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TSB

GROUP

TSB Group plc

REPORT TO SHAREHOLDERS

Accounts

This document contains the Accounts of the TSB Group for the year ended 31 October 1993, together with the reports of the directors and auditors.

The Annual Review contains the chairman's statement and summary financial statement and forms an integral part of the Report to Shareholders.

Directors

Sir Nicholas Goodison *Chairman*
Sir David Plastow *Deputy Chairman*
G A Anderson
L Bolton
H-D Bösel
J A Burns
A C Butler
J K Elbourne
P B Ellwood *Chief Executive*
M E Fairey
M H Field CBE
H R Freedberg
P A Harwood
J H F Macpherson CBE
P G McCracken
Lady Prior

P W S Rowland *Secretary*

DIRECTORS' REPORT

The directors present their annual report and the audited accounts of the Company and its subsidiaries for the year ended 31 October 1993.

Principal activities

TSB Group plc is the holding company for subsidiaries providing banking and related services, and insurance and investment services. The principal subsidiary companies involved in these activities are shown on page 25. Included in the consolidated profit and loss account on page 10 is an analysis by activity of the contributions to the profit before taxation.

Profit and dividends

The Group profit after taxation attributable to the shareholders for the year ended 31 October 1993 was £184m. After provision for dividends, £73m was transferred to reserves.

On 23 June 1993 the directors declared an interim dividend of 3.15p net per ordinary share which was paid on 4 October 1993.

The directors recommend a final dividend of 4.53p net per ordinary share which, subject to approval at the annual general meeting on 22 March 1994, will be paid on 5 April 1994 to shareholders on the register on 25 February 1994.

The final dividend, together with the interim dividend already paid, makes a total of 7.68p net per ordinary share for the year.

TSB Group Holdings (Jersey) Limited and Noble Lowndes Settlement Trustees Limited, the trustees of the TSB Group employee trust, have waived their entitlement to any dividend on shares held by them for use in respect of the Group's employee share and share option schemes.

Capital

Resolutions to continue for a further year the authorities to allot unissued ordinary and limited voting preference shares in the Company are contained in the notice of the annual general meeting.

An authority for the Company to purchase its own shares through the stock market existed at the year end. The authority, which is limited to the purchase of up to 223 million ordinary shares (14.6% of its issued ordinary share capital), was not used during the year. A resolution to renew the authority, which will otherwise expire at the conclusion of the annual general meeting, for a period of up to 18 months is contained in the notice of the annual general meeting.

Premises and equipment

Details of premises and equipment are set out on pages 26 and 27.

Subsidiary companies

In the course of the year the following sales were completed:
Bank von Ernst & Cie on 2 April 1993, the Bell Lawrie White group on 8 April 1993, the Swan National Leasing group on 26 July 1993, the Group's Eurodollar businesses on 26 August 1993 and the Noble Lowndes group on 30 September 1993.

Directors

Mr D M Backhouse resigned from the board on 10 November 1992.

After a long illness, Mr N J Robson died on 25 February 1993.

Mr H-D Bösel, Mr A C Butler, Mr G A Anderson and Mr M L Fairey were each appointed a director on 20 January, 18 June, 26 August and 20 December 1993 respectively. Mr Bösel was elected a director at the annual general meeting on 23 March 1993. As directors appointed since the last annual general meeting, Mr Butler, Mr Anderson and Mr Fairey will retire at the annual general meeting and, being eligible, offer themselves for election.

The other directors listed on page 1 were directors throughout the year.

The directors retiring by rotation at the annual general meeting are Sir Nicholas Goodison, Mr P B Ellwood, Mr M H Field and Mr J H F Macpherson. Sir Nicholas Goodison, Mr Ellwood and Mr Field, being eligible, offer themselves for re-election. Mr Macpherson is not seeking re-election.

The current directors and their interests in shares of the Company are shown on pages 38 and 39.

No director had a material interest in any contract, other than a service contract, with the Company or any of its subsidiaries at any time during the year.

No director being proposed for election or re-election has a service contract with the Company or any of its subsidiaries which is terminable at more than one year's notice.

The Company maintains insurance to provide liability cover for directors and officers of the Company and its subsidiaries.

Subject to obtaining prior agreement of either the chairman or the deputy chairman, directors may obtain at the Company's expense independent professional advice reasonably required in relation to the responsibilities of directors over any particular transaction, event or circumstance affecting the Company.

Corporate governance

In December 1992 the Committee on Financial Aspects of Corporate Governance ("the Cadbury Committee") published its final report and a Code of Best Practice. These publications focused attention on companies' responsibilities to their shareholders and the ways in which the shareholders' interests are safeguarded. The board of TSB Group plc considers that the Group complies with the seventeen recommendations of the Code which are not subject to further clarification and expects to be able to comply with the remaining two recommendations when guidance has been published. The auditors, KPMG Peat Marwick, have confirmed to the directors that, in relation to those aspects of the Code which are in force and capable of objective verification, it is reasonable for the directors to make this statement. Further details of the ways in which the Group implements the Code are provided on pages 16 and 17 of the Annual Review.

Employees

The average number of employees of the Group in the United Kingdom during the year was 33,484, including 6,016 part-time staff, and their aggregate remuneration (excluding pension contributions), part of which was borne by the life assurance and pension business funds, amounted to £548m.

The Group is committed to employee involvement and uses a variety of methods to inform, consult and involve its employees. There are a number of well-established consultative and collective bargaining arrangements operating at company level which ensure that the views of employees are taken into account in reaching decisions. Within this framework, emphasis continues to be placed on developing greater awareness of the financial and economic factors which affect the performance of the Group. Financial involvement through shareholding in the Group is encouraged through profit sharing and share option schemes, with participation in the savings related share option scheme being substantial.

The Group is committed to providing equal opportunities in employment. As a result of the equal opportunities programme, the Company expects the composition of its workforce eventually to match more closely the composition of the community which it serves. Each part of the Group develops action plans on equal opportunities on an annual basis when estimates are set for the composition of the workforce. Progress is reported to the board on an annual basis.

Sharesave scheme

The directors are seeking shareholders' approval to make a number of changes to the TSB Group Staff Sharesave Scheme to bring it up-to-date with current law and practice.

In preference to piecemeal amendment of the existing rules, which would necessitate a lengthy and complex resolution, the changes will be effected by authorising the directors to amend the rules into the form submitted to the annual general meeting. A resolution for this purpose is set out in the notice of the annual general meeting.

The principal proposed changes to the rules of the scheme are set out in the explanatory notes on the resolutions to be considered at the annual general meeting.

Donations

During the year the Group made charitable donations of £1,131,089 (1992 £1,702,321) including £960,000 (1992 £1,346,667) under deeds of covenant to the four TSB Foundations.

No donations were made for political purposes.

Environmental policy

The Group has an environmental policy with objectives which include minimising waste from all activities, encouraging employee involvement in environmental improvement, carrying out regular assessments of the environmental impact of all business operations and assisting in developing solutions to environmental problems. Regular reviews of all environmental issues are undertaken, and an annual report is submitted to the board.

Taxation

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Shareholders

At 31 December 1993 there were 1.13 million shareholders, 94% of whom held 1,000 ordinary shares or less. 38% of the issued ordinary shares were held by individuals. An analysis of shareholders is shown on page 40.

Substantial shareholdings

The Companies Act definition of interests in shares was amended during the year with the result that there are no longer any shareholdings in the Group which are classified as substantial, apart from shares held by TSB Group Holdings (Jersey) Limited which represent 3.34% of the issued ordinary share capital.

Auditors

KPMG Peat Marwick have signified their willingness to be re-appointed auditors and a resolution to that effect will be proposed at the annual general meeting.

By order of the board
P W S Rowland, Secretary

P.W.S. Rowland.

12 January 1994

DIRECTORS' RESPONSIBILITY STATEMENT

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 company and group and of the profit or loss of the company and group for that period. In preparing those financial statements the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements 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.

AUDITORS' RESPONSIBILITY STATEMENT

The auditors are responsible for forming an independent opinion on the financial statements presented by the directors, based on their audit, and for reporting their opinion to members. They also have the responsibility under the Companies Act 1985 to report to members if particular requirements are not met. These requirements are:

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

The auditors' opinion does not encompass the directors' report on pages 2 to 4 (together with matters included therein by reference). However, the Companies Act 1985 requires the auditors to report to members if the matters contained in the directors' report are inconsistent with the financial statements.

FINANCIAL REVIEW

Introduction

In this review, reference is made to the financial information contained in the financial statements on pages 10 to 35 and to the five year financial summary on pages 36 and 37.

The accounts have been drawn up under Financial Reporting Standard 3 ("FRS3") and under the Group's new accounting policy for vacant leasehold property. Comparatives have been accordingly restated. Details of these changes are set out in note 1 to the accounts.

Group profit

Group profit before taxation amounted to £301m, compared with £5m in 1992. The principal reason for the increase is a lower bad debt charge which at £343m was £254m lower than the £597m in 1992. However, profit before provisions also improved and reached a record £709m, £72m higher than last year. This was the result of increased income which was up by £74m to £1,999m. Costs were well contained at £1,290m, £2m higher than last year.

The Group has incurred £70m of reorganisation costs in respect of its announced policy of fundamentally reorganising TSB Retail Banking and Insurance and Hill Samuel Bank.

Earnings, dividends and net assets per share

Earnings per share have increased from a loss per share of 1.7p last year to earnings of 12.7p in 1993. Excluding reorganisation costs and profits and losses on the sale or termination of activities earnings per share were 15.6p in 1993 (1992 0.4p).

Dividends per share amount to 7 68p (1992 6.40p), an increase of 20%.

Net assets per share at 31 October 1993 were 114p compared with 103p at the end of last year.

TSB Retail Banking and Insurance

Overall profits of the combined TSB Retail Banking and Insurance business were £454m (1992 £420m), with TSB Retail Banking profit £31m lower at £260m and TSB Insurance profits £65m higher at £194m.

TSB Retail Banking was affected by lower margins on deposit reflecting the continued change in the deposit base towards more competitive, higher rate, deposits. The loss of income from deposits was offset by higher income on assets, particularly mortgages, resulting from better margins and substantial increases in business. Bad debt provisions made in 1993 were lower, £122m compared with £142m last year, the most significant improvement being on commercial lending. The mortgage book is of high quality with provisions in 1993 amounting to 0.2% of outstanding balances.

The increased insurance profit came mainly from TSB General Insurance which raised its profit from £30m last year to £68m in 1993. This was primarily a result of higher premium income and a lower rate of claims. The general insurance business has benefited from the increase in mortgage business in TSB Retail Banking and further success in selling general insurance to TSB's banking customers. The business also benefited from the good performance of the stock market in which part of the insurance funds is invested. The life and pensions business improved its profits in spite of lower sales volumes, which continued to be affected by the economic conditions which are discouraging customers from entering into long-term commitments. The profit improvement resulted from good stock market performance, cost reductions and increased profit from new business, the higher margin more than offsetting the impact of lower sales volumes.

Hill Samuel Bank

It has been a year of restructuring for Hill Samuel Bank, in order to focus it on its core business of merchant banking. The Group's funding and liquidity management functions were transferred to TSB Bank as were the Hill Samuel branches and associated business. The cost base was reduced as a result of these actions and the consequent reductions in central support.

Hill Samuel Bank improved its profit by £2m to £58m in 1993. Income decreased by £13m to £176m whilst costs fell from £132m last year to £100m. Provisions for bad debt amounted to £18m, representing 0.9% of outstandings, compared with a charge of £1m in 1992 and relates primarily to businesses which have since been transferred or discontinued. Hill Samuel Bank starts the new financial year with capital £102m lower than the start of 1993. Further reductions in capital are expected in the current year.

Hill Samuel Investment Management and Financial Services

The Hill Samuel Investment Management businesses also improved their profit, to £18m from £14m last year. Funds under management were increased from £20.5bn to £26.5bn, including substantial new funds from the record sales of TSB unit trusts. The improvement in profit resulted from increased fee income reflecting the strength of stock markets worldwide, good fund performance and increased funds under management.

Hill Samuel Financial Services profit was lower by £4m, totalling £13m for the year. New business volumes of life and pension products were lower than the previous year, in common with the industry generally. Unit trust sales however were substantially increased.

Loan Administration Unit

The Loan Administration Unit was established to manage the recovery of bad and doubtful debts transferred from Hill Samuel Bank at the beginning of the 1992 financial year. The loss incurred was reduced from £379m in 1992 to £142m. The Group's net written down debt in the Loan Administration Unit was reduced from £978m to £629m in 1993, a reduction of £349m. Balances remaining are provided to the extent of 57%. The reduced loss resulted principally from lower bad debt provisions, down from £334m last year to £112m. Interest carrying costs were also lower as interest rates and balances outstanding declined.

Commercial Activities

During the year, Swan National and Noble Lowndes were sold. Profits of those businesses up to the date of sale totalled £6m compared with the combined full year profit in 1992 of £25m. The profit arising on the sales of these businesses is detailed in note 8 to the accounts. The remaining businesses in Commercial Activities, UDT, TSB Property Services, UDT Financial Services and Universal Credit, together increased profit from £16m to £36m in 1993, of which £34m (1992 £27m) related to UDT. UDT improved its profit as a result of increased lending, improved margins and a lower bad debt charge

Mortgage Express

Mortgage Express has achieved a profit of £1m in 1993 compared with a loss of £67m last year. The improvement reflects the reduced bad debt charge, down from £76m in 1992 to £54m, and higher net interest income which increased from £25m to £69m in 1993. This material improvement in income resulted from better margins and a substantial reduction in suspended interest as customers' arrears reduced during the year. The company, which is closed to new business, reduced its outstanding balances from £2.4bn to £2.1bn.

Central costs, including interest

Central costs increased from £61m to £85m in 1993, of which £56m (1992 £47m) related to interest. The remainder, £29m in 1993 compared with £14m last year, is higher principally because last year included a pension credit relating to an overpayment, in earlier years, of £11m, which was not repeated and, in 1993, £3m of accruals for charitable donations to the TSB Foundations were made, in accordance with the deeds of covenant with the Foundations to donate 1% of profit.

Reorganisation costs

Reorganisation costs of £70m have been incurred in the fundamental restructuring of TSB Retail Banking and Insurance, where the integration of the banking and insurance operations has continued and in the reorganisation of Hill Samuel Bank to focus on its core merchant banking business.

Capital resources

Shareholders' funds amounted to £1,740m at 31 October 1993 compared with £1,569m last year (restated from £1,638m as a result of the change in the accounting policy for vacant leasehold property). The increase during the year arose primarily from retained earnings of £73m and from goodwill of £84m relating to sales of subsidiaries in the year, written back to the profit and loss account under current accounting rules.

In addition, the Group had loan capital of £708m. No new loan capital was issued in the year and none was repaid. The increase of £7m relates to foreign exchange fluctuations.

Together with minority interests in the share capital and reserves of certain subsidiaries, the Group's total capital resources amounted to £2,460m in 1993 compared with £2,277m at the end of last year.

Calculated in accordance with the Bank of England's supervisory requirements, the Group risk asset ratio was 13.2% at 31 October 1993 (1992 11.3%). The Group tier 1 ratio amounted to 8.7% (1992 7.2%).

Advances to customers and deposits

Net advances to customers increased marginally from £16,301m to £16,419m. Within this total, the Loan Administration Unit reduced its net exposure to doubtful accounts by £349m, Mortgage Express reduced its net balances by £331m and Hill Samuel Bank reduced its commercial loan portfolio by £369m. These reductions were offset by growth in the TSB Retail Banking loan balances of £1,207m, principally mortgages.

Total deposits reduced from £23,403m to £21,438m at 31 October 1993. Underlying retail deposits increased by £827m from £14,070m to £14,897m. The reduction in total deposits was a result of a decrease in inter-bank and wholesale deposits which were no longer required as short-term money market assets and instruments were reduced during the year. Within the TSB Retail Bankings deposit base the competitive deposits paying higher interest increased by £1.2bn during the year, with the lower rate deposits reducing by a similar amount to stand at £1.6bn at 31 October 1993.

Cash flow

The consolidated cash flow statement shows a decrease in cash and cash equivalents of £1,800m during the year compared with an increase in 1992 of £1,601m. Trading activities contributed cash of £283m (1992 £306m) and investing activities produced an additional inflow of £58m (1992 outflow £113m) including purchases of premises and equipment amounting to £100m and the net proceeds from the sale of subsidiaries during the year of £137m. The principal reason for the net reduction in cash and cash equivalents during 1993 was a reduction in short-term money market loans and instruments, which had been built up during the previous year in respect of treasury activities.

Liquidity

The Group's liquidity policy is based on three main principles, the maintenance of a diversified deposit base without undue reliance on individual sources of deposits, the control of cash flows to ensure that large net outflows are predicted and if possible avoided in any particular time period and the maintenance of a stock of high quality liquid assets in proportion to the size of our liabilities and forecasts for future cash flows. The policy has been agreed with the Bank of England.

Interest matching

The Group's exposure to changes in interest rates is constantly monitored and the balance sheet controlled to protect the Group from exposure to loss from changes in interest rates, so far as it is possible to do so.

AUDITORS' REPORT

Auditors' report to the members of TSB Group plc

We have audited the financial statements on pages 10 to 35.

Respective responsibilities of directors and auditors

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 Company and the Group as at 31 October 1993 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick

KPMG Peat Marwick
Chartered Accountants
Registered Auditors
London

12 January 1994

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 October

Note		1993 £m	1992 restated (note 1) £m
4	Profit before taxation:		
	TSB Retail Banking and Insurance		
	TSB Retail Banking	260	291
	TSB Insurance	194	129
		454	420
	Hill Samuel		
	Hill Samuel Bank	58	56
	Hill Samuel Investment Management and Financial Services	38	27
		96	83
	Loan Administration Unit	(142)	(379)
	Commercial Activities	42	44
	Mortgage Express	1	(67)
	Central costs, including interest	(85)	(61)
	Operating profit	366	40
7	Reorganisation costs	(70)	2
	Profit before sale or termination of activities	296	42
8	Profit/(loss) on sale or termination of activities, including goodwill written off	5	(37)
4	Profit before taxation	301	5
9	Taxation	(112)	(23)
	Profit/(loss) after taxation	189	(18)
	Minority interests	(5)	(7)
	Profit/(loss) after taxation and minority interests	184	(25)
10	Dividends	(111)	(93)
	Retained profit/(loss) for the year	73	(118)
	Transfer to non-distributable reserves	51	64
	Transfer to/(from) distributable reserves	22	(182)
22	Net transfer to/(from) reserves	73	(118)
11	Earnings/(loss) per ordinary share	12.7p	(1.7)p
11	Earnings per ordinary share before reorganisation costs and sale or termination of activities	15.6p	0.4p

Of the profit/(loss) after taxation, a profit of £277m (1992 loss of £19m) has been dealt with in the accounts of the Company.

The notes on pages 15 to 35 form part of these accounts.

CONSOLIDATED BALANCE SHEET

As at 31 October

Note		1993 £m	1992 restated (note 1) £m
Assets 12	Cash and short-term funds	1,677	2,347
	Items in course of collection	268	247
13	Marketable securities held short-term	475	482
		2,420	3,076
14	Notice and fixed loans	2,857	4,460
15	Investments	1,719	1,590
16	Advances to customers	16,419	16,301
	Other accounts receivable	809	1,008
		24,224	26,435
18	Premises and equipment	700	745
19	Assets of long-term life assurance and pension business funds	6,033	4,593
20	Value of long-term life assurance and pension businesses	460	409
		31,417	32,182
Capital resources 21	Share capital	399	398
22	Reserves	1,341	1,171
	Shareholders' funds	1,740	1,569
	Minority interests	12	7
	Loan capital:		
23	Undated	150	148
24	Dated	558	553
	Capital resources	2,460	2,277
Liabilities 25	Deferred taxation	4	2
26	Creditors and accrued expenses	1,482	1,907
	Current and deposit accounts	21,438	23,403
	Long-term life assurance and pension business funds	6,033	4,593
		31,417	32,182

The accounts on pages 10 to 35 were approved by the board of directors on 12 January 1994 and were signed on its behalf by:

Nicholas Goodison, Chairman
Peter Ellwood, Chief Executive
John Burns, Finance Director

Nicholas Goodison
Peter Ellwood
John Burns

COMPANY BALANCE SHEET

As at 31 October

Note		1993 £m	1992 restated (note 1) £m
Fixed assets	Tangible assets:		
18	Premises and equipment	10	11
	Investments:		
17	Investment in subsidiaries	1,721	1,526
	Loans to subsidiaries	1,591	1,392
		3,322	2,929
Current assets	Debtors:		
	Amounts owed by subsidiaries	4	15
	Taxation recoverable	54	47
	Other accounts receivable	41	16
13	Marketable securities held short-term	–	3
12	Cash and short-term funds	103	65
		202	146
Creditors	Amounts falling due within one year:		
	Amounts owed to subsidiaries	1,006	767
	Other creditors and accrued expenses	77	58
	Taxation	41	48
	Dividend	65	47
		1,189	920
	Net current liabilities	(987)	(774)
	Total assets less current liabilities	2,335	2,155
Loan capital	Creditors: Amounts falling due after more than one year:		
23	Undated loan capital	100	100
24	Dated loan capital	495	486
		595	586
	Net assets	1,740	1,569
Capital and reserves 21	Called up share capital	399	398
22	Reserves	1,341	1,171
	Shareholders' funds	1,740	1,569

The accounts on pages 10 to 35 were approved by the board of directors on 12 January 1994 and were signed on its behalf by:

Nicholas Goodison, Chairman
Peter Ellwood, Chief Executive
John Burns, Finance Director

Nicholas Goodison
Peter Ellwood
John Burns

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 October

Note		1993 £m	1992 restated (note 1) £m
	Profit/(loss) after taxation and minority interests	184	(25)
	Currency realignment	-	(3)
	Total recognised gains and losses relating to the year	184	(28)
1	Prior year adjustment - change of accounting policy	(69)	-
	Total recognised gains and losses since the last report	115	(28)

There is no material difference between the Group results as reported and on an unmodified historical cost basis. Accordingly no note of historical cost profits and losses has been included.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 October

Note		1993 £m	1992 £m
	Profit/(loss) after taxation and minority interests	184	(25)
	Dividends	(111)	(93)
	Goodwill written off on acquisition of shares in subsidiaries	(1)	(13)
8, 22	Goodwill written back to profit and loss account on sale of subsidiaries	84	26
	Issue of shares, including premium	5	7
	Currency realignment	-	(3)
	Other	10	(4)
	Net increase/(reduction) in shareholders' funds in year	171	(105)
	Shareholders' funds at beginning of year (originally £1,638m before deducting prior year adjustment of £69m)	1,569	1,674
	Shareholders' funds at end of year	1,740	1,569

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 October

Note		1993 £m	1992 restated (note 1) £m
31	Net cash flow from operating activities	(1,753)	1,811
	Servicing of finance:		
	Dividends paid	(93)	(93)
	Taxation:		
	United Kingdom Corporation Tax paid	(12)	–
	Overseas taxation paid	(5)	(7)
	Total taxation paid	(17)	(7)
	Investing activities:		
	Purchase of premises and equipment	(100)	(129)
	Purchase of shares in subsidiaries	(1)	(40)
32	Sale of subsidiaries and businesses	137	23
	Sale of premises and equipment	22	33
	Net cash flow from investing activities	58	(113)
	Net cash flow before financing	(1,805)	1,598
33	Financing – cash received on:		
	Issue of ordinary share capital	5	8
	Repayment of loan capital	–	(5)
	Net cash flow from financing	5	3
34	(Decrease)/increase in cash and cash equivalents	(1,800)	1,601

NOTES TO THE ACCOUNTS

Note 1 Change in accounting policy and basis of presentation

In the year the accounting policy for vacant leasehold property has been changed giving rise to a prior year adjustment. Previously the costs of vacant leasehold property were charged to the profit and loss account as incurred. Following the publication of the initial proposals on the matter by the Urgent Issues Task Force of the Accounting Standards Board ("UITF") the directors reviewed this accounting policy and decided, on the basis of the reasoning put forward by the UITF, that these proposals represented a more appropriate accounting policy for the Group.

The new policy is that when a leasehold property ceases to be used for the purposes of 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.

The prior year adjustment of £69m and charge in the year of £2m have been established after review, by external valuers, of the Group's vacant leasehold property. Comparatives have been restated to reflect this change in accounting policy, the net effect of which is to reduce profit before taxation in 1992 by £1m.

The Group has adopted Financial Reporting Standard 3 ("FRS3") "Reporting Financial Performance" in presenting its results and prior year figures have been restated. Profits and losses on the sale or termination of activities and attributable taxation, previously reported as extraordinary items, are now included in profit before taxation and the total taxation charge. Earnings per share have also been restated.

In the accounts for the year ended 31 October 1992 the results up to the date of disposal of businesses sold were shown as a separate item in the profit and loss account. In these accounts the results of businesses sold are included within the results of the business segment to which they relate. Comparatives are restated accordingly.

Note 2 Basis of consolidation

The consolidated accounts, which comprise the accounts of the Company and all of its subsidiary undertakings ("subsidiaries"), are prepared in compliance with sections 255, 255A and 255B of, and Schedule 9 to, the Companies Act 1985. The value of the Group's long-term life assurance and pension business funds is directly linked to the value of the constituent assets; each is included in the consolidated balance sheet as a single separate amount under a heading appropriate to the business. These assets are analysed in note 19. No profit and loss account is shown for the Company, as permitted by section 230(3) of the Companies Act 1985 and the Company balance sheet has been prepared in compliance with section 226 of and Schedule 4 to, that Act

The revisions in the law governing the content and formats of the accounts of banking groups introduced by the Companies Act 1985 (Bank Accounts) Regulations 1991 take effect for financial years beginning on or after 23 December 1992. Accordingly, the Group's accounts for the year ending 31 October 1994 including, as appropriate, the interim accounts for that year, will be prepared in accordance with these regulations.

Note 3
Accounting policies

The accounts have been prepared under the historical cost convention, modified by the revaluation of certain assets, and in accordance with applicable Accounting Standards. The principal accounting policies adopted by the Group are described below.

Securities

Marketable securities held for the short term are included in the balance sheet at market value. Investments held for the long term which are redeemable at fixed dates are stated in the balance sheet on the basis of amortised cost. Other long-term investments are stated in the balance sheet at cost less provisions for permanent diminution in value. Investments of the Group's life, pensions and general insurance businesses are included in the balance sheet at market value.

All gains and losses arising on securities held at market value are dealt with in the profit and loss account except for those arising on investments held within the life and pension funds which are dealt with in those funds. Realised gains and losses on long-term investments are dealt with in the profit and loss account as they arise.

Provisions for bad and doubtful debts

Specific provisions are made against advances which are recognised to be bad or doubtful. In addition, general provisions are maintained to cover bad and doubtful debts which may be present at the year end in the portfolio of advances but which have not been specifically identified.

Instalment finance and personal loans

Income from instalment finance business and personal loans is credited to the profit and loss account in proportion to the reducing balance of funds outstanding.

Depreciation

Depreciation is not charged on certain freehold buildings and leaseholds with more than 50 years unexpired, principally bank premises. It is the Group's practice to maintain these assets in a continual state of sound repair and to extend and make improvements thereto from time to time and accordingly the directors consider that the lives of these assets are so long and residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are so high that their depreciation is insignificant. Any permanent diminution in the value of such properties is charged to the profit and loss account as appropriate.

Depreciation on other freehold buildings and leaseholds with more than 50 years unexpired is provided on a straight line basis at 2% per annum. Other leasehold interests are written off by equal instalments over the unexpired term of the lease. No depreciation is provided on freehold land.

Computers and other equipment are depreciated on a straight line basis over their estimated lives, generally between three and ten years (the average being eight years).

Assets leased to customers

Income from finance leases is credited to the profit and loss account in proportion to the net funds invested, using the investment period method. Finance leases are included in the balance sheet as part of advances to customers a amounts based on the discounted value of future rentals.

Life assurance and pension businesses

Life assurance and pension policyholders' assets are segregated from the shareholders' assets.

Actuarial valuations are prepared annually and the directors of the Group's assurance subsidiaries, with advice from actuaries, determine the proportion of the actuarial surpluses or deficits to be transferred between the funds and the profit and loss account. The balance of the actuarial surpluses is carried forward in the life assurance and pension business funds.

The value to the Group of the long-term life assurance and pension businesses represents the net present value of the profits which are calculated to arise from business in force and retained surpluses in the funds. The value, which is included in the balance sheet, is determined in consultation with independent actuaries.

The increase in the value of the Group's long-term businesses is credited to the profit and loss account in addition to the release of surplus from the funds. The increase in the value of long-term businesses is grossed up for tax at the corporation tax rate. The increase after tax in the value of long-term businesses included in the profit and loss account is transferred to non-distributable reserves.

General insurance business

The underwriting result of the general insurance business is determined annually and included in the profit before taxation 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 in following periods. The provision for claims includes the estimated cost of claims notified but not settled and of claims incurred but not reported at the balance sheet date, and is after anticipated recoveries from reinsurers and others.

Pension costs

Based on actuarial advice, pension costs a. • charged to the profit and loss account on a basis whereby the regular cost is an approximately level percentage of the current and expected future pensionable payroll. Variations from the regular cost are allocated over the average remaining service lives of current employees.

Deferred taxation

Deferred taxation is provided under the liability method on material timing differences where there is a reasonable probability that taxation will become payable in the foreseeable future. Advance corporation tax on dividends paid or proposed which is expected to be recovered in the future is incorporated in the deferred tax balance.

Investment in subsidiaries

The Company's investment in subsidiaries is stated at its share of their net assets.

Goodwill

Goodwill arising on acquisitions, being the excess of cost over the fair value of the net assets acquired, is charged against reserves in the year of acquisition. On disposal of a business, any goodwill previously eliminated on acquisition is included in determining the profit or loss on sale.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at exchange rates ruling at the balance sheet date. Results in foreign currencies are translated into sterling at average exchange rates for the year. Exchange differences on translation of the net assets of overseas subsidiaries and appropriate foreign currency loan capital are dealt with through reserves. All other exchange differences are dealt with in the profit and loss account.

Note 4
Profit before taxation

Profit before taxation is stated after taking account of the following:

	1993 £m	1992 £m
Income:		
Income from listed investments, including amortisation of dated securities	83	93
Income from unlisted investments	30	44
Other interest income	2,217	2,529
Total interest income	2,330	2,666
Income from finance lease rentals	328	439
Expenses:		
Interest on deposits and other accounts	1,249	1,621
Interest on loan capital repayable after more than five years	56	70
Pension costs (note 27)	6	(3)
Depreciation of premises and equipment	90	96
Property rentals	44	57
Hire of equipment	21	16
Auditors' remuneration	1.8	2.1
Auditors' remuneration in respect of non-audit services	1.5	1.8
Central costs, including interest, comprise:		
Central, unallocated overheads	26	14
Net interest payable	56	47
Provision for donations to the TSB Foundations	3	-
	85	61

Note 5

Directors' emoluments

The aggregate emoluments of the directors comprise:

	1993 £000	1992 £000
Emoluments as directors of the Company and its subsidiaries	197	195
Other emoluments in respect of the year, including pension contributions	1,245	1,284
	1,442	1,479
Performance related bonuses	551	102
	1,993	1,581
Compensation for loss of office	–	763
	1,993	2,344

The emoluments of the chairman were £274,070 (1992 £271,105). Since the year end his basic salary has been increased from £215,000 per annum to £260,000 per annum with effect from 1 January 1994, having not been adjusted since January 1991. The increase reflects the major contribution he has made to the improvement of the Group's affairs since 1989. No further adjustment of salary will be made until January 1996 at the earliest. He does not participate in any bonus or profit sharing scheme.

The chairman is not a member of the TSB Group Pension Scheme. As in previous years, included in his emoluments was a payment (equivalent in 1992/93 to 22⅔% of his salary, in line with Inland Revenue guidelines), to enable him to contribute to a personal retirement annuity plan. To the extent, if any, that the plan does not provide the chairman with a pension at age 65 equal to two thirds of his final salary, the Company has undertaken to make up the difference, subject to a maximum annual payment by the Company equivalent to 31.67% of his final salary.

The emoluments of the highest paid director, Mr P B Ellwood, were £516,819 (1992 £373,407). These emoluments included a bonus of £213,750 in respect of 1993 for exceeding a Group earnings per share target as determined by the Remuneration Committee for all executive directors. His bonus in 1992 comprised £17,250 in respect of 1992 and a deferred bonus of £76,987 in respect of the 3 year period ended 31 October 1992, both based on the performance of TSB Retail Banking and Insurance, of which he was Chief Executive, measured against pre-determined targets.

No increases in basic salaries were granted to the executive directors, other than the chairman, in the review on 1 January 1994

In addition to the continuing performance related bonus scheme for executive directors, a share price related cash bonus scheme was established during the year which allows certain senior employees, including executive directors but not the chairman, to benefit from movements in the price of the Company's shares over a period of up to ten years. The scheme is designed to encourage participants to align their long-term career aspirations with the long-term interests of the Group. The first bonus rights were granted in February 1993. Under the rules of the scheme they can be exercised between the third and tenth year from the date of

Note 5
Directors' emoluments continued

their grant. The following table shows the number of bonus rights which were granted to directors under the scheme at a share price of 143p:

	Number
J A Burns	191,691
P B Ellwood	287,537
J K Elbourne	201,780

A separate bonus scheme was established for Mr H R Freedberg in January 1993 under which a payment will be made in January 1995, subject to the performance of the Hill Samuel businesses measured against pre-determined targets.

Due to the surplus referred to in note 27, no contributions to the TSB Group Pension Scheme were paid in respect of directors in either year.

The number of directors whose aggregate emoluments, excluding pension contributions, fell within the following bands are shown below:

	1993	1992		1993	1992
£0 – £5,000	3	–	£140,001 – £145,000	–	1
£5,001 – £10,000	1	–	£215,001 – £220,000	–	1
£10,001 – £15,000	4	6	£240,001 – £245,000	–	1
£15,001 – £20,000	1	–	£270,001 – £275,000	1	1
£20,001 – £25,000	1	1	£300,001 – £305,000	1	–
£25,001 – £30,000	1	2	£345,001 – £350,000	1	–
£35,001 – £40,000	–	1	£355,001 – £360,000	1	–
£45,001 – £50,000	1	1	£370,001 – £375,000	–	1
£75,001 – £80,000	–	1	£515,001 – £520,000	1	–

Note 6
Transactions with directors and officers

At 31 October 1993 the aggregate amounts outstanding under transactions, arrangements and agreements entered into by the Group with directors, persons connected with directors, and officers were:

	Directors and connected persons			Officers		
	Loans	Quasi loans	Guarantees	Loans	Quasi loans	Guarantees
Number of persons	4	6	1	5	1	1
Amount £000	578	5	30	627	1	35

Note 7
Reorganisation costs

Reorganisation costs of £70m (the major part being redundancy costs) relate to the implementation of the Group's announced policy of fundamentally reorganising TSB Retail Banking and Insurance and Hill Samuel Bank. In TSB the management, sales force and administration of TSB Retail Banking and TSB Insurance are being integrated to create a "Lancassurance" business. Hill Samuel Bank has withdrawn from a number of areas of business, including branch banking, in order to focus on its merchant banking activities. This involves a reduction in its balance sheet and capital employed together with the consequent reduction in support operations.

Note 7
Reorganisation costs continued

In the year ended 31 October 1992, as a result of the decision to integrate the TSB Retail Banking and Insurance businesses, the value of long-term life assurance and pension businesses no longer required a provision for commission payable to TSB Retail Banking. As a result £30m (before taxation) was released to the profit and loss account and included as an offset against reorganisation costs (£28m).

Note 8
Profit/(loss) on sale or termination of activities

Profit/(loss) on sale or termination of activities comprises:

	1993	1992
	£m	£m
Net increase in shareholders' funds on sale of businesses	89	6
Goodwill previously written off against reserves (note 22)	(84)	(26)
Additional provision for the sale/closure of Target	–	(17)
	5	(37)

In the year ended 31 October 1993 the Group sold its shareholdings in the Bell Lawrie White group, Target Trust Managers, Bank von Ernst, Swan National Leasing, its Eurodollar companies and Noble Lowndes.

Note 9
Taxation

The charge for taxation, based on the profit for the year, comprises:

	1993	1992
	£m	£m
United Kingdom Corporation Tax at 33%	92	56
Taxation attributable to franked investment income	4	3
	96	59
Overseas taxation	11	10
Deferred taxation	5	(46)
	112	23

Note 10
Dividends

	1993	1992
	£m	£m
Interim		
3.15 pence net per ordinary share (1992 3.15 pence) – paid	46	46
Final		
4.53 pence net per ordinary share (1992 3.25 pence) – proposed	65	47
	111	93

Note 11
Earnings/(loss) per ordinary share

Earnings/(loss) per ordinary share have been calculated by dividing the profit after taxation and minority interests of £184m (1992 loss £25m) by 1,446 million shares (1992 1,446 million shares), being the average number of ordinary shares in issue during the year less 70 million shares (1992 64 million shares) registered in the name of TSB Group Holdings (Jersey) Limited and the trustees of the TSB Group employee trust.

Note 11
Earnings/(loss) per ordinary share continued

Reorganisation costs and the profit on sale or termination of activities are significant features of the results particularly when comparing earnings with prior periods. The directors consider it appropriate therefore also to give earnings per share, using an appropriate rate of taxation and the number of shares in issue shown above, based upon profit before profit or loss on sale or termination of activities and reorganisation costs. The following table reconciles earnings per share between that calculated in accordance with FRS3 and this alternative basis:

	1993 pence	1992 pence
Earnings/(loss) per ordinary share under FRS3	12.7	(1.7)
Adjustments, net of tax, in respect of:		
Reorganisation costs	3.2	(0.1)
Profit or loss on sale or termination of activities	(0.3)	2.2
Earnings per ordinary share, based on operating profit	15.6	0.4

Note 12
Cash and short-term funds

	The Group		The Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Cash in hand and with bankers	230	182	103	65
Money at call and overnight placings	732	1,417	–	–
Notice and fixed loans due within seven days	715	748	–	–
	1,677	2,347	103	65

Included above in the Group's figures are cash and short-term funds of £1,592m (1992 £2,298m) which were within three months of maturity when acquired – see note 34.

Note 13
Marketable securities held short-term

	The Group		The Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Treasury and other bills	22	149	–	–
Certificates of deposit	103	142	–	–
Government securities	341	178	–	–
Other securities	9	13	–	3
	475	482	–	3

Included above in the Group's figures are marketable securities of £55m (1992 £252m) which were within three months of maturity when acquired – see note 34.

Note 14
Notice and fixed loans

Notice and fixed loans consist of secured and unsecured loans, with a maturity beyond seven days, to authorised institutions, United Kingdom local authorities and public corporations and include loans of £1,278m (1992 £1,045m) which mature beyond one year.

Included in the total of notice and fixed loans are £788m (1992 £1,685m) which were within three months of maturity when acquired – see note 34.

Note 15
Investments

	1993		1992	
	Book Value £m	Valuation £m	Book Value £m	Valuation £m
Listed investments:				
British Government securities	759	785	760	766
Equity investments, all listed in the United Kingdom	69	70	58	58
Other investments listed in the United Kingdom	188	188	134	134
Other investments listed elsewhere	247	248	197	197
Unlisted investments:				
Equity	41	60	63	67
Other	415	415	378	379
	1,719	1,766	1,590	1,601

Listed investments are valued at mid-market prices and unlisted investments at directors' valuation. British Government securities and other investments with a book value of £1,599m are redeemable at fixed dates. Their total redemption value is £1,886m. Investments with a book value of £113m mature in less than one year.

Note 16
Advances to customers

	1993	1992
	£m	£m
Advances	16,829	16,352
Assets held for leasing	942	1,365
	17,771	17,717
Provisions	(1,352)	(1,416)
	16,419	16,301

The movements in provisions for bad and doubtful debts in the year were as follows:

	1993			1992		
	Specific	General	Total	Specific	General	Total
	£m	£m	£m	£m	£m	£m
Provisions at beginning of year	1,305	111	1,416	925	84	1,009
Amounts written off, net of recoveries	(408)	–	(408)	(179)	–	(179)
Provisions made, less released	332	11	343	570	27	597
Subsidiaries sold	(1)	–	(1)	(19)	(2)	(21)
Reclassifications	11	(11)	–	–	–	–
Currency and other adjustments	4	(2)	2	8	2	10
Provisions at 31 October	1,243	109	1,352	1,305	111	1,416

Assets acquired during the year for letting under finance leases amounted to £184m (1992 £186m). Net investment in leased assets includes £10m (1992 £289m) of equipment leased to customers under operating leases, shown net of accumulated depreciation of £3m (1992 £83m) and a net investment in hire purchase contracts of £46m (1992 £26m).

Note 17 Investment in subsidiaries

The Company's investment in subsidiaries consists of shares and capital contributions. The principal operating subsidiaries, all of which are incorporated in England and Wales unless otherwise stated, are listed below:

TSB Retail Banking and Insurance	
TSB Bank plc	Banking and related services
TSB Bank Channel Islands Limited	Banking and related services (incorporated in Jersey)
TSB Bank Scotland plc	Banking and related services (incorporated in Scotland)
TSB Trust Company Limited*	Life assurance, pensions, general insurance and unit trust management
Hill Samuel	
Hill Samuel Bank Limited	Corporate and merchant banking
Hill Samuel Investment Management Group Limited*	Investment management
Hill Samuel Investment Services Group Limited*	Life assurance and investment products for private individuals
Commercial	
Mortgage Express Holdings Limited	Mortgage services
TSB Property Services Limited	Estate agencies
United Dominions Trust Limited	Consumer credit, leasing and related services

All of the above companies are wholly owned within the TSB Group and those companies indicated by an asterisk are directly owned by TSB Group plc.

Accounts of the companies are made up to 31 October, except for TSB Property Services Limited and its subsidiaries, whose accounts are made up to 30 September in order to avoid delay in the preparation of the Group accounts.

Note 18
Premises and equipment

	The Group			The Company		
	Premises	Equipment	Total	Premises	Equipment	Total
	£m	£m	£m	£m	£m	£m
Cost or valuation:						
At 1 November 1992	486	695	1,181	8	7	15
Additions	55	45	100	–	1	1
Disposals	(11)	(59)	(70)	–	(1)	(1)
Subsidiaries sold	(16)	(49)	(65)	–	–	–
Reclassifications	(14)	14	–	–	–	–
At 31 October 1993	500	646	1,146	8	7	15
Depreciation:						
At 1 November 1992	67	369	436	1	3	4
Charge for the year	9	81	90	–	1	1
Disposals	(7)	(39)	(46)	–	–	–
Subsidiaries sold	(3)	(31)	(34)	–	–	–
At 31 October 1993	66	380	446	1	4	5
Net book value:						
At 31 October 1993	434	266	700	7	3	10
At 1 November 1992	419	326	745	7	4	11

The net book value of premises comprises:

	The Group		The Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
Freeholds	353	322	7	7
Long leaseholds	29	30	–	–
Short leaseholds	52	67	–	–
	434	419	7	7

Note 18
Premises and equipment continued

At valuation net of subsequent depreciation:

	The Group 1993 £m	The Group 1992 £m	The Company 1993 £m	The Company 1992 £m
1992	1	1	–	–
1988	9	9	–	–
1983	73	78	–	–
1982 and earlier years	22	22	–	–
At cost less subsequent depreciation	329	309	7	7
	434	419	7	7

Premises were revalued in the years shown above on the basis of open market value for existing use. The gross amount of depreciable assets included in premises at 31 October 1993 is £155m (1992 £192m). Equipment is shown at cost less subsequent depreciation.

Note 19
Assets of long-term life assurance and pension business funds

The assets of the life assurance and pension business funds held to meet liabilities to policyholders, based on market values, were:

	1993 £m	1992 £m
Property	219	197
Equity shares	2,730	1,773
Unit trusts	1,882	1,552
Fixed interest securities	1,139	940
Mortgages and loans	38	46
Other accounts receivable	764	772
Creditors and accrued expenses	(739)	(687)
	6,033	4,593

Note 20
Value of long-term life assurance and pension businesses

The value of the long-term life assurance and pension businesses is analysed as follows:

	1993 £m	1992 £m
Gross increase in value of long-term businesses	155	166
Taxation	(51)	(56)
	104	110
Surplus released from the funds	(53)	(46)
Net increase in value of long-term businesse	51	64
Balance at beginning of year	409	345
Balance at 31 October	460	409

Note 20
Value of long-term life assurance and pension businesses continued

The gross increase in the value of the long-term businesses is included in the consolidated profit and loss account. In the year ended 31 October 1992 the gross increase included £30m in respect of the commission adjustment (note 7).

The major actuarial assumptions used in the calculation of the value of the long-term life assurance and pension business in force are unchanged from 1992 and are as follows:

- future distributable profits after taxation have been discounted at a rate of 15% per annum;
- future gross investment returns have been assumed at rates varying from 9% to 11% per annum depending on the type of asset;
- long-term inflation rate of 6.5% per annum;
- tax has been provided in full at the rates applicable to investment income, capital gains and annuity profits under the relevant tax legislation; and
- future mortality rates, lapse rates and expense levels have been derived from analysis of the recent experience of the funds.

Note 21
Share capital

	Authorised	Allotted, called up and fully paid	
	1993 and 1992	1993	1992
	£m	£m	£m
Ordinary shares of 25p each	505	379	378
Limited voting ordinary shares of 25p each	20	20	20
Limited voting preference shares of £1 each	300	–	–
	825	399	398

4,467,639 ordinary shares were issued during the year, upon the exercise of share options, for a consideration of £4.9m.

At 31 October 1993 options to purchase 82,067,348 ordinary shares were outstanding under the Group's executive and savings related share option schemes at prices from 48.02p to 162.50p per share exercisable up to 2003. The exercise of certain options will require up to 15,524,463 new ordinary shares to be created and allotted. The exercise of other options will be satisfied by transfers of existing shares from the holdings of TSB Group Holdings (Jersey) Limited and the trustees of the TSB Group employee trust which are maintained for use in respect of employee share and share option schemes.

Note 22 Reserves

	The Group	The Company
	£m	£m
At 1 November 1992, as previously reported	1,240	1,240
Prior year adjustment – change of accounting policy (note 1)	(69)	(69)
At 1 November 1992, as restated	1,171	1,171
Retained profit for the year	73	166
Goodwill written off on acquisition of shares in subsidiaries	(1)	–
Goodwill written back to the profit and loss account	84	–
Premium on issue of shares (net of expenses)	4	4
Other	10	–
At 31 October 1993	1,341	1,341

The Group's reserves at 31 October 1993 include surpluses on the valuation of long-term life assurance and pension business in force of £399m (1992 £348m) and on the revaluation of premises of £5m (1992 £5m), and a share premium account of £11m (1992 £7m).

The Company's reserves include the share premium account of £11m (1992 £7m).

The cumulative amount of goodwill on acquisitions made in the current and earlier years and charged against the Group's reserves is £618m (1992 £701m). It is net of any goodwill attributable to subsidiaries or businesses subsequently sold.

Note 23 Loan capital — Undated

	The Group		The Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
US$75m perpetual floating rate notes†	50	48	–	–
£100m perpetual floating rate notes*	100	100	100	100
	150	148	100	100

†These have been issued by a subsidiary and carry the Company's subordinated guarantee.

*These are subordinated to the claims of other creditors of the Company.

Loans bear interest at rates, fixed periodically, based on interbank rates.

Note 24
Loan capital – Dated

	The Group		The Company	
	1993	1992	1993	1992
	£m	£m	£m	£m
8% unsecured loan stock 1989/94	9	9	–	–
US$30m floating rate notes 1996†	20	19	–	–
£135m zero coupon bonds 1998*	82	74	82	74
US$33m guaranteed floating rate notes 2001†	17	17	17	17
£100m variable rate notes 2003*	100	100	100	100
Yen 3bn eurocurrency zero coupon bonds 2003†	10	9	10	9
£100m 10.625% loan stock 2008*	100	100	100	100
£100m 12% bonds 2011*	100	100	100	100
US$100m floating rate notes 2016†	67	64	–	–
£135m floating rate notes 2063†	53	61	86	86
	558	553	495	486

†These have been issued by subsidiaries and carry the Company's subordinated guarantee.

*These are subordinated to the claims of other creditors of the Company.

The £135m floating rate notes 2063 carry an interest rate which is related to LIBOR until 1998 and thereafter interest is payable at a nominal rate. The liability of the Group to redeem the notes at their total nominal amount of £135m arises in the year 2063 or on the earlier liquidation of the Company otherwise than in the course of a reconstruction. These notes were issued by a subsidiary under the Company's subordinated guarantee and the proceeds lent to the Company on a subordinated basis.

The US$33m guaranteed floating rate notes 2001 and the Yen 3bn eurocurrency zero coupon bonds 2003 were issued by a subsidiary under the Company's subordinated guarantee and the proceeds lent to the Company on a subordinated basis.

Loans bear interest at rates fixed periodically, based on interbank rates, except where otherwise stated.

Note 25
Deferred taxation

	£m
At 1 November 1992	2
Charged to the profit and loss account	5
Subsidiaries sold	(12)
Currency and other adjustments	9
At 31 October 1993	4

Note 25
Deferred taxation continued

The balance of deferred taxation comprises:

	1993 £m	1992 £m
Accelerated capital allowances	7	38
Short-term timing differences	13	(20)
Advance Corporation Tax	(16)	(16)
	4	2

Deferred taxation has been provided in full except that no provision has been made in respect of earnings retained overseas or the potential liability for taxation which might arise in the event of any of the Group's properties being realised at balance sheet values, since the likelihood of any material liability arising in these respects is remote. Most of the Group's properties are occupied for the purposes of the Group's trade and consequently any gains arising on disposal are normally eligible for rollover relief.

Note 26
Creditors and accrued expenses

	1993 £m	1992 £m
Taxation	49	55
Dividend	65	47
Other creditors and accrued expenses	1,368	1,805
	1,482	1,907

Note 27
Pensions

The TSB Group Pension Scheme, which covers approximately 92% of the Group's employees, is of the defined benefit, final salary type. It is self-administered and funded to cover future pension liabilities, based on accrued service to date, including expected future earnings and pension increases.

Formal actuarial valuations are carried out by qualified actuaries annually, the latest being at 1 November 1992. This valuation showed that the market value of the assets of the scheme was £1,968m. The actuarial value of the assets represented 174% of the actuarial value of the benefits accrued to members, calculated on the basis of pensionable earnings projected to retirement or earlier exit, and service as at the date of the valuation. The nil rate of contribution to the scheme, reflected in the current year charge, has been established so as to eliminate the surplus over a period not less than the average remaining service life of current employees.

Note 27
Pensions
continued

The valuation of the scheme was carried out using the projected unit method. The principal actuarial assumptions used in the valuation of the scheme were that the annual rate of price inflation would be 5.5%, the annual rate of return on investments would be 9.5%, annual dividend increases would be 5.5% and annual increases in earnings would be 7.5%. The scheme allows for annual pension increases between 4.5% and 5.5%.

The actuaries to the scheme are employed by Noble Lowndes & Partners Limited, until 30 September 1993 a Group company. The assumptions used in the valuation have been reviewed by independent actuaries.

Note 28
Commitments

Capital expenditure commitments of the Group not provided in these accounts comprise:

	1993 £m	1992 £m
Contracted	1	13
Authorised, but not contracted	5	15

Annual commitments of the Group under operating leases are as follows:

	1993 Premises £m	1993 Equipment £m
Expiring:		
Within one year	1	1
Within two to five years	5	8
In more than five years	13	–
	19	9

Note 29
Turnover

Turnover by class of business attributable to banking businesses is not shown. Non-banking turnover by class of business was:

	1993 £m	1992 £m
TSB Insurance	725	336
Hill Samuel Investment Management and Financial Services	241	144
Commercial Activities	265	553

Note 30
Segmental analysis of net assets

The segmental analysis of net assets, included in compliance with Statement of Standard Accounting Practice No. 25 'Segmental Reporting', is as follows:

	1993 £m	1992 £m
TSB Retail Banking and Insurance		
TSB Retail Banking	855	721
TSB Insurance	471	390
	1,326	1,111
Hill Samuel		
Hill Samuel Bank	395	497
Hill Samuel Investment Management and Financial Services	122	110
	517	607
Loan Administration Unit	53	81
Commercial Activities	200	279
Mortgage Express	117	130
Loan capital and other	(473)	(639)
Group	1,740	1,569

The Group operates predominantly in Great Britain.

Note 31
Reconciliation of profit before taxation to net cash flow from operating activities

	1993 £m	1992 £m
Profit before taxation	301	5
(Profit)/loss on sale or termination of activities	(5)	37
Decrease/(increase) in interest receivable and prepaid expenses	244	(48)
Decrease in interest payable and accrued expenses	(187)	(57)
(Decrease)/increase in provisions for bad and doubtful debts	(63)	428
Depreciation	90	96
Increase in value of life assurance and pension businesses	(102)	(123)
Exchange and other movements	5	(32)
Net cash flow from trading activities	283	306
Cash effect of movement in:		
Advances to customers	(557)	270
Current and deposit accounts	(1,600)	2,009
Other creditors	(88)	258
Investments	(136)	(15)
Cash and short-term funds	(36)	110
Short-term marketable securities	(190)	(55)
Notice and fixed loans	683	(992)
Items in course of collection	(21)	(3)
Other receivables	(91)	(77)
Net cash flow from operating activities	(1,753)	1,811

Note 32
Impact of the sale of subsidiaries and businesses

	1993 £m	1992 £m
Net assets of subsidiaries and businesses sold in the year:		
Advances to customers (net of provisions)	304	218
Cash and short-term funds	37	43
Notice and fixed loans	23	26
Current and deposit accounts	(83)	(271)
Other net assets	(196)	44
Net assets sold	85	60
Profit/(loss) on sale before taxation	5	(20)
Goodwill written back from reserves (note 8)	84	26
Total cash consideration (net of expenses)	174	66
Cash and cash equivalents sold	(37)	(43)
	137	23

Note 33
Analysis of changes in financing in the year

	Share capital (including premium) 1993 £m	Share capital (including premium) 1992 £m	Loan capital 1993 £m	Loan capital 1992 £m
At beginning of year	405	397	701	694
Cash flow from financing	5	8	-	(5)
Currency adjustments	-	-	7	12
Balance at 31 October	410	405	708	701

Note 34
Analysis of changes in cash and cash equivalents

The movement in the year is as follows

	1993 £m	1992 £m
At beginning of year	4,235	2,634
At 31 October	2,435	4,235
(Decrease)/increase in cash and cash equivalents	(1,800)	1,601

Cash and cash equivalents at 31 October comprise:

	1993 £m	1992 £m
Cash and short-term funds	1,592	2,298
Marketable securities held short-term	55	252
Notice and fixed loans	788	1,685
At 31 October	2,435	4,235

The Group is required to maintain balances with the Bank of England which, at 31 October 1993, amounted to £65m (1992 £65m).

Note 35
Contingent liabilities, including financial instruments

The Group's banking subsidiaries, in common with other banks, conduct business involving acceptances, guarantees, performance bonds and indemnities. In addition, there are interest rate and currency swaps, financial futures contracts, forward contracts for the purchase and sale of foreign currencies, option contracts and facilities provided to customers. These items are not reflected in the consolidated balance sheet.

Under internationally accepted banking supervisory practice for the calculation of risk associated with off-balance sheet items, the contract or underlying principal amounts are converted to credit risk equivalents by applying specified credit conversion factors or, in the case of interest and exchange rate related contracts, by marking to market value. The amounts detailed below are risk weighted according to the nature of the counterparty and comprise:

	Contract or underlying principal amount		Risk weighted amount	
	1993 £m	1992 £m	1993 £m	1992 £m
Guarantees, acceptances and endorsements	286	518	172	383
Other contingent liabilities	91	32	93	28
Performance bonds and other transaction-related contingencies	34	36	18	17
Assets sold with recourse	-	20	-	20
Documentary credits and other short-term trade-related contingencies	55	70	6	15
Forward asset purchases and forward deposits placed	261	338	52	67
Note issuance and revolving underwriting facilities	144	201	72	93
Formal standby facilities, credit lines and other commitments to lend:				
less than one year maturity	6,524	5,524	1	1
one year or over maturity	595	532	189	148
Exchange rate related instruments	2,326	6,813	54	112
Interest rate related instruments	34,358	67,070	151	243
Total risk weighted amount			808	1,127

The majority of these facilities are offset by corresponding obligations of third parties.

The Securities and Investments Board ("SIB") is currently carrying out an industry-wide investigation into the conduct of business where pensions have been transferred between schemes. In the light of the uncertainty in this area, provisions in respect of possible compensation to customers have been made which are considered prudent. However, pending the outcome of the SIB review, the liability, if any, cannot be established with certainty.

The Company has guaranteed the loan capital of certain subsidiaries as indicated in notes 23 and 24 It has also guaranteed lending by subsidiaries of £34m (1992 £34m) and certain obligations of subsidiaries.

FIVE YEAR FINANCIAL SUMMARY

Year ended 31 October

	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
Source of Operating Profit					
TSB Retail Banking and Insurance					
TSB Retail Banking	260	291	293	245	152
TSB Insurance	194	129	117	91	65
	454	420	410	336	217
Hill Samuel					
Hill Samuel Bank	58	56	(422)	(40)	(9)
Hill Samuel Investment Management and Financial Services	38	27	13	23	18
	96	83	(409)	(17)	9
Loan Administration Unit	(142)	(379)	note (b)		
Commercial Activities	42	44	34	39	49
Mortgage Express	1	(67)	(24)	(5)	11
Central costs, including interest	(85)	(61)	(58)	(41)	(6)
Operating profit/(loss)	366	40	(47)	312	280
Analysis of Profit					
Net interest income	1,025	975	1,043	1,023	912
Other operating income	974	950	877	803	714
Total income	1,999	1,925	1,920	1,826	1,626
Staff costs	643	657	708	681	655
Premises and equipment costs (note (e))	216	222	201	190	165
Other operating costs	431	409	404	382	358
Total costs	1,290	1,288	1,313	1,253	1,178
Profit before provisions	709	637	607	573	448
Charge for bad and doubtful debts	343	597	654	261	168
Operating profit/(loss)	366	40	(47)	312	280
Exceptional items (note (c))	(70)	2	–	–	(125)
Profit/(loss) before businesses sold	296	42	(47)	312	155
Profit/(loss) on businesses sold (note (d))	5	(37)	50	(286)	–
Profit before taxation	301	5	3	26	155

Notes

(a) The above figures have been restated in accordance with FRS 3
(b) The Loan Administration Unit, a division of TSB Bank, comprises the non-performing and other doubtful debts transferred from Hill Samuel Bank. It was created in 1992 and consequently prior year figures are not available
(c) Exceptional items comprise: 1993 & 1992 – See note 7 on page 20. 1989 – Reorganisation costs relating to the restructuring of branch banking activities and the relocation of the head office
(d) Profit/(loss) on sale or termination of activities includes goodwill previously written off, on acquisition, directly to reserves
(e) The figures for 1991 and earlier years do not reflect the revised policy for accounting for vacant leasehold property as it is not practical to restate those years

FIVE YEAR FINANCIAL SUMMARY

As at 31 October

	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
Balance Sheet Extracts					
Total assets	**31,417**	32,182	29,934	30,799	29,248
Average assets	**31,800**	31,058	30,367	30,024	27,400
Value of long-term life assurance and pension businesses	**460**	409	345	310	292
Advances to customers:					
Mortgages	**8,614**	7,629	7,424	7,053	5,658
Other personal	**3,539**	3,566	3,457	3,165	2,874
Corporate/commercial	**4,676**	5,157	5,695	5,929	4,913
Leased assets	**942**	1,365	1,623	1,531	1,201
Total advances	**17,771**	17,717	18,199	17,678	14,646
Provisions for bad and doubtful debts	**(1,352)**	(1,416)	(1,009)	(472)	(245)
Net advances	**16,419**	16,301	17,190	17,206	14,401
Current and deposit accounts					
Cheque	**4,436**	4,168	4,116	3,770	3,394
Retail deposits	**8,466**	8,151	7,127	7,410	6,948
Commercial/wholesale	**8,536**	11,084	10,484	11,867	11,167
Total current and deposit accounts	**21,438**	23,403	21,727	23,047	[illegible]09
Shareholders' funds (note (f))	**1,740**	1,569	1,674	1,814	1,853
Other Information					
Cost income ratio (%)	**64.5**	66.9	68.4	68.6	72.4
Risk asset ratio (%) (note (a))	**13.2**	11.8	12.2	11.1	12.4
Other operating income total income (%)	**48.7**	49.4	45.7	44.0	43.9
Average TSB base rate (%)	**6.3**	10.1	12.3	14.9	13.4
Interest spread (note (b)) (%)	**3.6**	3.3	3.6	note (d)	
Interest margin (note (c)) (%)	**4.3**	4.2	4.5		
Earnings/(loss) per share (pence) (note (e))	**12.7**	(1.7)	0.1	(5.3)	6.6
Earnings/(loss) per share adjusted (pence) (note (e))	**15.6**	0.4	(3.5)	13.4	12.2
Net dividend per share (pence)	**7.68**	6.[illegible]	6.4	6.4	5.8
Share price at 31 October (pence)	**227.0**	135.5	33.[illegible]	130.0	104.0
Average staff numbers	**32,375**	36,878	40,237	41,618	42,897

Notes

(a) The risk asset ratios have been calculated in accordance with Bank of England requirements

(b) Interest spread is the difference between the interest rate earned on average interest earning assets and the interest rate paid on average interest bearing liabilities

(c) Interest margin is net interest income as a percentage of average interest earning assets

(d) Figures are not available for 1990 and 1989

(e) Earnings/(loss) per share are calculated on the basis of FRS3, whilst the adjusted basis excludes profits/losses on the sale or termination of activities and exceptional items

(f) The figures for 1990 and 1989 do not reflect the revised policy for accounting for vacant leasehold property as it is not practical to restate those years

DIRECTORS' INTERESTS IN SHARES

Beneficial interests of directors and their immediate families in ordinary shares of 25p each in the Company are shown below:

	At 31 October 1993			At 1 November 1992 (or date of appointment if [illegible]		
	Shares	Shares under option	Option prices per share	Shares	Shares under option	Option prices per share
G A Anderson	2,000	–		2,000	–	
H-D Bösel	1,000	–		–	–	
L Bolton	5,390	–		5,390	–	
J A Burns	6,483	518,639	123.5p–162.5p	3,660	425,101	123.5p
A C Butler	–	–		–	–	
J K Elbourne	4,468	528,022	123.5p–162.5p	–	415,401	123.5p–137.5p
P B Ellwood	9,000	748,097	105.0p–162.5p	9,000	590,251	105.0p–146.5p
M H Field	9,600	–		9,600	–	
H R Freedberg	10,747	605,210	105.0p–162.5p	7,890	495,672	105.0p–146.5p
Sir Nicholas Goodison	30,525	812,134	103.0p–162.5p	30,525	693,058	103.0p–146.5p
P A Harwood	2,090	–		2,090	–	
J H F Macpherson	16,000	–		16,000	–	
P G McCracken	1,000	–		1,000	–	
Sir David Plastow	10,000	–		10,000	–	
Lady Prior	2,500	–		2,500	–	

Mr M E Fairey was appointed a director on 20 December 1993. On that date, he and his immediate family held beneficial interests in 1,857 shares and in options to purchase 90,885 shares at prices ranging from 123.5p to 162.5p per share.

Directors' Interests in Shares

The following shares were purchased on the market by directors during the year:

	Shares acquired	Price per share
H-D Bösel	1,000	171.0p
J K Elbourne	1,611	184.0p

Shares appropriated and issued to directors during the year under the terms of the Company's profit sharing scheme, which is available to all eligible employees, are shown below:

	Shares acquired	Price per share
J A Burns	2,823	175.0p
J K Elbourne	2,857	175.0p
M E Fairey	1,857	175.0p
H R Freedberg	2,857	175.0p

Options to purchase shares are granted under the terms of the Company's executive share option and sharesave schemes and are exercisable up to 2003. The sharesave scheme is a savings related share option scheme which is available to all eligible employees. Options were granted to directors during the year as shown below:

	Type of scheme	Shares over which options granted	Option price per share
J A Burns	Executive	93,538	162.5p
J K Elbourne	Executive	98,461	162.5p
J K Elbourne	Sharesave	14,160	128.0p
P B Ellwood	Executive	157,846	162.5p
M E Fairey	Executive	49,999	162.5p
M E Fairey	Sharesave	5,664	128.0p
H R Freedberg	Executive	109,538	162.5p
Sir Nicholas Goodison	Executive	119,076	162.5p

No director exercised any options during the year.

Sir Nicholas Goodison also held non-beneficial interests in 12,050 shares at 1 November 1992 and 31 October 1993.

Except as disclosed above, no director held any interests in shares or debentures of the Company or any of its subsidiaries at 1 November 1992 and 31 October 1993. There have been no changes in the directors' interests in shares between 31 October 1993 and 12 January 1994.

ANALYSIS OF SHAREHOLDERS

Size of holdings of ordinary shares	Number of holdings	Percentage of total holdings	Percentage of total shares
1 - 200	48,221	4.26	0.27
201 - 400	385,648	34.09	[illegible]
401 - 600	509,686	45.06	[illegible]
601 - 1,000	125,308	11.08	[illegible]
1,001 - 5,000	57,386	5.07	6.15
5,001 - 10,000	2,918	0.26	1.30
10,001 - 50,000	1,073	0.09	1.47
50,001 - 100,000	221	0.02	1.10
100,001 - 500,000	397	0.04	6.51
500,001 and over	282	0.03	53.46
	1,131,140	100.00	100.00

Classification of shareholders

Ordinary shares	Number of holdings	Percentage of total holdings	Percentage of total shares
Individuals	1,009,442	89.24	33.78
Joint accounts (individuals)	114,332	10.11	3.88
Nominee companies	4,050	0.36	46.20
Banks	49	0.00	0.01
Insurance companies	117	0.01	3.43
Pension funds	96	0.01	2.12
Other corporate bodies	3,045	0.27	5.30
TSB Group Holdings (Jersey) Limited and the TSB Group employee trust (a)	3	0.00	4.74
Trustees of the TSB Group staff share schemes (b)	6	0.00	0.54
	1,131,140	100.00	100.00

Limited voting ordinary shares	Number of holdings	Percentage of total shares
TSB Foundation for England and Wales	1	72.12
TSB Foundation for Scotland	1	19.46
TSB Foundation for Northern Ireland	1	5.35
TSB Foundation for the Channel Islands	1	3.07
	4	100.00

(a) The shares held by TSB Group Holdings (Jersey) Limited and the trustees of the TSB Group employee trust are available for use in respect of employee share and share option schemes.

(b) 8,124,134 shares were held by trustees on behalf of 7,811 employees in the United Kingdom, the Channel Islands and the Republic of Ireland under TSB Group staff share schemes.