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Lloyds TSB Bank plc

Report and Accounts

2000



Member of Lloyds TSB Group

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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 2000 of £2,797 million. An interim dividend of £515 million for the year ended 31 December 2000 was paid on 29 September 2000. A second interim dividend of £1,170 million will be paid on 30 March 2001.

Principal activities

The Bank and its subsidiaries provide a comprehensive range of banking and financial services through branches and offices in the UK and overseas.

Business review and future developments

Profit before tax for the Lloyds TSB Bank Group was £4,013 million in 2000, compared with £3,229 million in 1999.

Total income increased by 17 per cent to £8,548 million and expenses increased by 17 per cent to £3,904 million. The efficiency ratio of the Group was 45.7 per cent, unchanged from 1999. However, both income and operating expenses were significantly affected by the impact of exceptional restructuring costs, changes in the economic assumptions applied to our long-term assurance business, the impact of pension provisions and a one-off charge relating to stakeholder pensions. In 1999 the sale and closure of businesses was also significant. On 3 March 2000 the Group completed the acquisition of Scottish Widows and on 1 September 2000 the Group acquired Chartered Trust.

Excluding exceptional restructuring costs, total profit before tax from UK Retail Banking and Mortgages rose by £86 million, or 5 per cent, to £1,682 million. There was good growth in mortgages and other personal lending and in retail deposits. Pre-tax profit from Insurance and Investments, excluding short-term fluctuations in investment returns, changes in the economic assumptions applied to our long-term assurance

business, exceptional restructuring costs, pension provisions and the stakeholder pension related charge, increased by £987 million to £1,447 million, from £460 million in 1999. The significant increase reflected the acquisition of Scottish Widows and also the inclusion for a full year of the results of the UK insurance and related businesses that were previously within Lloyds TSB Financial Services Holdings plc, which were acquired by the Bank on 30 June 1999. Excluding exceptional restructuring costs, Wholesale Markets and International Banking pre-tax profit increased by £95 million, or 8 per cent, to £1,250 million. Our Corporate and Financial Institutions businesses achieved record results.

The total charge for bad and doubtful debts decreased to £475 million from £588 million. The domestic charge decreased to £426 million from £500 million, largely due to the good economic conditions during 2000. Provisions overseas decreased to £49 million from £88 million, mainly as a result of higher Emerging Market Debt provision releases. Non-performing lending increased to £1,283 million from £1,088 million in December 1999, largely reflecting the acquisition of Chartered Trust. Non-performing lending represented 1.1 per cent of total lending, compared with 1.0 per cent in December 1999.

Shareholders funds grew by 11 per cent to £11,135 million. Risk weighted assets increased by 11 per cent to £94 billion. At the end of 2000 the risk asset ratios, the international standard for measuring capital adequacy, were 9.0 per cent for total capital and 9.7 per cent for tier 1 capital.

Group structure

The transfer of the business of Scottish Widows' Fund and Life Assurance Society to the Bank's wholly-owned subsidiaries Scottish Widows plc and Scottish Widows Annuities Limited was completed on 3 March 2000. Following this acquisition, the Group is bringing together its life, pensions, unit trust and fund management businesses.

Directors' report

Group structure (continued)

On 1 September 2000 the Bank's subsidiary, Lloyds UDT Finance Limited, completed the acquisition of the whole of the issued share capital of Chartered Trust Group plc and ACL Autolease Holdings Limited, the UK consumer finance and contract hire subsidiaries of Standard Chartered Bank.

Directors

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

Mr Pell left the board on 7 January 2000 and Sir Nicholas Goodison, Mr Nicholson and Dame Bridget Ogilvie left the board on 11 April 2000. Mr Ross and Mr Urquhart joined the board on 3 March 2000 and Mr van den Bergh joined the board on 1 October 2000.

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, sexual orientation, age or marital status.

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

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

Profit sharing and share option schemes are available for most staff, to encourage their financial involvement in Lloyds TSB Group.

Policy and practice on payment of creditors

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

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

The number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is 29. 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 2000 bears to the aggregate of the amounts invoiced by suppliers during the year.

On behalf of the board



A J Michie
Secretary
15 February 2001

Directors

Sir Brian Pitman
Chairman
(retiring on 18 April 2001)

M A van den Bergh
Deputy Chairman
(succeeding Sir Brian Pitman as Chairman)

A E Moore CBE
Deputy Chairman

P B Ellwood
Chief Executive

M E Fairey
Deputy Chief Executive

M K Atkinson

Ewan Brown

A C Butler

S M Forbes

C S Gibson-Smith

Dennis Holt

A G Kane

L E Linaker
(retiring on 18 April 2001)

T F W McKillop

D P Pritchard

M D Ross

The Earl of Selborne

L M Urquhart

Auditors' report

To the members of Lloyds TSB Bank plc

We have audited the financial statements on pages 5 to 34.

Respective responsibilities of directors and auditors

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

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

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the UK Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the

financial statements, if the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2000 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
Chartered Accountants and Registered Auditors
London
15 February 2001

Consolidated profit and loss account
for the year ended 31 December 2000

	Note	Group (excluding Scottish Widows) 2000 £ million	Scottish Widows (note 50) 2000 £ million	2000 £ million	(note 2) 1999* £ million
Interest receivable:					
Interest receivable and similar income					
arising from debt securities		443	–	443	427
Other interest receivable and similar income		10,509	100	10,609	10,001
Interest payable		6,134	335	6,469	5,703
Net interest income		4,818	(235)	4,583	4,725
Other income					
Fees and commissions receivable		2,709	62	2,771	2,129
Fees and commissions payable		(461)	(18)	(479)	(399)
Dealing profits (before expenses)	3	193	5	198	203
Income from long-term assurance business:	32				
Income before pension provisions		527	268	795	173
Pension provisions		(100)	–	(100)	(102)
General insurance premium income		399	–	399	200
Other operating income		381	–	381	361
		3,648	317	3,965	2,565
Total income		8,466	82	8,548	7,290
Operating expenses					
Administrative expenses	4	3,284	46	3,330	3,084
Exceptional restructuring costs	5	129	59	188	–
Total administrative expenses		3,413	105	3,518	3,084
Depreciation	27	364	–	364	262
Amortisation of goodwill	26	22	–	22	(11)
Depreciation and amortisation		386	–	386	251
Total operating expenses		3,799	105	3,904	3,335
Trading surplus (deficit)		4,667	(23)	4,644	3,955
General insurance claims		142	–	142	85
Provisions for bad and doubtful debts	17				
Specific		481	–	481	588
General		(6)	–	(6)	–
		475	–	475	588
Amounts written off fixed asset investments	6	14	–	14	7
Operating profit (loss)		4,036	(23)	4,013	3,275
Loss on sale and closure of businesses	8			–	(46)
Profit on ordinary activities before tax	9			4,013	3,229
Tax on profit on ordinary activities	11			1,167	1,043
Profit on ordinary activities after tax				2,846	2,186
Minority interests: equity				13	6
: non-equity	42			36	–
Profit for the year attributable to shareholders	12			2,797	2,180
Dividends	13			1,685	1,300
Retained profit	44			1,112	880

* restated (note 1)

An analysis of operating profit for the year ended 31 December 1999 is given on page 12 in note 7.

Balance sheets
at 31 December 2000

		Group		Bank	
	Note	2000 £ million	1999* £ million	2000 £ million	1999* £ million
Assets					
Cash and balances at central banks		1,027	1,276	899	1,061
Items in course of collection from banks		1,533	1,743	1,462	1,687
Treasury bills and other eligible bills	14	1,709	2,065	1,499	1,957
Loans and advances to banks	15	15,290	16,963	51,542	47,842
Loans and advances to customers		116,733	104,082	49,585	44,422
Non-returnable finance		(400)	-	-	-
	16	116,333	104,082	49,585	44,422
Debt securities	21	13,882	14,184	12,749	13,038
Equity shares	22	247	213	24	25
Shares in group undertakings	24	-	-	16,171	8,304
Intangible fixed assets	26	2,599	231	13	10
Tangible fixed assets	27	3,037	2,035	1,258	1,135
Other assets	30	3,554	3,618	2,945	2,996
Prepayments and accrued income	31	2,945	2,628	2,682	2,247
Long-term assurance business attributable to shareholders	32	6,549	2,274	-	-
		168,705	151,312	140,829	124,724
Long-term assurance assets attributable to policyholders	32	51,085	26,542	-	-
Total assets		219,790	177,854	140,829	124,724

* restated (note 1)

The directors approved the accounts on 15 February 2001.

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 2000

		Group		Bank	
	Note	2000 £ million	1999* £ million	2000 £ million	1999* £ million
Liabilities					
Deposits by banks	34	16,735	17,694	24,045	24,350
Customer accounts	35	100,811	93,122	76,227	68,535
Items in course of transmission to banks		420	757	338	678
Debt securities in issue	36	17,899	12,260	13,731	8,591
Other liabilities	37	7,038	5,331	4,452	4,125
Accruals and deferred income	38	4,302	3,309	3,182	2,167
Provisions for liabilities and charges:					
Deferred tax	39	1,572	1,471	(14)	(39)
Other provisions for liabilities and charges	40	442	474	199	234
Subordinated liabilities:					
Undated loan capital	41	3,391	3,294	3,806	3,194
Dated loan capital	41	4,408	3,492	3,728	2,773
Minority interests:					
Equity		37	33	-	-
Non-equity	42	515	-	-	-
		552	33	-	-
Called-up share capital	43	1,542	1,542	1,542	1,542
Share premium account	44	2,960	2,960	2,960	2,960
Revaluation reserve	44	-	-	1,278	776
Profit and loss account	44	6,633	5,573	5,355	4,838
Shareholders' funds (equity)		11,135	10,075	11,135	10,116
		168,705	151,312	140,829	124,724
Long-term assurance liabilities to policyholders	32	51,085	26,542	-	-
Total liabilities		219,790	177,854	140,829	124,724
Memorandum items					
	48				
Contingent liabilities:					
Acceptances and endorsements		357	459	354	440
Guarantees and assets pledged as collateral security		3,249	2,485	3,596	2,988
Other contingent liabilities		1,541	1,479	1,543	1,458
		5,147	4,423	5,493	4,886
Commitments:					
Commitments arising out of sale and option to resell transactions		3	14	3	14
Other commitments		42,586	27,862	39,779	24,862
		42,589	27,876	39,782	24,876

* restated (note 1)

Statement of total recognised gains and losses
for the year ended 31 December 2000

	2000 £ million	1999 £ million
Profit attributable to shareholders	2,797	2,180
Currency translation differences on foreign currency net investments	(68)	(32)
Total recognised gains and losses relating to the year	2,729	2,148
Prior year adjustment (note 1)	(112)	
Total gains and losses recognised during the year	2,617	

Historical cost profits and losses
for the year ended 31 December 2000

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 2000

	2000 £ million	1999 £ million
Profit attributable to shareholders	2,797	2,180
Dividends	(1,685)	(1,300)
Retained profit	1,112	880
Currency translation differences on foreign currency net investments	(68)	(32)
Issue of shares	-	2,151
Goodwill written back on closure of business	16	-
Net increase in shareholders' funds	1,060	2,999
Shareholders' funds at beginning of year	10,075	7,188
Prior year adjustment (note 1)	-	(112)
Shareholders' funds at end of year	11,135	10,075

Notes to the accounts

1 Accounting policies

Accounting policies are unchanged from 1999, except that the Group has implemented the requirements of Financial Reporting Standard 15 'Tangible Fixed Assets'; this has resulted in two changes. The Group's freehold and long leasehold premises were previously included in the balance sheet at the last valuation on the basis of existing use value; they will now no longer be revalued, and a prior year adjustment has been made to restate the carrying value to historical cost. This has resulted in the carrying value of the Group's tangible fixed assets as at 1 January 1999 being reduced by £112 million and an equivalent adjustment being made against reserves; £71 million of this reduction relates to the Bank. The effect of this change upon the Group's profit and loss account is not significant. In addition, the Group has reassessed the useful economic lives and residual values of its freehold and long leasehold premises and with effect from 1 January 2000, the cost of these properties, after deducting the value of land, is being depreciated over 50 years. Previously it was considered that the residual values were such that depreciation was not significant. The effect of this change has been to increase the depreciation charge in 2000 by £8 million.

In addition, the Group has implemented the Finance & Leasing Association's Statement of Recommended Accounting Practice 'Accounting Issues in the Asset Finance and Leasing Industry'. As a result, the presentation of assets held for leasing to customers under operating lease agreements has been changed. These assets are now included within tangible fixed assets and depreciation charged over their estimated useful economic lives. Rental income received from customers is included within other operating income. Operating lease assets were previously included within loans and advances and the related income within net interest income. This change has no effect on profit before tax. The effect of this change on the Group's balance sheet has been to increase tangible fixed assets by £1,280 million and reduce loans and advances to customers by an equivalent amount (1999: £479 million). Comparative figures have been restated.

The Group has also implemented the requirements of Financial Reporting Standard 16 'Current Tax'; the effect has not been significant.

a Accounting convention

The consolidated accounts are prepared under the historical cost convention as modified by the revaluation of debt securities and equity shares held for dealing purposes (see g) and assets held in the long-term assurance business, in compliance with Section 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.

The Group has taken advantage of the dispensation in the Urgent Issues Task Force's Abstract 17 'Employee Share Schemes' not to apply that Abstract to the Lloyds TSB Group's Inland Revenue approved SAYE schemes.

b Basis of consolidation

Assets, liabilities and results of group undertakings and joint ventures are included in the consolidated accounts on the basis of accounts made up to 31 December. In order to reflect the different nature of the shareholders' and policyholders' interests in the long-term assurance business, the value of long-term assurance business attributable to shareholders and the assets and liabilities attributable to policyholders are classified under separate headings in the consolidated balance sheet.

c Goodwill

Goodwill arising on acquisitions of or by group undertakings is capitalised. For acquisitions prior to 1 January 1998, goodwill was taken direct to reserves in the year of acquisition. As permitted by the transitional arrangements of Financial Reporting Standard 10, this goodwill was not reinstated when the Group adopted the standard in 1998.

1 Accounting policies (continued)

The useful economic life of the goodwill arising on each acquisition is determined at the time of the acquisition. In the case of the acquisition of Scottish Widows in 2000, in view of the strength of the Scottish Widows brand and the position of the business as one of the leading providers of life, pensions, unit trust and fund management products, the directors consider that it is appropriate to assign an indefinite life to the goodwill. This goodwill is not being amortised through the profit and loss account; however it is subjected to annual impairment reviews in accordance with Financial Reporting Standard 11 'Impairment of Fixed Assets and Goodwill'. Should any impairment be identified, it would be charged to the profit and loss account immediately.

Paragraph 28 of Schedule 9 to the Companies Act 1985 requires that all goodwill carried on the balance sheet should be amortised. In the case of the goodwill arising on the acquisition of Scottish Widows, the directors consider that it is appropriate to depart from this requirement in order to comply with the over-riding requirement for the accounts to show a true and fair view. If this goodwill was amortised over a period of 20 years, profit before tax for the year ended 31 December 2000 would be £78 million lower, with a corresponding reduction in reserves; intangible assets on the balance sheet would also be £78 million lower.

Goodwill arising on all other acquisitions is amortised on a straight line basis over its estimated useful economic life, which does not exceed 20 years.

At the date of the disposal of group or associated undertakings, any unamortised goodwill, or goodwill taken directly to reserves prior to 1 January 1998, is included in the Group's share of the net assets of the undertaking in the calculation of the profit or loss on disposal.

d Income recognition

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

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

e Provisions for bad and doubtful debts and interest in suspense

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

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

f Mortgage incentives

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

g Debt securities and equity shares

Debt securities, apart from those held for dealing purposes, are stated at cost as adjusted for the amortisation of any premiums and discounts arising on acquisition, which are amortised from purchase to maturity in equal annual instalments. Debt securities acquired in exchange for advances to countries experiencing payment difficulties, either collateralised or due to be collateralised by US Treasury securities, are included in the Group's portfolio of investment securities at an amount based on the market value at the date of exchange as adjusted for the amortisation of discount on acquisition. Equity shares, apart from those held for dealing purposes, are stated at cost less amounts written off. Debt securities and equity shares held for dealing purposes are included at market value. Investments held within the long-term assurance fund are included on the

Notes to the accounts

1 Accounting policies (continued)

following basis: stocks, shares, fixed interest securities and unit trusts held for unit linked funds are valued in accordance with policy conditions at market prices; other stocks and shares and fixed interest securities are valued at middle market price and other unit trusts at bid price; investment properties are included at valuation by independent valuers at existing use value at 31 December 2000, and mortgages and loans are at cost less amounts written off.

h Shares in group undertakings

Shares in group undertakings are stated in the balance sheet of the Company at its share of net tangible assets, with the exception of the life assurance group undertakings which are stated on the basis described in o. Attributable goodwill is included, where this has not been written off directly to reserves.

i Tangible fixed assets

Tangible fixed assets 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 depreciated over 50 years. 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 computer hardware, operating software and application software relating to separable new systems, motor vehicles and other equipment are 3-8 years.

Premises and equipment held for letting to customers under operating leases are depreciated over the life of the lease to give a constant rate of return on the net investment, taking into account anticipated residual values.

j Vacant leasehold property

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

k Leasing and instalment credit transactions

Income from both finance and operating leases 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.

Unguaranteed residual values in respect of both finance lease and operating lease assets are reviewed regularly and any impairments identified are charged to the profit and loss account.

Income from instalment credit transactions is calculated by the sum of the digits method.

In those cases where the Group is the lessee, operating lease costs are charged to the profit and loss account in equal annual instalments over the life of the lease.

l 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.

m Pensions and other post-retirement benefits

Contributions to the Group's pension schemes are charged to the profit and loss account so as to spread the expected cost of pensions, calculated in accordance with actuarial advice, on a systematic basis over employees' working lives. Pension arrangements for most of the staff in the UK and for the majority of those overseas are operated through defined benefit schemes funded by the Bank. The pension cost relating to these schemes is assessed in accordance with the advice of qualified actuaries, using the projected unit method. Variations from the regular cost are allocated by equal annual instalments over the average remaining service lives of current employees. Pension arrangements for staff joining Lloyds TSB Group Pension Scheme No. 1 (formerly the Lloyds Bank pension scheme) after 1 January 1996 and Lloyds TSB Group Pension Scheme No. 2 (formerly the TSB Group pension scheme) after 1 January 1998 are through money purchase elements of these schemes. Arrangements for

1 Accounting policies (continued)

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.

n Foreign currency translation

Assets, liabilities and results in foreign currencies are expressed in sterling at the rates of exchange ruling on the dates of the respective balance sheets. Exchange adjustments on the translation of opening net assets held overseas are taken direct to reserves. All other exchange profits or losses, which arise from normal trading activities, are included in the profit and loss account.

o Long-term assurance business

The value placed on the Group's long-term assurance business attributable to shareholders represents a prudent valuation of future earnings of policies in force, together with the net worth of the business, being the net tangible assets and the surplus retained within the long-term assurance funds. This value is determined annually in consultation with independent actuaries and is included separately in the balance sheet.

Changes in the value placed on long-term assurance business attributable to shareholders, which are determined on a post-tax basis, are included in the profit and loss account. For the purpose of presentation, the change in this value is grossed up at the underlying rate of corporation tax.

p General insurance business

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

q Derivatives

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

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

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

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

Notes to the accounts

2 Merger of Lloyds Bank, TSB and Hill Samuel businesses

Following the granting of royal assent to the Lloyds TSB Act, the following transactions took place during 1999:

- a) On 31 March 1999 the business, assets and liabilities of Hill Samuel Bank Limited were vested in Lloyds TSB Bank plc.
- b) On 28 June 1999 the business, assets and liabilities of TSB Bank plc were vested in Lloyds TSB Bank plc.

The vesting of the net assets of TSB Bank and Hill Samuel Bank was accounted for as a group reconstruction using the merger accounting principles set out in Financial Reporting Standard 6 'Acquisitions and Mergers'. The results for the year ended 31 December 1999 were therefore presented as if the TSB Bank and Hill Samuel Bank businesses had been part of Lloyds TSB Bank plc throughout that accounting period.

3 Dealing profits (before expenses)

	2000 £m	1999 £m
Foreign exchange trading income	141	133
Securities and other gains	57	70
	198	203

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

4 Administrative expenses

	2000 £m	1999 £m
Salaries and profit sharing	1,862	1,718
Social security costs	131	124
Other pension costs	(105)	(104)
Staff costs	1,888	1,738
Other administrative expenses	1,442	1,346
	3,330	3,084

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

	2000	1999
UK	67,848	66,641
Overseas	11,847	12,535
	79,695	79,176

The above staff numbers exclude 6,152 (1999: 2,469) staff employed in the long-term assurance business. Costs of £199 million (1999: £70 million) in relation to those staff are reflected in the valuation of the long-term assurance fund.

Details of directors' emoluments, pensions and interests are given on page 25.

The auditors' remuneration was £4 million (1999: £4 million), of which £1.2 million (1999: £1.1 million) related to Lloyds TSB Bank plc. Fees paid to PricewaterhouseCoopers in respect of non-audit services were £32 million (1999: £29 million). Non-audit fees comprise management consultancy of £25 million and regulatory and other advisory work of £7 million.

There was a net credit in respect of pension costs for the Group in 2000 of £105 million (1999: credit of £104 million), which included a credit of £121 million (1999: credit of £116 million) relating to Lloyds TSB Group Pension Schemes No's 1 and 2.

4 Administrative expenses (continued)

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

Contribution rates to other schemes have been adjusted to take account of surpluses and deficiencies. The pensions prepayment of £768 million for the Group and £677 million for the Bank (1999: £647 million for the Group and £573 million for 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 2000 was £3 million (1999: £17 million). For the principal scheme, the latest actuarial valuation of the liability was carried out at 31 December 2000. This valuation showed the Group's liability to be £72 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 per cent and 3 per cent respectively higher than annual price inflation.

5 Exceptional restructuring costs

In February 2000 the Group announced a new efficiency programme aimed at reducing its overall cost base. The main features of the efficiency programme, which is primarily focused on non-customer facing activities, will be the centralisation of computer operations; the further consolidation of large scale processing operations and support functions including the complete removal of all back office processing from branches; the further streamlining of the branch network, combined with the expansion of lower cost delivery channels such as telephone banking and internet operations; the further reduction of purchasing costs; and the rationalisation of non-personal banking activities, through the progressive sharing and consolidation of operational functions. The programme is expected to be completed by 2003. During 2000 costs of £108 million were incurred, mainly comprising severance and consultancy costs.

Following completion of the acquisition of Scottish Widows in March 2000, the Group has been integrating its businesses with the Group's existing insurance and investments activities. During 2000 costs of £59 million have been incurred on this integration. In addition, a provision of £21 million has been made to cover the cost of integrating Chartered Trust Group plc and ACL Autolease Holdings Limited following their acquisition in September 2000.

6 Amounts written off fixed asset investments

	2000 £m	1999 £m
Debt securities	9	7
Equity shares	5	—
	14	7

Notes to the accounts

7 Analysis of 1999 operating profit

	Group (excluding Lloyds TSB Financial Services Holdings Group) 1999 £m	Lloyds TSB Financial Services Holdings Group 1999 £m	Total 1999 £m
Interest receivable:			
Interest receivable and similar income			
arising from debt securities	423	4	427
Other interest receivable and similar income	9,959	42	10,001
Interest payable	5,698	5	5,703
Net interest income	4,684	41	4,725
Other income			
Fees and commissions receivable	1,765	364	2,129
Fees and commissions payable	(352)	(47)	(399)
Dealing profits (before expenses)	189	14	203
Income from long-term assurance business:			
Income before pension provisions	5	168	173
Pension provisions	-	(102)	(102)
General insurance premium income	-	200	200
Other operating income	351	10	361
	1,958	607	2,565
Total income	6,642	648	7,290
Operating expenses			
Administrative expenses	2,920	164	3,084
Depreciation	259	3	262
Amortisation of goodwill	(11)	-	(11)
Depreciation and amortisation	248	3	251
Total operating expenses	3,168	167	3,335
Trading surplus	3,474	481	3,955
General insurance claims	-	85	85
Specific provisions for bad and doubtful debts	588	-	588
Amounts written off fixed asset investments	7	-	7
Operating profit	2,879	396	3,275

8 Loss before tax on sale and closure of businesses

	2000 £m	1999 £m
Provision for closure of Lloyds TSB Securities Services (tax: nil)	-	(28)
Provision for sale of Abbey Life new business capability (tax: nil)	-	(18)
	-	(46)

During 1999 the Group announced its decision to withdraw from the global custody and unit trust trusteeship business and the consequential run-down and closure of Lloyds TSB Securities Services. A provision was raised in 1999 for the expected operating losses up to the date of closure and this provision has been released as the operating losses have been incurred over 2000; the closure of Lloyds TSB Securities Services has now been completed.

The new business capability of Abbey Life was sold on 1 February 2000. A provision of £18 million against impaired assets was made in 1999.

9 Profit on ordinary activities before tax

	2000 £m	1999 £m
Profit on ordinary activities before tax is stated after taking account of:		
<i>Income from:</i>		
Aggregate amounts receivable in respect of assets leased to customers and banks under:		
Finance leases and hire purchase contracts	3,295	3,578
Operating leases	151	62
Profit less losses on disposal of investment securities	109	57
Share of results of associated undertakings and joint ventures	3	8
<i>Charges:</i>		
Rental of premises	193	192
Hire of equipment	26	32
Interest on subordinated liabilities (loan capital)	486	348

10 Segment analysis

	Profit on ordinary activities before tax 2000 £m	1999* £m
Class of business:		
UK Retail Banking and Mortgages		
Profit before exceptional restructuring costs	1,682	1,596
Exceptional restructuring costs	(99)	-
	1,583	1,596
Insurance and Investments		
Operating profit	1,447	460
Short-term fluctuations in investment returns	(119)	16
Changes in economic assumptions	127	-
Exceptional restructuring costs	(59)	-
Pension provisions	(100)	(102)
Stakeholder pension related charge	(80)	-
	1,216	374
UK Retail Financial Services	2,799	1,970
Wholesale Markets and International Banking		
Profit before exceptional restructuring costs	1,250	1,155
Exceptional restructuring costs	(30)	-
	1,220	1,155
Central group items	(6)	150
Loss on sale and closure of businesses	-	(46)
	4,013	3,229

Notes to the accounts

10 Segment analysis (continued)

Geographical area:**

	Domestic 2000 £m	Inter- national 2000 £m	Total 2000 £m
Interest receivable	8,925	2,127	11,052
Fees and commissions receivable	2,483	288	2,771
Dealing profits (before expenses)	149	49	198
Income from long-term assurance business	687	8	695
General insurance premium income	399	—	399
Other operating income	270	111	381
Total gross income	12,913	2,583	15,496
Profit on ordinary activities before tax	3,554	459	4,013

	Domestic 1999 £m	Inter- national 1999 £m	Total 1999 £m
Interest receivable	7,991	2,437	10,428
Fees and commissions receivable	1,864	265	2,129
Dealing profits (before expenses)	142	61	203
Income from long-term assurance business	63	8	71
General insurance premium income	200	—	200
Other operating income	260	101	361
Total gross income	10,520	2,872	13,392
Profit on ordinary activities before tax	2,811	418	3,229

	Net assets†		Assets‡	
	2000 £m	1999 £m	2000 £m	1999 £m
Class of business:				
UK Retail Banking and Mortgages	2,235	2,127	71,292	64,347
Insurance and Investments				
Scottish Widows	3,555	—	6,203	—
Other businesses	2,953	2,846	3,234	3,032
	6,508	2,846	9,437	3,032
UK Retail Financial Services	8,743	4,973	80,729	67,379
Wholesale Markets and				
International Banking	3,090	2,625	84,899	80,851
Central group items	(661)	2,510	3,077	3,082
	11,172	10,108	168,705	151,312

Geographical area:**				
Domestic	10,527	9,763	145,986	129,980
International	645	345	22,719	21,332
	11,172	10,108	168,705	151,312

*1999 figures have been restated to take account of changes in internal cost allocation, a number of organisational changes, and a change in treatment of certain central income items, which were previously allocated to business units but are now reported within central group items.

10 Segment analysis (continued)

**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 equity minority interests. Disclosure of information on net assets is an accounting standard requirement (SSAP25); it is not appropriate to relate it directly to the segmental profits above because the business is not managed by the allocation of net assets to business units.

‡Assets exclude long-term assurance assets attributable to policyholders.

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

11 Tax on profit on ordinary activities

	2000 £m	1999 £m
UK corporation tax		
Current tax on profits for the year	995	704
Adjustments in respect of prior years	4	20
	999	724
Double taxation relief	(72)	(45)
	927	679
Foreign tax		
Current tax on profits for the year	137	114
Adjustments in respect of prior years	(5)	8
	132	122
Current tax charge	1,059	801
Deferred tax	108	242
	1,167	1,043

The charge for tax on the profit for the year is based on an average UK corporation tax rate of 30 per cent (1999: 30.25 per cent).

The UK corporation tax charge includes £171 million (1999: £20 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.

12 Profit for the financial year attributable to shareholders

The profit attributable to shareholders includes a profit of £2,190 million (1999: £2,121 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.

13 Dividends

	2000 £m	1999 £m
First interim	515	440
Second interim	1,170	860
	1,685	1,300

Notes to the accounts

14 Treasury bills and other eligible bills

	2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Group				
Investment securities:				
Treasury bills and similar securities	121	119	515	514
Other eligible bills	509	508	683	683
	630	627	1,198	1,197

Other securities:

Treasury bills and similar securities	1,032		857	
Other eligible bills	47		10	
	1,079		867	
	1,709		2,065	

Included above:

Unamortised discounts net of premiums on investment securities	2		12	
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Movements in investment
securities comprise:

	Cost £m	Premiums and discounts £m	Total £m
At 1 January 2000	1,189	9	1,198
Exchange and other adjustments	3	-	3
Additions	7,766	-	7,766
Bills sold or matured	(8,332)	(50)	(8,382)
Amortisation of premiums and discounts	-	45	45
At 31 December 2000	626	4	630

Bank

Investment securities:				
Treasury bills and similar securities	121	119	515	514
Other eligible bills	501	501	683	683
	622	620	1,198	1,197

Other securities:

Treasury bills and similar securities	830		749	
Other eligible bills	47		10	
	877		759	
	1,499		1,957	

Included above:

Unamortised discounts net of premiums on investment securities	2		12	
--	---	--	----	--

Movements in investment
securities comprise:

	Cost £m	Premiums and discounts £m	Total £m
At 1 January 2000	1,189	9	1,198
Exchange and other adjustments	3	-	3
Additions	7,756	-	7,756
Bills sold or matured	(8,330)	(50)	(8,380)
Amortisation of premiums and discounts	-	45	45
At 31 December 2000	618	4	622

14 Treasury bills and other eligible bills (continued)

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.

15 Loans and advances to banks

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Lending to banks	615	721	38,044	32,822
Deposits placed with banks	14,731	16,298	13,554	15,076
Total loans and advances to banks	15,346	17,019	51,598	47,898
Provisions for bad and doubtful debts	(56)	(56)	(56)	(56)
	15,290	16,963	51,542	47,842
Repayable on demand	2,794	1,132	21,232	15,751
Other loans and advances by residual maturity repayable:				
3 months or less	10,352	12,266	11,707	14,189
1 year or less but over 3 months	1,365	2,780	3,468	3,664
5 years or less but over 1 year	478	490	13,466	12,685
Over 5 years	357	351	1,725	1,609
Provisions for bad and doubtful debts	(56)	(56)	(56)	(56)
	15,290	16,963	51,542	47,842

Included above:

Due from group undertakings				
- unsubordinated			37,298	32,207
- subordinated			151	-

Notes to the accounts

16 Loans and advances to customers

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Lending to customers	105,246	94,127	51,335	46,127
Hire purchase debtors	5,172	3,674	-	-
Equipment leased to customers	8,122	8,448	-	-
Total loans and advances to customers	118,540	106,249	51,335	46,127
Provisions for bad and doubtful debts	(2,117)	(2,067)	(1,693)	(1,642)
Interest held in suspense	(90)	(100)	(57)	(63)
	116,333	104,082	49,585	44,422
Loans and advances by residual maturity repayable:				
3 months or less	22,793	19,561	26,044	23,418
1 year or less but over 3 months	8,286	6,935	5,578	5,018
5 years or less but over 1 year	24,423	19,358	11,453	10,168
Over 5 years	63,038	60,395	8,260	7,523
Provisions for bad and doubtful debts	(2,117)	(2,067)	(1,693)	(1,642)
Interest held in suspense	(90)	(100)	(57)	(63)
	116,333	104,082	49,585	44,422
Of which repayable on demand or at short notice	10,971	10,241	11,832	10,428
Included above:				
Due from group undertakings				
- all unsubordinated			12,361	12,438
Due from fellow group undertakings				
- all unsubordinated	1,878	1,932	683	743

The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts amounted to £2,754 million (1999: £3,193 million).

Securitisations

Certain instalment credit receivables have been securitised and are subject to non-returnable financing arrangements. In accordance with Financial Reporting Standard 5, these items have been shown under the linked presentation method.

As detailed in note 50, the Group acquired Chartered Trust Group plc and ACL Autolease Holdings Limited on 1 September 2000. Prior to joining the Group, Chartered Trust plc, a subsidiary undertaking of Chartered Trust Group plc, had entered into transactions whereby it disposed of its interest in portfolios of motor vehicle and caravan instalment credit agreements for a total of £813 million to Cardiff Automobile Receivables Securitisation (UK) No 4 plc (CARS 4). The arrangement relating to these disposals of agreements contained an option to offer further amounts for sale up until 10 December 2000; a further £167 million of receivables were sold between 1 September 2000 and this date.

16 Loans and advances to customers (continued)

CARS Trustee (UK) No 4 Limited is responsible for the collection and onward payment of all amounts falling due under the terms of the receivables sold to CARS 4. Principal receipts are used either to redeem floating rate notes or to purchase further receivables; to date all principal receipts have been used to purchase further receivables. Income receipts are applied in the following order of priority: interest due on the floating rate notes; credit manager fees; payments under swaps; amounts due to third parties; dividends; and residual income to Chartered Trust plc. Chartered Trust plc has been appointed by CARS Trustee (UK) No 4 Limited as credit manager and receives a fee for fulfilling this function. It has no liability to the noteholders or any creditor of CARS 4 or CARS Trustee (UK) No 4 Limited other than through failure to meet its obligations as credit manager or for breach of warranties given. Chartered Trust plc has no interest in the share capital of CARS 4 or CARS Trustee (UK) No 4 Limited.

Chartered Trust plc and CARS 4 have also entered into interest rate swaps in respect of this transaction, the interest rates payable and receivable under these swaps are set by reference to market rates of interest on an arm's length basis.

17 Provisions for bad and doubtful debts

	2000 Specific £m	2000 General £m	1999 Specific £m	1999 General £m
Group				
At 1 January	1,762	361	1,791	365
Exchange and other adjustments	111	(2)	(3)	(4)
Adjustments on acquisition	45	4	-	-
Advances written off	(748)	-	(744)	-
Recoveries of advances written off in previous years	165	-	130	-
Charge (release) to profit and loss account:				
New and additional provisions	1,093	7	1,087	7
Releases and recoveries	(612)	(13)	(499)	(7)
	481	(6)	588	-
At 31 December	1,816	357	1,762	361
	2,173		2,123	
In respect of:				
Loans and advances to banks		56		56
Loans and advances to customers		2,117		2,067
	2,173		2,123	
Bank				
At 1 January	1,437	261	1,441	262
Exchange and other adjustments	116	(1)	24	-
Adjustments on acquisition	38	-	-	-
Advances written off	(496)	-	(523)	-
Recoveries of advances written off in previous years	96	-	93	-
Charge (release) to profit and loss account:				
New and additional provisions	803	6	811	6
Releases and recoveries	(503)	(8)	(409)	(7)
	300	(2)	402	(1)
At 31 December	1,491	258	1,437	261
	1,749		1,698	
In respect of:				
Loans and advances to banks		56		56
Loans and advances to customers		1,693		1,642
	1,749		1,698	

Notes to the accounts

18 Interest held in suspense and non-performing lending

	2000 £m	1999 £m
Group		
At 1 January	100	145
Exchange and other adjustments	—	(5)
Interest written off	(20)	(77)
Interest taken to income	(8)	(9)
Interest suspended during the year	18	46
At 31 December	90	100
All of the Group's and Bank's interest held in suspense relates to loans and advances to customers.		
Non-performing lending comprises:		
Loans and advances – category 1	879	719
Loans and advances – category 2	404	369
	1,283	1,088
Provisions	(831)	(613)
Interest held in suspense	(90)	(100)
	362	375
Bank		
At 1 January	63	107
Exchange and other adjustments	—	(2)
Interest written off	(9)	(69)
Interest taken to income	(5)	(8)
Interest suspended during the year	8	35
At 31 December	57	63
Non-performing lending comprises:		
Loans and advances – category 1	485	440
Loans and advances – category 2	381	292
	866	732
Provisions	(557)	(377)
Interest held in suspense	(57)	(63)
	252	292

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.

19 Concentrations of exposure

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Loans and advances to customers				
<i>Domestic:</i>				
Agriculture, forestry and fishing	2,026	2,183	644	791
Manufacturing	3,357	3,262	2,797	2,845
Construction	1,016	754	925	722
Transport, distribution and hotels	3,836	3,540	3,176	2,965
Property companies	2,470	2,303	2,318	2,211
Financial, business and other services	9,295	6,614	8,012	6,149
Personal: mortgages	52,659	47,451	644	550
: other	11,138	10,092	10,334	9,406
Lease financing	8,070	8,369	—	—
Hire purchase	5,172	3,674	—	—
Due from fellow group undertakings	1,878	1,932	13,044	13,181
Other	2,237	1,699	2,171	1,609
Total domestic	103,154	91,873	44,065	40,429
<i>International:</i>				
Latin America	3,016	2,558	2,341	1,629
New Zealand	7,368	7,659	—	—
Rest of the world	5,002	4,159	4,929	4,069
Total international	15,386	14,376	7,270	5,698
	118,540	106,249	51,335	46,127
Provisions for bad and doubtful debts*	(2,117)	(2,067)	(1,693)	(1,642)
Interest held in suspense*	(90)	(100)	(57)	(63)
	116,333	104,082	49,585	44,422

*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.

20 Residual value exposure on leased assets

The Group's residual value exposure in respect of leased assets, all of which are expected to be disposed of at the end of the lease terms, was as follows:

	2000 £m	1999 £m
On operating lease assets where the residual value is expected to be recovered in:		
1 year or less	134	37
2 years or less but over 1 year	108	31
5 years or less but over 2 years	367	45
Over 5 years	301	193
Total exposure	910	306

Notes to the accounts

21 Debt securities	2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Group				
<i>Investment securities:</i>				
Government securities	1,006	1,204	1,196	1,349
Other public sector securities	1	1	4	4
Bank and building society certificates of deposit	3,034	3,034	4,153	4,145
Other debt securities	1,631	1,631	679	678
	5,672	5,870	6,032	6,176
<i>Other securities:</i>				
Government securities	3,060	3,060	3,861	3,861
Other public sector securities	131	131	65	65
Bank and building society certificates of deposit	105	105	286	286
Other debt securities	4,914	4,914	3,940	3,940
	13,882	14,080	14,184	14,328
Due within 1 year	5,340		7,095	
Due 1 year and over	8,542		7,089	
	13,882		14,184	
Unamortised discounts net of premiums on investment securities	409		771	
Listed: collateralised bonds : other	711 8,499	880 8,528	869 7,907	1,028 7,901
Unlisted	4,672	4,672	5,408	5,399
	13,882	14,080	14,184	14,328
Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Provisions £m	Total £m
At 1 January 2000	5,840	209	17	6,032
Exchange and other adjustments	113	(2)	3	108
Additions	15,773	-	-	15,773
Securities sold or matured	(16,249)	(12)	-	(16,261)
Charge for the year	-	-	9	(9)
Amortisation of premiums and discounts	-	29	-	29
At 31 December 2000	5,477	224	29	5,672

21 Debt securities (continued)	2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Bank				
<i>Investment securities:</i>				
Government securities	985	1,183	1,154	1,304
Bank and building society certificates of deposit	2,842	2,842	4,073	4,065
Other debt securities	1,087	1,087	514	514
	4,914	5,112	5,741	5,883
<i>Other securities:</i>				
Government securities	2,744	2,744	3,159	3,159
Other public sector securities	128	128	60	60
Bank and building society certificates of deposit	2	2	6	6
Other debt securities	4,961	4,961	4,072	4,072
	12,749	12,947	13,038	13,180
Included above:				
Due from group undertakings - all unsubordinated	173		182	
Due within 1 year	4,739		6,114	
Due 1 year and over	8,010		6,924	
	12,749		13,038	
Unamortised discounts net of premiums on investment securities	398		630	
Listed: collateralised bonds : other	711 7,987	880 8,016	869 7,078	1,028 7,070
Unlisted	4,051	4,051	5,091	5,082
	12,749	12,947	13,038	13,180
Movements in investment securities comprise:	Cost £m	Premiums and discounts £m	Total £m	
At 1 January 2000	5,561	180	5,741	
Exchange and other adjustments	138	(3)	135	
Additions	14,656	-	14,656	
Securities sold or matured	(15,621)	(20)	(15,641)	
Amortisation of premiums and discounts	-	23	23	
At 31 December 2000	4,734	180	4,914	

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

22 Equity shares		2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Group					
<i>Investment securities:</i>					
Listed		7	45	10	23
Unlisted		34	57	33	56
		41	102	43	79
<i>Other securities:</i>					
Listed		204		168	
Unlisted		2		2	
		206		170	
		247		213	
 Movements in investment securities comprise:			Cost £m	Provisions £m	Total £m
At 1 January 2000			55	12	43
Exchange and other adjustments			—	(1)	1
Additions			13	—	13
Disposals			(14)	(3)	(11)
Charge for the year			—	5	(5)
At 31 December 2000			54	13	41
		2000 Balance sheet £m	2000 Valuation £m	1999 Balance sheet £m	1999 Valuation £m
Bank					
<i>Investment securities:</i>					
Listed		5	1	10	6
Unlisted		15	17	13	14
		20	18	23	20
<i>Other securities:</i>					
Listed		2		—	
Unlisted		2		2	
		4		2	
		24		25	
 Movements in investment securities comprise:			Cost £m		
At 1 January 2000			23		
Additions			13		
Disposals			(16)		
At 31 December 2000			20		

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.

23 Assets transferred under sale and repurchase transactions

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

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Treasury bills and other eligible bills	546	429	473	377
Debt securities	3,543	3,496	3,513	3,496
	4,089	3,925	3,986	3,873

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.

24 Shares in group undertakings

24 Shares in group undertakings	Bank £m	
At 1 January 2000	8,304	
Acquisitions	7,377	
Disposals	(20)	
Revaluations	510	
At 31 December 2000	16,171	
	2000 £m	1999 £m
Shares in banks	4,317	3,555
Shares in other group undertakings	11,854	4,749
Total – all unlisted	16,171	8,304

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

	Cost £m	Provisions £m	Book value £m
At 1 January 2000	7,549	21	7,528
Additions	7,377	—	7,377
Disposals	(12)	—	(12)
At 31 December 2000	14,914	21	14,893

Notes to the accounts

24 Shares in group undertakings (continued)

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

	Country of registration/incorporation	Percentage of equity share capital and voting rights held	Nature of business
Cheltenham & Gloucester plc	England	*100%	Mortgage lending and retail investments
Lloyds Bank (BLSA) Limited	England	100%	Banking and financial services
Lloyds TSB Commercial Finance Limited	England	100%	Credit factoring
Lloyds TSB Leasing Limited	England	100%	Financial leasing
The Agricultural Mortgage Corporation Plc	England	100%	Long-term agricultural finance
The National Bank of New Zealand Limited	New Zealand	*100%	Banking and financial services
Lloyds TSB Bank (Jersey) Limited	Jersey	*100%	Banking and financial services
Lloyds UDT Finance Limited	England	100%	Consumer credit, leasing and related services
Chartered Trust plc	England	*100%	Consumer credit, leasing and related services
Lloyds TSB Private Banking Limited	England	100%	Private banking
Lloyds TSB Scotland plc	Scotland	100%	Banking and financial services
Lloyds TSB General Insurance Limited	England	*100%	General insurance
Scottish Widows Investment Partnership Group Limited	England	*100%	Investment management
Abbey Life Assurance Company Limited	England	*100%	Life assurance
Lloyds TSB Insurance Services Limited	England	*100%	Insurance broking
Lloyds TSB Life Assurance Company Limited	England	*100%	Life assurance and other financial services
Scottish Widows plc	Scotland	*100%	Life assurance
Scottish Widows Annuities Limited	Scotland	*100%	Life assurance

*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 Ecuador. The National Bank of New Zealand Limited also operates through a representative office in Hong Kong.

25 Joint venture

During 2000 the Group was party to the creation of a new payments processing company, Intelligent Processing Solutions Limited ('iPSL'), in conjunction with Unisys and Barclays Bank. This new company began operating in December 2000 and now handles all of the Group's UK cheque processing activities, for which fees are charged by iPSL to the Group. The staff previously employed by the Group in its UK cheque processing activities have been transferred to the employment of iPSL.

The Group's investment in iPSL, which comprises 24.5 per cent of the issued ordinary share capital of the company, is being accounted for as a joint venture. The carrying value of the investment at 31 December 2000 was £4 million, which has been included within other assets on the balance sheet.

In the year ended 31 December 2000 £4 million of fees payable to iPSL have been included in the Group's administrative expenses. The Group has also prepaid £7 million of fees in respect of 2001 and this amount is included in prepayments and accrued income; in addition at 31 December 2000 iPSL owed £2 million to the Group, which is included in other assets.

26 Intangible fixed assets

	Cost £m	Amortisation £m	Net book value £m
Group			
Positive goodwill			
At 1 January 2000	247	16	231
Exchange and other adjustments	(17)	(2)	(15)
Additions	2,405	-	2,405
Charge for the year	-	22	(22)
At 31 December 2000	2,635	36	2,599
Negative goodwill			
At 1 January 2000 and 31 December 2000	23	23	-
	Cost £m	Amortisation £m	Net book value £m
Bank			
Goodwill			
At 1 January 2000	11	1	10
Adjustments on acquisition	4	-	4
Charge for the year	-	1	(1)
At 31 December 2000	15	2	13

27 Tangible fixed assets

	Premises £m	Equipment £m	Operating lease assets £m
Group			
Cost or valuation:			
At 1 January 2000 – before prior year adjustment	1,124	2,208	561
Prior year adjustment (note 1)	(112)	-	-
Amended balance at 1 January 2000	1,012	2,208	561
Exchange and other adjustments	(13)	(8)	(1)
Adjustments on acquisition	11	13	351
Additions	70	429	583
Disposals	(28)	(299)	(83)
At 31 December 2000	1,052	2,343	1,411
Depreciation:			
At 1 January 2000	241	1,423	82
Exchange and other adjustments	(4)	(1)	(1)
Charge for the year	58	204	102
Disposals	(11)	(272)	(52)
At 31 December 2000	284	1,354	131
Balance sheet amount at 31 December 2000	768	989	1,280
		3,037	
Balance sheet amount at 31 December 1999	771	785	479
		2,035	

Notes to the accounts

27 Tangible fixed assets (continued)	Premises £m	Equipment £m		
Bank				
Cost or valuation:				
At 1 January 2000 – before prior year adjustment	792	1,813		
Prior year adjustment (note 1)	(71)	–		
Amended balance at 1 January 2000	721	1,813		
Exchange and other adjustments	(2)	–		
Adjustments on acquisition	11	10		
Additions	59	283		
Disposals	(20)	(242)		
At 31 December 2000	769	1,864		
Depreciation:				
At 1 January 2000	219	1,180		
Exchange and other adjustments	(4)	3		
Charge for the year	49	159		
Disposals	(8)	(223)		
At 31 December 2000	256	1,119		
Balance sheet amount at 31 December 2000	513	745		
	1,258			
Balance sheet amount at 31 December 1999	502	633		
	1,135			
	Group	Bank		
	2000 £m	1999 £m	2000 £m	1999 £m
Balance sheet amount of premises comprises:				
Freeholds	490	500	276	275
Leaseholds 50 years and over unexpired	22	23	3	5
Leaseholds less than 50 years unexpired	256	248	234	222
	768	771	513	502
Land and buildings occupied for own activities	691	679	453	451

28 Lease commitments

Annual commitments under non-cancellable operating leases were:

	2000 Premises £m	2000 Equipment £m	1999 Premises £m	1999 Equipment £m
Group				
Leases on which the commitment is due to expire in:				
1 year or less	3	1	14	7
5 years or less but over 1 year	18	2	41	3
Over 5 years	184	–	191	2
	205	3	246	12

28 Lease commitments (continued)		2000 Premises £m	2000 Equipment £m	1999 Premises £m	1999 Equipment £m
Bank					
Leases on which the commitment is due to expire in:					
1 year or less		2	1	3	5
5 years or less but over 1 year		11	2	10	3
Over 5 years		156	–	144	2
		169	3	157	10
Obligations under finance leases were:			2000 Equipment £m		1999 Equipment £m
Group					
Amounts payable in:					
1 year or less			20		2
5 years or less but over 1 year			3		2
			23		4
Bank					
Amounts payable in:					
1 year or less			–		2
5 years or less but over 1 year			–		2
			–		4

29 Capital commitments

Capital expenditure contracted but not provided for at 31 December 2000 amounted to £33 million for the Group and £1 million for the Bank (1999: Group £41 million; Bank £7 million). Of the capital commitments of the Group, £28 million (1999: £33 million) related to assets to be leased to customers under operating leases.

In December 2000 the Group announced that it had agreed to form a joint venture between Goldfish, Centrica's financial services brand, and *evolvebank.com*, Lloyds TSB's standalone internet banking operation. Although the amounts are not yet determined, the Group is committed to invest capital into the venture equivalent to 30 per cent of its initial regulatory capital requirement and to provide funds to the venture to cover its lending for the first two years of operation.

30 Other assets

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Foreign exchange and interest rate contracts	2,688	2,742	2,505	2,678
Other assets	866	876	440	318
	3,554	3,618	2,945	2,996

31 Prepayments and accrued income

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Interest receivable	875	918	1,429	1,269
Other debtors and prepayments	2,070	1,710	1,253	978
	2,945	2,628	2,682	2,247

Included within the Group's other debtors and prepayments is £242 million (1999: £176 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 £65 million lower in 2000 (1999: £11 million lower).

Notes to the accounts

32 Long-term assurance business

	2000 £m	1999 £m
The value of long-term assurance business attributable to shareholders included in the consolidated balance sheet comprises:		
Net tangible assets of life companies including surplus	4,128	723
Value of other shareholders' interests in long-term assurance funds	2,421	1,551
	6,549	2,274

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

Following the acquisition of the business of Scottish Widows, a detailed review of the economic assumptions used in the embedded value calculation has been carried out, to ensure that these assumptions remain appropriate for the enlarged life and pensions business in the context of forecast long-term economic trends. As a result of this review certain assumptions have been amended, including the risk-adjusted discount rate which has been reduced from 10 per cent to 8.5 per cent. The principal assumptions are shown below, together with those used in 1999:

	2000 %	1999 %
Risk-adjusted discount rate (net of tax)	8.50	10.00
Return on equities (gross of tax)	8.00	8.50
Return on fixed interest securities (gross of tax)	5.25	5.25
Expenses inflation	3.00	3.00

The revised assumptions, which have been used with effect from 1 January 2000 for Abbey Life and the bancassurance operation of Lloyds TSB Life, have resulted in a one-off credit to the profit and loss account of £127 million. The same assumptions have been used for the Scottish Widows business from the date of acquisition.

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

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

	2000 £m	1999 £m
The income from long-term assurance business is:		
Value of long-term assurance business at 31 December	6,549	2,274
Value of long-term assurance business at 1 January	2,274	-
Increase in value of long-term assurance business	4,275	2,274
Adjustments on acquisition	(4,052)	(2,299)
Exchange and other adjustments	172	(18)
Dividends accrued	126	92
Income after tax from long-term assurance business	521	49
Income before pension provisions	795	173
Pension provisions	(100)	(102)
Income before tax from long-term assurance business	695	71

32 Long-term assurance business (continued)

During 1999, the Financial Services Authority (FSA) published revised assumptions to be incorporated into the calculations of the continuing cost of redress to past purchasers of pension policies. These revised FSA guidelines were based on the assumption that the average life expectancy of pensioners had increased, and lower interest and inflation rates to be assumed in calculating the cost of redress. Applying these revised assumptions, the cost of redress was forecast to increase by £102 million and a further provision of this amount was made in 1999, increasing the total provision made for this purpose to £802 million at 31 December 1999. In 2000 the adequacy of the provision has again been reviewed in the light of the changes arising from SERPS adjustments, further experience and improved knowledge as to the number and size of compensation claims likely to be paid. The cost of redress is forecast to increase by £100 million and a provision of this amount has been made, bringing the total provision charged for this purpose to £902 million, of which £654 million had been used at 31 December 2000.

The following is a summarised balance sheet for the long-term assurance funds:

	2000 £m	1999 £m
The long-term assurance assets attributable to policyholders comprise:		
Investments	52,683	27,718
Value of other shareholders' interests in long-term assurance funds	2,421	1,551
Premises and equipment	20	30
Net current assets (liabilities)	2,510	(483)
	57,634	28,816
Long-term assurance business attributable to shareholders	(6,549)	(2,274)
	51,085	26,542
Investments shown above comprise:		
Fixed interest securities	14,512	7,415
Stocks, shares and unit trusts	31,885	16,996
Investment properties	3,098	1,045
Other properties	10	10
Mortgages and loans	117	50
Deposits	3,061	2,202
	52,683	27,718
The liabilities to policyholders comprise:		
Technical provisions:		
Long-term business provision (net of reinsurance)	23,514	3,025
Claims outstanding (net of reinsurance)	172	114
Technical provisions for linked liabilities	24,413	23,372
Fund for future appropriations and other liabilities	2,986	31
	51,085	26,542

33 Assets and liabilities denominated in foreign currencies

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Assets: denominated in sterling	127,841	112,951	109,586	96,800
: denominated in other currencies	40,864	38,361	31,243	27,924
	168,705	151,312	140,829	124,724
Liabilities: denominated in sterling	127,944	113,056	109,572	96,812
: denominated in other currencies	40,761	38,256	31,257	27,912
	168,705	151,312	140,829	124,724

Notes to the accounts

34 Deposits by banks	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Repayable on demand	4,330	3,594	8,816	6,679
Other deposits by banks with agreed maturity dates or periods of notice by residual maturity repayable:				
3 months or less	9,712	12,551	12,317	15,524
1 year or less but over 3 months	1,790	1,153	2,214	1,503
5 years or less but over 1 year	695	341	669	599
Over 5 years	208	55	29	45
	16,735	17,694	24,045	24,350

Included above:				
Due to group undertakings			8,907	7,824

35 Customer accounts	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Repayable on demand	74,477	68,961	54,485	49,409
Other customer accounts with agreed maturity dates or periods of notice by residual maturity repayable:				
3 months or less	21,064	20,122	17,090	15,489
1 year or less but over 3 months	3,522	2,544	2,431	1,611
5 years or less but over 1 year	1,331	1,360	1,729	1,699
Over 5 years	417	135	492	327
	100,811	93,122	76,227	68,535

Included above:				
Due to group undertakings			7,102	5,474
Due to fellow group undertakings	73	271	66	263

36 Debt securities in issue	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Bonds and medium-term notes by residual maturity repayable:				
1 year or less	538	309	345	162
2 years or less but over 1 year	169	188	42	24
5 years or less but over 2 years	472	690	379	366
Over 5 years	1,413	407	82	131
	2,592	1,594	848	683

Other debt securities by residual maturity repayable:				
3 months or less	8,574	7,644	7,157	5,393
1 year or less but over 3 months	6,476	2,645	5,496	2,189
5 years or less but over 1 year	241	362	214	311
Over 5 years	16	15	16	15
	15,307	10,666	12,883	7,908
	17,899	12,260	13,731	8,591

Included above:				
Due to group undertakings			284	213

37 Other liabilities	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Foreign exchange and interest rate contracts	2,417	2,036	2,519	2,468
Current tax	614	610	270	325
Dividends	1,170	860	1,170	860
Other liabilities	2,837	1,825	493	472
	7,038	5,331	4,452	4,125

38 Accruals and deferred income	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Interest payable	1,648	1,305	1,720	1,118
Other creditors and accruals	2,654	2,004	1,462	1,049
	4,302	3,309	3,182	2,167

39 Deferred tax	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
Short-term timing differences	(46)	(82)	(33)	(29)
Pensions prepayment	230	185	204	170
Provision for Emerging Markets Debt	(198)	(212)	(198)	(212)
Accelerated depreciation allowances	1,586	1,580	13	32
	1,572	1,471	(14)	(39)

	Group £m	Bank £m
At 1 January 2000	1,471	(39)
Exchange and other adjustments	(4)	-
Adjustments on acquisition	(3)	-
Tax provided	108	25
At 31 December 2000	1,572	(14)

	Group £m	Bank £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, to the extent that the tax base cost has been reduced by rollover relief, 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 assets 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.

Notes to the accounts

40 Other provisions for liabilities and charges

	Pension obligations £m	Insurance provisions £m	Post-retirement health care £m	Vacant leasehold property £m	Provision for closure of business £m	Other £m	Total £m
Group							
At 1 January 2000	28	201	77	112	28	28	474
Exchange and other adjustments	-	5	-	1	-	-	6
Provisions applied	(1)	(146)	(4)	(15)	(28)	(15)	(209)
Charge for the year	7	142	3	(2)	-	21	171
At 31 December 2000	34	202	76	96	-	34	442
Bank							
At 1 January 2000	28	-	77	86	28	15	234
Exchange and other adjustments	-	-	-	-	-	2	2
Provisions applied	(1)	-	(4)	(5)	(28)	(7)	(45)
Charge for the year	7	-	3	(2)	-	-	8
At 31 December 2000	34	-	76	79	-	10	199

Pension obligations

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

Insurance provisions

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

Post-retirement health care

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

Vacant leasehold property

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

Provision for closure of business

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

Notes to the accounts

41 Subordinated liabilities

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
<i>* Undated loan capital:</i>				
† Primary Capital Undated Floating Rate Notes:				
Series 1 (US\$750 million)	502	465	502	465
Series 2 (US\$500 million)	335	310	335	310
Series 3 (US\$600 million)	401	372	401	372
■ 5% Undated Subordinated Step-up Notes callable 2009 (€1,250 million)	774	766	774	766
† Undated Step-up Floating Rate Notes callable 2009 (€150 million)	94	93	94	93
¶ 6% Undated Subordinated Step-up Notes callable 2010	405	405	405	405
• 7.375% Undated Subordinated Step-up Notes callable 2012 (€430 million)	–	–	267	–
• 7.834% Undated Subordinated Step-up Notes callable 2012	–	–	248	–
♦ Subordinated 5.57% Step-up Coupon Notes callable 2015 (¥20 billion)	117	120	117	120
¶ 6½% Undated Subordinated Step-up Notes callable 2019	266	266	266	266
11½% Perpetual Subordinated Bonds	100	100	–	–
† 8% Undated Subordinated Step-up Notes callable 2023	199	199	199	199
¶ 6½% Undated Subordinated Step-up Notes callable 2029	198	198	198	198
	3,391	3,294	3,806	3,194
<i>Dated loan capital:</i>				
Eurocurrency Zero Coupon Bonds 2003 (¥3 billion)	15	15	–	–
§ Subordinated Fixed Rate Bonds 2003 (NZ\$165 million)	49	65	–	–
† Subordinated Floating Rate Notes 2004	20	25	–	–
7% Subordinated Bonds 2004	399	399	399	399
† ♦ Subordinated Floating Rate Notes 2004	100	100	100	100
† Subordinated Floating Rate Notes 2005	–	25	–	–
§ Subordinated Bonds 2005	–	16	–	–
§ Subordinated Bonds 2006 (NZ\$75 million)	22	24	–	–
† Subordinated Floating Rate Notes 2006	250	250	100	100
† Subordinated Floating Rate Notes 2007	200	200	–	–
7% Subordinated Bonds 2007	298	298	298	298
§ Subordinated Fixed Rate Bonds 2007 (NZ\$150 million)	44	49	–	–
† Subordinated Floating Rate Notes 2008	150	150	–	–
5¼% Subordinated Notes 2008 (DM750 million)	240	237	240	237
† ¶ 10% Guaranteed Subordinated Loan Stock 2008	113	115	113	115
9½% Subordinated Bonds 2009	99	99	99	99
† Subordinated Step-up Floating Rate Notes 2009 callable 2004 (US\$500 million)	334	309	334	309
▲ 8.36% Subordinated Notes 2010 (NZ\$100 million)	30	–	–	–
• 6¼% Subordinated Notes 2010 (€400 million)	250	–	250	–
† ♦ Subordinated Floating Rate Notes 2010 (US\$400 million)	267	–	267	–
¶ 12% Guaranteed Subordinated Bonds 2011	123	124	123	124
4¼% Subordinated Notes 2011 (€850 million)	508	500	508	500
▲ 6% Subordinated Notes 2015	343	–	343	–
† ▲ Subordinated Floating Rate Notes 2020 (€100 million)	62	–	62	–
9% Subordinated Bonds 2023	342	342	342	342
Subordinated Non-Interest Bearing Loan on rolling 6 year notice	150	150	150	150
	4,408	3,492	3,728	2,773
Total subordinated liabilities	7,799	6,786	7,534	5,967

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 Interbank rates.

• Issued during 2000 primarily to provide capital resources in connection with the acquisition of Chartered Trust.

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

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

■ In the event that the Notes are not redeemed at the callable date, the coupon will be reset to a floating rate.

♦ In the event that the Notes are not redeemed at the callable date, the coupon will be reset to a fixed margin over the then 5 year Yen swap rate.

♦ Exchangeable at the election of the Group for further subordinated floating rate notes.

▲ Issued during 2000 primarily to finance the general business of the Group.

• Issued during 2000 primarily to provide capital resources in connection with the acquisition of Scottish Widows.

Notes to the accounts

41 Subordinated liabilities (continued)

Dated subordinated liabilities are repayable as follows:

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
1 year or less	5	5	-	-
2 years or less but over 1 year	5	5	-	-
5 years or less but over 2 years	573	594	499	499
Over 5 years	3,825	2,888	3,229	2,274
	4,408	3,492	3,728	2,773

42 Non-equity minority interests

Non-equity minority interests comprise non-cumulative preferred securities issued by Group undertakings during the year as part of the funding for the Group's acquisition of Scottish Widows (note 50)

	2000 £m	1999 £m
Euro Step-up Non-Voting Non-Cumulative Preferred Securities (€430 million)*	267	-
Sterling Step-up Non-Voting Non-Cumulative Preferred Securities†	248	-
	515	-

*These securities constitute limited partnership interests in Lloyds TSB Capital 1 L.P., a Jersey limited partnership in which Lloyds TSB (General Partner) Limited, a wholly owned subsidiary of the Group, is the general partner. Non-cumulative income distributions accrue at a fixed rate of 7.375 per cent per annum up to 7 February 2012; thereafter they will accrue at a rate of 2.33 per cent above EURIBOR, to be set annually.

†These securities constitute limited partnership interests in Lloyds TSB Capital 2 L.P., a Jersey limited partnership in which Lloyds TSB (General Partner) Limited, a wholly owned subsidiary of the Group, is the general partner. Non-cumulative income distributions accrue at a fixed rate of 7.834 per cent per annum up to 7 February 2015; thereafter they will accrue at a rate of 3.50 per cent above a rate based on the yield of specified UK government stock.

Both of the above issues were made under the limited subordinated guarantee of Lloyds TSB Bank plc. In certain circumstances these preferred securities will be mandatorily exchanged for preference shares in Lloyds TSB Group plc. Lloyds TSB Bank plc has entered into an agreement whereby dividends may only be paid on its ordinary shares if sufficient distributable profits are available for distributions due in the financial year on these preferred securities.

43 Called-up share capital

	2000 £m	1999 £m
Authorised: ordinary shares of £1 each*	1,650	1,650
Issued and fully paid: ordinary shares of £1 each		
At 1 January	1,542	1,472
Issued in the year	-	70
At 31 December	1,542	1,542

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

44 Reserves

	Group £m	Bank £m
Share premium account:		
At 1 January and 31 December 2000	2,960	2,960
Revaluation reserve:		
At 1 January 2000 – as previously reported	(206)	620
Prior year adjustment (note 1)	206	156
Amended balance at 1 January 2000	-	776
Transfer to profit and loss account		(8)
Increase in net tangible assets of subsidiary undertakings		510
At 31 December 2000		1,278
Profit and loss account:		
At 1 January 2000 – as previously reported	5,891	5,065
Prior year adjustment (note 1)	(318)	(227)
Amended balance at 1 January 2000	5,573	4,838
Exchange and other adjustments	(68)	(12)
Transfer from revaluation reserve	-	8
Goodwill written back on closure of business	16	16
Retained profit	1,112	505
At 31 December 2000	6,633	5,355

The Group profit and loss account reserves at 31 December 2000 include £318 million (1999: £87 million) not presently available for distribution representing the Group's share of the value of long-term assurance business in force and the surplus retained within the long-term assurance funds.

The cumulative amount of premiums on acquisitions written off against profit and loss account reserves during previous years amounts to £966 million of which £881 million was within the last 10 years.

45 Directors' interests

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

46 Directors' emoluments

The aggregate of the emoluments of the directors was £5,048,000 (1999: £3,336,000).

The aggregate of the amount of the gains made by directors on the exercise of Lloyds TSB Group plc share options was £27,000 (1999: £4,098,000).

The aggregate of the value of company contributions, in respect of directors' qualifying services, to a money purchase pension scheme was £63,045 (1999: £54,041). None of this amount was attributable to the highest paid director.

The numbers of directors to whom retirement benefits were accruing under money purchase and defined benefit pension schemes were 1 and 7 respectively (1999: 1 and 5).

The total for the highest paid director (Mr Ellwood) was £856,000. The amount of his accrued pension at the year end was £291,914, being his pension entitlement based on pensionable service with the Group to 31 December 2000 but payable at normal retirement age. (The total for the highest paid director in 1999 (Sir Brian Pitman), including the gains of £3,025,000 on the exercise of share options, was £3,393,000.)

Notes to the accounts

47 Transactions with related parties

At 31 December 2000, transactions, arrangements and agreements entered into by the Bank or its subsidiaries with directors and connected persons and with officers of the Bank included:

	2000 Number of persons	2000 Total £000	1999 Number of persons	1999 Total £000
Loans and credit card transactions:				
Directors and connected persons	10	119	15	257
Officers	36	4,993	28	2,986

The Group enters into certain transactions with its long-term assurance businesses which are not eliminated in the consolidated accounts. At 31 December 2000 Group entities owed £2,126 million (1999: £1,775 million) and were owed £1,164 million (1999: £1,337 million). In addition, fees of £68 million (1999: £20 million) were received, and fees of £29 million (1999: £13 million) were paid, in respect of asset management services.

Details of transactions with the Group's joint venture are set out in note 25.

48 Contingent liabilities and commitments

	Group		Bank	
	2000 £m	1999 £m	2000 £m	1999 £m
<i>Contingent liabilities:</i>				
Acceptances and endorsements	357	459	354	440
Guarantees	3,249	2,485	3,596	2,988
Other:				
Other items serving as direct credit substitutes	266	273	258	269
Performance bonds and other transaction-related contingencies	1,271	1,198	1,282	1,189
Other contingent liabilities	4	8	3	-
	1,541	1,479	1,543	1,458
	5,147	4,423	5,493	4,886
<i>Commitments:</i>				
Documentary credits and other short-term trade-related transactions	238	247	122	129
Forward asset purchases and forward forward deposits placed	779	986	701	770
Undrawn note issuing and revolving underwriting facilities	53	90	-	-
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year maturity	33,815	21,314	32,040	19,315
1 year or over maturity	7,701	5,225	6,916	4,648
Other commitments	3	14	3	14
	42,589	27,876	39,782	24,876

Incurred on behalf of group undertakings:

Contingent liabilities	518	637
Commitments	858	98
	1,376	735

49 Derivatives and other financial instruments

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

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

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

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

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

Risk

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

Credit risk

Credit risk arises from extending credit in all forms in the Group's banking and trading activities, where there is a possibility that a counterparty may default. The Group has dedicated standards, policies and procedures to control and monitor all such risks. Lloyds TSB Group Risk's responsibilities in respect of credit risk include the following:

- Formulation of high level credit policies designed to ensure a balanced and managed approach to the identification and mitigation of credit risk. These policies provide a standard framework within which Group businesses structure their individual policies and rules. Lloyds TSB Group Risk reviews, approves and monitors credit policy documents established for individual businesses.
- Provision of lending guidelines. These define the responsibilities for lending officers and provide a disciplined and focused benchmark for sound credit decisions. Clear guidance is provided on the Group's attitude towards and appetite for credit exposure on different market sectors, industries and products.
- Provision of a group rating system. All business units are required to operate an authorised rating system that complies with the Group's standard methodology. The Group uses a 'Master Scale' rating structure with nine ratings, each corresponding to a probability of future default.

Notes to the accounts

49 Derivatives and other financial instruments (continued)

- Establishment and maintenance of the Group's large exposure policy. Exposure to individual counterparties or groups of counterparties is controlled through a tiered hierarchy of delegated sanctioning authorities. Approval requirements for each decision are based on the transaction amount, the customer's aggregate facilities, credit risk ratings and the nature of the risk.
- Control of bank exposures. In-house proprietary rating systems are used to approve bank facilities on a group basis.
- Monitoring of scorecards. The Group utilises statistically-based decisioning techniques (primarily credit scoring and performance scoring) for its main consumer lending portfolios. Authorisations are determined by scorecards tailored to meet the needs of the particular business. Lloyds TSB Group Risk reviews and monitors new and material changes to scorecards.
- Control of cross-border exposures. Country limits are authorised and managed by a dedicated unit, using an in-house rating system which takes into account economic and political factors.
- Maintenance of a centralised facilities database. Lloyds TSB Group Risk operates a centralised database of large corporate, sovereign and bank facilities designed to ensure that a consistent aggregation policy is maintained throughout the Group.
- Formulation of concentration limits on certain industries and sectors. Lloyds TSB Group Risk sets limits and monitors exposures to prevent over-concentration of risk.
- Portfolio analysis. In conjunction with Lloyds TSB Group Risk, group businesses identify and define portfolios of credit and related risk exposures and the key benchmarks, behaviours and characteristics by which those portfolios are managed in terms of credit risk exposure. This entails the production and analysis of regular portfolio monitoring reports for review by Lloyds TSB Group Risk.
- Communication and provision of general guidance on all credit-related risk issues, including regulatory changes and environmental risk policy, to promote consistent and best practice throughout the Group.

Day-to-day credit management and asset quality within each business unit is the primary responsibility of the business unit directors. Each business unit has in place established credit processes involving credit policies, procedures and lending guidelines. Authority to delegate lending discretions within operating divisions rests with officers holding divisional lending delegated authority. All material authorities are advised to Lloyds TSB Group Risk.

Specialist units are established within group business units to provide intensive management and control in order to maximise recoveries of doubtful debts.

Regular independent audits of credit processes are undertaken by Lloyds TSB Group Audit. Such audits include consideration of the completeness and adequacy of credit manuals and lending guidelines, together with an in-depth analysis of a representative sample of accounts in the portfolio to assess the quality of the loan book and other exposures. Individual accounts are reviewed to ensure that the facility grade is appropriate, that credit procedures have been properly followed and that, where an account is non-performing, provisions raised are adequate.

Market risk

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

The Group's trading activities expose it to the risk of adverse movements in interest rates or exchange rates. Trading activities are restricted to a few highly specialist trading centres and the level of exposure is strictly controlled and monitored within approved limits locally and centrally.

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

49 Derivatives and other financial instruments (continued)

Various parameters are used to calculate the value at risk on a given portfolio of positions, thus avoiding undue reliance on a single measure. Based on the commonly quoted 95 per cent confidence level, assuming positions are held overnight and using observation periods of the preceding 3 years, during 2000 the value at risk on the Group's global trading averaged £1.28 million (1999: £1.16 million) with a maximum of £1.67 million (1999: £1.78 million) and a minimum of £0.98 million (1999: £0.77 million). The figure at 31 December 2000 was £1.17 million (1999: £1.04 million).

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

Liquidity risk

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

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

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

Operational risk

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

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

Insurance risk

The Group offers insurance products to its customers, and actively reviews the extent to which the associated risk is underwritten internally, or reinsured with external underwriters.

The Financial Services Authority sets down minimum requirements for solvency and reserving for all classes of insurance, which are carefully monitored by the relevant business units within the Group. The retained risk level is carefully controlled and monitored, with close attention being paid to the analysis of underwriting experience, product design, policy wordings, adequacy of reserves, solvency management and regulatory requirements.

Investment strategy is determined by the term and nature of the underwriting liabilities and asset/liability matching positions are actively monitored. General insurance exposure to accumulations of risk and possible catastrophes is mitigated by reinsurance arrangements which are broadly spread over different reinsurers. Appropriate reinsurance arrangements also apply within the life and pensions businesses.

Notes to the accounts

49 Derivatives and other financial instruments (continued)**Derivatives**

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

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

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

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

a) Derivatives**Group****Trading**

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

	Notional principal amount £m	Fair values	
		Assets £m	Liabilities £m
31 December 2000			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	86,423	1,742	1,940
Currency swaps	6,049	304	206
Options purchased	1,208	23	-
Options written	1,023	-	19
	94,703	2,069	2,165
<i>Interest rate contracts:</i>			
Interest rate swaps	290,529	3,484	3,509
Forward rate agreements	48,002	57	64
Options purchased	3,539	17	-
Options written	2,229	-	8
Futures	34,390	6	-
	378,689	3,564	3,581
Equity contracts	2,768	443	59
Effect of netting		(3,388)	(3,388)
Balances arising from off-balance sheet financial instruments		2,688	2,417

49 Derivatives and other financial instruments (continued)**a) Derivatives (continued)**

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

Non-trading

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

	Notional principal amount £m	Fair values	
		Positive £m	Negative £m
31 December 2000			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	296	4	4
Currency swaps	78	5	7
	374	9	11
<i>Interest rate contracts:</i>			
Interest rate swaps	2,466	96	35
Forward rate agreements	134	-	-
	2,600	96	35
	Notional principal amount £m	Fair values	
		Positive £m	Negative £m
31 December 1999			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	187	4	1
Currency swaps	95	11	3
	282	15	4
<i>Interest rate contracts:</i>			
Interest rate swaps	2,203	31	23
Forward rate agreements	20	-	-
	2,223	31	23

The aggregate carrying value of non-trading derivatives with a positive fair value was an asset of £23 million (1999: an asset of £1 million) and with a negative fair value was a liability of £1 million (1999: an asset of £1 million).

Notes to the accounts

49 Derivatives and other financial instruments (continued)**a) Derivatives (continued)**

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

	Under 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
31 December 2000				
<i>Exchange rate contracts:</i>				
Notional principal amount	88,288	4,973	1,816	95,077
Net replacement cost	1,094	183	39	1,316
<i>Interest rate contracts:</i>				
Notional principal amount	177,684	159,422	44,183	381,289
Net replacement cost	731	146	157	1,034
<i>Equity contracts:</i>				
Notional principal amount	506	2,054	208	2,768
Net replacement cost	68	343	32	443
31 December 1999				
<i>Exchange rate contracts:</i>				
Notional principal amount	90,281	4,125	671	95,077
Net replacement cost	996	137	13	1,146
<i>Interest rate contracts:</i>				
Notional principal amount	258,197	212,598	47,887	518,682
Net replacement cost	305	392	299	996
<i>Equity contracts:</i>				
Notional principal amount	204	1,776	413	2,393
Net replacement cost	39	528	79	646

The notional principal amount does not represent the Group's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value should the counterparty default. To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting or collateralisation, where security is provided against the exposure.

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

	2000 £m	1999 £m
OECD banks	2,244	2,449
Other	549	339
	2,793	2,788

49 Derivatives and other financial instruments (continued)**a) 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
31 December 2000			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	79,150	1,510	1,720
Currency swaps	5,194	131	177
Options purchased	1,154	21	-
Options written	784	-	14
	86,282	1,662	1,911
<i>Interest rate contracts:</i>			
Interest rate swaps	288,054	3,649	3,427
Forward rate agreements	46,874	57	63
Options purchased	3,489	17	-
Options written	2,004	-	8
Futures	32,672	6	-
	373,093	3,729	3,498
Equity contracts	5,336	502	498
Effect of netting		(3,388)	(3,388)
Balances arising from off-balance sheet financial instruments		2,505	2,519

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

Notes to the accounts

49 Derivatives and other financial instruments (continued)**a) Derivatives (continued)***Non-trading*

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

	Notional principal amount £m	Fair values	
		Positive £m	Negative £m
31 December 2000			
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	237	6	-
Currency swaps	341	6	34
	578	12	34
<i>Interest rate contracts:</i>			
Interest rate swaps	1,583	99	24
Forward rate agreements	139	-	-
	1,722	99	24
31 December 1999			
	Notional principal amount £m	Positive £m	Negative £m
<i>Exchange rate contracts:</i>			
Spot, forwards and futures	187	3	1
Currency swaps	354	17	-
	541	20	1
<i>Interest rate contracts:</i>			
Interest rate swaps	1,365	33	18
Forward rate agreements	23	-	-
	1,388	33	18

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 2000				
<i>Exchange rate contracts:</i>				
Notional principal amount	81,083	3,992	1,785	86,860
Net replacement cost	793	82	37	912
<i>Interest rate contracts:</i>				
Notional principal amount	172,730	157,315	44,770	374,815
Net replacement cost	714	163	325	1,202
<i>Equity contracts:</i>				
Notional principal amount	842	4,079	415	5,336
Net replacement cost	68	402	32	502
31 December 1999				
<i>Exchange rate contracts:</i>				
Notional principal amount	81,792	3,064	725	85,581
Net replacement cost	858	46	12	916
<i>Interest rate contracts:</i>				
Notional principal amount	253,802	210,463	49,181	513,446
Net replacement cost	287	366	516	1,169
<i>Equity contracts:</i>				
Notional principal amount	290	3,356	826	4,472
Net replacement cost	39	528	79	646

49 Derivatives and other financial instruments (continued)**a) Derivatives (continued)**

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:

	2000 £m	1999 £m
OECD banks	2,285	2,528
Other	331	203
	2,616	2,731

Notes to the accounts

49 Derivatives and other financial instruments (continued)**b) Interest rate sensitivity gap analysis for the non-trading book**

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

	3 months or less £m	6 months or less but over 3 months £m	1 year or less but over 6 months £m	5 years or less but over 1 year £m	Over 5 years £m	Non- interest bearing £m	Total £m
As at 31 December 2000							
Assets:							
Treasury bills and other eligible bills	534	40	46	9	1	-	630
Loans and advances to banks	13,034	1,184	392	112	241	135	15,098
Loans and advances to customers	69,460	4,894	6,112	30,407	5,742	(412)	116,203
Debt securities and equity shares	2,497	475	340	902	1,448	51	5,713
Other assets	251	22	47	5	22	16,533	16,880
Total assets	85,776	6,615	6,937	31,435	7,454	16,307	154,524
Liabilities:							
Deposits by banks	12,854	1,090	604	396	92	789	15,825
Customer accounts	89,267	1,955	1,508	1,255	394	6,141	100,520
Debt securities in issue	8,519	5,950	1,769	623	82	-	16,943
Other liabilities	159	-	3	91	2	9,175	9,430
Subordinated liabilities – loan capital	1,728	1,010	-	653	4,258	150	7,799
Minority interests and shareholders' funds	-	-	-	-	-	11,667	11,667
Total liabilities	112,527	10,005	3,884	3,018	4,828	27,922	162,184
Net balances with group trading books	(26,751)	(3,390)	3,053	28,417	2,626	(11,615)	(7,660)
Off-balance sheet items	12,229	(766)	170	(10,612)	(1,021)	-	-
Interest rate repricing gap	(14,670)	(3,174)	3,487	23,993	1,979	(11,615)	-
Cumulative interest rate repricing gap	(14,670)	(17,844)	(14,357)	9,636	11,615	-	-
As at 31 December 1999							
Assets:							
Treasury bills and other eligible bills	896	108	134	60	-	-	1,198
Loans and advances to banks	13,418	1,640	1,074	334	277	71	16,814
Loans and advances to customers	58,613	3,765	4,485	29,466	7,851	(149)	104,031
Debt securities and equity shares	3,056	725	675	524	1,041	54	6,075
Other assets	230	-	-	5	27	9,249	9,511
Total assets	76,213	6,238	6,368	30,389	9,196	9,225	137,629
Liabilities:							
Deposits by banks	15,095	852	114	17	-	745	16,823
Customer accounts	81,569	1,586	903	1,321	110	7,387	92,876
Debt securities in issue	6,618	1,446	1,397	1,109	407	-	10,977
Other liabilities	149	-	5	-	2	6,625	6,781
Subordinated liabilities – loan capital	500	50	-	701	5,385	150	6,786
Minority interests and shareholders' funds	-	-	-	-	-	10,018	10,018
Total liabilities	103,931	3,934	2,419	3,148	5,904	24,925	144,261
Net balances with group trading books	(27,718)	2,304	3,949	27,241	3,292	(15,700)	(6,632)
Off-balance sheet items	1,372	272	733	4,051	204	-	6,632
Interest rate repricing gap	(22,820)	3,103	3,106	27,012	5,299	(15,700)	-
Cumulative interest rate repricing gap	(22,820)	(19,717)	(16,611)	10,401	15,700	-	-

The table above does not take into account the effect of interest rate options used by the Group to hedge its exposure; details of options are given on page 28.

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49 Derivatives and other financial instruments (continued)**c) Fair value analysis**

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

As at 31 December 2000

	Trading book		Non-trading book	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Assets:				
Treasury bills and other eligible bills	1,079	1,079	630	627
Loans and advances to banks and customers	322	322	—	—
Debt securities and equity shares	8,416	8,416	5,713	5,972
Liabilities:				
Deposits by banks and customers	1,201	1,201	—	—
Debt securities in issue	956	956	16,943	16,982
Subordinated liabilities	—	—	7,799	7,981

As at 31 December 1999

	Trading book		Non-trading book	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Assets:				
Treasury bills and other eligible bills	867	867	1,198	1,197
Loans and advances to banks and customers	200	200	—	—
Debt securities and equity shares	8,322	8,322	6,075	6,214
Liabilities:				
Deposits by banks and customers	1,116	1,116	—	—
Debt securities in issue	1,283	1,283	10,977	10,971
Subordinated liabilities	—	—	6,786	6,960

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

Fair values of all derivative instruments are disclosed above.

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

49 Derivatives and other financial instruments (continued)**d) Currency exposures***Structural currency exposures*

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

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

	2000 £m	1999 £m
Functional currency of Group operation		
New Zealand dollar	703	716
Euro (and component former currencies)	289	335
US dollar	194	160
Swiss franc	120	108
Other non-sterling	397	371
Total	1,703	1,690

Non-structural currency exposures

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

e) Unrecognised gains and losses on hedging instruments

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

At 31 December 2000, the unrecognised gains on financial instruments used for hedging were £200 million (1999: £161 million) and unrecognised losses were £457 million (1999: £253 million).

The net losses arising in 1999 and earlier years and recognised in 2000 amounted to £32 million. Net losses of £200 million arose in 2000 but were not recognised in the year.

Of the net losses of £257 million at 31 December 2000, £55 million of net losses are expected to be recognised in the year ending 31 December 2001 and £202 million of net losses in later years.

Notes to the accounts

50 Acquisitions

a) On 3 March 2000, the Group completed the transfer of the business of Scottish Widows' Fund and Life Assurance Society to its wholly owned subsidiaries Scottish Widows plc and Scottish Widows Annuities Limited; the results of Scottish Widows have been consolidated in full from that date. The premium on acquisition of £1,870 million has been capitalised and the directors have determined that it has an indefinite useful life (see note 1c).

A summarised profit and loss account for Scottish Widows for the period from 1 January 2000 to 2 March 2000 is set out below:

	£m
Earned premiums (net of reinsurance)	477
Other income and charges	10
Net investment returns	(295)
Claims paid (net of reinsurance)	(419)
Change in technical provisions	(393)
Operating expenses	(57)
Transfer to fund for future appropriations	653
Tax attributable to long-term business account	(12)
Loss after tax for the period to 2 March 2000	(36)
Profit after tax for the year ended 31 December 1999	333

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

The balance sheet of Scottish Widows at 3 March 2000 was as follows:

	Book value at 3 March £m	Fair value adjustments £m	Fair value at acquisition £m
Investments	23,799	(23,799)	-
Assets held to cover linked liabilities	3,062	(3,062)	-
Other assets	1,250	(1,230)	20
Prepayments and accrued income	189	(155)	34
Loans and advances to banks	160	-	160
Loans and advances to customers	632	-	632
Long-term assurance business attributable to shareholders	-	4,052	4,052
Long-term assurance assets attributable to policyholders	-	24,166	24,166
Fund for future appropriations	(6,541)	6,541	-
Technical provisions	(18,084)	18,084	-
Technical provisions for linked liabilities	(3,062)	3,062	-
Customer accounts	(709)	-	(709)
Accruals and deferred income	(21)	9	(12)
Other liabilities	(675)	575	(100)
Long-term assurance liabilities to policyholders	-	(24,166)	(24,166)
Net assets acquired	-	4,077	4,077
Goodwill			1,870
			5,947
Consideration			5,846
Costs of acquisition			101
			5,947

50 Acquisitions (continued)

As a mutual life assurance society, Scottish Widows prepared accounts under the modified statutory solvency basis, this is different to the Lloyds TSB Group accounting policy, which is set out in note 1c. The fair value adjustments above are required to:

i) show the net assets of Scottish Widows in accordance with the Group's accounting policy; and

ii) reflect the fair value of assets and liabilities.

The Scottish Widows business is complex and whilst no further fair value adjustments are expected, in accordance with the requirements of paragraph 27 of Financial Reporting Standard 6, it is noted that the fair value of the net assets of Scottish Widows and the goodwill arising shown above are provisional.

Under the terms of the transfer of Scottish Widows' business, as set out in the Policyholder Circular dated 19 November 1999, a separate memorandum account was created within the With Profits Fund on 3 March 2000 called the Additional Account with a balance of £1.7 billion. This account included £1.3 billion which is available to meet any additional costs of meeting guaranteed benefits including annuity benefits on transferred policies allocated to the With Profits Fund and any unexpected liabilities which arise in the future but relate (with certain exceptions) to the operations of Scottish Widows and its subsidiaries prior to 3 March. The assets allocated to the Additional Account include certain hedge assets which are intended to protect the With Profits Fund against the consequences of a future fall in interest rates including increases in the costs of meeting policy guarantees.

b) On 1 September 2000 the Group's subsidiary, Lloyds UDT Finance Limited, completed the acquisition of Chartered Trust Group plc and ACL Autolease Holdings Limited (together 'Chartered Trust'), the UK consumer finance and contract hire subsidiaries of Standard Chartered Bank; the results of these businesses have been consolidated in full from that date. The premium on acquisition of £508 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of 20 years.

A summarised profit and loss account for Chartered Trust for the period from 1 January 2000 to 31 August 2000 is set out below:

	£m
Net interest income	122
Net fees and commissions	(17)
Other income	17
Total income	122
Operating expenses	(84)
Provisions for bad and doubtful debts	(23)
Profit on ordinary activities before tax	15
Tax	(8)
Profit after tax for the period to 31 August 2000	7
Profit after tax for the year ended 31 December 1999	23

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

Notes to the accounts

50 Acquisitions (continued)

The balance sheet of Chartered Trust at 1 September 2000 was as follows:

	Book value at 1 September £m	Fair value adjustments £m	Fair value at acquisition £m
Loans and advances to banks	143	—	143
Loans and advances to customers	1,860	—	1,860
Tangible fixed assets	414	(39)	375
Other assets and prepayments	114	—	114
Deposits by banks	(1,798)	—	(1,798)
Customer accounts	(336)	—	(336)
Other liabilities and accruals	(249)	—	(249)
Minority interests – equity	(3)	—	(3)
Net assets acquired	145	(39)	106
Goodwill			508
Consideration			614

The consideration was settled in cash. The fair value adjustments principally reflect provision for anticipated losses in respect of residual values on certain operating lease assets.

c) On 28 April 2000 the Group's French subsidiary, Lloyds Bank S.A. completed the purchase of the private client business of CPR Gestion Privée for a cash consideration of £27 million. The premium on acquisition of £27 million has been capitalised and will be written off to the profit and loss account over its estimated useful life of 20 years. There were no fair value adjustments made to the assets acquired. The results of this business have been consolidated in full from the date of acquisition, the effect on the results of the Group is not material.

