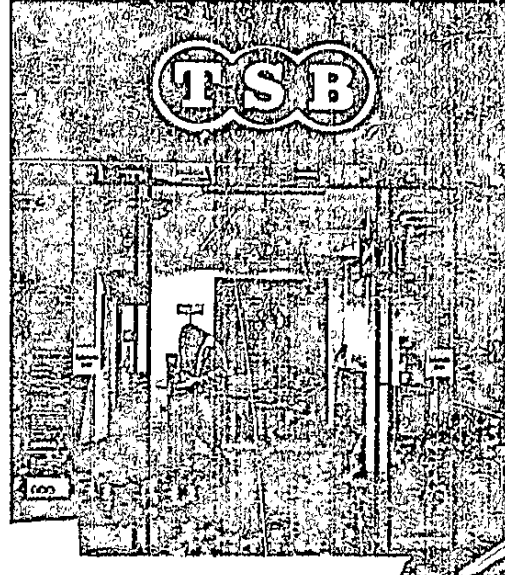
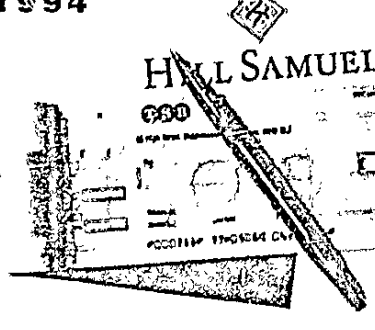


TSE Group plc

45000



**Annual Report and
Accounts 1994**



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Financial Calendar 1995

2 March
Record date for final
dividend for the year
ended 31 October 1994

23 March
Annual general meeting

3 April
Final dividend payable

Late June
Half-year results to
30 April 1995
announced

October
Interim dividend for
the year to 31 October
1995 payable

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Financial Highlights

Profit before tax

£504 million (1993: £301 million)
Up £203 million

Dividends for the year

9.024p per share
(1993: 7.68p per share)
Up 17.5%

Shareholders' funds

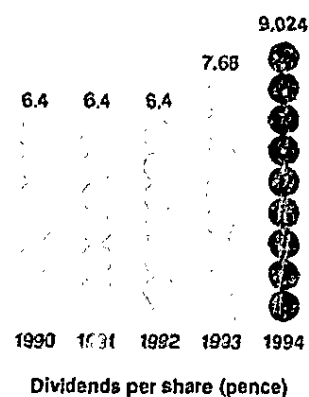
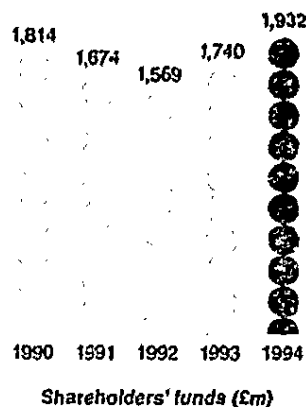
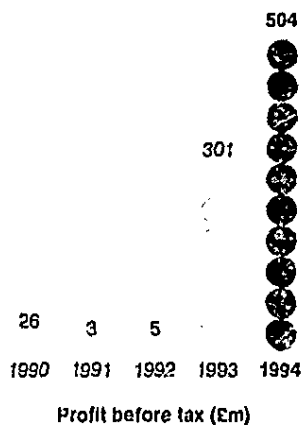
£1,932 million (1993: £1,740 million)
Up £192 million

Capital ratio

13.5% (1993: 13.2%)
One of the strongest in the UK
banking sector

Earnings per share

21.5p (1993: 12.7p)
Up 8.8p



TSB Group is led by strong and effective management. Our capital base is strong. We have a clear strategy. We will grow our prime TSB banking and insurance business. We will develop our Hill Samuel merchant banking and asset management businesses and build our finance subsidiary UDT.

We have finished the programme of sales of subsidiary companies.

Throughout the Group we are committed to the training and development of our people. We aim to provide our customers with a quality of service second to none and will thereby create value for our shareholders.

We are confident that our innate strengths and our large family of customers will carry us forward in a very competitive industry.

Chairman's Statement



Sir Nicholas Goodison, Chairman

The profit before tax for the year ended 31 October 1994 was £504m, which we can all be very pleased about. It is a record for TSB Group and reflects the successful implementation of our strategy, which I summarise later in this statement.

The profit before bad debt provision, and excluding businesses sold, was £703m, compared with £693m last year. The charge for bad and doubtful debts fell from £335m to £173m, derived mostly from the work of the Loan Administration Unit and Mortgage Express.

The directors recommend a final dividend of 5.48p net per ordinary share, making a total of 9.024p for the year, an increase of 17.5%.

It is our policy to provide shareholders with a dividend increase above the rate of inflation, provided that trading experience and prospects justify it. After adjusting for inflation, this year's payment represents a real increase of 15%. In deciding the level of dividend each year, we regard the maintainability of the dividend in future as of paramount importance. Adequacy of cover therefore is a prime consideration. In addition, the Board takes into account the Group's continuing financial strength, its future prospects and the need to continue to invest in the business, provided that we can foresee satisfactory returns.



The total capital ratio is 13.5%, which remains one of the strongest in the United Kingdom banking sector.

Shareholders' funds have again increased, this year by £192m to £1,932m.

Business Progress

The maintenance of total Group Income at £1.9bn is a good performance during a year of continuing intense competition which was reflected in a narrowing of profit margins on a number of our products. Operating costs were held down to practically the same figure as last year, reflecting tight control and a constant search for greater efficiency.

The fall in provisions for bad and doubtful debts reflects the successful work of the Loan Administration Unit and Mortgage Express. Since 1992 when the Loan Administration Unit was formed, the management of the outstanding debt has greatly contributed to the higher quality of the assets in today's balance sheet. The Group is well provided against any future losses.

The intensity of competition poses a problem for retail banks in the United Kingdom. Where can they achieve growth for their shareholders in a mature economy, especially when there are too many banks and building societies competing for the same business? Against this background the products sold by different providers tend to look very similar and profit margins tend to get slimmer. TSB Group's prime business is retail banking and insurance. Our answer to the increasingly competitive retail market is to enlarge the number of services and products we provide to each of our 7.5 million customers by offering them value for money, with the greatest possible efficiency and quality of service.

It is often rumoured in the media that we are actively seeking to acquire a building society in order to improve long-term profitability. I would like to say two things about this. First, it is our prime aim to achieve growth in our existing business, building on its considerable strengths. Second, we would look seriously at an opportunity to make a suitable acquisition, but recent regulatory changes enable building societies to enjoy greater freedom to develop on their own and they are more likely to wish to remain independent.

The other businesses within the Group, notably Hill Samuel Bank, Hill Samuel Asset Management and UDT, are each capable of producing a growing stream of income. They are of increasing importance to the Group and we are determined to develop them.

We have finished the programme of sales of subsidiary companies.

TSB

There were some significant changes in the mix of TSB's bancassurance business from which shareholders can take heart. Last year, I mentioned that we had made notable progress in solving the historical imbalance in TSB's profits. In 1989 customers' low interest deposits (a traditional feature of TSB's banking business) amounted to £5.7bn and contributed most of the profit. This was not a reliable stream of revenue on which to build the future of the company. It has been one of our main aims to correct this situation and thus improve the quality of TSB's income. Last year I reported that, by offering customers products which gave value for money, we had managed the low interest deposits down to £1.6bn. This year these low interest deposits, which made TSB so vulnerable, have been further reduced to under £1bn. This has entailed a further drop in income which has been broadly matched by increased business from other services, notably mortgages and savings products.

Our new range of life, savings and pension products was launched just after the close of the financial year. We welcome the move towards greater disclosure of information to customers and are confident that this range of products, along with our general insurance services which made excellent progress this year, will provide customers with what they need.

TSB commercial banking, which provides services to small and medium sized businesses and professional partnerships, is improving its profitability and is capable of producing a growing income.

Hill Samuel and UDT

Hill Samuel Bank has continued to benefit from focusing on its core merchant banking activities. The reorganised business with its lower capital has produced increased profits. The policy of developing profitable relationships with customers through

providing them with merchant banking skills of the highest quality is paying off. Hill Samuel is now in a strong position to develop its businesses particularly in asset finance, project finance, corporate finance, treasury and specialist areas of corporate banking.

Hill Samuel's asset management businesses made a good contribution. Funds under management, which include the unit trust funds subscribed by TSB customers, are now £25bn.

UDT increased its profits by 59%, by building on its position as a leading provider of personal and corporate finance to the motor industry. It has benefited from the improving demand for motor vehicles and strict control over credit quality.

Directors

At the forthcoming annual general meeting Lyndon Bolton and Jane Prior leave the Board. Since the last annual general meeting Guy McCracken has left the Board. I thank them warmly for their service to TSB Group.

Sheila Forbes, John Gildersleeve and Paddy Linaker have been appointed directors since the last annual general meeting. I welcome them on your behalf. All stand for election at the annual general meeting.

Company Secretary

I am sad to report the death of Peter Rowland, the Company Secretary, in February 1994. He was a very fine Company Secretary, a post which he had filled since before the flotation. We all owe him a great debt for his unstinting service.

Community

On pages 16 and 17 you will find an account of TSB's work within the community, both through the TSB charitable foundations and through the efforts of our people, especially in the field of education. We are proud of our long tradition of voluntary effort within communities across the country and are particularly pleased with the way in which our scheme for matched giving, whereby the TSB charitable foundations match money raised for charities by members of the staff, is growing.

Prospects

I do not recall a time when the economic prospects of the United Kingdom were more promising. I have said before that the control of inflation is the prime need in this country. Inflation destroys value and makes it very difficult to invest in new factories, plant and services with any confidence. The Government has taken a tough stance on inflation and there are strong signs that the policy is working. If the Government can persist with this stance and can maintain tight control on its own expenditure, we should see investment by industry and commerce increase and an improvement in the United Kingdom's trading performance.

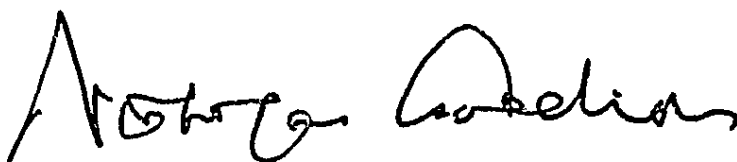
The improved economic outlook does not alter the fact that TSB is operating in a rapidly changing and overcrowded industry.

TSB Group is led by strong and effective management. Our capital base is strong. We have a clear strategy. We will grow our prime TSB banking and insurance business. We will develop our Hill Samuel merchant banking and asset management businesses and build our finance subsidiary UDT.

Throughout the Group we are committed to the training and development of our people. We aim to provide our customers with a quality of service second to none and will thereby create value for our shareholders.

We are confident that our innate strengths and our large family of customers will carry us forward in a very competitive industry.

I conclude by thanking management and staff throughout the Group for their hard work and dedication during what has been a successful period of radical and constructive change.



11 January 1995

YES

...to more convenient banking service

TSB customers have access to over 11,000 automated cash machines and with TSB PhoneBank can pay bills, check balances, set up or cancel standing orders and arrange personal loans and mortgage quotations with one simple phone call.

...to mortgage services

Last year TSB processed nearly 55,000 new mortgage applications and now has balances outstanding of some £7.2bn.

...to insurance services

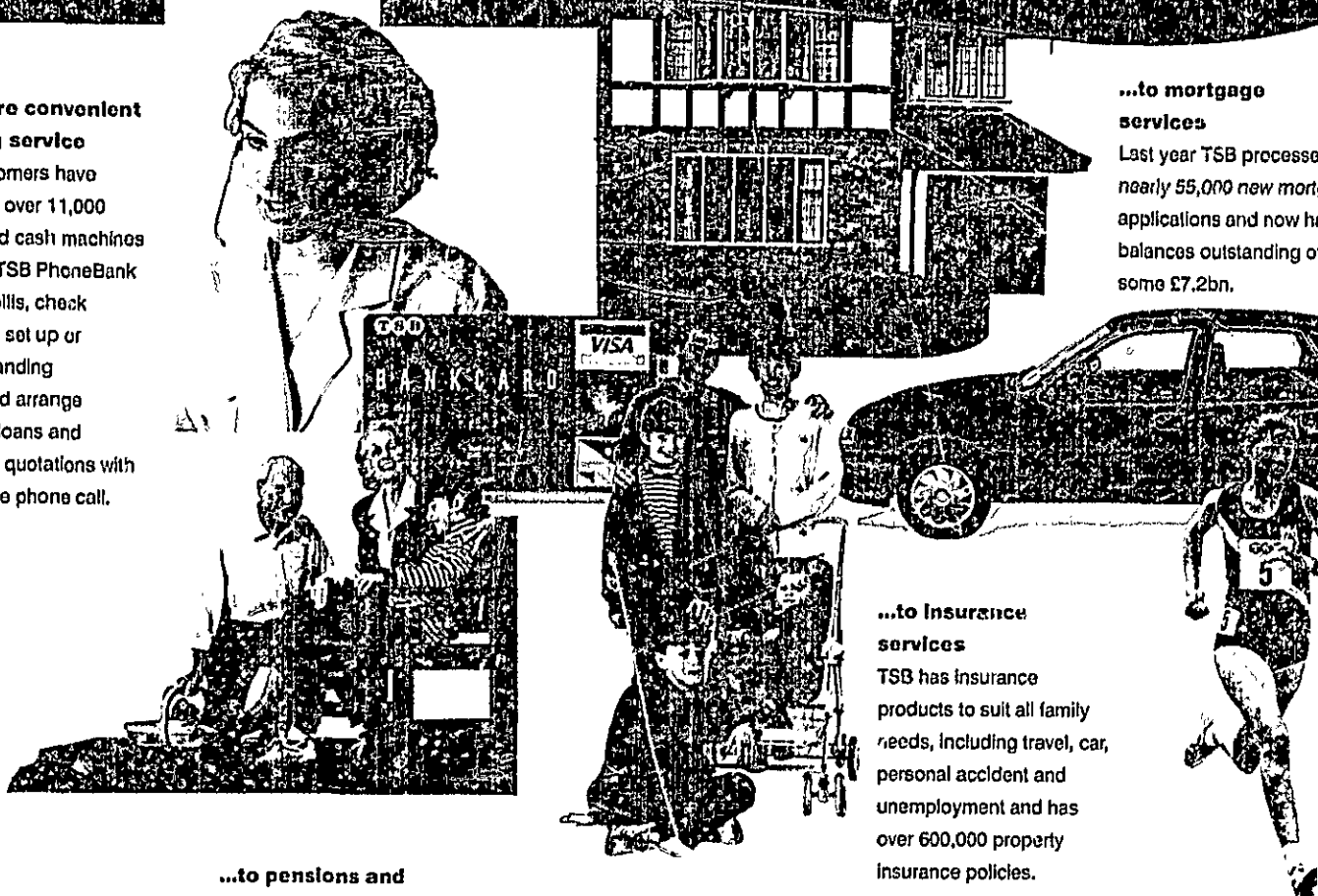
TSB has insurance products to suit all family needs, including travel, car, personal accident and unemployment and has over 600,000 property insurance policies.

...to pensions and investments

Sales of unit trusts increased by 19% to £543m in the year. With a wide range of investment and pension products available TSB can help its customers invest for their future.

...to sponsoring British athletics

From primary school sports days to international events TSB encourages young people to take up athletics and helps nurture the next generation of athletes.



Group Chief Executive's Review



Peter Ellwood, Group Chief Executive

1994 was a very successful year for TSB Group with our performance reflecting the quality of our strategy. It is a strategy which we are sticking to.

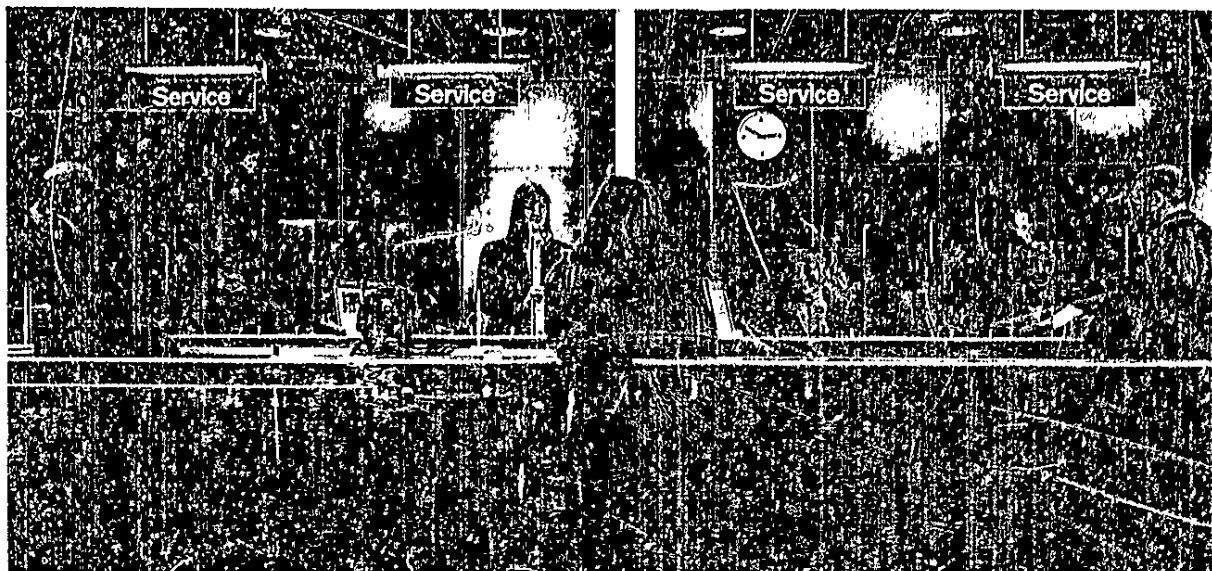
For the TSB branded businesses the strategy is to continue to build our lead in bancassurance, gaining an even greater share of the products and services that our 7.5 million customers buy from financial institutions. For Hill Samuel it means building on our traditional merchant banking and fund management expertise and generating good quality, sustainable, profit. At UDT it means capitalising on our established reputation as a major provider of motor vehicle finance. For Mortgage Express it means making good returns from a business which has £2bn of lending. In the Loan Administration Unit, set up in 1992 to deal with doubtful debts, we will continue to drive down the historic bad debt portfolio and eliminate the adverse impact on profit that we have seen in the past.

TSB

A small decline in pre-tax profit from £454m to £438m masks a significant improvement in the sustainable quality of this profit stream. Since 1989 our record of growing income, containing costs and increasing profit has been impressive. Over the five year period income has grown 40% to £1.5bn while costs have risen at a rate well below inflation and pre-tax profit has increased by 110%.



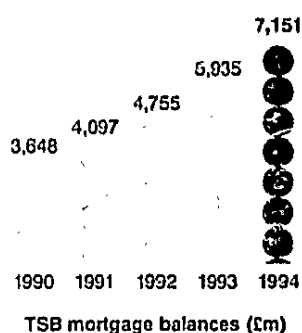
The continued success of this business depends upon building long term, trusting relationships with our growing number of customers. We are doing this by investing in three key areas across the business.



Almost 300 branches have been refurbished in the past five years.

First, we have put in place an excellent range of value for money products. Second, we are investing in improving service levels in branches, through telephone banking and cash machines. Third, we continue to improve the efficiency of our operations, removing unnecessary cost wherever we find it.

As a result, the number of our customers continues to increase — by a net figure of well over 300,000 last year. Our higher interest savings accounts gained almost £1bn in new balances and we were the UK's second largest credit card issuer, while in mortgage lending, we processed over 55,000 applications and grew at over four times the market rate.



Mortgages remain a core product for us, leading to the chance to offer customers a range of other value for money products. With a competitive variable mortgage rate and an excellent range of fixed rate offers we captured over 3% of new UK mortgage business in the year and TSB mortgage balances expanded by 20% to over £7bn without any relaxation of our lending criteria.

There is still plenty of scope to increase our market share with products that are competently sold. The importance of well trained staff in achieving this objective cannot be overstated. Here again we have made progress during the year to ensure that staff are better trained than ever before.

The marketing of our cheque accounts continued to concentrate on young people and we gained a 24% share of 16-20 year olds in the youth market, opening over 100,000 new accounts.

During the year we set up at Newport, Gwent, the first centre for our 24-hour-a-day, 365-days-a-year telephone banking operation, TSB PhoneBank. The development of TSB PhoneBank is a vitally important part of our strategy to provide excellent service to our customers, providing greater freedom of choice as to how, where and when they do business with us.

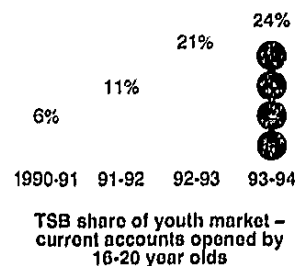
We have already announced that a second centre will be opened in Glasgow in 1995 and we are very pleased with the rapid rate of customer registrations we have seen so far. Later in 1995 TSB PhoneBank will be offered to non-TSB customers.

While TSB customers also have access to some 11,000 automated teller machines, many customers still prefer to do business over a branch counter. As a result we continue to invest, where appropriate, in the branch network combining this with a careful, focused, branch closure programme. Consequently, last year we spent £30m on the branch network in addition to the £168m invested in the previous five years and we closed 93 branches.

Personal loan balances increased by 8% to £1.2bn, representing a growth rate significantly better than the market. This has been achieved through good marketing campaigns and our sophisticated customer information database, which enables us to offer guaranteed loans to appropriate customers. This is another area where our investment in technology is paying off and generating good quality new business.

Banking represents only part of our bancassurance activities and our insurance products continue to be of great importance.

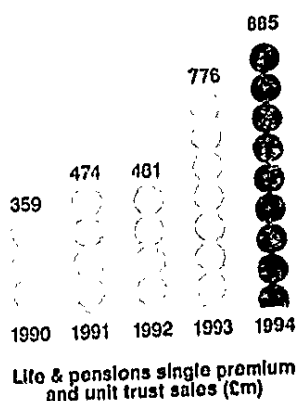
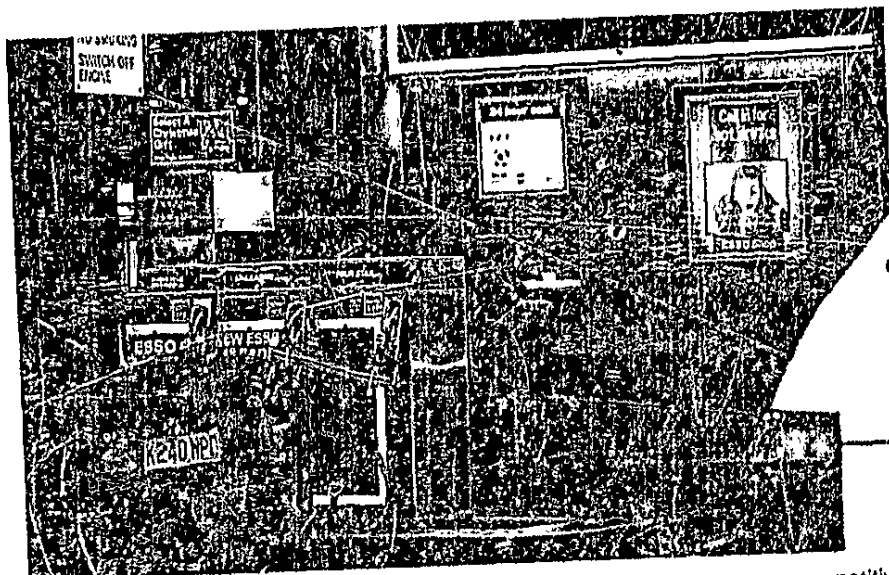
Although profit from life, pensions and unit trust activities was flat at £126m, sales of unit trusts and guaranteed stock market bonds increased substantially. Progress here outweighed the impact of lower levels of new business for pensions, where we saw a fall in volumes following the industry-wide Securities and Investments Board investigation into pension transfers and opt-outs.



Uniforms for branch staff were introduced during 1994.



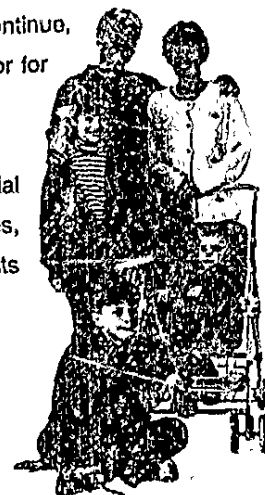
An increasing number of cash machines are being situated in sites convenient for TSB customers.



The market for savings and investment products will become even more competitive as a result of the new disclosure rules introduced on 1 January. But we have moved fast to reposition ourselves for the impact of these changes. On 1 November 1994, two months ahead of the deadline, we introduced a new range of insurance and investment products incorporating the new disclosure requirements. The new range separates life insurance products from savings products and puts TSB at the forefront of the market in terms of value for money.

Our general insurance business continued to expand with increases in premium income and the number of policies sold. The overall claims ratio fell to 37% from 45% in 1993, helped by the mild weather and the improving economic situation. Although we should not necessarily expect the low level of claims to continue, our general insurance activities have become a major revenue generator for the Group.

Alongside our traditional personal customer base, TSB commercial banking provides services to small and medium-sized businesses, professional partnerships and schools. This business has completed its reorganisation, improved its performance and promises well.



Hill Samuel

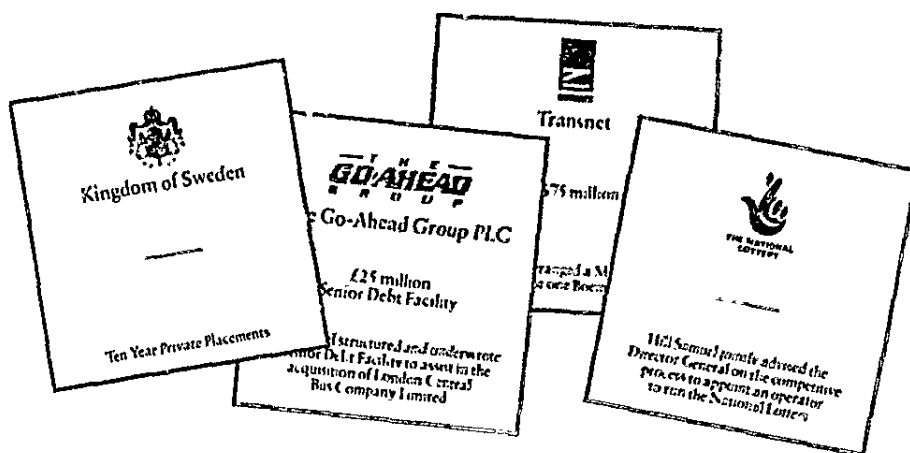
Total profit from the Hill Samuel businesses was £85m, of which £64m is attributable to Hill Samuel Bank. Having completed its restructuring in 1993 the bank is benefiting from its strategy of focusing on its core merchant banking activities. Together with a tightly managed cost base, this has enabled it to achieve a good level of profitability despite difficult market conditions.



Hill Samuel Bank has been winning prestigious mandates against strong competition both in the UK and internationally. In 1994 it continued its work for numerous governments as well as public and private sector clients around the world. In the past year it has developed further its international capabilities, including opening an office in the newly democratic South Africa and expanding its presence in Hong Kong and Tokyo.

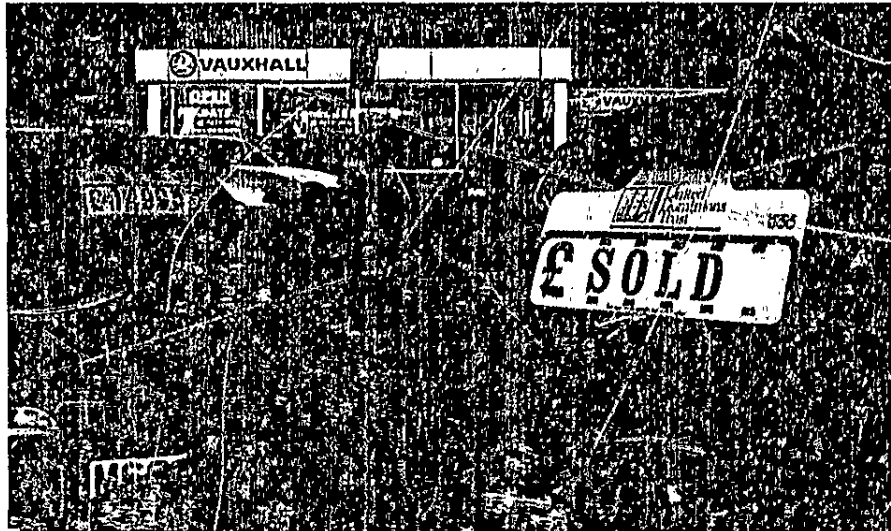
Hill Samuel Asset Management has performed well, despite difficult trading conditions. In its UK operations, both funds under management and underlying profit increased. Total funds under management fell by £1.4bn to £25.1bn year on year partly due to the sale of the Irish fund management business and partly due to the weaker US dollar, and weaker equity and bond markets world-wide.

Profits from the Hill Samuel Insurance businesses declined from £22m to £11m reflecting the decision to cease taking new business in the life and pensions operations of Hill Samuel Financial Services. This business is soundly capitalised and is continuing to provide a full service to existing customers.



A number of prestigious mandates have been won in the U.K and internationally.

In 1994 UDT provided finance for the purchase of over 150,000 cars.



UDT

This business has had another very successful year with a 59% increase in profit, to £54m. UDT is one of the UK's leading providers of retail and commercial vehicle finance and has benefited from its focus on this market. We aim to develop and promote UDT further in the coming year.

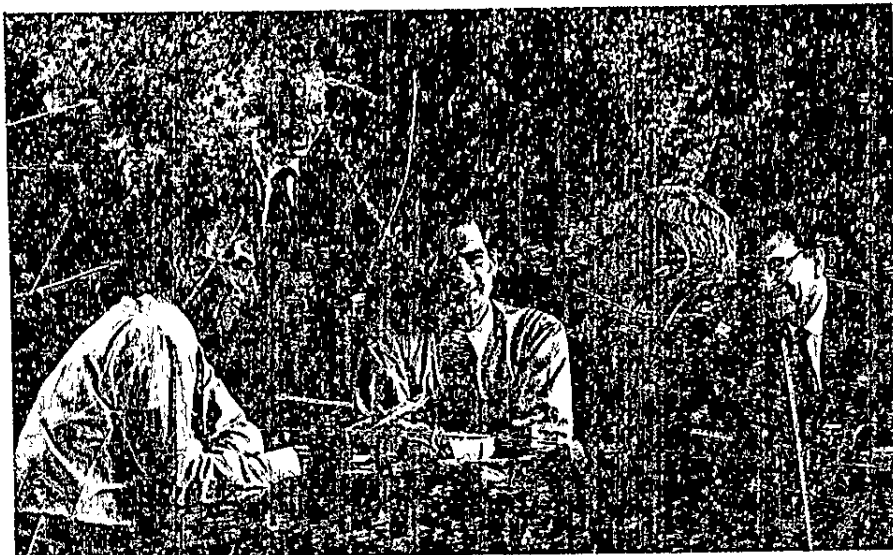
Mortgage Express

At Mortgage Express a profit of £38m reflects a bad debt charge some 42% lower and our continued success in establishing customer debt repayment programmes. We now have 78% of arrears customers making payments towards their loans.

Loan Administration Unit

The profit of £4m follows a loss of £142m in 1993. This massive improvement confirms the benefit of our ring-fenced approach to non performing debt. The charge for bad debts was only £2m compared to £105m last year. Among other things this reflects the continued success we have had disposing of properties and arranging corporate debt recoveries during the year.

The net book value of the Loan Administration Unit is now down to only £366m from £975m in 1992, when it was established. The substantial drain on the resources of the Group which these loans represented in the past is now firmly behind us.



From left to right

John Elbourne
Retail Director and
Deputy Group Chief
Executive

John Burns
Group Finance Director

Hugh Freedberg
Chief Executive
Hill Samuel and
Deputy Group Chief
Executive

Peter Ellwood
Group Chief Executive

Mike Falrey
Group Credit and
Operations Director

Group Executive Committee

Looking Ahead

The record Group profit of over £500m represents a post-tax return on shareholders' equity of 17%.

We are gaining market share. Asset quality has improved dramatically. We are controlling costs. Staff numbers are down by over 9,000 since 1989, including a fall of 1,500 last year.

The Hill Samuel businesses and UDT are developing well. At TSB we are reshaping the branch network and investing to improve customer service.

We remain in the lead in bancassurance and now have a truly integrated sales force and an excellent range of value for money products. We go forward without complacency but with pride and determination.

11 January 1995

TSB Group in the Community



New paths at the Highfield Centre, Cardiff, provide better access for wheelchair users who grow plants for sale.

TSB Group has a long tradition of investing in the community. The Group recognises that it has four stakeholders: shareholders, customers, staff and the community. The Group's principal methods of supporting the community are by donating 1% of its profits to charity, through four charitable foundations, and by supporting a variety of education and training initiatives.



Toys donated to a charity working for children with special needs is one way the TSB Foundation's fulfill their commitment to social and community needs.



as to industry and commerce generally.

The TSB Foundations support charities which provide education and training for young and old. Here, newly acquired skills for poster production enable a new graphics company to get started.

The TSB Foundations undertake almost all of the charitable giving on behalf of the Group. This year the Foundations' trustees have identified as priorities employment training, young people, rural areas, crime prevention, homelessness and the needs of carers.

Since 1986 the four independent Foundations, in England and Wales, Scotland, Northern Ireland and the Channel Islands, have distributed £15.7m to 6,000 charities. Almost £3m will be given by the Group to the Foundations in 1995.

TSB Group staff can also participate in a Matched Giving scheme. Any sum, up to a maximum of £250, raised for charities which meet the TSB Foundations' criteria, is matched pound for pound. To date more than £191,130 has been raised by 500 staff, with £97,441 given in matched funding by the Foundations.

TSB Group has encouraged its staff to become school governors, as part of their involvement with the community. We have given them and other governors further support during the year. This has included sponsorship of eight one-day seminars about special needs education. Three of these seminars are to be held in February and March 1995, in Birmingham, Manchester and Bristol.

Another initiative, the Business Challenge Programme, won the 1994 Employee Development Award which is organised by 'Action: Employees in the Community'.

Business Challenge is aimed at TSB's middle managers, who are seen to have potential for a bigger rôle in the Group. The programme spans six months with each manager being placed for about 100 hours with a voluntary organisation. Short residential courses provide managers with the skills they need to consolidate their learning.

Most of the managers on the programme have specialist knowledge and one of the benefits of the programme is to provide them with the ability to manage a project from start to finish. In return they have provided the voluntary organisations with key professional skills and knowledge.



Nicholas Baker MP, Under Secretary of State at the Home Office, presents the award to TSB for Business Challenge.

How we run the Company

The **Board of Directors** is responsible to the shareholders for the conduct of the business. The members of the board are listed on pages 20 and 21. The board's main rôles are deciding the strategy of the business, approving plans and budgets, and monitoring the performance of the Group and its management. It also ensures that all the necessary checks and controls are in place so that the Group does not take undue risk and conforms to the highest business and ethical standards. It makes decisions on major acquisitions and disposals and on the funding and the financial strategy of the Group. The board normally meets monthly and receives reports on the Group's financial and operating performance, together with regular reports on such matters as personnel policies, credit and risk policies and technology. The board recommends the final dividend to shareholders and presents the interim and annual reports to them. The board delegates certain authorities to the chairman and the group chief executive between meetings.

There are currently 17 directors – the chairman, 11 non-executive directors and 5 executive directors. The chairman is elected by the board. The deputy chairman, who is also elected by the board, is responsible for recommending any change of chairman to the board. The chairmen of TSB Bank Scotland and TSB Bank Channel Islands, whose appointments to the boards of those companies are approved by the board, serve on the board *ex officio* as non-executive directors. All directors stand for election by the shareholders at the annual general meeting following their appointment and at three-yearly intervals thereafter.

The rôles of the chairman and group chief executive are separate. The group chief executive is appointed by the board and is responsible for the operational conduct of the business within the authorities delegated to him and within the policy laid down by the board. Directly reporting to the group chief executive are the *members of the Group Executive Committee which he chairs*. Members of this committee are responsible to the group chief executive for the effective management of all of the Group's businesses.

All directors are recommended for appointment by a **Nomination Committee**, consisting of the chairman, deputy chairman and group chief executive. It is advised in its search for appropriate candidates as non-executive directors by external consultants. The **Nomination Committee** is also responsible for recommending whether a director should continue to serve.

The **Audit Committee's** principal function is to monitor the effectiveness of the financial controls exercised by the board and to examine the scope and adequacy of the internal and external audit functions. It reviews the half year and full year results before they are presented to the board and considers any matters raised by either the internal or external auditors. It also monitors the Group's compliance function through which the Group promotes good ethical practice and compliance with regulatory requirements throughout its businesses. The committee advises the board on the appointment of the external auditors and on their remuneration for audit and non audit work. The Audit Committee is composed of non-executive directors. The external auditors, the finance director and the heads of compliance and internal audit attend the meetings by invitation. The external and internal auditors, the compliance officer and head of group risk management report directly, if necessary, to the chairman of the committee.

The **Remuneration Committee** is responsible for establishing the remuneration and the terms and conditions of employment of the executive directors and certain senior employees. This committee is composed of non-executive directors and is chaired by the deputy chairman. It is advised by external consultants. The chairman, the group chief executive and the group human resources director attend by invitation but each would be absent when his own remuneration is discussed.

Non-executive directors' fees are recommended by the chairman, following consultation with the deputy chairman and the group chief executive, for approval by the board.

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.

Directors

Sir Nicholas Goodison, 60, joined the board in April 1988 and has been chairman since January 1989. He is also chairman of the Nomination Committee. He was chairman of the Stock Exchange from 1976 to 1988. He is deputy chairman of British Steel and a director of General Accident.

†# Sir David Plastow, 62, a non-executive director, joined the board as deputy chairman in May 1991 when he was chairman of Vickers and is chairman of the Remuneration Committee. He is chairman of Inchcape, and deputy chairman of Guinness and of BUPA.

* G A Anderson, 63, a non-executive director, joined the board in August 1993. He is chairman of TSB Bank Scotland and is chairman of the Audit Committee. He was deputy senior partner of chartered accountants, Ernst & Young, until his retirement in 1990 and was president of the Institute of Chartered Accountants of Scotland from 1986 to 1987.

* L Bolton, 57, a non-executive director, joined the board in October 1985. He is due to retire at the conclusion of the annual general meeting on 23 March 1995. He is managing director of Alliance Trust and Second Alliance Trust and a director of General Accident.

H D Bösel, 48, a non-executive director, joined the board in January 1993. Formerly a managing director and board member of Bayerische Vereinsbank AG, he is currently a managing partner of Sal. Oppenheim Jr & Cie in Germany.

J A Burns, 59, joined the board as finance director of the Group in February 1992. He was formerly a director of National Westminster Bank.

† A C Butler, 48, a non-executive director, joined the board in June 1993. He is an executive director of Unilever plc and Unilever NV.

J K Elbourne, 50, joined the Group in 1991 and the board in September 1992. He is retail director and a deputy chief executive of the Group. He is a governor of BUPA and a director of both the Association of British Insurers and LAUTRO. He was formerly group director (UK Operations) of Legal & General.

P B Ellwood, 51, joined the Group in 1989, the board in May 1990 and has been chief executive of the Group since August 1992. He is chairman of Visa EMEA and Visa International, and a director of Sears. He was formerly chief executive of Barclaycard.

M E Fahey, 46, joined the Group in 1991 and the board in December 1993. He is group credit and operations director. He was formerly managing director of Barclays Direct Lending Services.

* M H Field CBE, 64, a non-executive director, joined the board in October 1990. He was general manager and actuary of Phoenix Assurance from 1972 to 1985 and a director from 1980 to 1985. He was chairman of the Life Offices Association from 1983 to 1985 and president of the Institute of Actuaries from 1986 to 1988.

† S M Forbes, 48, a non-executive director, joined the board in September 1994. Formerly personnel director for Storehouse, she is currently director of human resources for Reed Elsevier.

H R Freedberg, 49, joined the board in October 1990. He is chief executive of Hill Samuel and a deputy chief executive of the Group. He was formerly chief executive officer of The Mortgage Corporation Group.

* J Gildersleeve, 50, a non-executive director, joined the board in September 1994. He was appointed to the board of Tesco in 1984 and has held a number of board appointments with that company, including personnel, research, marketing and purchasing.

* P A Harwood, 47, a non-executive director, joined the board in April 1991. He is chairman of TSB Bank Channel Islands and a partner of advocates, Ozanne Van Leuven Perrot & Evans.

† L E Linaker, 60, a non-executive director, joined the board in May 1994. He is chairman of Fisons having retired from his position as deputy chairman and group managing director of M & G Group in July 1994.

† Lady Prior, 64, a non-executive director, joined the board in October 1985. She is due to retire at the conclusion of the annual general meeting on 23 March 1995. She is a director of Tate & Lyle.

L H W March, Secretary

* member of the Audit Committee

† member of the Remuneration Committee

member of the Nomination Committee

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 1994	At 1 November 1993 (or date of appointment if later)
G A Anderson	2,000	2,000
H-D Bösel	1,000	1,000
L Bolton	5,390	5,390
J A Burns	8,760	6,483
A C Butler	2,000	—
J K Elbourne	4,468	4,468
P B Ellwood	9,000	9,000
M E Fahey	4,134	1,857
M H Field	9,600	9,600
S M Forbes	—	—
H R Freedberg	10,747	10,747
J Gildersleeve	4,078	4,078
Sir Nicholas Goodison	60,525	30,525
P A Harwood	2,090	2,090
L E Linaker	5,000	—
Sir David Plastow	10,000	10,000
Lady Prior	2,500	2,500

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

	Shares acquired	Price per share
A C Butler	2,000	198.5p
L E Linaker	5,000	204.0p

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	2,277	219.5p
M E Fahey	2,277	219.5p

During the year Sir Nicholas Goodison acquired 30,000 shares by exercising options (see page 23). He also held non-beneficial interests in 12,050 shares at 1 November 1993 and 31 October 1994.

Options held by directors to purchase ordinary shares of 25p each in the Company are shown below:

	At 1.11.93 (or date of appointment if later)	Granted during the year	At 31.10.94	Exercise price per share	Usual exercise dates	
					From	To
J A Burns	425,101		425,101	123.5p	06.03.1995	05.03.2002
	93,538		93,538	162.5p	04.03.1996	03.03.2003
J K Elbourne	321,454		321,454	137.5p	31.07.1994	30.07.2001
	93,947		93,947	123.5p	06.03.1995	05.03.2002
	98,461		98,461	162.5p	04.03.1996	03.03.2003
		56,637	56,637	282.5p	04.03.1997	03.03.2004
	14,160*		14,160*	128.0p	01.04.1998	30.09.1999
P B Ellwood	100,000		100,000	105.0p	05.08.1992	04.08.1999
	275,735		275,735	136.0p	07.03.1993	06.03.2000
	65,529		65,529	146.5p	07.03.1994	06.03.2001
	148,987		148,987	123.5p	06.03.1995	05.03.2002
	157,846		157,846	162.5p	04.03.1996	03.03.2003
		90,796	90,796	282.5p	04.03.1997	03.03.2004
M E Fahey	35,222		35,222	123.5p	06.03.1995	05.03.2002
	49,999		49,999	162.5p	04.03.1996	03.03.2003
		52,389	52,389	282.5p	04.03.1997	03.03.2004
		173,493	173,493	207.5p	18.08.1997	17.08.2004
	5,664*		5,664*	128.0p	01.04.1998	30.09.1999
		1,773*	1,773*	214.0p	01.04.1999	30.09.1999
H R Freedberg	477,815		477,815	146.5p	07.03.1994	06.03.2001
	109,538		109,538	162.5p	04.03.1996	03.03.2003
		63,008	63,008	282.5p	04.03.1997	03.03.2004
	17,857*		17,857*	105.0p	01.09.1997	28.02.1998
Sir Nicholas Goodison	576,000		576,000	125.0p	22.02.1992	21.02.1999
	95,563		95,563	146.5p	07.03.1994	06.03.2001
	119,076		119,076	162.5p	04.03.1996	03.03.2003
		19,513	19,513	282.5p	04.03.1997	03.03.2004
		86,101	86,101	207.5p	18.08.1997	17.08.2004
	3,495*		3,495*	103.0p	01.04.1999	30.09.1999
	18,000*		18,000*	105.0p	01.09.1999	29.02.2000

*Denotes sharesave options

During the year Sir Nicholas Goodison exercised options to purchase 30,000 shares at an exercise price of 125p per share. At the date of exercise the market price of the shares was 207.5p. Sir Nicholas Goodison retained the shares resulting from this exercise. No other director exercised any options during the year, and no options lapsed during the year.

The market price of the shares at 31 October 1994 was 226p and the range during the year to that date was 198p to 289p.

Options to purchase shares were granted under the terms of the Company's executive share option and sharesave schemes. The sharesave scheme is a savings related share option scheme which is available to all eligible employees.

Except as disclosed above, no director held any interests in shares or debentures of the Company or any of its subsidiaries at 1 November 1993, or date of appointment if later, and 31 October 1994. There have been no changes in the directors' interests in shares between 31 October 1994 and 11 January 1995.

Directors' Report

The directors present their annual report together with the audited accounts of the Company and its subsidiary undertakings ('subsidiaries') for the year ended 31 October 1994.

Principal activities

TSB Group plc is the holding company for subsidiaries providing banking, insurance and investment services. Principal subsidiaries are shown in note 19 to the accounts.

Business review

A review of the business is given in the Chairman's Statement on page 3, the Group Chief Executive's Review on page 9 and the Financial Review on page 29.

Results for the year

The Group profit on ordinary activities before tax for the year ended 31 October 1994 was £504m. The profit after tax attributable to shareholders was £312m. After provision for dividends, £180m was transferred to reserves.

Dividends

On 22 June 1994 the directors declared an interim dividend of 3.544p net per ordinary share which was paid on 3 October 1994.

The directors recommend a final dividend of 5.48p net per ordinary share which, subject to approval at the annual general meeting on 23 March 1995, will be paid on 3 April 1995 to shareholders on the register on 2 March 1995. The final dividend, together with the interim dividend already paid, makes a total of 9.024p 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 present and future 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.

The Company currently has an authority to purchase its own shares through the stock market. 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.

Details of the loan capital and issued share capital are shown in notes 31 and 33 to the accounts.

Premises and equipment

Details of premises and equipment are set out in note 20 to the accounts.

Subsidiaries

The Group sold Target International Management S.A., based in Luxembourg, on 15 December 1993 and the business of Hill Samuel Fagan Investment Management Limited, based in Ireland, on 25 April 1994. On 23 March 1994 it was announced that Hill Samuel Financial Services would cease taking new life assurance and pension business after 30 April 1994. On 20 December 1994 the Group announced its intention to sell the Irish loan portfolio built up by Hill Samuel and currently trading under the name of Irish Business Bank.

Directors

Mr J H F Macpherson retired as a director on 22 March 1994, and Mr P G McCracken resigned from the board on 26 May 1994. Mr L Bolton and Lady Prior are to retire from the board at the conclusion of the annual general meeting on 23 March 1995.

Mr M E Fahey was appointed a director on 20 December 1993 and Mr L E Linaker was appointed a director on 27 May 1994. Miss S M Forbes and Mr J Gildersleeve were both appointed directors on 1 September 1994. Mr Fahey was elected a director at the annual general meeting on 22 March 1994. As directors appointed since the last annual general meeting, Mr Linaker, Miss Forbes and Mr Gildersleeve will retire at the annual general meeting and, being eligible, offer themselves for election.

The other directors listed on pages 20 and 21 were directors throughout the year.

The directors retiring by rotation at the annual general meeting are Mr J A Burns, Mr H R Freedberg, Mr P A Harwood and Sir David Plastow who, being eligible, offer themselves for re-election.

The interests of the current directors and their immediate families in shares of the Company are shown on pages 22 and 23. No director held an interest in the shares of any subsidiary company at any time during the year.

There were no contracts of significance, as defined by the London Stock Exchange, between the Company or any of its subsidiaries and any director at any time during the year.

Of the directors being proposed for election or re-election, Mr Burns and Mr Freedberg have service contracts which are terminable at one year's notice. Mr Linaker, Miss Forbes, Mr Gildersleeve, Mr Harwood and Sir David Plastow do not have service contracts.

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

Internal controls

The businesses of the Group, in common with all banks, insurance companies and other financial institutions, are subject to the regulation and controls of a broad range of authorities. These include the Bank of England, Department of Trade and Industry, Securities and Investments Board, Personal Investment Authority, Investment Management Regulatory

Organisation and the Securities and Futures Authority. The Group has established, and maintains, systems of internal control, including systems of financial control which are documented and include procedures and codes of conduct covering both individuals and the business as a whole. These controls are designed to provide the board with reasonable assurance that it can rely on the accuracy and reliability of the accounting records and other sources of financial information and that proper control is maintained over the assets and liabilities of the Group. In addition there are comprehensive budgeting and financial reporting systems. The annual budget is approved by the board. Monthly actual results, comparisons against budget and revised forecasts for the year are prepared and reported to the board. There are clearly defined guidelines for capital expenditure which include annual budgets, detailed appraisal and review procedures and appropriate levels of authorisation.

Most of the regulatory authorities referred to above undertake periodic inspections of the main aspects of the Group's activities and receive regular reports from the external auditors on internal control. In addition the Group has well established compliance and internal audit functions which are concerned with monitoring adherence to legal and regulatory requirements and internal procedures.

Corporate governance

In December 1992 the Committee on the 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 considers that during the year the Group complied with all aspects of the Code currently in force.

The auditors, KPMG Peat Marwick, have confirmed to the directors that they are satisfied that this statement appropriately reflects the Company's compliance with the Code, insofar as it relates to the paragraphs of the Code which the London Stock Exchange has specified for their review. As regards going concern, the auditors have confirmed that they are satisfied that the directors' comments comply with the guidance issued to directors on reporting in accordance with the Code, and that such comments are consistent with the information of which they are aware, based on their normal audit work, which has not been extended to that which would be necessary to give a separate opinion that the Group has adequate resources to continue in operational existence.

Employees

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 subsidiary 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 schemes being significant.

The Group is also committed to providing equal opportunities in employment. As part of this policy the Group gives full and fair consideration to applications for employment from disabled people and offers appropriate training and career development, having regard to their particular aptitudes and abilities. If members of staff become disabled, the Group, wherever possible, seeks either to continue their employment in their existing jobs or to redeploy them on suitable duties. As a result of the equal opportunities programme, the Group 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.

Donations

During the year the Group made charitable donations of £1,150,753 (1993 £1,131,089) including £1,000,000 (1993 £960,000) 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 1994 there were 1.09 million shareholders, 94% of whom held 1,000 ordinary shares or less. 37% of the issued ordinary shares were held by individuals. An analysis of shareholders is shown on page 68.

Substantial shareholdings

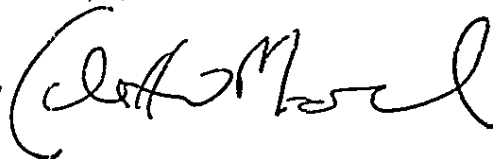
No substantial shareholdings, as defined in the Companies Act 1985, have been notified to the Company.

Auditors

Our auditors, KPMG Peat Marwick, have informed us that they will practise under the name of KPMG with effect from 6 February 1995. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the annual general meeting.

By order of the board
L H W March, Secretary

11 January 1995



Responsibility Statements

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Statement of Auditors' Responsibilities set out below, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year. They are also required to prepare the accounts on a going concern basis unless this is inappropriate.

The directors consider that in preparing the accounts on pages 34 to 65 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Statement of Auditors' Responsibilities

The auditors are responsible for forming an independent opinion on the accounts 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 accounts are in agreement with the accounting records;
- that directors' emoluments and other transactions with directors are properly disclosed in the accounts; 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 24 to 27. However, the Companies Act 1985 requires the auditors to report to members if the matters contained in the directors' report are inconsistent with the accounts.

Financial Review

Introduction

In this review, reference is made to financial information contained in the accounts on pages 34 to 65 and to the five year financial summary on pages 66 and 67.

The presentation of the accounts reflects, for the first time, the requirements of the Companies Act 1985 (Bank Accounts) Regulations, which bring into effect the requirements of the EC Bank Accounts Directive, Financial Reporting Standard ('FRS') 4 and FRS 5. Details are set out in the Accounting Policies on page 34. Subject to these changes, the accounts have been prepared using consistent accounting policies. The accounts have also been prepared on the going concern basis as the directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

Group profit

Group profit before tax amounted to £504m compared with £301m in 1993. The charge for bad debts was £173m, £162m lower than the £335m charge in 1993. There were no charges for reorganisation costs in 1994 (1993 £70m). In the year the Group incurred a loss of £28m on the sale or termination of activities compared with a profit of £5m in 1993.

TSB

The total profits of TSB were £438m (1993 £454m), with TSB retail banking profits £13m lower at £247m and TSB insurance profits £3m lower at £191m.

TSB retail banking was affected by lower margins on deposits as a consequence of the change in the deposit base towards more competitive, higher rate, accounts. The loss of income from deposits was partly offset by higher income on assets, resulting from increases in lending, particularly mortgage lending, which was £1,216m or 20.5% higher than at the end of 1993. Costs of £753m were £9m below last year. The bad debt charge of £104m was £18m lower than 1993, the most significant improvement being in commercial lending. The mortgage book continues to be of high quality with provisions in 1994 amounting to 0.2% of outstanding balances.

Profits of Life and Pensions (including unit trusts) of £126m were the same as 1993. Total new business was 10% higher than 1993 with single premium life business substantially higher, mainly from sales of the Guaranteed Stock Market Bond, and unit trust sales being 19% higher than last year. New business premium income from pensions and regular premium life products, however, was down. TSB General Insurance profits of £65m were £3m lower than 1993, after taking into account a £25m reduction in investment income. The business benefited from a 14% increase in premium income and a lower claims ratio.

Hill Samuel – Merchant Banking

Hill Samuel Bank's profit of £64m is £6m better than that achieved in 1993. Income of £139m compares with £176m in 1993 whilst costs are £25m lower at £75m. There was no bad debt charge in 1994 whilst there was a charge of £18m in 1993. Year on year comparisons are, however, distorted by the sale of businesses and restructuring which took place during 1993. The improved results were obtained from a reduced balance sheet and a lower average capital base which was reduced from £524m to £387m during 1994.

Hill Samuel – Asset Management and Insurance

The asset management businesses achieved profits of £17m, before reorganisation costs, compared with £18m in 1993. Funds under management fell from £26.5bn to £25.1bn reflecting the sale of the business of Hill Samuel Fagan Investment Management (which had £900m of funds under management), the adverse impact of the weaker dollar on US funds under management and the weaker equity and bond markets world-wide.

Profits from the insurance businesses declined from £22m to £11m as a result of the decision to cease taking new business in the life and pension operations of Hill Samuel Financial Services. This business is soundly capitalised and is continuing to provide a full service to existing customers.

In the year the asset management business in the UK relocated to new premises. This required the establishment of a provision of £7m against the resultant vacant leasehold property and other reorganisation costs.

UDT

UDT increased its profit from £34m last year to £54m. The result of a 20% increase in new business and a £10m reduction in the bad debt charge. In the year new business written amounted to £1,396m compared with £1,164m in 1993. At the end of the year advances to customers amounted to £1,962m compared with £1,793m at the end of 1993.

Mortgage Express

Mortgage Express achieved a profit of £38m compared with a profit of £1m in 1993. The bad debt charge was down from £52m in 1993 to £30m. Income was higher due to better margins and a fall in suspended interest. The mortgage portfolio increased from £2,191m to £2,296m as a result of the transfer into the portfolio of the mortgage book of Hill Samuel Mortgage Services and the re-purchase of mortgages previously securitised, which in total amounted to £360m. After adjusting for these items there was an underlying reduction in the Mortgage Express portfolio of £255m.

Loan Administration Unit

The Loan Administration Unit made a profit of £4m compared with a loss of £142m in 1993. There was a reduction in the bad debt charge from £105m to £2m, increased income recoveries and a lower cost of funding non performing debt. Net written down debt in the Loan Administration Unit was reduced from £630m in 1993 to £366m in 1994, a reduction of £264m. Balances remaining are provided to the extent of 57%.

Commercial activities

Commercial activities made a loss before taxation of £2m compared with a profit of £8m in 1993. The 1993 figures included the trading results, up to the date of sale, of businesses sold (Swan National and Noble Lowndes) totalling £6m. After adjusting for this and reorganisation costs in TSB Property Services the underlying profit increased from £2m to £3m.

Central costs, including central interest

Overall central costs, including central interest, remained unchanged at £85m. Central costs include approximately £7m relating to provision for vacant former Hill Samuel branch premises. Provision of £5m (1993 £3m) for charitable donations to the TSB Foundations was made, in accordance with the deeds of covenant with the Foundations to donate 1% of profits. There was a £14m reduction in interest payable principally as a result of lower interest rates.

Income and costs

The profit and loss account on page 38 sets out the income and costs of the Group. The results are not comparable with the prior year because of the sale of businesses which took place in both years. Set out below is a summary profit and loss account eliminating the income and costs of those businesses.

	1994	1993
	£m	£m
Net interest income	1,057	1,022
Other operating income	847	880
Total operating income	1,904	1,902
Operating expenses	1,127	1,130
Profit before claims and bad debt charge	777	772
Claims costs in TSB General Insurance	74	79
Profit before bad debt charge	703	693
Charge for bad and doubtful debts	173	335
Charge for commitments and contingencies	3	1
Operating profit	527	357
Reorganisation costs	-	70
Profit before sale or termination of activities	527	287
Trading results of businesses sold	5	9
(Loss)/profit on sale or termination of activities	(28)	5
Profit before tax	504	301

In the year ended 31 October 1994 the Group sold Target International Management S.A. and the business of Hill Samuel Fagan Investment Management. In addition, from the end of April 1994, Hill Samuel Financial Services ceased to accept new life and pension business. In the year ended 31 October 1993 the Group sold the Bell Lawrie White group, Target Trust Managers, Bank von Ernst, Swan National Leasing, the Eurodollar companies of the Group and Noble Lowndes.

Group income, excluding businesses sold and interest on sale proceeds of £1,904m was slightly higher than 1993. The £33m fall in other operating income resulted from reduced investment income arising from the weakness of the equity and gilt markets in the year compared with 1993 and a fall in new business in pension and regular premium life products offset by increased single life premiums and unit trust sales. Costs of £1,127m are £3m lower than in 1993. Total staff numbers at 31 October 1994 were 26,079 (1993 27,570), the reduction of 1,491 arising from improved operating efficiencies.

The charge for bad and doubtful debts of £173m compares with £335m in 1993 representing 0.9% of outstanding balances compared with 1.8% in 1993. The principal improvement arose in the Loan Administration Unit, although all of the main businesses have reduced their bad debt charge.

Capital resources

Shareholders' funds amounted to £1,932m at 31 October 1994 compared with £1,740m in 1993. The increase in the year arose primarily from retained earnings of £180m.

In addition, the Group had loan capital of £688m (1993 £708m). Of the reduction in loan capital of £20m, £9m is attributable to the repayment of loan capital and £11m to the effect of changing foreign exchange rates.

Calculated in accordance with the Bank of England's supervisory requirements, the Group risk asset ratio was 13.5% at 31 October 1994 (1993 13.2%). The Group Tier 1 ratio amounted to 9.4% (1993 8.7%). Regulatory capital has increased by £170m whilst risk weighted assets are £850m higher than 1993.

Loans and advances to customers and customer accounts

Net advances to customers increased from £17,152m to £18,104m. Within this total, the Loan Administration Unit reduced its net exposure by £264m, whilst TSB retail banking increased its net lending by £1,363m of which mortgage advances accounted for £1,216m.

Total customers' accounts increased from £15,909m to £16,552m, a net increase of £643m. Most of this increase was in commercial and wholesale balances which grew by £572m to £3,594m. Within TSB retail banking's deposit base of £15,662m, deposits paying higher interest rates increased by £989m during the year, with the lower rate deposits reducing by £664m to stand at £960m at the year end.

Cash flow

The consolidated cash flow statement, prepared in the format required by FRS 1, shows an increase in cash and cash equivalents of £268m during the year compared with a decrease in 1993 of £1,800m. There was a cash inflow from operating activities of £1,322m whereas there was an outflow of £2,283m in 1993. These movements reflect short-term changes in the Group's treasury positions. In 1993 net proceeds from the sale of businesses totalled £137m compared with £2m in 1994. The purchase of premises and equipment amounted to £91m (1993 £100m).

Liquidity

The Group's liquidity policy is based upon 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 the liabilities and forecasts for future cash outflows. The operation of this policy is subject to regulatory supervision by 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 material loss from changes in interest rates, so far as is possible to do so.

Auditors' Report to the Members of TSB Group plc

We have audited the accounts on pages 34 to 65.

Respective responsibilities of directors and auditors

As described on page 28 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

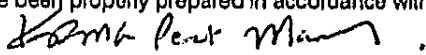
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 October 1994 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

Chartered Accountants

Registered Auditors

London

11 January 1995

Accounting Policies

Accounting convention

The consolidated accounts have been prepared under the historical cost convention, modified by the revaluation of certain assets, in compliance with sections 230, 255, 255A and 255B of, and Schedule 9 to, the Companies Act 1985 ('the Act') and in accordance with applicable accounting standards.

The balance sheet of TSB Group plc ('the Company') has been prepared in compliance with section 226 of, and Schedule 4 to, the Act. No profit and loss account is shown for the Company, as permitted by section 230(3) of the Act.

Consolidation and format

The consolidated accounts comprise the accounts of the Company and all its subsidiary undertakings ('subsidiaries'), in order to reflect the different nature of the Group's and the policyholders' interests in the long-term life assurance and pension businesses, the value of long-term businesses attributable to the Group and the assets and liabilities attributable to the policyholders are classified under separate headings in the consolidated balance sheet.

The presentation of these accounts reflects, for the first time, Statements of Recommended Accounting Practice issued jointly by the British Bankers' Association and the Irish Bankers' Federation, and the Companies Act 1985 (Bank Accounts) Regulations 1991 which brought into effect the requirements of the EC Bank Accounts Directive. These Regulations introduced prescribed formats for the balance sheet and profit and loss account different from those adopted by the Group in previous years. In addition the new requirements prohibit amounts in respect of items representing assets or income being set-off against liabilities or expenditure unless there is a legal right of set-off. Comparatives have been restated on to the new basis thereby increasing assets and liabilities at 31 October 1993 by £817m but this has not affected the previously reported profit before tax.

The Group has adopted Financial Reporting Standard ('FRS') 4 'Capital Instruments' in presenting these accounts which has resulted in additional disclosure but has not affected profit before tax or shareholders' funds. The Group has also adopted FRS 5 'Reporting the Substance of Transactions' which, whilst not affecting profit before tax, has increased assets and liabilities by presenting certain transactions gross which had previously been reported net. Comparative figures have been restated by an increase of £613m.

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, pension 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 other long-term investments are dealt with in the profit and loss account as they arise.

Off balance sheet items

Transactions are undertaken in interest rate swaps, cross currency swaps, futures, options and similar instruments. These instruments are marked to market and the resulting profits or losses are included in operating profit, except those in respect of specifically designated hedging transactions which are taken to profit in accordance with the accounting treatment of the underlying transaction.

Bad and doubtful debts and interest in suspense

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. Bad debts are written off in part, or in whole, when there is no realistic prospect of recovery. If the collection of interest is considered to be doubtful, it is suspended and excluded from interest income in the profit and loss account, instead being credited to an interest in suspense account. It is only released to the profit and loss account when its collectability is no longer subject to significant doubt.

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. Accordingly, the directors consider that the lives of these assets are sufficiently long and residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are sufficiently 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).

Vacant leasehold property

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

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 at amounts based on the discounted value of future rentals.

Life assurance and pension business

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

Actuarial valuations are prepared annually and the directors of the Group's life assurance and pension 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 separately 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 value of the 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 from the profit and loss reserve to other reserves.

General Insurance business

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

Pension costs

Based on actuarial advice, pension costs are 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 differences where there is a reasonable probability that taxation will be payable in the foreseeable future. Advance corporation tax on dividends proposed which is expected to be recovered in the future is deducted from deferred taxation in the balance sheet.

Goodwill

Goodwill arising on acquisitions, being the excess of cost over the fair value of the net assets acquired, is charged against the profit and loss reserve 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 the profit and loss reserve. All other exchange differences are dealt with in the profit and loss account.

Investment in subsidiaries

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

Consolidated Profit and Loss Account
for the year ended 31 October

	Notes	1994 £m	1993 £m
Interest receivable and similar income arising from debt securities		155	106
Other interest receivable and similar income		2,021	2,236
Interest receivable		2,176	2,342
Interest payable		(1,109)	(1,317)
Net interest income		1,067	1,025
Dividend income from equity shares		4	4
Fees and commissions receivable		542	649
Fees and commissions payable		(98)	(98)
Dealing profits		21	53
Premium income of TSB General Insurance		188	174
Increase in value of long-term businesses	22	138	155
Other income		43	62
Other operating income		848	1,001
Total operating income		1,915	2,026
Administrative expenses	2	(1,041)	(1,147)
Depreciation and amortisation	20	(92)	(98)
Total operating expenses		(1,133)	(1,245)
Profit before claims and bad debt charge		782	781
Claims costs in TSB General Insurance		(74)	(79)
Profit before bad debt charge		708	702
Charge for bad and doubtful debts	16	(173)	(335)
Charge for commitments and contingencies		(3)	(1)
Operating profit	1	532	366
Reorganisation costs	4	-	(70)
Profit before (loss)/profit on sale or termination of activities		532	296
(Loss)/profit on sale or termination of activities	5	(28)	5
Profit on ordinary activities before tax	3	504	301
Tax on profit on ordinary activities	8	(186)	(112)
Profit on ordinary activities after tax		318	189
Minority interests	32	(6)	(5)
Profit attributable to shareholders	9	312	184
Dividends	10	(132)	(111)
Retained profit for the year		180	73
Earnings per ordinary share	11	21.5p	12.7p
Earnings per ordinary share before reorganisation costs and (loss)/profit on sale or termination of activities	11	23.4p	15.6p

Movements in the profit and loss reserve are shown in note 34.

Consolidated Balance Sheet

at 31 October

	Notes	1994 £m	1993 £m
Assets			
Cash and balances at central banks		177	275
Items in course of collection		285	267
Treasury bills and other eligible bills	13	345	-
Loans and advances to banks	14	3,365	3,418
Loans and advances to customers	15	18,104	17,152
Debt securities	17	3,094	2,328
Equity shares	18	112	115
Tangible fixed assets	20	712	735
Other assets	21	1,028	1,317
Prepayments and accrued income		359	321
Value of long-term life assurance and pension businesses	22	466	460
		<u>28,047</u>	<u>28,388</u>
Assets of long-term life assurance and pension business funds	23	6,655	6,459
Total assets	12	<u>34,702</u>	<u>32,847</u>
Liabilities			
Deposits by banks	24	5,081	3,649
Customer accounts	25	16,552	15,809
Debt securities in issue	26	1,346	1,781
Other liabilities	27	1,419	1,734
Accruals and deferred income		735	650
Provisions for liabilities and charges	28	278	205
Subordinated liabilities			
Undated loan capital	31	146	150
Dated loan capital	31	542	558
Minority interests	32	16	12
		<u>26,115</u>	<u>24,648</u>
Called up share capital	33	402	399
Share premium account	34	20	11
Other reserves	34	406	400
Revaluation reserve	34	5	5
Profit and loss reserve	34	1,099	925
Shareholders' funds	1	1,932	1,740
Liabilities of long-term life assurance and pension business funds		6,655	6,459
Total liabilities and shareholders' funds	12	<u>34,702</u>	<u>32,847</u>
Memorandum Items			
Contingent liabilities			
Acceptances and endorsements		326	154
Guarantees and irrevocable letters of credit		199	177
Other contingent liabilities		29	34
Total contingent liabilities	35	<u>554</u>	<u>365</u>
Commitments	35	<u>7,024</u>	<u>7,538</u>

Approved by the board of directors on 11 January 1995 and signed on its behalf by

Nicholas Goodison
Chairman

Peter Ellwood
Group Chief Executive

John Burns
Group Finance Director

Company Balance Sheet
at 31 October

		Notes	1994 £m	1993 £m
Fixed assets	Tangible assets	20	9	10
	Investments			
	Shares in subsidiaries	19	2,013	1,721
	Loans to subsidiaries	19	1,545	1,591
			3,567	3,322
Current assets	Debtors falling due within one year			
	Amounts owed by subsidiaries		34	4
	Other debtors		4	6
	Taxation recoverable		63	54
	Cash balances with subsidiaries		146	103
	Debtors falling due after more than one year		51	35
			298	202
Current liabilities	Amounts falling due within one year			
	Amounts owed to subsidiaries		1,132	1,006
	Other creditors		93	77
	Taxation payable		23	41
	Dividend payable	10	80	65
			1,328	1,189
	Net current liabilities		(1,030)	(987)
	Total assets less current liabilities		2,537	2,335
Creditors	Amounts falling due after more than one year			
	Undated loan capital	31	100	100
	Dated loan capital	31	505	495
			605	595
	Net assets		1,932	1,740
Capital and reserves	Called up share capital	30	402	399
	Share premium account	34	20	11
	Revaluation reserve	34	808	514
	Profit and loss reserve	34	702	816
	Shareholders' funds		1,932	1,740

Approved by the board of directors on 11 January 1995 and signed on its behalf by

Nicholas Goodison
Chairman

Peter Ellwood
Group Chief Executive

John Burns
Group Finance Director

Statement of Total Recognised Gains and Losses
for the year ended 31 October

	1994	1993
	£m	£m
Profit after tax and minority interests	312	184
Currency realignment	(1)	-
Total recognised gains and losses since the last report	<u>311</u>	<u>184</u>

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
for the year ended 31 October

	1994	1993
	£m	£m
Profit after tax and minority interests	312	184
Dividends	(132)	(111)
Retained profit for the year	<u>180</u>	<u>73</u>
Goodwill written off on acquisition of shares in subsidiaries	-	(1)
Goodwill written back to profit and loss account on sale of subsidiaries	-	84
Issue of shares, including premium	12	5
Currency realignment	(1)	-
Other	<u>1</u>	<u>10</u>
Net increase in shareholders' funds in year	<u>192</u>	<u>171</u>
Shareholders' funds at beginning of year	<u>1,740</u>	<u>1,569</u>
Shareholders' funds at 31 October	<u>1,932</u>	<u>1,740</u>

Consolidated Cash Flow Statement for the year ended 31 October

	Notes	1994 £m	1993 £m
Net cash flow from operating activities	38	1,322	(2,283)
Returns on investments and servicing of finance			
Payment of interest on loan capital		(52)	(60)
Ordinary dividends paid		(118)	(93)
Dividends paid to minority shareholders of subsidiaries		(2)	-
Total returns on investments and servicing of finance		(172)	(153)
Taxation			
United Kingdom corporation tax recovered/(paid)		3	(12)
Overseas taxation paid		(7)	(5)
Total taxation paid		(4)	(17)
Investing activities			
Purchase of tangible fixed assets		(91)	(100)
Purchase of investment securities		(4,188)	(1,512)
Sale of investment securities		3,374	2,102
Purchase of shares in subsidiaries		-	(1)
Sale of subsidiaries and businesses	40	2	137
Sale of tangible fixed assets		22	22
Net cash flow from investing activities		(881)	648
Net cash flow before financing		265	(1,805)
Financing - cash effect of			
Issue of ordinary share capital	39	12	5
Repayment of loan capital	39	(9)	-
Net cash flow from financing		3	5
Increase/(decrease) in cash and cash equivalents (see below)		268	(1,800)
Analysis of cash and cash equivalents			
		1994	1993
		£m	£m
Cash and balances at central banks		159	272
Treasury bills and other eligible bills		319	-
Loans and advances to banks		1,840	1,834
Loans and advances to customers		132	20
Debt securities		253	309
At 31 October		2,703	2,435
At beginning of year		2,435	4,235
Increase/(decrease) in cash and cash equivalents		268	(1,800)

The Group is required to maintain balances with the Bank of England which, at 31 October 1994, amounted to £64m (1993 £65m). Balances required to be maintained with similar overseas authorities are £5m (1993 £11m).

Notes to the Accounts

1. Segmental analysis

	Operating profit		Average staff numbers	
	1994	1993	1994	1993
	£m	£m		
TSB				
Retail banking	247	260	18,989	19,936
Insurance	191	194	2,537	2,398
	438	454	21,526	22,334
Hill Samuel				
Merchant banking	64	58	869	1,536
Asset management and insurance	21	38	1,368	1,656
	85	96	2,237	3,192
UDT				
Mortgage Express	54	34	1,048	1,128
Loan Administration Unit	38	1	335	400
Commercial activities	4	(142)	190	138
Central	(2)	8	1,361	5,035
	(85)	(85)	163	148
	532	368	26,860	32,375
	Shareholders' funds		Total assets	
	1994	1993	1994	1993
	£m	£m	£m	£m
TSB				
Retail banking	979	919	22,588	19,589
Insurance	542	471	5,349	5,061
	1,521	1,390	27,937	24,650
Hill Samuel				
Merchant banking	387	395	6,202	6,620
Asset management and insurance	100	191	2,564	2,952
	587	586	8,766	9,570
UDT				
Mortgage Express	182	167	2,001	1,815
Loan Administration Unit	129	117	2,356	2,313
Commercial activities	26	46	415	837
Central	38	24	1,383	1,437
	(531)	(590)	(8,156)	(7,785)
	1,932	1,740	34,702	32,847

Central total assets include an adjustment to eliminate inter company receivables for all businesses. The Group operates predominantly in Great Britain and consequently a geographical segmental analysis is not given.

Note 1 continued

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

	1994	1993
	£m	£m
TSB Insurance	797	725
Hill Samuel – asset management and insurance	195	241
Commercial activities	34	265

2. Administrative expenses

	1994	1993
	£m	£m
Staff costs		
Wages and salaries	467	547
Social security costs	33	41
Pension costs (note 36)	4	6
Other	63	49
Total staff costs	567	643
Premises costs	127	131
Other administrative expenses	347	373
	1,041	1,147

3. Profit on ordinary activities before tax

Group profit is stated after taking account of the following

	1994	1993
	£m	£m
Income		
Aggregate amounts receivable, including capital repayments, under		
Finance leases, hire purchase and conditional sale contracts	206	343
Operating leases	6	4
Income from listed investments	134	132
Profits less losses on securities dealing	8	31
Profits less losses on disposal of investment securities	12	5
Charges		
Interest on subordinated loan capital	52	58
Operating lease payments in respect of		
Premises	35	42
Other assets	6	10
Finance lease charges	5	5

The auditors' remuneration for audit work was £1.9m (1993 £1.8m) of which £0.2m (1993 £0.2m) related to TSB Group plc. The auditors' remuneration for non audit work was £1.6m (1993 £1.5m) which, in 1994, included £1.0m in respect of regulatory and accounting related work and £0.1m for tax advice.

4. Reorganisation costs

In 1993 reorganisation costs of £70m (the major part being redundancy costs) related to the implementation of the Group's announced policy of reorganising TSB retail banking and Hill Samuel Bank. In TSB the management, sales force and administration of retail banking and insurance were integrated to create a 'bancassurance' business. In order to focus on its merchant banking activities, Hill Samuel Bank withdrew from a number of areas of business, including branch banking. This involved a reduction in its balance sheet and capital employed together with the consequent reduction in support operations.

5. (Loss)/profit on sale or termination of activities

	1994	1993
	£m	£m
Total sale proceeds, net of costs	2	174
Net assets of businesses sold	(2)	(85)
Provision for closure and other costs	(28)	--
Net (decrease)/increase in shareholders' funds	(28)	89
Goodwill previously written off to profit and loss reserve	--	(84)
(Loss)/profit on sale or termination of activities	(28)	5

In the year ended 31 October 1994 the Group sold its shareholding in Target International Management S.A. and the business of Hill Samuel Fagan Investment Management Limited. In addition it was announced that, from the end of April 1994, Hill Samuel Financial Services ceased to accept new life assurance and pension business and this accounted for the majority of the provision for closure.

6. Directors' emoluments

	1994	1993
	£000	£000
Fees as directors of the Company and its subsidiaries	251	197
Salaries, benefits and other emoluments	1,452	1,245
Performance related bonuses	701	551
	<u>2,404</u>	<u>1,993</u>

The non-executive directors do not have service contracts. The chairman and the executive directors have service contracts terminable at one year's notice.

The chairman does not participate in any bonus or profit sharing scheme and is not a member of the TSB Group Pension Scheme. As in previous years, included in his emoluments was a payment (equivalent in 1994 to 22.5% of his salary, in line with Inland Revenue guidelines), to enable him to contribute to a personal retirement annuity plan. In the event 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.

As reported in the 1993 Accounts, the chairman's basic salary had not been adjusted since 1991. With effect from 1 January 1994 it was increased from £215,000 to £260,000 to reflect the major contribution he has made to the improvement of the Group's affairs since 1989. Following this increase the emoluments for 1994 were £322,928 (1993 £274,070) and no further adjustment will be made until January 1996 at the earliest. The increase covers the years 1992-95 inclusive and equates to 4.5% per annum. The chairman has said that barring exceptional circumstances he will decline any further adjustment to this salary.

Note 6 continued

The performance related bonuses of the executive directors are based partly upon the amount by which the Group's earnings per share exceeds a pre-determined target, and partly upon the amount by which the total percentage increase in shareholder value for TSB Group plc exceeds the total percentage increase in shareholder value achieved in aggregate by six other major British banking groups. This is measured by reference to dividends paid and the movement in the average share price. Payments under the first element are included in directors' emoluments set out above. Payments under the latter part of the scheme will not be determined until March 1995 following the announcement of the other banks' results and will be included in emoluments in 1995.

The emoluments of the group chief executive, Mr P B Ellwood, were £442,023 (1993 £516,819). These emoluments include a performance related bonus of £142,500 (1993 £213,750).

The emoluments of the highest paid director, Mr H R Freedberg, were £595,501 (in 1993 Mr P B Ellwood was the highest paid director). Mr H R Freedberg's emoluments included a bonus of £356,875 partly determined under a separate bonus scheme, established in January 1993, based on the performance of the Hill Samuel business measured against pre-determined targets over the two year period to 31 October 1994 and partly under the bonus arrangements for all executive directors, as set out above. He is not a participant in the share price related bonus scheme described below. His bonus payment in respect of 1994 reflects his significant contribution over the last two years to the improvement in Hill Samuel's business.

As outlined last year, in addition to the performance related bonus scheme for executive directors, a share price related cash bonus scheme 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 identify with the long-term interests of the Group. In February 1993 bonus rights under the scheme were granted by reference to the following number of shares at a price of 143p - Mr J A Burns 191,691; Mr J K Elbourne 201,780; Mr P B Ellwood 287,537 and Mr M E Falroy 126,112. They can be exercised between the third and tenth year from the date of their grant. No bonus rights were granted in 1994.

Executive directors, in common with all eligible employees, are entitled to a pension based on final salary and length of service with the Group, with a maximum pension of two thirds of final salary. With the exception of the chairman, executive directors are members of the TSB Group Pension Scheme and have all or part of their entitlement to a pension covered by that scheme. Certain employees, including certain executive directors, who joined the Group since 1 June 1989 are subject to the Inland Revenue earnings cap introduced by the Finance Act 1989. Entitlements above the cap cannot be covered by the TSB Group Pension Scheme. The Group is establishing a separate fund to cover these pension obligations. They will be funded from the existing provisions which have been accrued in the accounts. The funding requirements of the pension liabilities above the Inland Revenue earnings cap do not represent new benefits to the directors concerned. On present actuarial estimates, the amount of the total funding required relative to the current and earlier years is £2,619,000. The amount attributable to the chairman is £153,000 in respect of the year ended 31 October 1994 and £537,000 in respect of the earlier years. For the highest paid director, Mr H R Freedberg, the funding requirement for the year is £171,000 and £582,000 for earlier years. The group chief executive, Mr P B Ellwood, joined the Group in May 1989 and is not subject to the Inland Revenue earnings cap, his pension being covered by the TSB Group Pension Scheme.

Note 6 continued

Due to the surplus referred to in note 36, no contributions to the TSB Group Pension Scheme were paid in respect of directors during 1993 or 1994.

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

	1994	1993		1994	1993
£0 - £5,000	2	3	£265,001 - £270,000	1	-
£5,001 - £10,000	1	1	£270,001 - £275,000	-	1
£10,001 - £15,000	2	4	£285,001 - £290,000	1	-
£15,001 - £20,000	5	1	£300,001 - £305,000	-	1
£20,001 - £25,000	-	1	£320,001 - £325,000	1	-
£25,001 - £30,000	1	1	£345,001 - £350,000	-	1
£30,001 - £35,000	1	-	£355,001 - £360,000	-	1
£45,001 - £50,000	-	1	£440,001 - £445,000	1	-
£55,001 - £60,000	1	-	£515,001 - £520,000	-	1
£235,001 - £240,000	1	-	£595,001 - £600,000	1	-

Details of directors' interests in shares, including share options, of the Company are given on pages 22 and 23.

7. Directors' and officers' loans

At 31 October 1994 the aggregate amounts outstanding under transactions, arrangements and agreements entered into by the Group's banking subsidiaries with directors, persons connected with directors, and officers were

	Directors and connected persons			Officers	
	Loans	Quasi loans	Guarantee	Loans	Quasi loans
Number of persons	4	3	1	3	2
Amount £000	568	7	30	433	2

8. Tax on profit on ordinary activities

	1994	1993
	£m	£m
United Kingdom corporation tax at 33%	108	92
Tax credit on franked investment income	2	4
Deferred taxation (note 29)	62	5
Overseas taxation	14	11
	<u>186</u>	<u>112</u>

9. Profit dealt with in the accounts of the Company

£14m (1993 £83m) of the Group profit attributable to shareholders has been dealt with in the accounts of TSB Group plc.

10. Dividends

	1994	1993	1994	1993
	pence per	pence per		
	share	share	£m	£m
Interim - paid	3.544	3.15	52	46
Final - proposed	5.480	4.53	80	65
	<u>9.024</u>	<u>7.68</u>	<u>132</u>	<u>111</u>

11. Earnings per ordinary share

Earnings per ordinary share has been calculated by dividing profit after tax and minority interests of £312m (1993 £184m) by 1,452 million shares (1993 1,446 million shares), being the average number of ordinary shares in issue during the year less 71 million shares (1993 70 million shares) registered in the name of TSB Group Holdings (Jersey) Limited and the trustees of the TSB Group employee trust for which dividends have been waived.

Reorganisation costs and the profit or loss on the sale or termination of activities are significant features when comparing earnings with the prior year. The directors consider it appropriate therefore to give earnings per share based upon profit before the 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 FRS 3 and this alternative basis.

	1994	1993
	pence	pence
Earnings per ordinary share under FRS 3	21.5	12.7
Adjustments, net of tax, in respect of		
Reorganisation costs	-	3.2
Profit or loss on sale or termination of activities	1.9	(0.3)
Adjusted earnings per ordinary share	<u>23.4</u>	<u>15.6</u>

12. Currency analysis of total assets and liabilities

	Assets		Liabilities	
	1994	1993	1994	1993
	£m	£m	£m	£m
Denominated in sterling	32,008	30,475	32,005	30,073
Denominated in currencies other than sterling	2,694	2,372	2,697	2,774
	<u>34,702</u>	<u>32,847</u>	<u>34,702</u>	<u>32,847</u>

The above assets and liabilities denominated in foreign currencies do not indicate the Group's exposure to foreign exchange risk. The Group's foreign currency positions are hedged by off balance sheet instruments.

13. Treasury bills and other eligible bills

	1994	
	Book value £m	Market value £m
Investment securities		
Treasury bills and similar securities	14	14
Other securities		
Treasury bills and similar securities	142	142
Other eligible bills	189	189
	<u>345</u>	<u>345</u>

No treasury bills or other eligible bills were held at 31 October 1993. There is no unamortised net discount or premium and there is no difference between the historical cost and carrying value of investment securities. The cost of other securities is not disclosed as it cannot be determined without unreasonable expense.

14. Loans and advances to banks

	1994 £m	1993 £m
Repayable		
On demand	140	114
Three months or less	2,215	2,008
One year or less but over three months	344	488
Five years or less but over one year	417	457
Over five years	251	273
	<u>3,367</u>	<u>3,420</u>
Provisions for bad and doubtful debts	(2)	(2)
	<u>3,365</u>	<u>3,418</u>

Loans and advances to banks include £4m (1993 £6m) in respect of net investment in finance leases.

15. Loans and advances to customers

	1994 £m	1993 £m
Repayable		
On demand	1,371	1,662
Three months or less	1,418	1,508
One year or less but over three months	2,146	2,394
Five years or less but over one year	4,070	4,676
Over five years	10,053	8,060
	<u>19,063</u>	<u>18,500</u>
Provisions for bad and doubtful debts	(959)	(1,348)
	<u>18,104</u>	<u>17,152</u>

Note 15 continued

Loans and advances to customers include £957m (1993 £880m) in respect of net investments in finance leases and £77m (1993 £50m) in respect of net investments in hire purchase contracts.

Assets acquired during the year for letting under finance leases and similar hire purchase contracts amount to £378m (1993 £213m).

Lending, which is predominantly in Great Britain, includes £9,841m (1993 £8,746m) of residential mortgages and £3,857m (1993 £3,542m) of other personal lending.

16. Provisions for bad and doubtful debts and suspended interest

Bad and doubtful debt provisions

	1994			1993		
	Specific £m	General £m	Total £m	Specific £m	General £m	Total £m
At beginning of year	1,241	109	1,350	1,305	111	1,416
Charge to profit and loss account	162	11	173	324	11	335
Amounts written off	(587)	-	(587)	(417)	-	(417)
Recoveries	20	-	20	16	-	16
Currency and other movements	5	-	5	13	(13)	-
At 31 October	841	120	961	1,241	109	1,350
Of which provisions against						
Banks (note 14)	2	-	2	2	-	2
Customers (note 15)	839	120	959	1,239	109	1,348
	841	120	961	1,241	109	1,350

Non performing debts

	1994 £m	1993 £m
Gross, excluding suspended interest	1,589	2,233
Net of provisions	695	1,012

Suspended interest

Movements in suspended interest in the year are as follows

	£m
At 1 November 1993	567
Interest suspended, net of recoveries	69
Amounts written off	(338)
At 31 October 1994	298

17. Debt securities

	1994		1993	
	Book value £m	Market value £m	Book value £m	Market value £m
Issued by public bodies				
Investment securities				
Government securities	1,073	1,026	792	820
Other public sector securities	132	129	92	92
	1,205	1,155	884	912
Other securities				
Government securities	436	430	400	400
Other public sector securities	2	2	-	-
	1,643	1,593	1,284	1,312
Issued by other issuers				
Investment securities				
Bank and building society certificates of deposit	465	465	173	175
Other debt securities	850	848	670	667
	1,315	1,313	843	842
Other securities				
Bank and building society certificates of deposit	81	81	136	136
Other debt securities	55	55	59	59
	1,451	1,449	1,044	1,037
Total debt securities	3,094	3,042	2,328	2,349
Of which				
Due within one year	801		757	
Due after one year	2,293		1,571	
	3,094		2,328	
Net unamortised discounts on investment securities	379		313	

The cost of other securities is not disclosed as it cannot be determined without unreasonable expense.

Note 17 continued

	1994		1993	
	Book value £m	Market value £m	Book value £m	Market value £m
Investment securities				
Listed on a recognised UK exchange	1,197	1,146	907	934
Listed elsewhere	399	395	241	232
Unlisted	924	927	584	587
	2,520	2,468	1,732	1,753
Other securities				
Listed on a recognised UK exchange	461	461	414	414
Listed elsewhere	8	8	-	-
Unlisted	105	105	162	162
	574	574	576	576
Total debt securities	3,094	3,042	2,328	2,349

Movements in investment securities comprise

	Cost £m	Discounts & premiums £m	Book value £m
At 1 November 1993	1,590	142	1,732
Exchange adjustments	(22)	-	(22)
Acquisitions	4,115	45	4,160
Disposals	(3,342)	(22)	(3,364)
Amortisation of discounts and premiums	-	14	14
At 31 October 1994	2,341	179	2,520

18. Equity shares

	1994		1993	
	Book value £m	Market value £m	Book value £m	Market value £m
Investment securities				
Listed on a recognised UK exchange	3	4	-	1
Listed elsewhere	2	2	2	3
Unlisted	34	57	34	52
	39	63	36	56
Other securities				
Listed on a recognised UK exchange	67	67	67	37
Unlisted	6	6	12	12
	73	73	79	79
Total equity shares	112	136	115	135

Note 18 continued

Movements in cost and book value of equity investment securities comprise

	£m
At 1 November 1993	36
Acquisitions	8
Disposals	(5)
At 31 October 1994	<u>39</u>

19. Investments in subsidiaries

The principal subsidiaries are listed below

	Incorporated or registered in	Principal activity
TSB Bank plc	England and Wales	Banking and related services
TSB Bank Channel Islands Limited	Jersey	Banking and related services
TSB Bank Scotland plc	Scotland	Banking and related services
TSB Life Limited	England and Wales	Life assurance
TSB Pensions Limited	England and Wales	Pensions
TSB General Insurance Limited	England and Wales	General insurance
TSB Unit Trusts Limited	England and Wales	Unit trusts
Hill Samuel Bank Limited	England and Wales	Corporate and merchant banking
* Hill Samuel Asset Management Group Limited	England and Wales	Investment management
Investment Advisers Inc	USA	Investment management
Atlanta Capital Management Company	USA	Investment management
* Hill Samuel Investment Services Group Limited	England and Wales	Life assurance and pensions
Mortgage Express Holdings Limited	England and Wales	Mortgage services
TSB Property Services Limited	England and Wales	Estate agencies
United Dominions Trust Limited	England and Wales	Consumer credit, leasing and related services

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

A full list of subsidiaries will be included in the Company's next Annual Return.

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

Note 19 continued

	Shares in subsidiaries £m	Loans to subsidiaries £m
At 1 November 1993	1,721	1,591
Revaluations	297	-
Disposals of shares/repayments of loans	(5)	(46)
At 31 October 1994	<u>2,013</u>	<u>1,545</u>

On the historical cost basis, shares in subsidiaries would have been included at a cost of £1,205m (1993 £1,207m).

20. Tangible fixed assets

	The Group			The Company		
	Premises £m	Equipment £m	Total £m	Premises £m	Equipment £m	Total £m
Cost or valuation						
At 1 November 1993	487	698	1,195	8	7	15
Reclassifications	(5)	5	-	-	-	-
Additions	17	74	91	-	1	1
Disposals	(11)	(57)	(68)	(1)	(2)	(3)
At 31 October 1994	<u>498</u>	<u>720</u>	<u>1,218</u>	<u>7</u>	<u>6</u>	<u>13</u>
Depreciation						
At 1 November 1993	66	394	460	1	4	5
Disposals	(3)	(43)	(46)	(1)	(1)	(2)
Charge for the year	8	84	92	1	-	1
At 31 October 1994	<u>71</u>	<u>435</u>	<u>506</u>	<u>1</u>	<u>3</u>	<u>4</u>
Net book value at						
31 October 1994	<u>427</u>	<u>285</u>	<u>712</u>	<u>6</u>	<u>3</u>	<u>9</u>
Net book value at						
31 October 1993	<u>431</u>	<u>304</u>	<u>735</u>	<u>7</u>	<u>3</u>	<u>10</u>

Net book value of premises comprises

	The Group		The Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Freehold	342	350	6	7
Leasehold over 50 years unexpired	30	29	-	-
Leasehold up to 50 years unexpired	55	52	-	-
	<u>427</u>	<u>431</u>	<u>6</u>	<u>7</u>

The net book value of Group equipment includes £46m (1993 £71m) in respect of equipment held under finance leases on which the accumulated depreciation is £65m (1993 £48m).

Note 20 continued

The gross amount of depreciable assets included in premises is £225m (1993 £228m) for the Group and nil (1993 £1m) for the Company.

Premises at valuation, net of subsequent depreciation

	The Group		The Company	
	1994	1993	1994	1993
	£m	£m	£m	£m
Valued in 1992	1	1	-	-
Valued in 1988	9	9	-	-
Valued in 1983	66	73	-	-
Valued in 1982 and earlier years	17	22	-	-
At cost less subsequent depreciation	334	326	6	7
At 31 October	427	431	6	7

Of the Group net book value of premises £419m (1993 £424m) is occupied for the Group's activities. All of the Company's premises are occupied for its own activities. Of all fixed assets held, assets with a cost of £18m (1993 £14m) and depreciation of £5m (1993 £3m) are held for use in operating leases.

Historical value of assets

	The Group		The Company	
	Premises	Equipment	Premises	Equipment
	£m	£m	£m	£m
On an historical cost basis				
Cost	492	720	7	6
Accumulated depreciation	70	435	1	3
Net book value at 31 October 1994	422	285	6	3

21. Other assets

	1994	1993
	£m	£m
Balances arising from off balance sheet financial instruments	493	773
Amounts due from long term business funds (note 22)	87	53
Tax recoverable	74	72
Stock	54	43
Other	320	378
	1,028	1,317

22. Value of long-term life assurance and pension businesses

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

	1994	1993
	£m	£m
Gross increase in value of long-term businesses	138	155
Tax	(45)	(51)
	93	104
Surplus released from the funds	(87)	(53)
Net increase in value of long-term businesses	6	51
Balance at beginning of year	460	409
Balance at 31 October	466	460

The gross increase in the value of the long-term businesses is included in other operating income in the consolidated profit and loss account.

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 1993 and are as follows

- Future distributable profits after tax 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 has been assumed at 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.

23. Assets of long-term life assurance and pension business funds

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

	1994	1993
	£m	£m
Property	277	219
Equity shares	2,774	2,730
Unit trusts	1,845	1,882
Fixed interest securities	1,143	1,139
Mortgages and loans	32	38
Reinsurance recoveries	576	426
Other accounts receivable	740	764
Creditors and accrued expenses	(732)	(739)
	6,655	6,459

24. Deposits by banks

	1994	1993
	£m	£m
Repayable		
On demand	132	320
Three months or less	4,114	2,806
One year or less but over three months	829	497
Five years or less but over one year	6	26
	<u>5,081</u>	<u>3,649</u>

25. Customer accounts

	1994	1993
	£m	£m
Repayable		
On demand	13,043	12,216
Three months or less	2,519	3,064
One year or less but over three months	442	382
Five years or less but over one year	353	165
Over five years	195	82
	<u>16,552</u>	<u>15,909</u>

26. Debt securities in issue

	1994	1993
	£m	£m
Certificates of deposit repayable		
Three months or less	1,142	1,497
One year or less but over three months	203	284
Five years or less but over one year	1	-
	<u>1,346</u>	<u>1,781</u>

27. Other liabilities

	1994	1993
	£m	£m
Balances arising from off balance sheet instruments	531	770
Obligations under finance leases (see below)	54	83
Items in course of collection	128	127
Tax payable	94	49
Dividend payable (note 10)	80	65
Other liabilities	360	478
Other borrowings (see below)	172	162
	<u>1,419</u>	<u>1,734</u>

Obligations under finance leases are payable

Within one year	14	26
Between one and five years	39	56
Over five years	1	1
	<u>54</u>	<u>83</u>

Note 27 continued

	1994 £m	1993 £m
Other borrowings are repayable		
On demand and within one year	1	2
Between one and two years	1	—
Between two and five years	104	95
Over five years	66	65
	<u>172</u>	<u>162</u>

28. Provisions for liabilities and charges

	1994 £m	1993 £m
Deferred taxation (note 29)	70	4
Other provisions for liabilities and charges (note 30)	208	201
	<u>278</u>	<u>205</u>

29. Deferred taxation

	1994 £m	1993 £m
The balance of deferred taxation comprises		
Accelerated capital allowances	60	7
Short-term timing differences	30	13
Advance corporation tax	(20)	(16)
	<u>70</u>	<u>4</u>
At beginning of year	4	2
Charge to profit and loss account (note 8)	62	5
Subsidiaries sold	—	(12)
Currency and other movements	4	9
At 31 October	<u>70</u>	<u>4</u>

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 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 business and any gains arising on disposal are normally eligible for roll-over relief.

30. Other provisions for liabilities and charges

	Pension obligations £m	Contingent liabilities and commitments £m	Other ^a £m	Total £m
At 1 November 1993	2	9	190	201
Charge to profit and loss account	3	3	160	166
Provisions utilised	—	(4)	(155)	(159)
At 31 October 1994	<u>5</u>	<u>8</u>	<u>195</u>	<u>208</u>

Other provisions include £94m (1993 £71m) in respect of vacant leasehold properties, £21m (1993 £50m) for reorganisation costs and £52m (1993 £53m) for general insurance claims.

31. Subordinated liabilities

	The Group		The Company	
	1994	1993	1994	1993
	£m	£m	£m	£m
Undated loan capital				
US \$75m perpetual floating rate notes	46	50	-	-
£100m perpetual floating rate notes	100	100	100	100
	<u>146</u>	<u>150</u>	<u>100</u>	<u>100</u>
Dated loan capital				
8% unsecured loan stock 1989/94	-	9	-	-
US \$30m floating rate notes 1996	18	20	-	-
£135m zero coupon bonds 1998	91	82	91	82
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	11	10	11	10
£100m 10.625% loan stock 2008	100	100	100	100
£100m 12% bonds 2011	100	100	100	100
US \$100m floating rate notes 2016	61	67	-	-
£135m floating rate notes 2063	44	63	86	86
	<u>542</u>	<u>558</u>	<u>505</u>	<u>495</u>
Total loan capital	<u>688</u>	<u>708</u>	<u>605</u>	<u>595</u>
Repayable				
Within one year	-	9	-	-
Between one and two years	18	-	-	-
Between two and five years	91	102	91	82
Over five years	433	447	414	413
Undated	<u>148</u>	<u>150</u>	<u>100</u>	<u>100</u>
	<u>608</u>	<u>708</u>	<u>605</u>	<u>595</u>

The zero coupon bonds 2003, the guaranteed floating rate notes 2001 and the floating rate notes 2063 were issued by a subsidiary under the Company's subordinated guarantee and the proceeds lent to the Company on a subordinated basis.

Loan capital has been issued on the basis that the claims thereunder are subordinated to the claims of depositors and other unsecured, unsubordinated, creditors.

Except for perpetual debt, loan capital is normally redeemable, at par, on maturity.

Other than for fixed interest loans, interest rates are set periodically based on inter-bank rates. At 31 October 1994 the rate on the £100m variable rate notes 2003 was three month LIBOR plus 0.5%; on the £100m perpetual floating rate notes was three month LIBOR plus 0.5%; and on the £135m floating rate notes 2063 was six month LIBOR plus 0.7% (after 1998 nominal interest is payable).

32. Minority interests

Minority interests consist of equity holdings in the Group's subsidiaries held outside the Group. The TSB Foundations for England and Wales, Scotland and the Channel Islands each hold one special rights redeemable preference share of £1 in certain subsidiaries of the Group.

33. Called up share capital

	Authorised 1994 and 1993	Allotted, called up and fully paid	
		1994	1993
	£m	£m	£m
Ordinary shares of 25p each	505	382	379
Limited voting ordinary shares of 25p each	20	20	20
Limited voting preference shares of £1 each	300	—	—
	<u>825</u>	<u>402</u>	<u>399</u>

13,283,818 ordinary shares were issued during the year, upon the exercise of share options, for a consideration of £12m.

At 31 October 1994 options to purchase 75,855,293 ordinary shares were outstanding under the Group's executive and savings related share option schemes at prices from 40.02p to 282.5p per share exercisable up to 2004. The exercise of certain options will require £.n to 15,216,074 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.

34. Reserves

	The Group £m	The Company £m
Share premium account		
At 1 November 1993	11	11
Premium on issue of shares	9	9
At 31 October 1994	<u>20</u>	<u>20</u>
Other reserves		
At 1 November 1993	400	—
Transfer from profit and loss reserve	6	—
At 31 October 1994	<u>406</u>	<u>—</u>

The Group's other reserves represent its share of the value of long-term life assurance and pension business in force and the surplus retained within the funds.

Revaluation reserve

At 1 November 1993	5	514
Revaluation of investments in subsidiaries	—	297
Transfer to profit and loss reserve	—	(3)
At 31 October 1994	<u>5</u>	<u>808</u>

Note 34 continued

	The Group £m	The Company £m
Profit and loss reserve		
At 1 November 1993	925	816
Retained profit/(loss) for the year	180	(118)
Transfer to other reserves in respect of long-term life and pension businesses	(6)	-
Transfer from revaluation reserve	-	3
Exchange adjustments	(1)	-
Other movements	1	1
At 31 October 1994	1,099	702

The cumulative amount of goodwill arising on the acquisition of subsidiaries, net of goodwill attributed to subsidiaries or businesses subsequently sold, charged against Group reserves is £618m (1993 £618m).

35. Contingent liabilities and commitments

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 risk weighted equivalents by applying specified conversion factors or, in the case of interest and exchange rate related contracts, by marking to market value. The amounts detailed are risk weighted according to the nature of the counterparty.

	Contract or underlying principal amount		Risk weighted amount	
	1994	1993	1994	1993
	£m	£m	£m	£m
Contingent liabilities				
Acceptances and endorsements	326	154	253	66
Guarantees and irrevocable letters of credit	199	177	101	109
Performance bonds and other transaction related contingencies	27	33	12	17
Other contingent liabilities	2	1	1	1
	554	365	367	193

Note 35 continued

	Contract or underlying principal amount		Risk weighted amount	
	1994	1993	1994	1993
	£m	£m	£m	£m
Commitments				
Documentary credits and short-term trade related transactions	30	13	13	4
Forward asset purchases and forward deposits placed	128	261	24	52
Undrawn note issuance and revolving underwriting facilities	70	144	35	72
Undrawn formal standby facilities, credit lines and other commitments to lend				
One year and over	449	595	123	189
Less than one year	6,341	6,524	-	1
Other commitments	6	1	4	1
	7,024	7,538	199	319

In the case of interest rate and exchange rate contracts, which are undertaken for dealing and hedging purposes, the risk weighted amount is the total replacement cost, obtained by marking all contracts with a positive value to market, plus an additional amount which relates to potential future credit exposure.

	Interest rate contracts		Exchange rate contracts	
	1994	1993	1994	1993
	£m	£m	£m	£m
Contract or underlying principal amount	31,213	34,358	4,050	2,328
Risk weighted amount	91	151	51	54
Replacement cost	332	611	136	100

The Securities and Investments Board has carried out an industry-wide investigation into the conduct of business related to pension transfers and opt-outs. Provisions in respect of possible compensation to customers have been made which are considered appropriate. However, in the light of uncertainty in this area, the total liability, if any, cannot be established with certainty.

The Company has guaranteed the loan capital of certain subsidiaries as indicated in note 31. It has also guaranteed lending by subsidiaries of £37m (1993 £34m) and certain obligations of subsidiaries.

Capital commitments

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

	1994	1993
	£m	£m
Contracted	12	1
Authorised by the directors but not contracted	6	5
	18	6

Note 35 continued

Operating lease commitments

Annual commitments of the Group under operating leases expire as follows

	1994		1993	
	Premises	Other	Premises	Other
	£m	£m	£m	£m
Within one year	2	—	2	1
Between two and five years	6	2	5	3
After five years	9	—	15	—
	<u>17</u>	<u>2</u>	<u>22</u>	<u>4</u>

36. Pension costs

The TSB Group Pension Scheme, which covers approximately 96% 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.

Annual actuarial valuations are carried out by qualified independent actuaries employed by Sedgwick Noble Lowndes Limited, the latest available being at 1 November 1993. This valuation showed that the market value of the assets of the scheme was £2,375m. The actuarial value of the assets represented 153% 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 profit and loss account, has been established so as to eliminate the surplus over a period not less than the average remaining service life of current employees.

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 the investments would be 9.5%, annual dividend increases would be 5.5% and annual increases in earnings would be 7.5%. Annual pension increases are assumed to be 4.5% or 5.5%.

37. Related party transactions

In the year ended 31 October 1994 the Group sold the venture capital business of Investment Advisers Inc. ('IAI'), the Venture Capital Group ('VCG') to the management of VCG, the Coral Group ('Coral'). In addition, the Group sold its 20% carried interest in two partnerships, Superior Ventures ('Superior') and IAI Venture Partnerships II ('VPII'), to the management of IAI. In respect of the sale of the venture capital business, IAI has the right to receive 12% of all future fees received by Coral for the management of Superior and VPII and approximately US\$1.25m per annum for approximately 10 years. The carried interest in Superior and VPII was valued at US\$3m, of which US\$1.2m was distributed to IAI employees, US\$1.47m was received from IAI management and a dividend of US\$0.33m was paid to IAI's holding company. The tangible net assets and the profits of IAI attributable to the venture capital business in the year ended 31 October 1993 were US\$0.02m and US\$0.926m respectively. No revenues were generated from IAI's carried interest in Superior and VPII prior to the sale to the management of IAI.

38. Reconciliation of profit before tax to net cash flow from operating activities

	1994	1993
	£m	£m
Profit before tax	504	301
Loss/(profit) on sale or termination of activities	28	(5)
Provisions for liabilities and charges	137	178
Interest on loan capital	52	58
(Increase)/decrease in prepayments and accrued income	(38)	198
Increase/(decrease) in accruals and deferred income	86	(80)
(Decrease) in provisions for bad and doubtful debts	(389)	(65)
Depreciation	92	90
Increase in value of life assurance and pension businesses	(51)	(102)
Exchange and other movements	(24)	9
	397	682
Cash effect of movement in		
Cash and balances at central banks	(15)	-
Items in course of collection	(18)	(20)
Treasury bills and other eligible bills	(11)	6
Loans and advances to banks	59	(370)
Loans and advances to customers	(451)	(514)
Debt securities	(41)	(165)
Equity shares	8	27
Other assets	289	188
Deposits by banks	1,432	(2,099)
Customer accounts	643	(57)
Debt securities in issue	(435)	620
Other liabilities	(374)	(331)
Provisions for liabilities and charges	(159)	(149)
Net cash flow from operating activities	1,322	(2,283)

39. Analysis of changes in financing in the year

	Share capital (including premium)		Loan capital	
	1994	1993	1994	1993
	£m	£m	£m	£m
At beginning of year	410	405	708	701
Cash flow from financing	12	5	(9)	-
Currency and other adjustments	-	-	(11)	7
Balance at 31 October	422	410	688	708

40. Cash flow impact of the sale of subsidiaries and businesses

	1994	1993
	£m	£m
Net assets of subsidiaries and businesses sold in the year		
Loans and advances to customers (net of provisions)	-	304
Cash and balances at central banks	-	37
Loans and advances to banks	-	23
Customer deposits	-	(83)
Other net assets	2	(196)
Net assets sold	2	85
(Loss)/profit on sale before tax	(20)	6
Provision for closure and other costs	28	-
Goodwill written back from profit and loss reserve (note 5)	-	84
Total cash consideration (net of expenses)	2	174
Cash and cash equivalents sold	-	(37)
	2	137

Five Year Financial Summary

Summary financial information for 1993 and 1994 is shown in accordance with the requirements of the new accounting regulations set out on page 34. It is not practical to restate previous years, consequently figures for financial years 1992 and before are as stated in the financial summary contained in the 1993 accounts. The segmental profit analysis is unaffected by the new regulations.

Year ended 31 October	1994	1993	1992	1991	1990
	£m	£m	£m	£m	£m
Segmental Profit Analysis					
TSB					
• Retail banking	247	260	291	293	245
Insurance	101	184	129	117	91
	438	454	420	410	336
Hill Samuel					
Merchant banking	64	58	56	(422)	(40)
Asset management and insurance	21	38	27	13	23
	85	96	83	(409)	(17)
UDT	54	34	28	26	21
Mortgage Express	38	1	(87)	(24)	(5)
Loan Administration Unit	4	(142)	(379)	note (a)	
Commercial activities	(2)	8	16	8	18
Central costs, including central interest	(85)	(85)	(51)	(58)	(41)
Operating profit/(loss)	532	366	40	(47)	312
Analysis of Profit					
Net interest income	1,067	1,025	975	1,043	1,023
Other operating income	848	1,001	1,030	948	822
Total operating income	1,915	2,026	2,005	1,991	1,845
Staff costs	597	643	657	708	681
Other operating costs (including depreciation)	566	602	631	605	572
Total operating expenses	1,133	1,245	1,288	1,313	1,253
Profit before claims and charges	782	781	717	678	592
Claims costs in TSB General Insurance	74	79	80	71	19
Profit before charges	708	702	637	607	573
Charge for bad and doubtful debts	173	335	597	654	261
Charge for commitments and contingencies	3	1	-	-	-
Operating profit/(loss)	532	366	40	(47)	312
Exceptional items (note (b))	-	(70)	2	-	-
Profit/(loss) before businesses sold or terminated	532	296	42	(47)	312
(Loss)/profit on businesses sold or terminated (note (c))	(28)	5	(37)	50	(286)
Profit before taxation	504	301	5	3	26

Notes

(a) 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.

(b) Exceptional items comprise: 1993 - see note 4 on page 45 of the accounts. 1992 relates to the release of a provision, in the value of long-term life assurance and pension businesses, for commission payable to TSB retail banking (£30m) offset by reorganisation costs (£28m).

(c) (Loss)/profit on sale or termination of activities includes goodwill written off, on acquisition, directly to reserves.

At 31 October	1994	1993	1992	1991	1990
	£m	£m	£m	£m	£m
Balance Sheet Extracts					
Total assets	34,702	32,847	32,182	29,934	30,799
Average assets	33,774	32,514	31,058	30,367	30,024
Value of long-term life assurance and pension businesses	466	460	409	345	310
Advances to customers and banks					
Mortgages	9,841	8,746	7,629	7,424	7,053
Other personal	3,857	3,542	3,568	3,457	3,165
Corporate/commercial	4,325	5,270	5,157	5,695	5,929
Leased assets	1,040	942	1,365	1,623	1,531
Advances to banks	3,367	3,420		note (d)	
Notice and fixed loans		note (d)	4,460	2,343	3,920
Total advances	22,430	21,920	22,177	20,542	21,598
Provisions for bad and doubtful debts	(961)	(1,350)	(1,416)	(1,009)	(472)
Net advances to customers and banks	21,469	20,570	20,761	19,533	21,126
Customer and bank deposits					
Bank deposits	5,081	3,649		note (d)	
Cheque accounts	4,521	4,449	4,168	4,116	3,770
Retail deposits	8,437	8,438	8,151	7,127	7,410
Commercial/wholesale	3,594	3,022	11,084	10,484	11,867
Total customer and bank deposits	21,633	19,558	23,403	21,727	23,047
Shareholders' funds	1,932	1,740	1,569	1,674	1,814
Other Information					
Cost: income ratio (%)	59.2	61.5	64.2	65.9	67.9
Risk asset ratio (%) (note (a))	13.5	13.2	11.3	12.2	11.1
Other operating income: total income (%)	44.3	49.4	51.4	47.6	44.6
Average TCR base rate (%)	5.4	6.3	10.1	12.3	14.9
Interest spread (note (b)) (%)	3.9	3.9	3.3	3.6	
Interest margin (note (c)) (%)	4.4	4.5	4.2	4.5	
					note (d)
Earnings/(loss) per share (pence) (note (e))	21.5	12.7	(1.7)	0.1	(5.3)
Earnings/(loss) per share adjusted (pence) (note (e))	23.4	15.6	0.4	(3.5)	13.4
Net dividend per share (pence)	9.024	7.68	6.4	6.4	6.4
Net assets per share (pence)	126	114	103	114	119
Share price at 31 October (pence)	226	227	135.5	133	130
Average staff numbers	26,860	32,375	36,878	40,237	41,618

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.

(e) Earnings/(loss) per share is calculated in accordance with FRS 3, whilst the adjusted basis excludes profits/losses on the sale or termination of activities and exceptional items.

Analysis of Shareholders At 31 December 1994

Size of holdings of ordinary shares	Number of holdings	Percentage of total holdings	Percentage of total shares
1 - 200	48,797	4.49	0.26
201 - 400	366,393	33.74	7.04
401 - 600	482,122	44.40	15.41
601 - 1,000	122,737	11.30	5.71
1,001 - 5,000	60,383	5.56	6.61
5,001 - 10,000	3,324	0.31	1.50
10,001 - 50,000	1,216	0.11	1.63
50,001 - 100,000	235	0.02	1.15
100,001 - 500,000	397	0.04	6.20
500,001 and over	281	0.03	54.49
	1,085,885	100.00	100.00

Classification of shareholders

Ordinary shares	Number of holdings	Percentage of total holdings	Percentage of total shares
Individuals	969,345	89.26	33.00
Joint accounts (individuals)	107,579	9.91	3.68
Nominee companies	5,521	0.51	44.94
Banks	40	0.00	0.01
Insurance companies	122	0.01	5.71
Pension funds	90	0.01	1.60
Other corporate bodies	3,179	0.30	5.98
TSB Group Holdings (Jersey)			
Limited (a)	2	0.00	2.82
Trustees of the TSB Group employee trust (a)	1	0.00	1.80
Trustees of the TSB Group staff share schemes (b)	6	0.00	0.46
	1,085,885	100.00	100.00

Limited voting ordinary 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

Notes

- (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) 7,075,790 shares were held by trustees on behalf of 7,189 employees in the United Kingdom, the Channel Islands and the Republic of Ireland under TSB Group staff share schemes.

Shareholder Meetings

The annual general meeting will be held in Glasgow on Thursday 23 March. In addition to this there will be six regional meetings which shareholders can attend.

The annual general meeting has a formal agenda as set out in the Notice of Meeting and will include a report from the chairman and an opportunity for shareholders to ask questions. The regional meetings have no formal business to undertake but they give shareholders the opportunity to hear more about their company and to ask questions of the chairman and other TSB staff.

The regional meetings are being held in Newcastle, Liverpool and Birmingham. Further details are given below. If you would like a ticket, you should complete the application form which is attached to the proxy form enclosed with this mailing. Tickets are limited and will be issued on a 'first come first served' basis.

Newcastle

4 April at 11.00am and 2.30pm
Forte Crest Hotel, New Bridge Street,
Newcastle

Liverpool

6 April at 11.00am and 2.30pm
Britannia Adelphi Hotel, Ranelagh Place,
Liverpool

Birmingham

11 April at 11.00am and 2.30pm
The Grand Hotel, Colmore Row
Birmingham