

Lazard Bank Limited

**ANNUAL REPORT  
2000**

REGISTERED N° 162175



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## DIRECTORS AND OFFICERS

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**Chairman**

D J Verey\*

**Deputy chairman**

M A David-Weill\*

**Vice chairmen**

M A P Agius\*

N M H Jones\*

**Chief executive**

L A W Evans\*

\* Managing

**Deputy chief executive**

W J Rucker \*

**Executive directors**

W D W Dennis

H E Durey

J V Hansford

P G Hock\*

A H Kilgour\*

D J McMillan

M G Moyes

W J Rucker\*

J R Stone\*

D L Tashjian\*

P D Warner\*

K M H Wilson\*

**Non-Executive Directors**

A L Blakesley

N D M Mackay

A J B Mitchell

J C Orr

**Secretary**

W D W Dennis

# DIRECTORS' REPORT

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The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

## Corporate Restructuring

On 1 August 2000 the Company changed its name from Lazard Brothers & Co., Limited to Lazard Bank Limited. At the same time, the Company's corporate finance activities were transferred to a newly incorporated company called Lazard Brothers & Co., Limited. The principal activities of the Company since then have been those of money markets and related activities. No future changes to the Company's activities are currently anticipated. The Company is an authorised institution under the Banking Act 1987 and a member of London Stock Exchange Limited. It is also regulated by the Securities and Futures Authority.

## Share Capital

On 27 October 2000, the Company made a bonus issue of 2,500,000 fully paid up Ordinary shares of £1 each to Lazard & Co., Holdings Limited in its capacity as holder of the 1,000,000 issued fully paid up Swiss Franc shares in the capital of the Company. At the same time the Company made an offer to repurchase the 1,000,000 issued fully paid up Swiss Franc shares held by Lazard & Co., Holdings Limited which was accepted and the shares duly cancelled. The special dividend of 276.6p per Ordinary share declared on 24 December 1999 was paid on 3 March 2000.

## Profit, dividends and reserves

The profit of the Company, after taxation, amounted to £16,745,000 (1999: £60,636,000). An interim dividend of SwFr 2.996 per Swiss Franc share in respect of the year ended 31 December 2000 was paid on 19 July 2000. A first interim dividend of 79.04p per ordinary share was paid on 28 June 2000 and a second interim dividend of 9.88p per ordinary share was paid on 14 December 2000. A third interim dividend of 26.46p per Ordinary share was declared on 27 February 2001 and paid on 28 February 2001. The dividends paid total £31,060,000. After taking into account brought forward reserves of £45,659,000, carried forward reserves amount to £31,344,000.

## Directors and their interests

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

A H Kilgour was appointed a managing director on 26 July 2000, P D Warner was appointed a managing director on 2 October 2000, D L Tashjian was appointed a managing director on 22 November 2000 and W J Rucker was appointed a managing director and deputy chief executive of the Company on 27 November 2000.

The following directors have resigned during the year:

J C Makinson (3 March 2000), Lord Stevenson (3 March 2000), P N N Turner (17 March 2000), J W Sillem (5 April 2000), J T B Goodwin (12 May 2000), C N C Hill (12 May 2000), E D Bottari (26 May 2000), P E Kelly (15 June 2000), P E Brock (3 July 2000), M C Bottenheim (31 October 2000).

As a result of the transfer of corporate finance business to Lazard Brothers & Co., Limited earlier in the year, the following directors resigned on 1 August 2000 and were appointed to the board of Lazard Brothers & Co., Limited:

J P Balfe, U Bose, G Braggiotti, W Buist-Wells, R A Constant, N M A Costain, D S Cummings, J D S Dawson, J S Dear, J A Drouin, C C Fisher, A D E Gardner, M H Gidney, P A Gismondi, M Gobbo, J-C Haas, J N B Hack, Mrs F A Heaton, Mrs S A Hedger, P A Jameson, A D Johnston, D G H Kotler, A R McNaught, Mrs K B Moore, C M Packshaw, D H A Reitman, W J Rucker, S L Schechter, J P H S Scott, N R Shott, R M Stables, A E Wambold, J M A Wilford, M E Zaheen.

Mr N T Lukes retired as a director on 1 January 2001.

The interests of the directors are shown on page 5.

## Auditors

The directors have appointed Deloitte & Touche to be auditors of the company.

# DIRECTORS' REPORT

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## Directors' responsibilities

The directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for the period to which the financial statements relate. In preparing those financial statements, the directors confirm that suitable accounting policies have been selected and applied consistently, and that they have made judgements and estimates that are reasonable and prudent and have prepared the financial statements on the going concern basis. The directors also confirm that applicable accounting standards have been followed.

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

## Employees

The Company has 3 employees. On 1 August 2000 the employment of the majority of its employees transferred to Lazard & Co., Services Limited which provides employment and other services to the Company. The average number of persons employed by the company during the period to 1 August, excluding persons who worked wholly or mainly outside the United Kingdom or abroad, was 409. Of these, 236 were directly engaged in investment banking activities and 173 were engaged in administration functions. Lazard & Co., Services Limited gives full and fair consideration to the employment of disabled persons having regard to their aptitudes and abilities. Employees who are disabled are treated in the same way as all other employees as far as continuing employment, training and career development are concerned.

Lazard & Co., Services Limited provides employees with information on matters of concern to them by means of memoranda and brochures and the Company's intranet notice board. It learns of employees' views through committees, which meet regularly.

## Risk Management

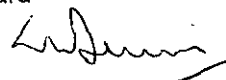
The Board of the Company and of its associated entities have ultimate responsibility to assess the risks taken and ensure adequate controls are in place to manage these risks for the whole of the group. In a number of areas, the Board delegates this function to committees such as the Lazard Bank Limited Risk Committee.

The Risk Committee is responsible for setting limits and monitoring all monetary risks, including credit limits and market risk limits across the group and is chaired by the Chairman of the Company. The Risk Committee in turn delegates levels of discretionary authority to corporate and divisional management and the Risk Department.

The Risk Department is accountable to the Risk Committee for reviewing and recommending market and credit risk limits, monitoring adherence to those limits, assessing risk at a group level and ensuring risk methodologies applied conform, where possible, with best practice. The Risk Department is also responsible for ensuring the valuation methods used are in line with market practice and for ensuring that the Risk Committee is promptly informed of all risks run by the group.

Risk management is described in more detail in note 30 of the financial statements.

By order of the board  
**W D W Dennis**  
Secretary



Registered Office:  
21 Moorfields  
London EC2P 2HT

Registered Number: 162175

2 March 2001

## DIRECTORS' INTERESTS

The interests of those persons who were directors at the end of the year in the shares in, or debentures of, group companies, as shown in the register kept in accordance with Section 325 of the Companies Act 1985, were as follows.

M A David-Weill had interests in 750,000 Lazard Bank Limited deferred shares at 1 January 2000 and at 31 December 2000. Interests in ordinary shares of the company at 1 January 2000 and 31 December 2000 are listed below. The directors marked † had interests in Lazard LLC, the company's ultimate parent company. The directors marked \* hold unsecured Loan Notes in Lazard & Co., Holdings Limited, the company's immediate parent company as at 31 December 2000.

No options over the company's shares were granted during the year ended 31 December 2000. Ten directors exercised options over shares totalling 17,099 under the company's SAYE scheme in the year ended 31 December 2000. The SAYE scheme became null and void in March 2000.

	Unsecured loan notes Lazard & Co., Holdings Limited as at 31 December 2000 £	31 December 2000 Shares	1 January 2000	
			(a) shares and options over shares	(b) shares included in (a)
*† M A P Agius	47,422	-	4,780	2,343
* M C Baughan	21,860	-	1,500	1,500
† M A David-Weill	-	-	-	-
* H E Durey	40,049	-	4,437	2,812
*† L A W Evans	-	-	4,062	-
*† P G Hock	19,608	-	1,868	-
* D J McMillan	33,323	-	2,515	1,078
*† D J Verey	630,901	-	57,610	56,892

(b) The figures in these columns relate both to shares acquired as a result of the exercise of the relevant options and in certain cases to one or more further purchases.

# REPORT OF THE AUDITORS

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## to the members of Lazard Bank Limited

We have audited the financial statements on pages 7 to 32 which have been prepared under the accounting policies set out on pages 9 and 10.

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

As described on page 4 the Company's directors are responsible for the preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

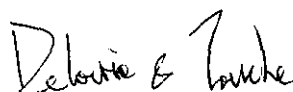
### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of Company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Deloitte & Touche**

Chartered Accountants and Registered Auditors  
Stonecutter Court  
Stonecutter Street  
London EC4A 4TR

2 March 2001

LAZARD BANK LIMITED  
**PROFIT AND LOSS ACCOUNT**

**for the year ended 31 December 2000**

Note	2000 £000	1999 £000
Interest receivable:		
- interest receivable and similar income from debt securities and other fixed income securities	423,026	405,581
- other interest receivable and similar income	131,289	109,718
Less: Interest payable	(530,152)	(488,318)
<b>2 Net interest income</b>	<b>24,163</b>	<b>26,981</b>
- Continuing operations	24,163	26,981
- Discontinued operations	-	-
Dividend income - equity shares	9,536	25,672
Fees and commissions receivable	59,494	127,917
Less: Fees and commissions payable	(1,312)	(1,407)
Dealing profits	4,592	4,439
Other operating income	142	829
<b>2 Operating income</b>	<b>96,615</b>	<b>184,431</b>
- Continuing operations	37,729	57,682
- Discontinued operations	58,886	126,749
3 Administrative expenses	(76,646)	(111,266)
17 Depreciation and amortisation	(549)	(1,043)
13 Amounts written off fixed asset securities	(1,246)	(945)
<b>2 Operating profit</b>	<b>18,174</b>	<b>71,177</b>
- Continuing operations	9,646	9,152
- Discontinued operations	8,528	62,025
Income from associated undertakings	2,859	7,247
Profit on disposal of fixed asset investments	331	-
<b>4 Profit on ordinary activities before tax</b>	<b>21,364</b>	<b>78,424</b>
7 Tax on profit on ordinary activities	(4,619)	(17,788)
<b>Profit on ordinary activities after tax</b>	<b>16,745</b>	<b>60,636</b>
8 Equity and non-equity dividends	(31,060)	(71,829)
Transfer from reserves	(14,315)	(11,193)
Reserves brought forward	45,659	56,852
<b>Reserves carried forward</b>	<b>31,344</b>	<b>45,659</b>

No material gains or losses have been recognised in these financial statements other than those reflected in the Profit and Loss Account and therefore no separate statement of total recognised gains and losses has been presented. There is no difference between the profit on ordinary activities before taxation or the retained loss for the year stated above and their historical cost equivalents.

A reconciliation of the movement in shareholders' funds is shown in note 29.



LAZARD BANK LIMITED  
**BALANCE SHEET**

**at 31 December 2000**

	2000 £000	1999 £000
<b>Assets</b>		
Cash and balance at central bank	73	27
9 Secured loans from purchase and resale agreements	3,978,006	2,406,398
10 Loans and advances to banks	217,728	196,313
11 Loans and advances to customers	230,814	353,959
12 Debt securities and other fixed income securities	3,454,976	3,216,059
13 Equity shares	189,531	177,919
14 Interests in associated undertakings	54	67
15 Other participating interests	1,018	939
16 Interests in group undertakings	5,921	4,922
17 Tangible fixed assets	1,357	1,939
18 Other assets	46,362	58,424
Prepayments and accrued income	131,634	127,815
<b>Total assets</b>	<b>8,257,474</b>	<b>6,544,781</b>
<b>Liabilities</b>		
20 Secured deposits from sale and repurchase agreements	4,933,467	3,215,330
21 Deposits by banks	1,157,533	1,066,364
22 Customer accounts	870,120	781,929
23 Debt securities in issue	153,243	144,237
24 Short positions in securities	863,577	948,959
25 Other liabilities	164,357	180,395
Accruals and deferred income	4,565	70,871
Provisions for liabilities and charges		
26 - post-retirement medical benefits	775	12,106
	<b>8,147,637</b>	<b>6,420,191</b>
27 Called up share capital	32,803	30,711
28 Share premium account	45,282	48,220
28 Capital redemption reserve	408	-
28 Profit and loss account	31,344	45,659
29 Total shareholders' funds	109,837	124,590
- Equity interests	104,837	81,550
- Non-equity interests	5,000	43,040
<b>Total liabilities</b>	<b>8,257,474</b>	<b>6,544,781</b>
<b>31 Memorandum items</b>		
Contingent liabilities		
- acceptances and endorsements	10,000	75,000
- guarantees and assets pledged as collateral security	3,525	3,512
	13,525	78,512
Commitments	2,856	3,174
	<b>16,381</b>	<b>81,686</b>

Signed on behalf of the board on 2 March 2001

Directors

*Amir Khan*

*Nicholas Jones*

# NOTES TO THE ACCOUNTS

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## 1 Accounting policies

### (a) Disclosure requirements and basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with the special provisions of Part VII, Chapter II of the Companies Act 1985 relating to banking companies and applicable Accounting Standards in the United Kingdom.

### (b) Debt securities

Debt instruments are included at cost, adjusted for discount accretion or premium amortisation where the intention is to hold them to maturity. Debt instruments intended for use on a continuing basis in the group's activities are classified as investment securities. Interest receivable thereon and the premium or discount are taken to the profit and loss account on a straight line basis over the period to the date of anticipated redemption. Other debt instrument positions arising from trading activities are carried at market rates. The cost of such debt instrument positions is not disclosed in these financial statements as it cannot be determined without unreasonable expense.

### (c) Equity shares

Shares and securities intended for use on a continuing basis in the group's activities are classified as fixed asset securities. Such shares and securities are stated at cost less provision for any permanent diminution in value. Other equity shares arising from trading are carried at market rates. The cost of such shares is not disclosed in these financial statements as it cannot be determined without unreasonable expense.

### (d) Forward foreign exchange contracts and other off-balance sheet instruments

Forward foreign exchange contracts and other off-balance sheet instruments are valued at market prices and the resultant profits and losses are included in income, except for transactions designated as hedges which are accounted for in accordance with the accounting treatment of the items being hedged.

### (e) Tangible fixed assets

Motor vehicles, computer and other equipment are capitalised and depreciated on a straight line basis over two to four years. It is company policy to maintain long leasehold properties in such a condition that their value is not impaired by the passage of time. Such maintenance expenditure is charged to profits in the appropriate year. As a consequence, the element of depreciation is, in the opinion of the directors, immaterial and no provision for depreciation has been made in the company's accounts.

### (f) Foreign currencies

Assets, liabilities and profits in overseas currencies are translated into sterling at contracted rates during the year and at the rates ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

### (g) Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise.

### (h) Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are based on the year end appraisal of loans and advances.

### (i) Pensions

The pension cost relating to the UK defined benefit scheme is assessed in accordance with the advice of independent qualified actuaries, so as to recognise the cost of pensions on a systematic basis over the employees' service lives.

CONTINUED  
**NOTES TO THE ACCOUNTS**

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**1 Accounting policies (continued)**

**(j) Interest receivable and payable**

Net interest income comprises interest receivable on debt securities, loans, advances and deposits placed less interest payable on deposits taken and debt securities in issue, credit for which is taken on an accruals basis.

**(k) Resale and repurchase agreements and stock loans**

Cash given in respect of purchase and resale agreements is disclosed in the balance sheet as secured loans from purchase and resale agreements. The securities received in these transactions are not disclosed in the balance sheet. Cash received in respect of sale and repurchase agreements is disclosed in the balance sheet as secured deposits from sale and repurchase agreements. The securities given in these transactions remain on the balance sheet unless borrowed for the purpose of the transaction.

Stock borrowing and lending transactions are reflected in assets and liabilities respectively only to the extent that collateral given or received is in the form of cash. These off balance sheet transactions are summarised in note 20.

**(l) Post-retirement medical benefits**

The cost of making provision for these discretionary benefits is assessed in accordance with the advice of independent actuaries so as to recognise the cost on a systematic basis over the employees' service lives. The movement in the provision is dealt with in the profit and loss account.

**(m) Fees receivable**

Fees receivable are brought into profit on an accruals basis.

CONTINUED  
NOTES TO THE ACCOUNTS

## 2 Continuing and Discontinued Operations

	Continuing £000	2000 Discontinued £000	Total £000	Continuing £000	1999 Discontinued £000	Total £000
Interest receivable	554,315	-	554,315	515,299	-	515,299
Interest payable	(530,152)	-	(530,152)	(488,318)	-	(488,318)
Net interest income	24,163	-	24,163	26,981	-	26,981
Dividend income	9,536	-	9,536	25,672	-	25,672
Fees and commissions receivable	608	58,886	59,494	1,168	126,749	127,917
Fees and commissions payable	(1,312)	-	(1,312)	(1,407)	-	(1,407)
Dealing profits	4,592	-	4,592	4,439	-	4,439
Other operating income	142	-	142	829	-	829
Operating income	37,729	58,886	96,615	57,682	126,749	184,431
Administrative expenses	(26,462)	(50,184)	(76,646)	(46,893)	(64,373)	(111,266)
Depreciation and amortisation	(375)	(174)	(549)	(692)	(351)	(1,043)
Amounts written off fixed asset securities	(1,246)	-	(1,246)	(945)	-	(945)
Operating profit	9,646	8,528	18,174	9,152	62,025	71,177

## 3 Administrative expenses

	2000 £000	1999 £000
Staff costs		
- wages and salaries <sup>(1)</sup>	13,887	17,950
- bonuses and profit-sharing <sup>(2)</sup>	32,208	55,021
- social security costs	5,247	7,036
- other pension costs	52	1,109
Other administrative expenses	25,252	30,150
	<u>76,646</u>	<u>111,266</u>

<sup>(1)</sup> Wages and salaries include all cash benefits paid directly to employees.

<sup>(2)</sup> Bonuses and profit sharing includes a payment to an Employee Benefit Trust (see note 5).

CONTINUED  
**NOTES TO THE ACCOUNTS**

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**4 Profit on ordinary activities before tax**

	2000 £000	1999 £000
This is stated after taking into account:		
<b>(a) Income</b>		
Profits less losses on securities dealing	37	-
Profits less losses on disposal of investment securities	154	329
<b>(b) Charges</b>		
Auditors' remuneration	-	238
Auditors' remuneration for non-audit work	-	53
Rental charged on land and buildings held under operating leases	2,586	5,421

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**5 Directors and officers**

Following the reorganisation of the Lazard group of businesses, described in the Directors' Report above, on 1 August 2000 the employment of the directors of Lazard Bank Limited ("LBL") transferred to Lazard & Co., Services Limited ("LSL").

The directors' emoluments and details of directors' transactions set out below therefore relate to:

- (a) directors of LBL who were also employees of LBL up to and including 31 July, 2000; and
- (b) employees of LSL who are also directors of LBL and who provide their services wholly or primarily to LBL.

The emoluments and details of directors' transactions of directors who were also directors of the immediate holding company, Lazard & Co., Holdings Limited ("LCHL") have been disclosed in the financial statements of LCHL from the date of their respective appointments to LCHL, and are excluded from the figures shown below.

**(a) Emoluments**

Aggregate directors' emoluments for services in respect of the Company for 2000 amounted to £33,006,691 (1999: £45,833,000).

Compensation paid for loss of office to directors was £nil (1999: £909,000). There were no special pension arrangements made in connection with retirement from office of a director (1999: £100,000).

Until the reorganisation, contributions from profits were made each year to an Employee Benefit Trust ("the Trust"), the trustees of which are directors of LCHL. Included in the above amount is a total of £10,333,333 paid by the Trust in respect of 2000 relating to profit performance in prior years.

54 directors accrued benefits under a "defined benefit" pension scheme and 3 directors accrued benefits under "money purchase" pension arrangements. Total contributions to money purchase arrangements in respect of those directors amounted to £38,806 (1999: £76,000).

3 directors exercised share options under LBL's SAYE scheme prior to the scheme becoming null and void in March 2000. 4 directors received compensation payments in respect of loss of options under LBL's SAYE scheme, the amounts of which are included within aggregate emoluments for services above.

CONTINUED  
NOTES TO THE ACCOUNTS

## 5 Directors and officers (continued)

### (b) Highest Paid Director

The total emoluments of the highest paid director in respect of 2000 were £2,138,563 (1999: £3,124,000). On 31 December his accrued benefits under the defined benefit pension scheme amounted to a pension of £69,900 p.a. (1999: £95,700 p.a.).

### (c) Loans and Transactions

At 31 December 2000 there were outstanding loans to 11 individuals who had been directors of LBL during the year totalling £256,780 (1999: £579,000).

## 6 Pension costs

During 2000 the company participated in two pension schemes of the defined benefit type which have assets held in separate trustee-administered funds. In addition, contributions are made to personal pension schemes for certain individuals. For 2000 total pension charges recognised in the profit and loss account were £52,000 (1999: £1,109,000).

Each of the defined benefit schemes has had a full valuation by independent qualified actuaries as at 1 January 2001, using the projected unit funding method. The actuaries advise that the assumptions that have the most significant effect on the results of the valuation are the so-called "economic assumptions". In reaching their best estimate they have assumed that investment returns will be 5.0-7.0% per annum, general salary increases will average 4.0-5.0% per annum, and price inflation and pension increases will be 3.0% per annum. The larger of the schemes utilises a more conservative set of assumptions for the purposes of funding.

On a current funding level basis there is no deficiency in either of the schemes. Combining the results of their latest on-going actuarial valuations, the schemes held assets with a market value of £215,450,000 and the value of these assets covered 128% of the benefits then accrued to members (based on past service but allowing for future increases in salaries). The actuarial surplus is being spread over the average remaining service lives of present scheme members and is to be eliminated by a period of reduced contributions.

Following the reorganisation of group companies on 1 August 2000, an amount of £7,192,000 was transferred from the company's balance sheet to another group company, representing the amount of the group's net accumulated contributions in excess of amounts charged to the profit and loss account. An amount of £nil (1999: £7,192,000) is included in "Prepayments and accrued income" in the company balance sheet.

## 7 Tax on profit on ordinary activities

	2000 £000	1999 £000
United Kingdom corporation tax at 30% (1999: 30.25%)	4,014	18,255
Relief for double taxation	(329)	(1,058)
	3,685	17,197
Transferred from deferred taxation asset (see note 19)	817	(1,644)
Deferred tax due to change in corporation tax rate	-	98
Overseas taxes	329	1,105
Adjustment in respect of prior years	(212)	1,032
	4,619	17,788

The tax charge in respect of the profit on disposal of fixed asset investments was £nil (1999: £316,000).

CONTINUED  
NOTES TO THE ACCOUNTS

**8 Dividends**

	2000 Swiss Francs per share	1999	2000 pence per share	1999	2000 £000	1999 £000
Non-equity dividend						
Interim Swiss Franc dividend paid	3.00	4.4	-	-	1,203	1,829
Equity dividends						
Ordinary dividends paid/payable						
- First interim	-	-	79.04	276.6	20,000	70,000
- Second interim	-	-	9.88	-	2,500	-
- Third interim	-	-	26.46	-	7,357	-
					<u>31,060</u>	<u>71,829</u>

**9 Secured loans from purchase and resale agreements**

	2000 £000	1999 £000
Repayable on demand <sup>1</sup>	1,443,522	-
With agreed maturity dates or periods of notice, by remaining maturity		
- 3 months or less <sup>2</sup>	2,099,077	2,377,117
- 1 year or less but over 3 months <sup>3</sup>	435,407	29,281
	<u>3,978,006</u>	<u>2,406,398</u>

<sup>1</sup> These secured loans include £369,277,000 (1999: £nil) with banks

<sup>2</sup> These secured loans include £1,240,591,000 (1999: £1,138,355,000) with banks

<sup>3</sup> These secured loans include £218,053,000 (1999: £29,281,000) with banks

**10 Loans and advances to banks**

	2000 £000	1999 £000
Repayable on demand	96,696	94,276
Other loans and advances, by remaining maturity		
- 3 months or less	120,157	100,342
- over 5 years	875	1,695
	<u>217,728</u>	<u>196,313</u>

CONTINUED  
NOTES TO THE ACCOUNTS

**11 Loans and advances to customers**

	2000 £000	1999 £000
Repayable on demand	32,578	140,057
Other loans and advances, by remaining maturity		
- 3 months or less	191,562	176,929
- 1 year or less but over 3 months	2,289	3,081
- 5 years or less but over 1 year	8	30,085
- over 5 years	4,377	3,807
	<u>230,814</u>	<u>353,959</u>
Amounts include:		
Due from subsidiary undertakings		
- unsubordinated	<u>2,064</u>	<u>1,448</u>
Due from associated undertakings		
- unsubordinated	<u>6,792</u>	<u>15,823</u>
Due from other group undertakings		
- unsubordinated	<u>12,254</u>	<u>-</u>



CONTINUED  
NOTES TO THE ACCOUNTS

**12 Debt securities and other fixed income securities**

	Trading securities		Investment securities		Total	
	2000	1999	2000	1999	2000	1999
	£000	£000	£000	£000	£000	£000
<b>Book value</b>						
Issued by public bodies						
- government securities	50,000	46,949	38,521	-	88,521	46,949
Issued by other issuers						
- bank and building society certificates of deposit	3,016,883	2,680,227	15,000	20,000	3,031,883	2,700,227
- other debt securities	290,900	370,133	43,672	98,750	334,572	468,883
	3,307,783	3,050,360	58,672	118,750	3,366,455	3,169,110
	<b>3,357,783</b>	<b>3,097,309</b>	<b>97,193</b>	<b>118,750</b>	<b>3,454,976</b>	<b>3,216,059</b>
Listed on a recognised exchange						
UK exchange	119,064	270,585	-	29,363	119,064	299,948
Listed elsewhere	215,126	124,857	62,715	57,013	277,841	181,870
Unlisted	3,023,593	2,701,867	34,478	32,374	3,058,071	2,734,241
	<b>3,357,783</b>	<b>3,097,309</b>	<b>97,193</b>	<b>118,750</b>	<b>3,454,976</b>	<b>3,216,059</b>
Analysed by maturity						
Due within one year	3,087,065	2,733,084	17,482	16,997	3,104,547	2,750,081
Due one year and over	270,718	364,225	79,711	101,753	350,429	465,978
	<b>3,357,783</b>	<b>3,097,309</b>	<b>97,193</b>	<b>118,750</b>	<b>3,454,976</b>	<b>3,216,059</b>
	Trading securities		Investment securities		Total	
	2000	1999	2000	1999	2000	1999
	£000	£000	£000	£000	£000	£000
<b>Market value</b>						
Issued by public bodies						
- government securities	50,000	46,949	39,405	-	89,405	46,949
Issued by other issuers						
- bank and building society certificates of deposit	3,016,883	2,680,227	14,914	19,352	3,031,797	2,699,579
- other debt securities	290,900	370,133	43,660	98,714	334,560	468,847
	3,307,783	3,050,360	58,574	118,066	3,366,357	3,168,426
	<b>3,357,783</b>	<b>3,097,309</b>	<b>97,979</b>	<b>118,066</b>	<b>3,455,762</b>	<b>3,215,375</b>
Listed on a recognised exchange						
UK exchange	119,064	270,585	-	29,336	119,064	299,921
Listed elsewhere	215,126	124,857	63,551	57,004	278,677	181,861
Unlisted	3,023,593	2,701,867	34,428	31,726	3,058,021	2,733,593
	<b>3,357,783</b>	<b>3,097,309</b>	<b>97,979</b>	<b>118,066</b>	<b>3,455,762</b>	<b>3,215,375</b>

The above amounts include in respect of the company an amount of £2,949,200,000 (1999: £2,680,600,000) which has been pledged as security.

CONTINUED  
NOTES TO THE ACCOUNTS

**12 Debt securities and other fixed income securities (continued)**

	Cost £000	Discounts and premiums £000	Carrying value £000
Investment securities			
At 1 January 2000	118,769	(19)	118,750
Exchange adjustments	3,687	68	3,755
Acquisitions	19,916	(1,174)	18,742
Disposals	(44,119)	7	(44,112)
Amortisation of discounts and premiums	-	58	58
At 31 December 2000	<b>98,253</b>	<b>(1,060)</b>	<b>97,193</b>

**13 Equity shares**

	2000		1999	
	Book value £000	Market value £000	Book value £000	Market value £000
Investment securities				
- unlisted	9,694	11,989	10,479	10,565
- listed on a non-UK exchange	2,963	4,892	3,020	4,614
	12,657	16,881	13,499	15,179
Trading securities				
- listed	176,874	176,874	164,420	164,420
Total	<b>189,531</b>	<b>193,755</b>	<b>177,919</b>	<b>179,599</b>

The above amounts include in respect of the group and company an amount of £101,800,000 (1999: £27,300,000) which has been pledged as security.

	Cost £000	Provisions £000	Carrying value £000
At 1 January 2000	21,393	(7,894)	13,499
Acquisitions	3,797	-	3,797
Disposals/other	(3,047)	(346)	(3,393)
Net provisions made	-	(1,246)	(1,246)
At 31 December 2000	<b>22,143</b>	<b>(9,486)</b>	<b>12,657</b>

CONTINUED  
NOTES TO THE ACCOUNTS

### 14 Interests in associated undertakings

	Cost £000	Carrying value £000
At 1 January 2000	65	67
Disposals	(18)	(18)
Exchange movement	7	5
	<u>54</u>	<u>54</u>
At 31 December 2000	<u>54</u>	<u>54</u>

The principal associate held by the company is LDC Limited (33% equity interest), an investment company incorporated in Guernsey.

### 15 Other participating interests

The company has an interest of 54% in the capital of Moorfields Debt Trading ("MDT") arising out of a partnership agreement. The movement in the company balance sheet is due to exchange differences which have been taken to the company's profit and loss account. MDT is an unlisted joint venture based at 21 Moorfields, London EC2P 2HT.

### 16 Interests in group undertakings

	Cost £000	Carrying value £000
At 1 January 2000	4,922	4,922
Increase in investment in group undertakings	427	427
Transfer from associated undertakings	572	572
	<u>5,921</u>	<u>5,921</u>
At 31 December 2000	<u>5,921</u>	<u>5,921</u>

In the opinion of the directors, the value of the company's investment in group undertakings is not less than their carrying value. These undertakings are engaged in the businesses of merchant banking, investment management and investment holding.

#### Principal subsidiary undertakings

- Lazard Holdings Limited <sup>(1)</sup>
- Lazard Overseas Holdings Limited <sup>(1)</sup>
- Lazard Italy Limited <sup>(2)</sup>
- Lazard Asset Management Holdings Limited <sup>(3)</sup>

<sup>(1)</sup> Direct subsidiary of Lazard Bank Limited.

<sup>(2)</sup> Lazard Bank Limited holds 58.4% of the share capital of Lazard Italy Limited, the holding company of a corporate finance advisory group incorporated in Italy.

<sup>(3)</sup> Lazard Bank Limited and Lazard Holdings Limited together own 75% of the share capital of Lazard Asset Management Holdings Limited and hold a beneficial interest in 100% of the profits of that company.

Unless otherwise indicated, all principal subsidiary undertakings are wholly-owned, incorporated in Great Britain and have an accounting date of 31 December.

CONTINUED  
NOTES TO THE ACCOUNTS

**17 Tangible fixed assets**

	Leases of 50 years or more unexpired on land and buildings held for own use £000	Motor vehicles computers and other equipment £000	Total £000
Cost			
At 1 January 2000	206	6,122	6,328
Additions	-	653	653
Disposals	-	(648)	(648)
Transfer to other group companies		(3,456)	(3,456)
At 31 December 2000	<u>206</u>	<u>2,671</u>	<u>2,877</u>
Accumulated depreciation			
At 1 January 2000	-	(4,389)	(4,389)
Disposals	-	506	506
Transfers to other group companies	-	2,912	2,912
Charge for year	-	(549)	(549)
At 31 December 2000	<u>-</u>	<u>(1,520)</u>	<u>(1,520)</u>
Net book value at 31 December 2000	<u>206</u>	<u>1,151</u>	<u>1,357</u>
Net book value at 31 December 1999	<u>206</u>	<u>1,733</u>	<u>1,939</u>
		2000 £000	1999 £000
Future capital expenditure contracted but not provided for in the accounts		<u>-</u>	<u>752</u>

## NOTES TO THE ACCOUNTS

**18 Other assets**

	2000	1999
	£000	£000
Other securities	14,953	-
Taxation	7,200	3,146
Deferred taxation (see note 19)	8,321	8,167
Settlement debtors	11,809	42,162
Other	4,079	4,949
	<b>46,362</b>	<b>58,424</b>

**19 Deferred taxation**

	2000	1999
	£000	£000
Deferred taxation		
- capital allowances	1,615	2,028
- other timing differences	6,706	6,139
	<b>8,321</b>	<b>8,167</b>

UK deferred taxation relating to capital allowances has been calculated at 30%, the rate of corporation tax at which the asset is expected to crystallise.

	£000
At 1 January 2000	8,167
Transfer to profit and loss account (see note 7)	(817)
Transfer to other group companies	971
At 31 December 2000 (see note 18)	<b>8,321</b>

CONTINUED  
NOTES TO THE ACCOUNTS

**20 Secured deposits from sale and repurchase agreements**

	2000 £000	1999 £000
Repayable on demand <sup>1</sup>	686,483	-
With agreed maturity dates or periods of notice, by remaining maturity		
- 3 months or less <sup>2</sup>	2,087,113	2,520,998
- 1 year or less but over 3 months <sup>3</sup>	2,116,407	694,332
- between 1 and 5 years <sup>4</sup>	43,464	-
	<u>4,933,467</u>	<u>3,215,330</u>

<sup>1</sup> These secured deposits include £419,373,000 (1999: £Nil) from banks

<sup>2</sup> These secured deposits include £1,231,093,000 (1999: £1,865,218,000) from banks

<sup>3</sup> These secured deposits include £1,218,264,000 (1999: £515,928,000) from banks

<sup>4</sup> These secured deposits include £43,464,000 (1999: £Nil) from banks

Stock loans are fully collateralised, initially with cash but alternative collateral with an appropriate margin may be substituted at a later stage. Cash loans are also fully collateralised, with the type of collateral and margin being agreed at the time of dealing. As at 31 December 2000, the gross value of stock lent, including repos, was £5,415,818,000 (1999: £3,391,677,000) and stock borrowed, including reverse repos and gilt DBV, was £7,601,845,000 (1999: £5,405,496,000).

**21 Deposits by banks**

	2000 £000	1999 £000
Repayable on demand	342,156	347,219
With agreed maturity dates or periods of notice, by remaining maturity		
- 3 months or less	795,457	711,165
- 1 year or less but over 3 months	19,920	7,980
	<u>1,157,533</u>	<u>1,066,364</u>

CONTINUED  
NOTES TO THE ACCOUNTS

**22 Customer accounts**

	2000 £000	1999 £000
Repayable on demand	484,941	589,270
With agreed maturity dates or periods of notice, by remaining maturity		
- 3 months or less	379,679	189,615
- 1 year or less but over 3 months	5,500	3,044
	<u>870,120</u>	<u>781,929</u>
Amounts include:		
Due to subsidiary undertakings	<u>18,985</u>	<u>8,959</u>
Due to associated undertakings	<u>4,940</u>	<u>23,668</u>
Due to other group undertakings	<u>26,483</u>	<u>-</u>
Due to undertakings in which the company has a participating interest	<u>7,804</u>	<u>899</u>

**23 Debt securities in issue**

	2000 £000	1999 £000
Certificates of deposit with maturity dates, by remaining maturity		
- 3 months or less	140,443	123,387
- 1 year or less but over 3 months	12,800	20,850
	<u>153,243</u>	<u>144,237</u>

CONTINUED  
NOTES TO THE ACCOUNTS

**24 Short positions in securities**

	2000		1999	
	Book value £000	Market value £000	Book value £000	Market value £000
Investment securities				
Government securities, by remaining maturity				
- 5 years or less but over 1 year	350,000	375,034	350,000	354,865
- over 5 years	359,433	389,959	350,000	364,523
	<u>709,433</u>	<u>764,993</u>	<u>700,000</u>	<u>719,388</u>
Trading securities				
Government securities, by remaining maturity				
- repayable within 1 year	50,000	50,000	51,736	51,736
- 5 years or less but over 1 year	103,352	103,352	197,223	197,223
Other debt securities				
- repayable within 3 months	536	536	-	-
Equity shares				
- repayable within 3 months	256	256	-	-
	<u>154,144</u>	<u>154,144</u>	<u>248,959</u>	<u>248,959</u>
Listed on a recognised UK exchange	<u>863,577</u>	<u>919,137</u>	<u>948,959</u>	<u>968,347</u>

**25 Other liabilities**

	2000 £000	1999 £000
Amounts owed to group undertakings	41,396	-
Taxation	1,478	10,039
Other	114,126	100,356
Proposed dividend	7,357	70,000
	<u>164,357</u>	<u>180,395</u>



CONTINUED  
NOTES TO THE ACCOUNTS

**26 Post-retirement medical benefits**

	£000
Provision at 1 January 2000	12,106
Movement in provision	84
Release of provision due to group reorganisation	<u>(11,415)</u>
Provision at 31 December 2000	<u>775</u>

The group operates an unfunded scheme for post-retirement medical benefits. As part of this scheme, defined medical benefits are currently being provided, at the group's discretion, to certain retired employees of group companies. The costs of private medical insurance are met for these pensioners, their spouses and eligible dependants. At 1 July 2000, 213 pensioners received these benefits and 294 potential beneficiaries could have been eligible, at the group's discretion, to receive them when they reach retirement.

An actuarial estimate of the accrued cost which the group might incur in respect of post-retirement medical benefits has been made by an independent qualified actuary on the basis of a gross interest rate of 7.5% per annum and medical benefit cost inflation of 11% per annum for 1 year, falling linearly over a further 5 years to 7% per annum and at 7% per annum thereafter.

At 1 January 2000 the group's accrued estimated provision amounted to £12,106,000, and the surplus provision over the liability estimated using the assumptions above is being spread over the average remaining service lives of the potential beneficiaries. Following the reorganisation of group companies on 1 August 2000, an amount of £11,415,000 was transferred from the company's balance sheet to another group company, representing the whole amount of the company's liability with the exception of the amount accrued to meet the liability for current group employees engaged in the business of the company.

The charge to the profit and loss account in 2000 in respect of discretionary benefits accruing during the year has been calculated using the projected unit method, and represents the amount charged, calculated on an estimated basis prior to the reorganisation of group companies. The charge to the profit and loss account for the company for 2000 amounts to £84,000 before taxation relief.

No medical expenses have been charged against the company provision. At 31 December 2000 the company provision for medical expenses amounted to £775,000 (1999: £12,106,000).

CONTINUED  
NOTES TO THE ACCOUNTS

**27 Called up share capital**

	2000 £000	1999 £000
Authorised		
1 (1) special rights redeemable preference share of £1	-	-
28,750,000 (28,750,000) ordinary shares of £1 each	28,750	28,750
1,000,000 (1,000,000) shares of SwFr 1 each	-	408
5,000,000 (5,000,000) deferred shares of £1 each	5,000	5,000
	<u>33,750</u>	<u>34,158</u>
Called up, allotted and fully paid		
1 (1) special rights redeemable preference share of £1	-	-
27,803,221 (27,803,221) ordinary shares of £1 each	27,803	25,303
1,000,000 (1,000,000) shares of SwFr 1 each	-	408
5,000,000 (5,000,000) deferred shares of £1 each	5,000	5,000
	<u>32,803</u>	<u>30,711</u>

The special rights redeemable preference share entitles the holder to the right to a cumulative preferential dividend out of the profits of the company referable to the profits of Lazard Asset Management Holdings Limited and its subsidiaries, calculated according to a formula set out in the company's Articles of Association. It confers the right to receive notice of, but not to attend or speak or vote at any general meeting. However, it confers the rights on a winding up of the company to be paid a sum equal to the amount paid up thereon in priority to any distribution of capital to any holder of any ordinary share and on a return of assets on liquidation or otherwise by Lazard Asset Management Limited to be paid out of the profits of the company available for distribution a cumulative preferential dividend calculated according to a formula set out in the company's Articles of Association. The company may at any time redeem the special rights redeemable preference share with the prior written consent of the holder but not otherwise.

The Swiss Franc shares carried the same rights and restrictions as those attaching to the deferred shares. The Swiss Franc shares were redeemed at a cost of £1 on 27 October 2000 and were cancelled on that date. The provisions of the company's Articles of Association relating to the transfer of shares did not apply to them.

The deferred shares do not confer the right to receive any dividend, nor the right to receive notice of, attend, or vote at any general meeting. They confer the right, on a winding up, to the repayment of the amounts paid up thereon, after payment to the holders of the ordinary shares of the sum of £100 in respect of each ordinary share held by them.

The ordinary shares constitute equity interests and the special rights redeemable preference share and the deferred shares constitute non-equity interests.

A bonus issue of 2,500,000 ordinary shares of £1 each was made on 27 October 2000.

CONTINUED  
NOTES TO THE ACCOUNTS

**28 Reserves**

	Share premium £000	Capital Redemption Reserve £000	Profit and loss account £000
As at 1 January 2000	48,220	-	45,659
Transfer from reserves			(14,315)
Revaluation of Swiss Franc share premium and share capital	(438)	-	-
Bonus issue of £1 ordinary shares	(2,500)	-	-
Redemption of Swiss Franc shares	-	408	-
As at 31 December 2000	<u>45,282</u>	<u>408</u>	<u>31,344</u>

**29 Shareholders' funds**

	2000 £000	1999 £000
<b>(a) Reconciliation of shareholders' funds</b>		
Profit attributable to shareholders	16,745	60,636
Dividends	(31,060)	(71,829)
	<u>(14,315)</u>	<u>(11,193)</u>
Revaluation of Swiss Franc share premium	(438)	(4,861)
	<u>(14,753)</u>	<u>(16,054)</u>
Net (reduction) in shareholders' funds	124,590	140,644
Opening shareholders' funds	<u>109,837</u>	<u>124,590</u>
Closing shareholders' funds		
	2000 £000	1999 £000
<b>Analysis of non-equity interests</b>		
Deferred shares of £1 each	5,000	5,000
Swiss Franc shares of SwFr 1 each	-	38,040
Special rights redeemable preference share of £1	-	-
	<u>5,000</u>	<u>43,040</u>

CONTINUED  
NOTES TO THE ACCOUNTS

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### 30 Financial Instruments

#### Risk management

Responsibilities for the group's risk management are given in the Directors' report.

#### Credit risk

Credit risk is the risk that a third party fails to deliver all or part of a commitment under a transaction. This applies to all contracts, whether delivery is for the full amount of the underlying instruments or for a difference against a calculated change in price or value. Credit risk is monitored on a daily basis against limits for individual counterparties, their associated groupings and by geographic area.

#### Liquidity risk

The company monitors the mismatch of maturities of significant inward and outward cashflows on a daily basis in order to ensure its ability to meet its commitments. It also measures the risk arising from short positions of negotiable assets that may be particularly in demand, using a combination of sensitivity and value at risk techniques.

#### Market risk

The company's money market business covers repo, equity and fixed income stock lending and borrowing, loans and deposits, fixed and floating rate securities investment, equity and fixed income swaps. A small amount of foreign exchange and derivatives trading, including exchange traded futures and options and over the counter options, is undertaken. Money market positions, which include all repo and stock lending and borrowing, are managed as a single, aggregated portfolio.

The key market risks arising from the above are to movements in interest rates, changes in the shape of the yield curve, the volatility of prices, the volatility of collateral value (since much of the business is conducted on a secured basis), instrument liquidity and foreign exchange rate movements.

The company analyses market risk, principally exposure to movements in interest rates, on a portfolio basis. Therefore, interest rate sensitive positions in both the trading book and the non-trading book are captured and their sensitivity to changes in interest rates assessed against agreed limits. This approach is adopted in order to recognise the effect of changes in the shape of the yield curve on short and long positions with similar repricing profiles but arising in different activities within the bank. In this way the level of risk to different interest rate scenarios can be reflected accurately.

The company calculates sensitivity to changes in interest rates on nominal cashflows using linear interpolation. Sensitivity across currencies is then aggregated and reported in sterling. The aggregation process does not take into account correlation between currencies, but the majority of the exposure is to sterling.

The sensitivity limit is a unitised measure designed to cover all underlying trades across all maturities and currencies so that, should interest rates move by 1% upwards or downwards, the company will not lose more than £4.8m from the mark to market value of the overall position. At 31 December 2000, the sensitivity was to an upwards movement in interest rates and was £0.6m. During the year, the average exposure was £1.3m and was to an upwards movement, the highest exposure being £3.5m, while the lowest exposure was to a downwards movement and was £1.3m.

CONTINUED  
NOTES TO THE ACCOUNTS

### 30 Financial Instruments (continued)

#### Interest rate risk

Part of the company's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The table below summarises these repricing mismatches on the company's non-trading book (excluding short-term debtors and creditors) at 31 December 2000. Items are allocated to time bands on the earlier of the next contractual interest rate repricing date and the maturity date.

	Less than 3 months £000	Over 3 Months but less than 6 Months £000	Over 6 months but less than 1 year £000	Over 1 year but less than 5 years £000	Over 5 years £000	Non interest bearing £000	Total £000
<b>Assets</b>							
Cash and balances at central bank	-	-	-	-	-	73	73
Loans and advances to banks	214,506	-	-	-	-	3,222	217,728
Loans and advances to customers	35,542	341	593	-	-	6,539	43,015
Debt securities and other fixed income securities	6,710	-	10,774	79,709	-	-	97,193
Equity shares	-	-	-	-	-	12,657	12,657
Other assets	1,271	183	-	8,986	5,318	-	15,758
<b>Total assets</b>	<b>258,029</b>	<b>524</b>	<b>11,367</b>	<b>88,695</b>	<b>5,318</b>	<b>22,491</b>	<b>386,424</b>
<b>Liabilities</b>							
Deposits by banks	(595,361)	(19,920)	-	-	-	-	(615,281)
Customer accounts	(377,277)	(2,500)	(3,000)	-	-	-	(382,777)
Debt securities in issue	(140,443)	(7,800)	(5,000)	-	-	-	(153,243)
Short positions in securities	-	-	-	(350,000)	(359,433)	-	(709,433)
<b>Total liabilities</b>	<b>(1,113,081)</b>	<b>(30,220)</b>	<b>(8,000)</b>	<b>(350,000)</b>	<b>(359,433)</b>	<b>-</b>	<b>(1,860,734)</b>
<b>Off balance sheet items</b>	<b>(138,233)</b>	<b>275,000</b>	<b>100,000</b>	<b>278,058</b>	<b>350,000</b>	<b>-</b>	<b>864,825</b>
<b>Interest rate gap</b>	<b>(993,285)</b>	<b>245,304</b>	<b>103,367</b>	<b>16,753</b>	<b>(4,115)</b>	<b>22,491</b>	<b>(609,485)</b>
<b>Cumulative gap</b>	<b>(993,285)</b>	<b>(747,981)</b>	<b>(644,614)</b>	<b>(627,861)</b>	<b>(631,976)</b>	<b>(609,485)</b>	

#### Currency risk

The table below shows the company's non-trading book transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the company that are not denominated in the functional currency of the operating unit involved. At 31 December 2000, these exposures were as follows:

Functional currency	Sterling £000	US dollar £000	Yen £000	Euro £000	Other £000	Total £000
Sterling	-	(233,658)	(733)	6,805	3,408	(224,178)
US dollar	(49)	-	(42)	(319)	(666)	(1,076)
<b>Total</b>	<b>(49)</b>	<b>(233,658)</b>	<b>(775)</b>	<b>6,486</b>	<b>2,742</b>	<b>(225,254)</b>

CONTINUED  
NOTES TO THE ACCOUNTS

### 30 Financial Instruments (continued)

#### Interest rate risk

The table below summarises the repricing mismatches on the company's non-trading book (excluding short-term debtors and creditors) at 31 December 1999.

	Less than 3 months £000	Over 3 Months but less than 6 Months £000	Over 6 months but less than 1 year £000	Over 1 year but less than 5 years £000	Over 5 years £000	Non interest bearing £000	Total £000
<b>Assets</b>							
Cash and balances at central bank	-	-	-	-	-	27	27
Loans and advances to banks	189,736	-	-	-	-	3,986	193,722
Loans and advances to customers	99,485	666	2,428	30,074	-	10,167	142,820
Debt securities and other fixed income securities	-	1,856	15,141	101,753	-	-	118,750
Equity shares	-	-	-	-	-	38,414	38,414
Other assets	-	15	-	575	5,468	158	6,216
<b>Total assets</b>	<b>289,221</b>	<b>2,537</b>	<b>17,569</b>	<b>132,402</b>	<b>5,468</b>	<b>52,752</b>	<b>499,949</b>
<b>Liabilities</b>							
Deposits by banks	(770,602)	(6,997)	(998)	-	-	-	(778,597)
Customer accounts	(459,021)	-	(3,044)	-	-	(267)	(462,332)
Debt securities in issue	(123,387)	(19,550)	(1,300)	-	-	-	(144,237)
Short positions in securities	-	-	-	(350,000)	(350,000)	-	(700,000)
<b>Total liabilities</b>	<b>(1,353,010)</b>	<b>(26,547)</b>	<b>(5,342)</b>	<b>(350,000)</b>	<b>(350,000)</b>	<b>(267)</b>	<b>(2,085,166)</b>
Off balance sheet items	(101,062)	84,533	(16,239)	291,481	350,000	-	608,713
<b>Interest rate gap</b>	<b>(1,164,851)</b>	<b>60,523</b>	<b>(4,012)</b>	<b>73,883</b>	<b>5,468</b>	<b>52,485</b>	<b>(976,504)</b>
<b>Cumulative gap</b>	<b>(1,164,851)</b>	<b>(1,104,328)</b>	<b>(1,108,340)</b>	<b>(1,034,457)</b>	<b>(1,028,989)</b>	<b>(976,504)</b>	

#### Currency risk

The table below shows the company's non-trading book transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the group that are not denominated in the functional currency of the operating unit involved. At 31 December 1999, these exposures were as follows:

Functional currency	Sterling £000	US dollar £000	Yen £000	Euro £000	Other £000	Total £000
Sterling	-	(212,830)	14,548	(1,127)	(317)	(199,726)
US dollar	(61)	-	198	(361)	(627)	(851)
<b>Total</b>	<b>(61)</b>	<b>(212,830)</b>	<b>14,746</b>	<b>(1,488)</b>	<b>(944)</b>	<b>(200,577)</b>

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NOTES TO THE ACCOUNTS

### 30 Financial Instruments (continued)

#### Operational risk

Operational risks arise from inadequate or failed internal processes due to human error or systems failure, or from external events. These are managed by line management. The Operational Risk Committee discusses issues of mutual concern, general policy and standards. The Committee comprises the heads of operations for each division, departmental compliance officers, the head of internal audit and the heads of the central departments and is chaired by the Finance Director.

The Risk Department is responsible to the Finance Director for the design and implementation of any transfer of operational risks through insurance. Internal Audit is responsible to the Board for carrying out regular independent reviews of all financial and operational risks and related controls.

#### Fair values

Financial instruments held for trading purposes are valued at the market rates prevailing at the balance sheet date. The fair values of listed, publicly traded securities and other debt held for non-trading purposes (comprising debt securities, equity shares and other assets) are disclosed under the relevant balance sheet note. Stock lending and borrowing activity is marked to market on a daily basis and fair values are disclosed under the relevant balance sheet note. The replacement cost of derivative contracts, which is considered to be the fair value, and the notional principal amounts and maturity profiles of derivatives held by the group are disclosed in note 31.

#### Hedges

The company's policy is to hedge its exposures (predominantly to movements in interest rates) on a portfolio basis apart from a number of specific structural positions, of which hedges are an integral part. The group hedges its exposures using an opposite position in another instrument, which shares the same or similar risk sensitivities.

Non-trading derivatives are used for hedging purposes and accounted for on an accruals basis, consistent with the assets, liabilities, or positions being hedged. Income and expense on non-trading derivatives are recognised as they accrue over the life of the instruments as an adjustment to interest receivable or payable. The gains or losses on these instruments (arising from changes in fair value) are not recognised in the profit and loss account immediately they arise. Instead, they are either not recognised at all or are recognised and carried forward in the balance sheet; then, when the hedged transaction occurs, the gain or loss is recognised in the profit and loss account at the same time as the hedged item.

The table below shows the extent to which the company has unrecognised gains or losses in respect of financial instruments used as hedges at the end of December 2000. Unrecognised gains or losses on hedges are expected to be matched by unrecognised losses or gains on the underlying transactions or positions being hedged.

	Gains £000	Losses £000	Total net gains/(losses) £000
Unrecognised gains/(losses) at 1 January 2000	23,421	(792)	22,629
Gains/(losses) arising before 1 January 2000 that were recognised in 2000	1,205	-	1,205
Gains/(losses) arising before 1 January 2000 that were not recognised in 2000	22,216	(792)	21,424
Gains/(losses) arising in 2000 that were not recognised in 2000	38,009	(23)	37,986
Unrecognised gains/(losses) at 31 December 2000	60,225	(815)	59,410
Gains/(losses) expected to be recognised in 2001	-	-	-
Gains/(losses) expected to be recognised thereafter	60,225	(815)	59,410

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NOTES TO THE ACCOUNTS

### 31 Memorandum items, foreign exchange and interest rate contracts

The company enters into derivatives contracts for trading and non-trading purposes. Exchange rate contracts include cross currency swaps and foreign exchange forwards, equity contracts include equity swaps, and interest rate contracts include interest rate swaps and forward rate agreements.

The tables below give, for the company, the notional principal amounts and risk weighted amounts of off-balance sheet transactions. The notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amount, which is calculated in accordance with the Financial Services Authority guidelines, is based upon replacement costs, but also takes into account measures of potential future credit exposure and the nature of the counterparty.

	2000				1999			
	Notional principal amount £m	Risk weighted amount £m	Gross positive fair value £m	Gross negative fair value £m	Notional principal amount £m	Risk weighted amount £m	Gross positive fair value £m	Gross negative fair value £m
<b>Company</b>								
<b>Contingent liabilities</b>								
Acceptances and endorsements	10	2			75	15		
Guarantees and assets pledged as collateral security								
- guarantees given	4	3			4	3		
	<u>14</u>	<u>5</u>			<u>79</u>	<u>18</u>		
<b>Commitments</b>								
Forward asset purchases and forward deposits placed	2	2			-	-		
Undrawn formal standby facilities, credit lines and other commitments to lend								
- less than 1 year	1	-			3	-		
	<u>3</u>	<u>2</u>			<u>3</u>	<u>-</u>		
	<u>17</u>	<u>7</u>			<u>82</u>	<u>18</u>		
<b>Exchange rate contracts</b>								
Non-trading								
- less than 1 year	-	-	-	-	15	-	1	-
- 1 year and over	7	-	1	-	8	-	1	-
	<u>7</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>2</u>	<u>-</u>
Trading								
- less than 1 year	1,237	2	15	16	1,363	1	7	7
	<u>1,237</u>	<u>2</u>	<u>15</u>	<u>16</u>	<u>1,363</u>	<u>1</u>	<u>7</u>	<u>7</u>
<b>Interest rate contracts</b>								
Non trading								
- less than 1 year	732	-	1	1	382	2	5	5
- 1 year and over	798	14	60	2	751	7	27	2
	<u>1,530</u>	<u>14</u>	<u>60</u>	<u>3</u>	<u>1,133</u>	<u>9</u>	<u>32</u>	<u>7</u>
Trading								
- less than 1 year	50	-	1	-	-	-	-	-
- 1 year and over	277	1	3	-	72	1	1	-
	<u>327</u>	<u>1</u>	<u>4</u>	<u>-</u>	<u>72</u>	<u>1</u>	<u>1</u>	<u>-</u>
<b>Equity contracts</b>								
Trading								
- less than 1 year	177	4	8	-	164	2	-	8
	<u>177</u>	<u>4</u>	<u>8</u>	<u>-</u>	<u>164</u>	<u>2</u>	<u>-</u>	<u>8</u>
	<u>3,278</u>	<u>21</u>	<u>88</u>	<u>19</u>	<u>2,755</u>	<u>13</u>	<u>42</u>	<u>22</u>



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**NOTES TO THE ACCOUNTS**

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**32 Related party transactions**

In accordance with FRS 8, paragraph 3(c), the company is exempt from disclosing transactions with companies within the same group as it is a wholly owned subsidiary of a company that publishes consolidated financial statements.

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**33 Segmental information**

The company has one main activity, money markets and related activities. No geographical analysis is given, as more than 90% of the group's activities are within the UK.

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**34 Miscellaneous**

	2000 £000	1999 £000
<b>(a) Operating lease commitments</b>		
Land and buildings		
- expiring after more than five years	5,518	5,421
	<b>5,518</b>	<b>5,421</b>
	2000 £000	1999 £000
<b>(b) Asset and liabilities denominated by currency</b>		
Denominated in sterling	7,582,048	6,191,387
Denominated in currencies other than sterling	675,426	353,394
Total assets	<b>8,257,474</b>	<b>6,544,781</b>
	7,581,425	6,190,527
Denominated in sterling	676,049	354,254
Denominated in currencies other than sterling	<b>8,257,474</b>	<b>6,544,781</b>
Total liabilities		

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**35 Ultimate parent company**

The parent company of the smallest group which includes the company, and for which group accounts are to be prepared and the company's immediate controlling party, is Lazard & Co., Holdings Limited, a company incorporated in the United Kingdom and registered in England and Wales.

Copies of Lazard & Co., Holdings Limited's financial statements may be obtained from The Secretary, Lazard & Co., Holdings Limited, 21 Moorfields, London EC2P 2HT.

The company's ultimate parent company and ultimate controlling party is Lazard LLC, a Delaware Limited Liability Company incorporated in the United States.