profits	**1**	–
At 31 December 1998	**4**	**2**

	Group		Bank	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Interests in banks	–	2	–	–
Interests in other associated undertakings	**4**	6	**2**	2
Total – all unlisted	**4**	8	**2**	2
On an historical cost basis, interests in associated undertakings would have been included as follows:			**9**	9

Notes to the accounts

23 Shares in group undertakings

	Bank £m
At 1 January 1998	**3,702**
Acquisitions	**101**
Disposals	**(150)**
Provision	**(6)**
Revaluations	**273**
At 31 December 1998	**3,920**

	1998 £m	1997 £m
Shares in banks	**3,255**	2,794
Shares in other group undertakings	**665**	908
Total – all unlisted	**3,920**	3,702
On a historical cost basis, shares in group undertakings would have been included as follows:		
Cost	**3,187**	3,240
Provisions	**(8)**	(2)
	3,179	3,238

During 1998 the Bank entered into a series of transactions resulting in the acquisition of the business of the Spanish operations of the Bank's subsidiary, Lloyds Bank (BLSA) Limited. On 22 October 1998 the Bank sold Lloyds Bank (BLSA) Limited to Lloyds TSB Group plc, its ultimate parent company. The consideration for this sale was £101 million, which was settled in cash. On 31 October 1998 the business and all the assets and liabilities of the Spanish branch of Lloyds Bank (BLSA) Limited were transferred to the Bank. The consideration for this transfer was £24 million, which was equivalent to the fair value of the net assets acquired. The consideration was satisfied by the issue of 1.5 million shares by the Bank. On 4 December 1998 Lloyds Bank (BLSA) Limited sold these shares to Lloyds TSB Group plc. Immediately after this the Bank repurchased Lloyds Bank (BLSA) Limited from Lloyds TSB Group plc. The consideration for this purchase was £101 million, which was settled in cash.

In addition, during 1998 the Bank disposed of International Factors Limited for a consideration of £170 million and Black Horse Agencies Limited for a consideration of £50 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
Alex Lawrie 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 TSB Bank (Jersey) Limited	Jersey	*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 Argentina, Ecuador and Uruguay. The National Bank of New Zealand Limited also operates through a representative office in Hong Kong.

24 Intangible fixed assets

	Cost £m	Amortisation £m	Net book value £m
Goodwill			
At 1 January 1998	–	–	–
Additions	**206**	–	**206**
Exchange adjustments	**14**	–	**14**
Charge for the year	–	**4**	**(4)**
At 31 December 1998	**220**	**4**	**216**

25 Tangible fixed assets

	Group		Bank	
	Premises £m	Equipment £m	Premises £m	Equipment £m
Cost or valuation:				
At 1 January 1998	**815**	**1,334**	**586**	**1,036**
Exchange and other adjustments	**(5)**	**(13)**	–	**1**
Adjustments on acquisitions and disposals	**33**	**(26)**	**16**	**6**
Transfer to subsidiary undertaking	–	–	**(16)**	**(7)**
Transfer from fellow group undertaking	**20**	–	–	–
Additions	**61**	**166**	**52**	**120**
Disposals	**(55)**	**(67)**	**(46)**	**(45)**
At 31 December 1998	**869**	**1,394**	**592**	**1,111**
Depreciation:				
At 1 January 1998	**140**	**827**	**131**	**679**
Exchange and other adjustments	–	**(7)**	–	**(1)**
Adjustments on acquisitions and disposals	**3**	**(11)**	–	**4**
Transfer to subsidiary undertaking	–	–	**(1)**	**(3)**
Charge for the year	**33**	**114**	**30**	**75**
Disposals	**(2)**	**(51)**	**(3)**	**(36)**
At 31 December 1998	**174**	**872**	**157**	**718**
Balance sheet amount at 31 December 1998	**695**	**522**	**435**	**393**
	1,217		**828**	
Balance sheet amount at 31 December 1997	675	507	455	357
	1,182		812	

Equipment includes assets held under finance leases which at 31 December 1998 amounted to £nil, net of accumulated depreciation of £107 million (1997: £nil, net of accumulated depreciation of £107 million).

Notes to the accounts

25 Tangible fixed assets (continued)

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Balance sheet amount of premises comprises:				
Freeholds	**471**	454	**245**	265
Leaseholds 50 years and over unexpired	**42**	45	**24**	27
Leaseholds less than 50 years unexpired	**182**	176	**166**	163
	695	675	**435**	455
Balance sheet amount of premises comprises:				
Valued in 1997	**458**	459	**219**	253
At cost	**237**	216	**216**	202
	695	675	**435**	455
On an historical cost basis, premises would have been included as follows:				
Cost	**952**	902	**666**	653
Accumulated depreciation	**(219)**	(192)	**(206)**	(179)
	733	710	**460**	474
Land and buildings occupied for own activities	**618**	582	**379**	382

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

26 Lease commitments

Commitments under non-cancellable operating leases were:

	1998 Premises £m	1998 Equipment £m	1997 Premises £m	1997 Equipment £m
Group				
Leases on which the commitment is due to expire in:				
1 year or less	**6**	**12**	1	19
5 years or less but over 1 year	**20**	**9**	11	10
Over 5 years	**126**	**–**	123	–
	152	**21**	135	29
Bank				
Leases on which the commitment is due to expire in:				
1 year or less	**2**	**12**	1	19
5 years or less but over 1 year	**6**	**9**	6	8
Over 5 years	**106**	**–**	103	–
	114	**21**	110	27

27 Capital commitments

Capital expenditure contracted but not provided for at 31 December 1998 amounted to £3 million for the Group and £2 million for the Bank (1997: Group £3 million; Bank £1 million).

28 Other assets

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Foreign exchange and interest rate contracts	**4,135**	3,649	**3,778**	3,307
Other assets	**1,019**	486	**672**	409
	5,154	4,135	**4,450**	3,716

29 Prepayments and accrued income

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Interest receivable	**1,115**	793	**1,280**	1,044
Other debtors and prepayments	**1,020**	1,258	**624**	840
	2,135	2,051	**1,904**	1,884

Included within the Group's other debtors and prepayments is £155 million (1997: £215 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 £60 million higher in 1998 (1997: £16 million lower).

30 Assets and liabilities denominated in foreign currencies

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Assets: denominated in sterling	**101,562**	95,554	**76,363**	75,483
: denominated in other currencies	**35,179**	33,612	**25,743**	25,129
	136,741	129,166	**102,106**	100,612
Liabilities: denominated in sterling	**101,453**	95,431	**76,363**	75,446
: denominated in other currencies	**35,288**	33,735	**25,743**	25,166
	136,741	129,166	**102,106**	100,612

31 Deposits by banks

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Repayable on demand	**14,680**	8,475	**10,136**	8,938
Other deposits by banks with agreed maturity dates or periods of notice by residual maturity repayable:				
3 months or less	**10,428**	12,207	**13,657**	13,304
1 year or less but over 3 months	**1,876**	3,499	**2,001**	2,682
5 years or less but over 1 year	**838**	3,535	**821**	2,086
Over 5 years	**176**	115	**158**	58
	27,998	27,831	**26,773**	27,068
Included above:				
Due to group undertakings			**5,901**	3,629
Due to fellow group undertakings	**10,978**	11,496	**5,124**	8,198

32 Customer accounts

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Repayable on demand	**50,006**	46,077	**29,554**	29,383
Other customer accounts with agreed maturity dates or periods of notice by residual maturity repayable:				
3 months or less	**21,903**	19,753	**17,543**	16,497
1 year or less but over 3 months	**2,439**	2,197	**1,492**	1,494
5 years or less but over 1 year	**895**	1,227	**678**	1,032
Over 5 years	**343**	193	**316**	160
	75,586	69,447	**49,583**	48,566
Included above:				
Due to group undertakings			**1,846**	1,918
Due to fellow group undertakings	**2,292**	970	**2,278**	1,279

33 Debt securities in issue

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Bonds and medium-term notes by residual maturity repayable:				
1 year or less	**649**	862	**182**	308
2 years or less but over 1 year	**249**	242	**81**	192
5 years or less but over 2 years	**54**	171	**28**	–
Over 5 years	**273**	–	**3**	–
	1,225	1,275	**294**	500
Other debt securities by residual maturity repayable:				
3 months or less	**7,607**	7,920	**5,665**	5,601
1 year or less but over 3 months	**2,805**	2,360	**2,472**	1,945
5 years or less but over 1 year	**194**	240	**134**	241
Over 5 years	**9**	–	**9**	–
	10,615	10,520	**8,280**	7,787
	11,840	11,795	**8,574**	8,287
Included above:				
Due to group undertakings			**125**	15

34 Other liabilities

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Foreign exchange and interest rate contracts	**4,825**	4,417	**4,543**	3,938
Current tax	**367**	481	**243**	305
Dividends	**650**	300	**650**	300
Other liabilities	**1,326**	2,020	**957**	1,645
	7,168	7,218	**6,393**	6,188

35 Accruals and deferred income

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Interest payable	**1,489**	1,046	**837**	690
Other creditors and accruals	**1,105**	1,459	**706**	1,038
	2,594	2,505	**1,543**	1,728

36 Deferred tax

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Short-term timing differences	**(102)**	(75)	**(84)**	(70)
Pensions prepayment	**105**	91	**105**	91
Restructuring provisions	**(10)**	(35)	**(10)**	(35)
Provision for Emerging Markets Debt	**(220)**	(254)	**(220)**	(254)
Accelerated depreciation allowances	**1,427**	845	**28**	33
Advance corporation tax recoverable	–	(73)	–	(47)
	1,200	499	**(181)**	(282)

	Group £m	Bank £m
At 1 January 1998	**499**	**(282)**
Exchange and other adjustments	**74**	**47**
Adjustments on acquisitions and disposals	**546**	–
Tax provided: current year	**114**	**49**
: prior year adjustment relating to rate change	**(33)**	**5**
At 31 December 1998	**1,200**	**(181)**

	Group 1998 £m	Group 1997 £m	Bank 1998 £m	Bank 1997 £m
Potential tax for which no provision has been made relating to accelerated depreciation allowances on equipment leased to customers	**72**	72	–	–

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

37 Other provisions for liabilities and charges

	Pension obligations £m	Restructuring provisions £m	Other £m	Total £m
Group				
At 1 January 1998	**24**	**130**	**224**	**378**
Exchange and other adjustments	**1**	–	–	**1**
Provisions applied	**(1)**	**(128)**	**(17)**	**(146)**
Other movements	**2**	–	**(3)**	**(1)**
Charge to profit and loss account	–	**74**	**(3)**	**71**
At 31 December 1998	**26**	**76**	**201**	**303**
Bank				
At 1 January 1998	–	**130**	**180**	**310**
Provisions applied	–	**(124)**	**(20)**	**(144)**
Other movements	**26**	–	**4**	**30**
Charge to profit and loss account	–	**36**	**(6)**	**30**
At 31 December 1998	**26**	**42**	**158**	**226**

Notes to the accounts

38 Subordinated liabilities

	1998 £m	1997 £m
** Undated loan capital:*		
† Primary Capital Undated Floating Rate Notes:		
Series 1 (US$750 million)	**451**	456
Series 2 (US$500 million)	**301**	304
Series 3 (US$600 million)	**361**	364
✣Subordinated 5.57% Step-up Coupon Notes (¥20 billion)	**106**	93
•8% Undated Subordinated Step-up Notes	**199**	198
Bank	**1,418**	1,415
11¾% Perpetual Subordinated Bonds	**100**	100
Group	**1,518**	1,515
Dated loan capital:		
10¼% Subordinated Bonds 1998	**–**	150
† Variable Rate Subordinated Notes 1998	**–**	40
†‡ Guaranteed Floating Rate Notes 1998	**–**	28
11⅜% Subordinated Serial Bonds 1998	**–**	20
†■Subordinated Floating Rate Notes 1999	**228**	227
†❖Subordinated Floating Rate Notes 2004	**100**	100
7⅜% Subordinated Bonds 2004	**398**	398
Subordinated Floating Rate Loan 2006	**100**	100
7¾% Subordinated Bonds 2007	**298**	298
✲5¼% Subordinated Notes 2008 (DM750 million)	**269**	–
¶10⅝% Guaranteed Subordinated Loan Stock 2008	**117**	119
9½% Subordinated Bonds 2009	**99**	99
¶12% Guaranteed Subordinated Bonds 2011	**127**	129
9⅝% Subordinated Bonds 2023	**200**	200
Bank	**1,936**	1,908
§ Subordinated Fixed Rate Bonds 2003	**63**	70
† Subordinated Floating Rate Notes 2003	**–**	18
† Subordinated Floating Rate Notes 2004	**25**	25
† Subordinated Floating Rate Notes 2005	**25**	25
§ Subordinated Bonds 2005 (NZ$50 million)	**16**	–
§ Subordinated Bonds 2006 (NZ$75 million)	**24**	–
† Subordinated Floating Rate Notes 2006	**150**	150
† Subordinated Floating Rate Notes 2007	**200**	200
§ Subordinated Fixed Rate Bonds 2007 (NZ$150 million)	**48**	53
†✲Subordinated Floating Rate Notes 2008	**150**	–
Subordinated floating rate loan on rolling 6 year notice	**–**	45
Group	**2,637**	2,494
Total subordinated liabilities : Group	**4,155**	4,009
: Bank	**3,354**	3,323

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 1998 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.

38 Subordinated liabilities (continued)

Dated subordinated liabilities are repayable as follows:

	Group		Bank	
	1998 £m	1997 £m	1998 £m	1997 £m
1 year or less	**228**	238	**228**	238
2 years or less but over 1 year	**5**	227	**–**	227
5 years or less but over 2 years	**78**	15	**–**	–
Over 5 years	**2,326**	2,014	**1,708**	1,443
	2,637	2,494	**1,936**	1,908

39 Called-up share capital

	1998 £m	1997 £m
Authorised: ordinary shares of £1 each*	**1,650**	1,650
Issued and fully paid: ordinary shares of £1 each		
At 1 January	**1,470**	1,458
Issued in the year	**2**	12
At 31 December	**1,472**	1,470

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

On 31 October 1998 the Bank issued 1.5 million ordinary shares to Lloyds Bank (BLSA) Limited, which subsequently sold those shares to Lloyds TSB Group plc, the Bank's ultimate parent company. These transactions were part of a series by which the Spanish operations of Lloyds Bank (BLSA) Limited were acquired by the Bank. Further details are given on page 20 in note 23 to these accounts.

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

40 Reserves

	Group £m	Bank £m	Associated undertakings £m
Share premium account:			
At 1 January 1998	**857**	**857**	**–**
Premium arising on issue of shares	**22**	**22**	**–**
At 31 December 1998	**879**	**879**	**–**
Revaluation reserve:			
At 1 January 1998	**(216)**	**278**	**–**
Increase in net tangible assets of subsidiary and associated undertakings	**–**	**273**	**–**
Transfer from profit and loss account	**19**	**22**	**–**
At 31 December 1998	**(197)**	**573**	**–**
Profit and loss account:			
At 1 January 1998	**2,586**	**2,092**	**(3)**
Exchange and other adjustments	**(8)**	**(2)**	**(1)**
Goodwill written back on sale of businesses	**68**	**–**	**–**
Transfer to revaluation reserve	**(19)**	**(22)**	**–**
Retained profit	**349**	**138**	**1**
At 31 December 1998	**2,976**	**2,206**	**(3)**

The cumulative amount of premiums on acquisitions written off against profit and loss account reserves during previous years amounts to £982 million of which £897 million was within the last 10 years.

Notes to the accounts

41 Directors' interests

The 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 31 December 1998	At 1 January 1998
	21,153	7,209

Options to acquire shares:	At 1 January 1998	Granted during the year	Exercised during the year	At 31 December 1998
	139,149	**37,246**	**14,160**	**162,235**

Options are exercisable between 1999 and 2008.

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 931 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.

42 Directors' emoluments

The aggregate of the emoluments of the directors for their services to the Company was £2,734,000 (1997: £2,946,000).

The aggregate of the amount of the gains made by directors on the exercise of Lloyds TSB Group plc share options was £2,306,000 (1997: £6,892,000).

The aggregate of the value of company contributions paid, in respect of directors' qualifying services, to a money purchase pension scheme was £43,313 (1997: £nil). None of this amount was attributable to the highest paid director.

The numbers of directors to whom retirement benefits are accruing under money purchase and defined benefit pension schemes were 1 and 7 respectively (1997: none and 6).

The total for the highest paid director (Mr Moore) for his services to the Company, including the £2,086,000 gain on the exercise of Lloyds TSB Group plc share options was £2,262,000. The total for the highest paid director in 1997 (Sir Nicholas Goodison) for his services to the Company, including the gain of £5,196,000 on the exercise of share options, and a payment of £58,500 relating to a retirement annuity plan, was £5,436,000.

43 Transactions with related parties

At 31 December 1998, transactions, arrangements and agreements entered into by the Bank or its subsidiaries with directors and connected persons and with officers of the Bank included:

	1998 Number of persons	1998 Total £000	1997 Number of persons	1997 Total £000
Loans and credit card transactions:				
Directors and connected persons	**4**	**132**	7	198
Officers	**25**	**2,757**	24	2,300

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 are set out in note 15.

44 Contingent liabilities and commitments

	Group		Bank	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Contingent liabilities:				
Acceptances and endorsements	**399**	427	**398**	399
Guarantees	**2,117**	2,163	**2,815**	3,172
Other:				
Other items serving as direct credit substitutes	**229**	403	**270**	395
Performance bonds and other transaction-related contingencies	**1,327**	1,229	**1,268**	1,099
Other contingent liabilities	**13**	8	**–**	–
	1,569	1,640	**1,538**	1,494
	4,085	4,230	**4,751**	5,065
Commitments:				
Documentary credits and other short-term trade-related transactions	**203**	224	**131**	166
Forward asset purchases and forward forward deposits placed	**1,892**	2,032	**1,750**	1,868
Undrawn note issuing and revolving underwriting facilities	**61**	87	**–**	–
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year maturity	**11,681**	10,367	**10,469**	9,211
1 year or over maturity	**5,190**	4,178	**4,851**	3,838
Other commitments	**25**	16	**25**	16
	19,052	16,904	**17,226**	15,099
Incurred on behalf of group undertakings:				
Contingent liabilities			**819**	1,124
Commitments			**51**	493
			870	1,617
Incurred on behalf of fellow group undertakings:				
Contingent liabilities	**55**	52	**29**	30
Commitments	**1**	–	**1**	–
	56	52	**30**	30

45 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:

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

31 December 1997	Notional principal amount £m	Fair values Assets £m	Liabilities £m
Exchange rate contracts:			
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
Interest rate contracts:			
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

45 Derivatives (continued)

Non-trading

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

	1998 Notional principal amount £m	1997 Notional principal amount £m
Exchange rate contracts:		
Spot, forwards and futures	**727**	935
Currency swaps	**191**	172
	918	1,107
Interest rate contracts:		
Forwards and futures	**930**	24
Interest rate swaps	**2,556**	4,689
Options purchased	**–**	2
	3,486	4,715

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

	Under 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
31 December 1998				
Exchange rate contracts:				
Notional principal amount	**143,178**	**6,525**	**717**	**150,420**
Net replacement cost	**1,416**	**185**	**15**	**1,616**
Interest rate contracts:				
Notional principal amount	**471,701**	**309,971**	**46,650**	**828,322**
Net replacement cost	**524**	**821**	**710**	**2,055**
Equity contracts:				
Notional principal amount	**134**	**2,721**	**976**	**3,831**
Net replacement cost	**24**	**377**	**101**	**502**
31 December 1997				
Exchange rate contracts:				
Notional principal amount	148,490	7,242	492	156,224
Net replacement cost	1,642	251	35	1,928
Interest rate contracts:				
Notional principal amount	509,402	297,801	21,428	828,631
Net replacement cost	226	942	409	1,577
Equity contracts:				
Notional principal amount	44	1,114	202	1,360
Net replacement cost	3	230	31	264

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 both trading and non-trading instruments entered into with third parties by counterparty type is set out below:

	1998 £m	1997 £m
OECD banks	**2,955**	3,332
Other	**1,218**	437
	4,173	3,769

45 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:

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

31 December 1997	Notional principal amount £m	Fair values Assets £m	Fair values Liabilities £m
Exchange rate contracts:			
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
	146,085	2,442	2,728
Interest rate contracts:			
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	–
	821,386	4,441	5,050
Equity contracts	1,360	264	–
Effect of netting		(3,840)	(3,840)
Balances arising from off-balance sheet financial instruments		3,307	3,938

45 Derivatives (continued)
Non-trading
The notional principal amounts of non-trading instruments entered into with third parties were as follows:

	1998 Notional principal amount £m	1997 Notional principal amount £m
Exchange rate contracts:		
Spot, forwards and futures	**960**	627
Currency swaps	**434**	140
	1,394	767
Interest rate contracts:		
Forward rate agreements	**930**	12
Interest rate swaps	**669**	1,029
Options purchased	**–**	2
	1,599	1,043

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

	Under 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
31 December 1998				
Exchange rate contracts:				
Notional principal amount	**134,927**	**5,497**	**670**	**141,094**
Net replacement cost	**1,281**	**79**	**16**	**1,376**
Interest rate contracts:				
Notional principal amount	**467,518**	**304,703**	**46,223**	**818,444**
Net replacement cost	**504**	**738**	**695**	**1,937**
Equity contracts:				
Notional principal amount	**134**	**2,721**	**976**	**3,831**
Net replacement cost	**24**	**377**	**101**	**502**
31 December 1997				
Exchange rate contracts:				
Notional principal amount	139,717	6,591	544	146,852
Net replacement cost	1,206	118	34	1,358
Interest rate contracts:				
Notional principal amount	503,142	295,975	23,312	822,429
Net replacement cost	189	933	628	1,750
Equity contracts:				
Notional principal amount	44	1,114	202	1,360
Net replacement cost	3	230	31	264

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 both trading and non-trading instruments entered into with third parties by counterparty type is set out below:

	1998 £m	1997 £m
OECD banks	**2,778**	2,893
Other	**1,037**	479
	3,815	3,372

Notes to the accounts

46 Acquisitions

a) In July 1998 it was announced that the Group's subsidiary, The National Bank of New Zealand, had reached agreement in principal with Bank of Scotland to acquire Countrywide, the New Zealand banking arm of Bank of Scotland. The Group completed the transaction on 11 September and the results of Countrywide have been consolidated in full from that date. The premium on acquisition of £192 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of twenty years. The consideration was satisfied by the issue of NZ$850 million (£252 million) of 10 year Floating Rate Unsecured Loan Notes.

A summarised profit and loss account for Countrywide for the period from 1 March 1998 to 10 September 1998 is set out below:

	£m
Net interest income	**27**
Other income and charges	**14**
	41
Administrative expenses	**30**
Provisions for bad and doubtful debts	**2**
Profit on ordinary activities before tax	**9**
Tax	**3**
Profit after tax	**6**
Profit after tax for the year ended 28 February 1998	**17**

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

The balance sheet of Countrywide as at 10 September 1998 was as follows:

	Book value at 10 September £m	Fair value adjustments £m	Fair value at acquisition £m
Cash and balances at central banks	**5**	**–**	**5**
Treasury and other eligible bills	**51**	**–**	**51**
Loans and advances to customers	**2,163**	**(5)**	**2,158**
Debt securities	**290**	**–**	**290**
Tangible fixed assets	**28**	**(4)**	**24**
Interest in associated undertaking	**2**	**–**	**2**
Other assets	**167**	**(1)**	**166**
Deposits by banks	**(182)**	**–**	**(182)**
Debt securities in issue	**(1,163)**	**–**	**(1,163)**
Other liabilities	**(1,291)**	**–**	**(1,291)**
Net assets acquired	**70**	**(10)**	**60**
Goodwill			**192**
Consideration			**252**
Satisfied by:			
Loan notes			**252**

Fair value adjustments have been made to the carrying value of Countrywide's fixed assets, loan portfolio and other assets. The adjustment to fixed assets has been made to reflect the properties held at their current value. The adjustment to the loan portfolio reflects the provision required to state the portfolio at its expected recoverable amount.

b) On 17 September 1998 the Group's subsidiary, Lloyds Leasing Limited, acquired from National Westminster Bank the issued share capital of NatWest Finance Limited, NatWest Leasing Industries Limited and NatWest Machinery Finance Limited, for a cash consideration of approximately £11 million. The premium on acquisition of £11 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of twenty years. There were no fair value adjustments made to the assets acquired. The results of these businesses have been included in the consolidated accounts from the date of acquisition; the effect on the results of the Group is not material.

46 Acquisitions (continued)

c) On 31 March 1998 the Group's subsidiary, Lloyds Bank (BLSA) Limited, acquired the assets and liabilities of Banco Comercial de Tres Arroyos for a cash consideration of £2 million. The premium on acquisition of £3 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of twenty years. Fair value adjustments of £2 million were made to the carrying value of the assets acquired. The results of this business have been included in the consolidated accounts from the date of acquisition; the effect on the results of the Group is not material.