

LLOYDS BANK COMMERCIAL FINANCE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

Registered office

No. 1 Brookhill Way
Banbury
Oxon
OX16 3EL

Registered number

00733011

Directors

A K Walker
D K Reed
B Stephenson

Company secretary

P Gittins

Member of Lloyds Banking Group



LLOYDS BANK COMMERCIAL FINANCE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Contents	Pages
Strategic report	3 - 4
Directors' report	5 - 7
Independent auditors' report	8 - 9
Statement of comprehensive income	10
Balance sheet	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	14 - 43

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their Strategic Report of Lloyds Bank Commercial Finance Limited ("the Company") for the year ended 31 December 2015.

Principal activities

The principal activity of the Company is to provide Receivables Finance and Asset Based Lending ("ABL") to Commercial customers primarily based in the United Kingdom and Hire Purchase ("HP") finance of plant and equipment mainly to Small and Medium sized Entities ("SMEs").

From March 2013, the Company entered into an agency agreement with Lloyds Bank Plc which had the effect of transferring sterling loan balances together with all associated risks and returns from the Company to Lloyds Bank Plc as part of Lloyds Banking Group's ("the Group") aim of simplification. The Company retains legal title and continues to service these loans as an agent of Lloyds Bank Plc alongside managing its own loan portfolio. Consequently, Receivables Finance and ABL business remaining in the Company is primarily denominated in foreign currency.

The Company ceased writing HP business with effect from 1 April 2014; hence this book is in a state of run off.

Business review, development and performance

The Company made a profit before tax of £17,642k (2014: £31,122k) which represents a decrease on the prior year of 43.3% (2014: decrease of 51.6%) due to a reduction in income from its loan portfolio following the transfer referred to above. Consequently, the Company's balance sheet assets and liabilities have reduced as a result of the transfer.

During the year, the Company entered into an agreement to outsource its back office Receivables Finance and ABL operations to Firstsource Solutions Limited. The initial impact of this agreement was to move over 300 employees to Firstsource and for the Company to pay Firstsource a monthly fee for the provision of the back office service. Day to day operations have been largely unaffected by this arrangement and it is intended for service levels to improve further over time.

The Company continues to incur costs as it develops a new Receivables Finance and ABL core system called Aquarius and once the new system is ready for use, amortisation will begin in relation to this intangible asset.

There have been no other developments in the business during the year hence the Company's long-term strategic objectives continues to be the provision of finance to businesses primarily located in the UK and to service loans as an agent of Lloyds Bank Plc.

Key performance indicators ('KPIs')

KPIs are now regarded as income from external customers, agency fee from Lloyds Bank Plc, loans and advances to customers and average numbers of clients from both its own and servicing loan portfolios.

	2015 £'000	2014 £'000	Variance £'000 %	
1. Interest income (own portfolio)				
Receivables Finance and Asset Based Lending	14,421	28,542	(14,121)	(49.5)
Hire Purchase	3,950	8,920	(4,970)	(55.7)
Total (note 3)	18,371	37,462	(19,091)	(50.9)

Interest income is down due mainly to a reduction in average client numbers. Despite this, the Effective Interest Rate (EIR) for both years has remained largely unaffected.

	2015 %	2014 %
EIR % (own portfolio)		
Receivables Finance and Asset Based Lending	2.6	2.6
Hire Purchase	4.3	4.4

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

Key performance indicators ('KPIs') continued

	2015 £'000	2014 £'000	Variance £'000	%
2. <u>Agency income (servicing portfolio)</u>				
Agency fee (note 3)	105,195	84,437	20,758	24.6

Agency fee income is up mainly due to an increase in average client numbers. Excluding one-off pension charges, a profit of 7% has been generated in both years from the Company's servicing business.

	2015 £'000	2014 £'000	Variance £'000	%
3. <u>Gross loans and advances to customers</u>				
Own portfolio (note 13)	231,019	444,268	(213,249)	(48.0)
Servicing portfolio	4,317,266	4,394,187	(76,921)	(1.8)
Total	4,548,285	4,838,455	(290,170)	(6.0)

	2015 No.	2014 No.	Variance No.	%
<u>Average number of clients</u>				
Own portfolio	3,418	5,309	(1,891)	(35.6)
Servicing portfolio	21,706	19,203	2,503	13.0
Total	25,124	24,512	612	2.5

Future developments

Other than the developments referred to above, there are no other developments planned for the Company.

Capital position at 31 December 2015

Total equity per the balance sheet on page 11 amounts to £28,650k (2014: £66,565k). The reduction is due to a fall in retained profits for the year and an increase in the amount paid to Lloyds Bank Plc by way of dividend.

Principal risks and uncertainties


The most significant risk faced by the Company which could impact on the success of delivering against the Company's long-term strategic objective is financial risks. These relate primarily to the non-payment of monies owed by customers. The Company has a rigorous process of monitoring HP risk and instructs agents to repossess assets if required. The Company currently has exposure to foreign exchange risk with some agreements denominated in currencies other than sterling.

Financial risk management objectives and policies

Information regarding the financial risk management objectives and policies of the Company in relation to the use of financial instruments is given in note 28. The objectives and policies of the board are designed to minimise the amount of financial risk that the Company is exposed to. The directors also consider non-financial business risk and uncertainties faced by the Company and have nothing specific to report in these financial statements.

The 2015 Strategic Report has been approved by the Board of Directors.

On behalf of the Board.



A K Walker

Director

Date: 7 SEPTEMBER 2016
Lloyds Bank Commercial Finance Limited

LLOYDS BANK COMMERCIAL FINANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their Directors' Report together with the audited financial statements of the Company for the year ended 31 December 2015.

General Information

The Company is a limited company registered and domiciled in England and Wales.

Results

The Statement of Comprehensive Income on page 10 shows profit for the year being total comprehensive income for the year ended 31 December 2015 of £13,785k (2014: £37,848k).

Principal risks and uncertainties

These are explained in the Strategic Report. Financial risk management is included in note 28.

Policy and practice on payment of suppliers

The Company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref. URN 04/606.

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

Trade creditor days at the year-end were 5 days (2014: 2 days), based on the ratio of trade creditors at the end of the year to amounts invoiced during the year by suppliers.

Dividends

Dividends paid during the year are disclosed in note 26. An interim dividend of £9,500k has been proposed for the year ended 31 December 2015.

Post balance sheet events

On 23 June 2016, the UK voted to leave the European Union. The directors do not anticipate this will have a significant impact on the Company and the ultimate parent is assessing the risks to Lloyds Banking Group relating to the economic uncertainty. There were no material post balance sheet events in the prior year.

Going concern

The going concern of the Company is dependent on successfully funding its balance sheet and maintaining adequate levels of capital. In order to satisfy itself that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have obtained a letter of support from Lloyds Bank plc. Consequently, the Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Future developments

Information regarding future developments of the Company can be found in the Strategic Report.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

Directors

The names of the Directors of the Company are shown on page 1. Changes to the composition of the Board since 1 January 2015 up to the date of this report are shown below:

	Resigned	Appointed
J F Robson	30 June 2015	
M J Cooper	19 August 2015	
E J G Smith	7 January 2016	
D Kerr	7 January 2016	
A K Walker		7 January 2016
D K Reed		7 January 2016
B Stephenson		10 March 2016

Appointment and retirement of Directors

The appointment of Directors is governed by the Company's articles of association and the Companies Act 2006. The Company's articles of association may only be amended by a special resolution of the shareholder in a general meeting. Given the change in principal activity to that of service agent, the number of directors required to run the Company is now at a level considered more appropriate.

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company, including former directors who resigned during the year, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Share capital and dividends

Information about share capital and dividends is shown in notes 18 and 26.

Research and development activities

The Company is in the process of developing a core system for its Receivables Finance and ABL business. An external supplier is used and costs are capitalised shortly after being incurred. Once ready for use these costs will be amortised over the useful economic life.

Employees

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

The Group gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in maintaining its. The Group encourages involvement of employees.

Schemes offering share options for the acquisition of shares in Lloyds Banking Group are available for most staff, to encourage their financial involvement in the Group.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to independent auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the report is approved:

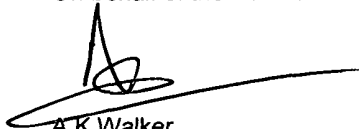
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006.

Approved by the Board of Directors.

On behalf of the Board.



A K Walker

Director

Date: 7 SEPTEMBER 2016

Lloyds Bank Commercial Finance Limited

Registered in England & Wales

Company Number 00733011

LLOYDS BANK COMMERCIAL FINANCE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK COMMERCIAL FINANCE LIMITED

Report on the financial statements

Our opinion

In our opinion, Lloyds Bank Commercial Finance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
 - have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.
-

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2015;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK COMMERCIAL FINANCE LIMITED (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



John Wei (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 September 2016

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000 Restated
Revenue	3	123,566	121,899
Other operating income	4	1,316	1,023
Total income		124,882	122,922
Staff costs	5	(50,655)	(39,398)
Other operating expenses	6	(53,599)	(48,992)
Interest payable	7	(996)	(1,748)
Amortisation of computer software	10	(758)	(407)
Depreciation of property, plant and equipment	11	(1,232)	(1,255)
Total expenses		(107,240)	(91,800)
Profit before tax	8	17,642	31,122
Tax charge	9	(3,020)	(6,123)
Profit for the year		14,622	24,999
Other comprehensive income:			
Retirement defined benefit scheme re-measurements before tax	20	(914)	16,061
Tax		77	(3,212)
Retirement defined benefit scheme re-measurements after tax		(837)	12,849
Profit for the year being total comprehensive income		13,785	37,848

Revenue for 2014 has been restated, more details are contained in note 32.

All amounts are attributable to the owners of the Company.

The notes on pages 14 to 43 are an integral part of these financial statements.

All results derive from continuing activities.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

BALANCE SHEET

As at 31 December 2015

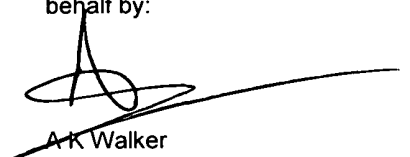
	Note	2015 £'000	2014 £'000 Restated
ASSETS			
Non-current assets			
Intangible assets	10	17,206	9,129
Property, plant and equipment	11	7,678	6,010
Investments	12	16,683	16,684
Trade and other receivables	13	16,975	56,131
Retirement benefits	20	31,676	31,540
		<u>90,218</u>	<u>119,494</u>
Current assets			
Trade and other receivables	13	184,905	345,647
Other current assets	14	1,350	3,509
Cash and cash equivalents	15	183,816	187,959
		<u>370,071</u>	<u>537,115</u>
Total assets		<u>460,289</u>	<u>656,609</u>
EQUITY AND LIABILITIES			
LIABILITIES			
Current liabilities			
Trade and other payables	17	55,610	57,868
Amounts owed to group undertakings	17	369,499	525,382
Current tax payable		1,908	2,031
		<u>427,017</u>	<u>585,281</u>
Non-current liabilities			
Deferred tax liabilities	16	4,622	4,763
		<u>4,622</u>	<u>4,763</u>
EQUITY			
Share capital	18	1,011	1,011
Revaluation reserve	18	2,399	2,399
Retained earnings		25,240	63,155
Total equity		<u>28,650</u>	<u>66,565</u>
Total equity and liabilities		<u>460,289</u>	<u>656,609</u>

A number of figures in the 2014 balance sheet have been restated, more details are contained in note 32.

All amounts are attributable to the owners of the Company.

The notes on pages 14 to 43 are an integral part of these financial statements.

The financial statements on pages 10 to 43 were approved by the Board of Directors and were signed on its behalf by:



A.K. Walker
Director

Date: 7 SEPTEMBER 2016
Company number: 00733011

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Note	Share capital £'000	Revaluation reserve £'000	Retained earnings £'000 Restated	Total equity £'000 Restated
Balance at 1 January 2014		1,011	2,399	55,307	58,717
Comprehensive income					
Profit for the year		-	-	24,999	24,999
Other comprehensive income					
Retirement defined benefit scheme re-measurements		-	-	12,849	12,849
Total comprehensive income		-	-	37,848	37,848
Transactions with owners					
Dividend paid	26	-	-	(30,000)	(30,000)
Balance at 31 December 2014		1,011	2,399	63,155	66,565
Comprehensive income					
Profit for the year		-	-	14,622	14,622
Other comprehensive income					
Retirement defined benefit scheme re-measurements		-	-	(837)	(837)
Total comprehensive income		-	-	13,785	13,785
Transactions with owners					
Dividend paid	26	-	-	(51,700)	(51,700)
Balance at 31 December 2015		1,011	2,399	25,240	28,650

Retained earnings have been restated, more details are contained in note 32.

All amounts are attributable to the owners of the Company.

The notes on pages 14 to 43 are an integral part of these financial statements.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000 Restated
Cash generated from operations	19	70,483	60,126
Interest paid		(1,092)	(1,670)
Tax paid via group relief		(3,207)	(16,428)
Net cash generated from operating activities		66,184	42,028
Cash flows from investing activities			
Purchase of intangible assets	10	(8,835)	(6,463)
Purchase of property, plant and equipment	11	(2,900)	(4,619)
Disposal of investments	12	1	4,604
Dividends received		1,300	1,000
Net cash used in investing activities		(10,434)	(5,478)
Cash flows from financing activities			
Dividends paid	26	(51,700)	(30,000)
Net cash used in financing activities		(51,700)	(30,000)
Net increase in cash and cash equivalents		4,050	6,550
Cash and cash equivalents net of overdrafts at beginning of year		13,762	7,212
Cash and cash equivalents net of overdrafts at end of year	15	17,812	13,762

A number of figures in the 2014 cashflow have been restated, more details are contained in note 32.

The notes on pages 14 to 43 are an integral part of these financial statements.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Lloyds Bank Commercial Finance Limited is a limited liability company incorporated and domiciled in England & Wales.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Company is reliant on funding provided by Lloyds Bank Plc which is a subsidiary of Lloyds Banking Group Plc. The Directors are satisfied that it is the intention of Lloyds Banking Group Plc that its subsidiaries including the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future.

a) **Basis of preparation**

The financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 as applicable to companies using IFRS and IFRS Interpretations Committee (IFRS IC) interpretations. They have also been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

These financial statements contain information about the Company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under IFRS 10 "Consolidated Financial Statements" and Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company (see note 25).

There are no new IFRS pronouncements relevant to the Company requiring adoption in these financial statements.

Details of those IFRS pronouncements which will be relevant in future periods but are not yet effective and so have not been applied in preparing these financial statements are set out in note 31.

b) **Financial assets and financial liabilities**

Financial assets and liabilities comprise trade and other receivables, other debtors, trade creditors, amounts owed to group undertakings, amounts due to clients and other creditors. Loans and advances to customers are accounted for at amortised cost inclusive of transaction costs and are amortised using the effective interest rate method.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' when the rights to receive cash flows, or obligations to pay cash flows, have expired. This applies to loans transferred to Lloyds Bank plc.

As lessor, when assets are held subject to a hire purchase contract, the present value of the lease payments plus any unguaranteed residual payments where applicable, are recognised as a receivable within loans and advances to customers (being the company's net investment in the lease).

Lease agreements are classified as finance leases or hire purchase agreements if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

c) Investments in subsidiary undertakings

Investments are shown within non-current assets at cost less a provision for any impairment. Cost relating to investments in group undertakings represents the nominal value of ordinary shares held or the book value of shares acquired. Cost relating to trade investments represents the book value of shares acquired.

d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on assets so as to write off their cost less residual value on a straight line basis over their expected useful lives as follows:

- Computer and office equipment	3-10 years
- Motor vehicles	4 years

e) Intangible assets

Computer software

Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, new systems and enhancements to existing systems are recognised as intangible assets if they are expected to generate future economic benefits. Costs include software development, employee costs and an appropriate portion of relevant overheads. Computer software development costs are amortised using the straight-line method over their useful lives (not exceeding 7 years).

f) Tax

Current tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

g) Employee benefits

Pensions

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the Lloyds Banking Group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity.

The asset recognised in the balance sheet in respect of defined benefit pension plans is the Company's share of the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Company's Statement of Comprehensive Income charge includes the current service cost of providing pension benefits, past service costs, net interest expense (income), and plan administration costs that are not deducted from the return on plan assets. Past service costs, which represents the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, are recognised when the plan amendment or curtailment occurs. Net interest expense (income) is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

For defined contribution plans, the Company pays contributions into privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no legal or constructive obligation to pay further contributions. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments

The Company's ultimate parent company operates a number of group-wide equity-settled, share-based compensation plans. The Company's share of the value of its employees' services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments with a corresponding liability to the ultimate parent undertaking. This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest. The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique such as a Black-Scholes option pricing model.

The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest. At each balance sheet date, this estimate is reassessed and if necessary revised. Any revision of the original estimate is recognised in the statement of comprehensive income over the remaining vesting period.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

h) Leases

Operating lease rentals payable on property and equipment are recognised as an expense in the statement of comprehensive income on a straight line basis over the period of the lease.

i) Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements relating to foreign currency are measured using the currency of the primary economic environment in which the client operates (the functional currency). The financial statements are presented in sterling, which is the Company's presentation and primary functional currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. The results of the foreign operations exchange differences arising from the translation of the net investment are taken to shareholders' equity via the Statement of Comprehensive Income.

j) Impairment of financial assets

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation or the debt being restructured to reduce the burden on the borrower.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

If there is no objective evidence of individual impairment the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The method and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between the loss estimates and actual loss experience. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the provision is adjusted and the amount of the reversal is recognised in the statement of comprehensive income.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

k) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise balances with original maturity of three months or less, and bank overdrafts. Bank overdraft balances are presented separately from other amounts owed to Group companies under current liabilities in the Balance Sheet.

l) Revenue recognition

Factoring and invoice discounting income and expenses are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset. Amounts received but not yet recognised in the statement of comprehensive income are held on the balance sheet as deferred income.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the interest but not future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs (including commissions payable on new business) related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

Hire purchase income is recognised over the term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment. Initial direct incremental costs attributed to negotiating and arranging the agreement are included in the initial measurement of the hire purchase receivable thus reducing the amount of income recognised over the term.

Fees and commissions which are not an integral part of the effective interest rate are recognised on an accruals basis when the service has been provided and this includes the agency fee receivable from Lloyds Bank plc.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Servicing revenue is recognised monthly in arrears and calculated on a cost plus 7.5% basis. Service costs are those incurred by the Company in respect of agreements where the Bank acts as principal. Service costs do not include costs where the Company acts as principal nor costs directly attributable to loans that have been transferred to the Bank.

m) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are paid (note 26).

n) Offsetting financial instruments

With the exception of deferred tax assets and liabilities which are analysed separately for clarity (note 16), financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

o) Borrowing costs

Borrowing costs, including interest and other costs incurred in relation to the borrowing of funds, are recognised as an expense in the period in which they are incurred.

p) Borrowings

Borrowings are recognised initially at book value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of comprehensive income over the period of the borrowings using the effective interest method.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

q) Share capital

Ordinary shares are classified as equity (note 18). Dividends paid on the Company's ordinary shares are recognised as a reduction in equity in the period in which they are paid.

2. Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment losses on loans and advances to customers

The Company provides for specific accounts to the extent that the expected recovery is less than amounts advanced to customers; this is done on a specific individual client basis and takes into account the time cost of money to the anticipated point of final recovery or write off. These accounts are reviewed on a monthly basis and the provision is adjusted on the basis of anticipated recoveries.

A collective provision is made on the remainder of the book and is updated regularly. This provision amount is arrived at by multiplying the lending balance by the probability of default by the loss given default and by the loss emergence period.

De-recognition of financial assets

Financial assets transferred from the Company to the Bank have been derecognised in the balance sheet of the Company in accordance with the de-recognition criteria of IAS 39. The legal title to the assets remains with the Company but the assets have been deemed to be transferred to the Bank in accordance with IAS 39.

IAS 39 paragraph 17 allows an entity to derecognise a financial asset when certain de-recognition criteria are met. An entity transfers a financial asset if, and only if "it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 19".

The Company must also be satisfied that the risks and rewards of ownership have been transferred from the Company to the Bank in accordance with paragraph 20 of IAS 39. The transfer of risks and rewards is evaluated by comparing the entity's exposure before and after the transfer with the variability in amounts and timing of the net cash flows. The Company will be deemed to have transferred all risks and rewards if its exposure to the variability is no longer significant.

The assets have been transferred in return for a fixed mark-up on the cost of servicing the assets. All discount charges and interest payable by and collected from Agency Clients and goods purchase fees will be income of the Bank. The Bank will bear the credit risk in relation to each Lloyds Bank Commercial Finance Limited facility and it is liable for and will reimburse Lloyds Bank Commercial Finance Limited for any losses relating to the loans transferred to Bank.

Any potential variability in cash flows are the responsibility of the Bank, any cash flows that the Company does not receive from clients due to impairment or other reasons, will be reimbursed by the Bank. Therefore the fees received by the Company under the servicing arrangements are fixed at the outset and not likely to vary.

On this basis the directors are satisfied that the terms of the transfer meet the requirements for de-recognition of the financial assets in the Company.

The directors considered whether a servicing asset or liability arises on the transfer of assets. Paragraph 24 of IAS 39 states that; if the fee to be received is expected to be more than adequate compensation for the servicing, the entity should recognise a servicing asset for the servicing rights. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, the entity should recognise a servicing liability for the servicing obligations at its fair value. The directors have satisfied themselves that the servicing margin is a market rate and is adequate compensation. Therefore no servicing asset or liability has been recognised.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Revenue

Revenue represents fees earned from services provided and interest income on prepayments to clients, and is analysed as follows:

	2015 £'000	2014 £'000 Restated
Hire Purchase business	3,950	8,920
Receivables Finance and Asset Based Lending	14,421	28,542
Agency fee (note 27)	105,195	84,437
	<u>123,566</u>	<u>121,899</u>

The restatement referred to above is explained in note 32.

4. Other operating income

	2015 £'000	2014 £'000
Recharge of costs to other group undertakings	16	23
Dividends received	1,300	1,000
Total (note 27)	<u>1,316</u>	<u>1,023</u>

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Directors and employees

a) Staff costs

The monthly average number of Full Time Equivalent Employees (FTEs) employed by the Company during the year was as follows:

	2015 Number	2014 Number
By activity		
Hire purchase	97	93
Asset based lending	698	826
Directors	2	2
	<u>797</u>	<u>921</u>

Staff costs:	2015 £'000	2014 £'000
Wages and salaries	40,567	40,665
Social security costs	4,609	4,372
Share-based payments (note 21)	1,252	1,231
Other pension costs / (credits) - defined benefit schemes (note 20)	2,180	(8,737)
Other pension costs - defined contribution schemes (note 20)	2,047	1,867
	<u>50,655</u>	<u>39,398</u>

b) Directors' emoluments

	2015 £'000	2014 £'000
Aggregate emoluments	<u>631</u>	<u>666</u>
Highest paid director:		
- Emoluments	<u>426</u>	<u>282</u>

The highest paid director exercised nil share options in respect of qualifying services during the year (2014: nil). During the financial year no other directors exercised share options (2014: nil).

One of the directors was paid or was due to receive amounts under long-term incentive schemes in respect of qualifying services in 2015 (2014: one). The net value of assets (excluding money, shares and share options) received or receivable by directors under such schemes in respect of such services was £nil (2014: £nil).

The emoluments of the directors have been apportioned between Lloyds Bank Plc and Lloyds Bank Commercial Finance Limited according to their services as directors or officers of those companies.

Retirement benefits in respect of services to Lloyds Bank Commercial Finance Limited are accruing to nil (2014: one) directors under defined benefit pension schemes. None of the directors has benefits accruing under money purchase schemes (2014: none). The remaining directors had no retirement benefits accruing for which the cost was borne by Lloyds Bank Commercial Finance Limited.

None of the directors had a material interest, directly or indirectly, at any time during the year in any significant contract, transaction or arrangement with the Company or its subsidiaries.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Other operating expenses

	2015 £'000	2014 £'000
Impairment charge / (reversal) on loans and advances to customers (note 28.1)	157	(791)
Premises costs	2,461	2,440
Travel and motor expenses	3,783	4,120
Printing, postage and stationery	3,358	1,592
Agents' commission	410	605
Consultancy and professional fees	7,210	282
Indirect staff costs	1,090	809
Marketing fees	25	33
Management fees and costs recharged by other group companies (note 27)	30,116	35,343
Other administrative expenses	4,989	4,559
	53,599	48,992

7. Interest payable

	2015 £'000	2014 £'000
On balances with group undertakings (note 27)	996	1,748

Included in the interest expense charge above is interest paid on bank overdraft balances with Group undertakings. Generally interest is charged on overdraft balances at 3 month rolling Libor average by Group Corporate Treasury.

8. Profit before tax

Profit before tax is stated after charging:

	2015 £'000	2014 £'000
Operating lease payments on property and equipment	1,631	1,604
Services provided by the Company's auditors and its associates		
Fees payable to Company's auditors for the audit of these financial statements	74	96
Fees payable to Company's auditors for the audit of other Group companies	3	6
Fees payable to Company's auditors for other work: other services	4	48

All above fees are borne by Lloyds Bank Commercial Finance Limited.

9. Tax charge

a) Analysis of charge for the year

	2015 £'000	2014 £'000 Restated
UK corporation tax:		
Current tax on profit for the year	3,084	2,031
Adjustment in respect of prior years	-	(688)
Current tax charge	3,084	1,343
Origination and reversal of timing differences	288	4,506
UK corporation tax rate change and related impacts	(352)	(317)
Adjustment in respect of prior years	-	591
Deferred tax (note 16)	(64)	4,780
Tax charge for the year	3,020	6,123

The charge for tax on the profit for the year is based on a UK corporation tax rate of 20.25% (2014: 21.50%).

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Tax charge (continued)

b) Factors affecting the tax charge for the year

A reconciliation of the charge for the year that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge for the year is given below:

	2015 £'000	2014 £'000 Restated
Profit before tax	17,642	31,122
Tax charged at UK corporation tax rate of 20.25% (2014: 21.50%)	3,572	6,691
Factors affecting charge:		
Disallowed and non-taxable items	(200)	(154)
Adjustment in respect of prior years	-	(97)
UK corporation tax rate change and related impacts	(352)	(317)
Tax on profit on ordinary activities	3,020	6,123
Effective rate	17.1%	19.7%

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporate tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

On 16 March 2016, the Government announced that the corporate tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporate tax are expected to be enacted, and the impact accounted for, during 2016.

The restatement referred to above is explained in note 32.

10. Intangible assets

Cost	Computer Software £'000	Total £'000
At 1 January 2014	7,432	7,432
Additions	6,463	6,463
At 31 December 2014	13,895	13,895
Additions	8,835	8,835
At 31 December 2015	22,730	22,730
Accumulated amortisation and impairment		
At 1 January 2014	4,359	4,359
Charge for the year	407	407
At 31 December 2014	4,766	4,766
Charge for the year	758	758
At 31 December 2015	5,524	5,524
Net book value:		
At 31 December 2015	17,206	17,206
At 31 December 2014	9,129	9,129

Additions to computer software during the year relate to costs for new systems which are in the course of construction. The new systems will replace existing receivables finance and asset based lending systems. Amortisation charges will begin once the systems are available for use.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Property, plant and equipment

	Computer and office Equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 January 2014	11,526	10	11,536
Additions	4,619	-	4,619
Disposals	(50)	-	(50)
At 31 December 2014	16,095	10	16,105
Additions	2,900	-	2,900
At 31 December 2015	18,995	10	19,005
Accumulated depreciation			
At 1 January 2014	8,874	10	8,884
Charge for the year	1,255	-	1,255
Disposals	(44)	-	(44)
At 31 December 2014	10,085	10	10,095
Charge for the year	1,232	-	1,232
At 31 December 2015	11,317	10	11,327
Net book value:			
At 31 December 2015	7,678	-	7,678
At 31 December 2014	6,010	-	6,010

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Investments

	2015 £'000	2014 £'000
Investment in group undertakings		
Investment in group undertakings at 1 January	16,667	21,271
Disposals ¹	(1)	(4,604)
Investment in group undertakings at 31 December	16,666	16,667
Trade investments	17	17
Total investments at 31 December	16,683	16,684

The Company owns 100% of the ordinary share capital of each of the following subsidiaries. With the exception of Lloyds Bank Commercial Finance Scotland Limited, which is registered in Scotland, all of the other subsidiaries are wholly owned and registered in England and Wales:

Name	Year ended	Profit for the year £	Assets £	Liabilities £	Capital and Reserves £
Alex Lawrie Factors Limited	31 December 2015	-	-	(4,662)	(4,662)
Alex. Lawrie Receivables Financing Limited	31 December 2015	-	200,000	-	200,000
Eurolead Services Holdings Limited	31 December 2015	90,793	5,446,031	-	5,446,031
Lloyds Bank Commercial Finance Scotland Limited	31 December 2015	125,559	5,400,658	(4,719,123)	681,535
LBCF Limited	31 December 2015	-	11,977,794	-	11,977,794

Alex Lawrie Factors Limited, Alex. Lawrie Receivables Financing Limited and LBCF Limited are dormant.

With the exception of Alex Lawrie Factors Limited which is in a net liability position, the directors consider the value of investments to be supported by their underlying assets.

¹The companies that were dissolved during the year were Glythorne Limited, Snowglen Securities Limited, Evansville Limited, Kingstar Leasing Limited and Azedcrest Limited (2014 - Capital Bank Cashflow Finance Limited).

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Trade and other receivables

	2015 £'000	2014 £'000 Restated
<u>Amounts falling due within one year</u>		
Loans and advances to customers	205,009	373,864
Amounts receivable under non-recourse factoring agreements	9,035	14,273
	<u>214,044</u>	<u>388,137</u>
Less allowance for losses on loans and advances (note 28.1)	(29,139)	(42,490)
	<u>184,905</u>	<u>345,647</u>

	2015 £'000	2014 £'000
<u>Amounts falling due after more than one year</u>		
Loans and advances to customers	16,975	56,131

	2015 £'000	2014 £'000
<u>Loans and advances to customers include hire purchase:</u>		

Gross investment in hire purchase contracts receivable:

- no later than one year	35,396	74,160
- later than one year and no later than five years	16,865	57,002
- later than five years	95	95
	<u>52,356</u>	<u>131,257</u>
Unearned future finance income on hire purchase contracts	(1,657)	(5,358)
Net investment in hire purchase contracts	<u>50,699</u>	<u>125,899</u>

The net investment in hire purchase contracts may be analysed as follows:

	2015 £'000	2014 £'000
- no later than one year	34,187	70,648
- later than one year and no later than five years	16,418	55,157
- later than five years	94	94
	<u>50,699</u>	<u>125,899</u>

The Company provides hire purchase in connection with the financing of vehicles, plant and equipment. The accumulated allowance for uncollectible hire purchase agreements is £nil (2014: £295k).

The restatement referred to above is explained in note 32.

14. Other current assets

	2015 £'000	2014 £'000
Prepayments	640	1,789
Other debtors	710	1,720
	<u>1,350</u>	<u>3,509</u>

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Cash and cash equivalents

	2015 £'000	2014 £'000 Restated
Cash at bank and in hand	183,816	187,959
Overdrafts (note 17)	(166,004)	(174,197)
Net cash	17,812	13,762

Cash and cash equivalents comprise cash and balances held at banks with a maturity of less than 3 months. Included in cash at bank and in hand is £181,382k (2014: £184,233k) of balances with related parties (note 27).

The restatement referred to above is explained in note 32.

16. Deferred tax

The movement in the net deferred tax balance is as follows:

	2015 £'000	2014 £'000 Restated
At 1 January	(4,763)	3,229
Statement of Comprehensive Income charge / (credit) (note 9)	64	(4,780)
Other Comprehensive Income: pension re-measurement	77	(3,212)
At 31 December	(4,622)	(4,763)

The deferred tax charge / (credit) in the Statement of Comprehensive Income comprises the following temporary differences:

Pensions	212	(3,769)
Accelerated capital allowances	(417)	(305)
Other temporary differences	269	(706)
	64	(4,780)

Deferred tax balance at 31 December comprises:

Pensions	(6,019)	(6,307)
Accelerated capital allowances	986	1,402
Other temporary differences	411	142
Deferred tax liability	(4,622)	(4,763)

Deferred tax balance is settled as follows:-

After more than 12 months	(4,622)	(4,763)
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The Finance Act 2013 which was substantively enacted on 2 July 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

The restatement referred to above is explained in note 32.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and other payables

	2015 £'000	2014 £'000 Restated
Amounts due to clients on collections	17,127	26,193
Due to clients on collection under non-recourse factoring agreements	8,787	6,558
Trade creditors	412	164
Other tax and social security	5,797	7,962
Accruals and deferred income	22,300	14,459
Other creditors	1,187	2,532
	55,610	57,868

Amounts owed to group undertakings (note 27):

- Bank overdraft balances (note 15)	166,004	174,197
- Other funding balances	203,470	351,064
- Interest payable	25	121
	369,499	525,382

Funding for the Company's loans and advances to customers is provided by Lloyds Bank Plc. Amounts relating to Asset Based Lending are based mainly on 3 months rolling average Libor and are repayable on demand. Amounts relating to hire purchase are based mainly on fixed rates and are repayable over the term of the loan. Other amounts due to group undertakings are unsecured and interest free. All amounts within trade and other payables are unsecured.

The restatement referred to above is explained in note 32.

18. Capital and reserves

Called up share capital

	2015 £'000	2014 £'000
Allotted, called up and fully paid:		
101,100,000 (2014: 101,100,000) ordinary shares of £0.01 each	1,011	1,011

Each ordinary share carries equal voting and dividend rights. As permitted by the Companies Act 2006, the Company removed references to authorised share capital from its articles of association.

Revaluation reserve

The reserve amounting to £2,399k (2014: £2,399k) relates to the revaluation of the investment in Eurolead Services Holdings Limited held by the Company prior to IFRS transition. These are non-distributable reserves.

19. Cash flow from operating activities

	2015 £'000	2014 £'000 Restated
Profit before tax	17,642	31,122
Adjustments for:		
Depreciation and amortisation	1,990	1,662
Loss on disposal of property, plant and equipment	-	6
Dividends received	(1,300)	(1,000)
Interest expense	996	1,748
Defined benefit pension schemes costs / (credits)	2,180	(8,737)
Contributions paid to defined benefit pension schemes	(3,230)	(10,106)
Decrease in trade and other receivables	199,898	403,066
Decrease in other current assets	2,159	4,871
Decrease in trade and other payables	(2,258)	(23,774)
Decrease in amounts due to group undertakings	(147,594)	(338,732)
Cash generated from operations	70,483	60,126

The restatement referred to above is explained in note 32.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. Retirement benefits

Defined contribution schemes

The Company's ultimate parent company operates a number of defined contribution pension schemes. The majority of employees are members of the defined contribution sections of the Lloyds Banking Group Pension Schemes No's 1 and 2. New employees are offered membership of the defined contribution section of the Lloyds Banking Group Pension Scheme No. 1.

During the year ended 31 December 2015 the charge to the statement of comprehensive income in respect of this scheme was £2,047k (2014: £1,867k), representing the contributions payable by the employer in accordance with the scheme rules. There are no outstanding or prepaid contributions at 31 December 2015 (2014: £nil).

Defined benefit schemes

The remaining employees are members of the defined benefit sections of the Lloyds Banking Group Pension Schemes No's 1 and 2. These are funded schemes providing retirement benefits calculated as a percentage of final salary depending upon the length of service; the minimum retirement age under the rules of the schemes is 55 although certain categories of member are deemed to have a contractual right to retire at 50. They are operated as separate legal entities under trust law by trustees and the responsibilities for their governance lies with the Pension Trustees.

The latest full valuations of the two main schemes were carried out as at 30 June 2014; these have been updated to 31 December 2015 by qualified independent actuaries.

The amounts shown below relate to the Company's share of obligations arising from membership by the Company's employees of the defined benefit schemes operated by the Company's ultimate parent company.

Amounts included in the balance sheet:

	2015 £'000	2014 £'000
Defined benefit pension schemes net assets	<u>31,676</u>	<u>31,540</u>

The amounts recognised in the balance sheet are represented as follows:

	2015 £'000	2014 £'000
Company's share of present value of funded obligations	(449,857)	(452,377)
Company's share of fair value of scheme assets	<u>481,533</u>	<u>483,917</u>
	<u>31,676</u>	<u>31,540</u>

The movements in the amounts recognised in the balance sheet are as follows:

	2015 £'000	2014 £'000
At 1 January	31,540	(3,364)
(Charge) / credit to the statement of comprehensive income	(2,180)	8,737
(Charge) / credit to other comprehensive income before tax	(914)	16,061
Contributions paid	<u>3,230</u>	<u>10,106</u>
At 31 December	<u>31,676</u>	<u>31,540</u>

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. Retirement benefits (continued)

The expense / (credit) recognised in the statement of comprehensive income comprises:

	2015 £'000	2014 £'000
Current service cost	2,050	4,725
Interest cost	(177)	428
Past service costs / (credits) and curtailment	56	(14,688)
Administrative costs and other	251	798
	<u>2,180</u>	<u>(8,737)</u>

Movements in the defined benefit obligation:

	2015 £'000	2014 £'000
At 1 January	452,377	366,456
Current service cost	2,050	4,725
Interest income	11,635	33,682
Actuarial (gains) / losses	(4,775)	89,885
Benefits paid	(11,486)	(27,683)
Past service costs / (credits) and curtailment	56	(14,688)
At 31 December	<u>449,857</u>	<u>452,377</u>

Changes in the fair value of scheme assets:

	2015 £'000	2014 £'000
At 1 January	483,917	363,092
Expected return	(5,689)	105,946
Interest income	11,812	33,254
Employer contributions	3,230	10,106
Benefits paid	(11,486)	(27,683)
Administrative costs and other	(251)	(798)
At 31 December	<u>481,533</u>	<u>483,917</u>

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. Retirement benefits (continued)

The principal actuarial and financial assumptions used were as follows:

	2015 %	2014 %
Discount rate	3.87	3.67
Rate of inflation – Retail price index	2.99	2.95
- Consumer price index	1.99	1.95
Rate of salary increases	0.00	0.00
Rate of increase for pensions in payment	2.58	2.59
	2015 Years	2014 Years
Life expectancy for member aged 60, on the valuation date:		
- Men	28.1	27.5
- Women	30.4	29.8
Life expectancy for member aged 60, 15 years after the valuation date:		
- Men	29.5	28.7
- Women	31.9	31.1

The mortality assumptions used in the scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with both current industry experience and the actual experience of the relevant schemes. Composition of scheme assets:

	2015 %	2014 %
Equity instruments	1	1
Debt instruments	53	52
Pooled investment vehicles	38	40
Property	4	3
Other	4	4
At 31 December	<u>100</u>	<u>100</u>

The assets of all the funded plans are held independently of the Company's assets in separate trustee administered funds.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21. Share based payments

During the year ended 31 December 2015 the Company's ultimate parent company operated the following share-based payment schemes, all of which are equity settled. The share based payment charge for the year allocated by the Group is £1,252k (2014: £1,231k).

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn schemes to save up to £500 per month and, at the expiry of a fixed term of three or five years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in Lloyds Banking Group plc at a discounted price of no less than 80 per cent of the market price at the start of the invitation.

Other share option plans

Lloyds Banking Group Executive Share Plan 2003

The Plan was adopted in December 2003 and under the Plan share options may be granted to senior employees. Options under this plan have been granted specifically to facilitate recruitment and as such were not subject to any performance conditions. The Plan is used not only to compensate new recruits for any lost share awards but also to make grants to key individuals for retention purposes with, in some instances, the grant being made subject to individual performance conditions.

Other share plans

Lloyds Banking Group Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) introduced in 2006 is aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of Lloyds Banking Group plc over a three year period. Awards are made within limits set by the rules of the Plan, with the limits determining the maximum number of shares that can be awarded equating to three times annual salary. In exceptional circumstances this may increase to four times annual salary.

Matching shares

Lloyds Banking Group plc undertakes to match shares purchased by employees up to the value of £45 per month; these matching shares are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market based condition: if an employee leaves within this three year period for other than a 'good' reason, 100 per cent of the matching shares are forfeited. Similarly if the employees sell their purchased shares within three years, their matching shares are forfeited.

Fixed Share Awards

Fixed share awards were introduced in 2014 in order to ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for certain Lloyds Banking Group employees, with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements. The Fixed Share Awards are delivered in Lloyds Banking Group shares, released over five years with 20 per cent being released each year following the year of award.

The Fixed Share Award is not subject to any performance conditions, performance adjustment or clawback. On an employee leaving the Group, there is no change to the timeline for which shares will become unrestricted.

Other information

The charge made to the Statement of Comprehensive Income represents the Company's share of the cost of the above schemes. This charge has been allocated to the Company based on the number of the Company's employees who participate in the above schemes. It is not practicable for the Company to provide information regarding the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and the number of options outstanding that is specific to the Company's employees without incurring significant additional cost.

Full details of the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and number of options outstanding for the above schemes overall can be found in the 2015 annual report and financial statements of the Company's ultimate parent company. Copies of the ultimate parent company's 2015 annual report and financial statements may be obtained from the Company Secretary's Department, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Operating lease commitments relating to property

The future aggregated minimum lease payments under non-cancellable operating leases relating to property are as follows:

	2015 £'000	2014 £'000
Due within one year	1,608	1,571
Due between one and five years	4,168	4,523
Due beyond five years	3,737	4,490
	9,513	10,584

Operating lease payments made during the year amount to £1,631k (2014: £1,604k) and relate to rent on five (2014: six) properties occupied by the Company. The basis on which contingent rent payable is determined is explicit in the terms of each lease. No renewal or purchase options and escalation clauses exist although Lloyds Bank plc has the right to renew on commercial property leases in England & Wales under the Landlord and Tenants Act.

Sublease amounts receivable during the year amount to £80k (2014: £29k). Total future sublease amounts receivable relating to the above operating leases amounted to £144k (2014: £nil).

23. Capital expenditure commitments

The Company has entered into contracts with external suppliers to build a new system for its Receivables Finance and Asset Based Lending business. The contractual commitment at 31 December 2015 was nil (2014: £569k).

24. Commitments to lend and contingent liabilities

	2015 £'000	2014 £'000
Undrawn amounts	166,762	168,399
Guarantees	3,957	17,746
Total commitments	170,719	186,145

Undrawn amounts relate to amounts clients have yet to draw down from their invoice finance current accounts. Guarantees relate to bank overdrafts and syndicated lending.

Commitments may be broken down as follows:

	2015 £'000	2014 £'000
Revocable commitments	167,034	181,269
Irrevocable commitments	3,685	4,876
Total commitments	170,719	186,145

The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. A number of Group companies, including the Company, have an open matter in relation to a claim for group relief of losses incurred in a former Irish banking subsidiary of the Lloyds Banking Group, which ceased trading on 31 December 2010. In 2013 HMRC informed the Lloyds Banking Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the Company of approximately £27,531,000 (including interest on overdue tax). The Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due on the Company.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25. Ultimate parent undertaking

The Company's immediate parent company is Lloyds Bank Plc. The company regarded by the directors as the ultimate parent company is Lloyds Banking Group Plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Lloyds Bank Plc. is the parent undertaking of the smallest such group of undertakings. Copies of the group financial statements of both companies may be obtained from Lloyds Banking Group Plc, 25 Gresham Street, London EC2V 7HN.

26. Dividends per share

	2015 £'000	Dividend per Share p	2014 £'000	Dividend per Share p
Interim dividend paid	51,700	51.14	30,000	29.67
Total	51,700		30,000	

Dividend per share is calculated based on total shares which have been allotted, called up and fully paid.

27. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. The outstanding balances at the year end, and related expense and income for the year are as follows:

	2015 £'000	2014 £'000 Restated
Cash and cash equivalents (note 15)		
Lloyds Bank Plc	174,063	177,391
HBOS Plc	7,319	6,842
	<u>181,382</u>	<u>184,233</u>
Amounts owed (to) / from group undertakings (note 17)		
Lloyds Bank Plc	(395,901)	(481,925)
HBOS Plc	(13,795)	(1,969)
Lloyds UDT Limited	54,686	(26,932)
Other fellow group undertakings	(14,514)	(14,515)
Lloyds Bank Commercial Finance Scotland Limited	25	(41)
	<u>(369,499)</u>	<u>(525,382)</u>
Income (notes 3 & 4)		
Lloyds Bank Plc	105,195	84,437
Lloyds Bank Commercial Finance Scotland Limited	1,316	1,023
	<u>106,511</u>	<u>85,460</u>
Management fees and other costs (note 6)		
Lloyds Bank Plc	30,116	35,343
	<u>30,116</u>	<u>35,343</u>
Interest (income) / expense (note 7)		
Lloyds Bank Plc	(142)	(850)
Lloyds UDT Limited	1,138	2,598
	<u>996</u>	<u>1,748</u>

All of the above companies are ultimately owned by Lloyds Banking Group Plc. See notes 12 and 25 for further explanations as to ownership of Lloyds Bank Commercial Finance Limited and its subsidiaries.

There were no other related-party transactions with the ultimate parent company or with the parent company, Lloyds Bank Plc, other than the payment of dividends on ordinary shares.

The restatement referred to above is explained in note 32.

Directors and key management personnel

The remuneration of directors is set out in note 5. Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprise the directors of the Company and the members of the Lloyds Banking Group Plc board which comprises the statutory directors of that company and certain other senior management.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management

The Company's activities are principally related to the use of financial instruments. However, the Company does not trade in financial instruments, nor does it use derivatives.

Lending activity is largely in the form of advances to customers. The Company seeks to provide customers with products that best meet their needs and provide an economic return for shareholders. The Company's other principal financial instruments are amounts to and from group undertakings, which are used to finance the Company's lending business.

The Company's policies expose it to a variety of financial risks: credit risk, liquidity risk and interest-rate risk. The Company is also exposed to foreign currency risk arising from the investment in its overseas lending. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Whilst funding is provided by Lloyds Bank Plc, responsibility for the control and management of risk lies with the Company's Board of Directors and exposure to interest rate risk and foreign exchange risk is managed by use of various hedging practices. A description of the financial assets, liabilities and associated accounting is shown in note 1.

28.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

Credit risk is managed through the application of strict underwriting criteria. Significant credit exposures are measured and reported on a regular basis.

Credit concentration

The Company lends to commercial customers geographically located within the United Kingdom, Ireland and Germany. The Company also has money on deposit with Allied Irish Bank Plc and Commerzbank AG of £2.0m (2014: £1.9m) and £0.4m (2014: £1.8m) whose Standard & Poor's ratings for short term currency are B and A-2 respectively. Further details in relation to Cash at bank and in hand is shown in note 15.

Loans and advances to customers – maximum exposure

As at 31 December 2015	£'000
Neither past due nor impaired	200,639
Past due but not impaired	139
Impaired	30,241
Gross exposure – loans and advances (note 13)	231,019
Commitments to lend (note 24)	170,719
Maximum credit exposure	401,738

Loans and advances to customers – maximum exposure

As at 31 December 2014	£'000 Restated
Neither past due nor impaired	399,252
Past due but not impaired	213
Impaired	44,803
Gross exposure – loans and advances (note 13)	444,268
Commitments to lend (note 24)	186,145
Maximum credit exposure	630,413

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28.1 Credit risk (continued)

Loans and advances to customers which are neither past due nor impaired

As at 31 December 2015	£'000
Good quality	81,128
Satisfactory quality	107,337
Lower quality	12,067
Below standard, but not impaired	107
Total	200,639

As at 31 December 2014	£'000 Restated
Good quality	60,150
Satisfactory quality	272,598
Lower quality	63,719
Below standard, but not impaired	2,785
Total	399,252

In general, good quality lending comprises those balances with a lower probability of default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability of default.

Loans and advances to customers which are past due but not impaired	2015 £'000	2014 £'000
Past due up to 30 days	11	112
Past due 30-60 days	84	45
Past due 60-90 days	26	-
Past due over 90 days	18	56
Total	139	213

Past due is defined as failure to make a payment when it falls due.

Allowance for loans and advances to customers which are impaired:	2015 £'000	2014 £'000
Balance at 1 January	(42,490)	(43,389)
Exchange and other adjustments	(1,281)	(1,370)
Advances written off, net of recoveries	1,755	3,347
Notional income	121	59
(Charge) / credit to Statement of Comprehensive Income	(157)	791
Other movements	12,913	(1,928)
At 31 December	(29,139)	(42,490)

The criteria used to determine whether there is objective evidence of impairment are disclosed in note 1j.

Interest received on impaired financial assets amounts to £nil (2014: nil).

The book value (and fair value) of financial assets totalling £83,329k (2014: £345,627k) were transferred from the Company to Lloyds Bank Plc (the "Bank") in support of the Group's simplification of business project. These financial assets include receivables finance and Asset Based Lending loans and advances to customers and the Company's involvement in these loans going forward is to service them as an agent of the Bank, no longer as principal.

The restatement referred to above is explained in note 32.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28.1 Credit risk (continued)

Reposessed collateral

Reposessed collateral relates to the Company's legal right to repossess assets whereby customers have defaulted on the terms of agreements. The Company's right to repossess assets is established through signed agreements and by law.

At 31 December 2015 agents held, on the Company's behalf, reposessed collateral of £nil (2014: £1k) in respect of defaulted debt. This represents the realisable value of plant and equipment financed by the Company on hire purchase and subsequently reposessed. The Company does not take physical possession of any collateral; instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness. Any surplus funds are then returned to the customer or are otherwise dealt with in accordance with appropriate insolvency regulations.

28.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Lloyds Banking Group.

Liquidity risk is managed by the board of directors in consultation with the immediate parent company, Lloyds Bank Plc.

The Company is funded on an ongoing basis by Lloyds Bank Plc and although amounts are repayable on demand, there is no expectation that such a demand would be made.

The table below analyses financial instrument liabilities of the Company, on an undiscounted future cash flow basis according to contractual maturity, into relevant maturity groupings based on the remaining period at the balance sheet date; balances with no fixed maturity are included in the up to 1 month category.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2015						
Financial liabilities						
Amounts due to clients on collections	17,127	-	-	-	-	17,127
Trading and other payables	9,199	-	-	-	-	9,199
Amounts owed to group undertakings	203,495	-	-	-	-	203,495
Bank overdrafts	166,004	-	-	-	-	166,004
At 31 December 2014						
	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
						Restated
Financial liabilities						
Amounts due to clients on collections	26,193	-	-	-	-	26,193
Trading and other payables	6,722	-	-	-	-	6,722
Amounts owed to group undertakings	351,185	-	-	-	-	351,185
Bank overdrafts	174,197	-	-	-	-	174,197

The restatement referred to above is explained in note 32.

28.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the re-pricing of financial assets and liabilities.

Through inter-company funding arrangements, the Company has effectively transferred its exposure to changes in interest rates to Lloyds Bank Plc. The exposure and impact of substantial interest rate movements to the Company is limited.

The Company's treasury team continues to closely monitor the movement in interest rates to ensure a close alignment is maintained between the cost of funding and borrowing.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28.4 Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk of financial loss as a result of adverse movements in foreign exchange rates when translating financial assets and liabilities denominated in foreign currencies into sterling.

The Company manages foreign currency exchange rate risk by borrowing in the same currency that it lends to its customers to minimise exposure (i.e. it matches currency assets and liabilities). Foreign currency balances are monitored closely and currency exposures eliminated regularly to minimise foreign exchange risk. As at 31 December 2015, lending denominated in foreign currencies totalled £149,517k (2014: £162,981k).

29 Financial instruments

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments in this context are loans and advances to customers and borrowed funds from group undertakings. The accounting policy for such financial instruments is explained in note 1. These are accounted for on an amortised cost basis and no financial instruments use fair value accounting.

Fair value of financial assets and liabilities

The following table summarises the carrying values of financial assets and liabilities presented on the Company's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Cash and cash equivalents	183,816	183,816	187,959	187,959
Loans and advances				
Loans and advances to customers: unimpaired	220,882	198,981	427,682	395,044
Loans and advances to customers: impaired	1,102	1,102	2,313	2,313

The Company provides loans and advances to commercial and corporate customers at both fixed and variable interest rates. The carrying value of the variable rate loans is assumed to be their fair value. Fair value is principally estimated by discounting anticipated cash flows (including interest) at base rate plus a weighted average margin relating to new business written in the year.

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Financial liabilities				
Amounts due to clients on collections	17,127	17,127	26,193	26,193
Trading and other payables	9,199	9,199	6,722	6,722
Amounts owed to group undertakings	203,495	203,495	351,185	351,185
Bank overdrafts	166,004	166,004	174,197	174,197

The restatement referred to above is explained in note 32.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29 Financial instruments (continued)

Valuation of financial assets and liabilities

Assets and liabilities for which fair values are disclosed have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise equity shares, treasury bills and other government securities.

Level 2

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Examples of such financial instruments include most over-the-counter derivatives, financial institution issued securities, certificates of deposit and certain asset backed securities.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include venture capital, unlisted equity investments, asset backed securities and derivatives.

Financial assets and liabilities carried at amortised cost

Valuation hierarchy

The table below analyses the fair values of the financial assets and liabilities of the Company which are carried at amortised cost by valuation methodology (level 1, 2 or 3). Loans and receivable are mainly classified as level 3 due to significant unobservable inputs used in the valuation models.

		Valuation hierarchy		
At 31 December 2015	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets				
Cash and cash equivalents	183,816	-	183,816	-
Loans and advances				
Loans and advances to customers: unimpaired	198,981	-	198,981	-
Loans and advances to customers: impaired	1,102	-	1,102	-
Financial liabilities				
Amounts due to clients on collections	17,127	-	17,127	-
Trading and other payables	9,199	-	9,199	-
Amounts owed to group undertakings	203,495	-	203,495	-
Bank overdrafts	166,004	-	166,004	-
At 31 December 2014 (Restated)				
Financial assets				
Cash and cash equivalents	187,959	-	187,959	-
Loans and advances				
Loans and advances to customers: unimpaired	395,044	-	395,044	-
Loans and advances to customers: impaired	2,313	-	2,313	-
Financial liabilities				
Amounts due to clients on collections	26,193	-	26,193	-
Trading and other payables	6,722	-	6,722	-
Amounts owed to group undertakings	351,185	-	351,185	-
Bank overdrafts	174,197	-	174,197	-

The restatement referred to above is explained in note 32 with loans and advances to customers being reported in level 2 rather than level 3.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, provide an adequate return to its shareholder through pricing products and services commensurately with the level of risk and, indirectly, to support the Lloyds Banking Group's regulatory capital requirements.

The Company's parent manages the Company's capital structure and advises the Board to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company's parent may adjust the amount of dividends to be paid, return capital, issue new shares, or sell assets.

The Company's capital comprises all components of equity, movements in which appear in the Statement of Changes in Equity on page 12. The Company receives its funding requirements from its parent and does not raise funding externally.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31. Future accounting developments

The following pronouncements are not applicable for the year ended 31 December 2015 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Group. As at 24 February 2016 these pronouncements are awaiting EU endorsement

Pronouncement	Nature of change	Effective date
<i>IFRS 9 Financial Instruments:</i>	<p>IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the Company.</p> <p>IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach resulting in earlier recognition of credit losses. The IFRS 9 impairment model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2). The assessment of whether a significant increase in credit risk has occurred is a key aspect of IFRS 9 methodology and involves quantitative measures, such as forward looking probabilities of default, and qualitative factors and therefore requires considerable management judgement. Stage 3 requires objective evidence of impairment which is similar to the guidance on incurred losses in IAS 39. IFRS 9 requires the use of more forward looking information including reasonable and supportable forecasts of future economic conditions. The need to consider multiple economic scenarios and how they could impact the loss allowance is a very subjective feature of the IFRS 9 impairment model. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope.</p> <p>These changes may result in a material increase in the balance sheet provisions for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the lending portfolios and forecast economic conditions at the date of implementation. The requirement to transfer assets between stages and to incorporate forward looking data into the expected credit loss calculation, including multiple economic scenarios, is likely to result in impairment charges being more volatile when compared to the current IAS 39 impairment model.</p>	Annual periods beginning on or after 1 January 2018.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31. Future accounting developments (continued)

Pronouncement	Nature of change	Effective date
<i>IFRS 9 Financial Instruments (continued):</i>	<p>The IFRS 9 expected credit loss model differs from regulatory models in a number of ways, for example stage 2 assets under IFRS 9 carry a lifetime expected loss amount whereas regulatory models generate 12 month expected losses for non-defaulted loans. In addition, different assets are in scope of each reporting base and therefore the size of the regulatory expected losses should not be taken as a proxy to the size of the loss allowance under IFRS 9.</p> <p>In 2015, the Basel Committee on Banking Supervision published finalised guidance on credit risk and accounting for expected credit losses. The paper sets out supervisory guidance on how expected credit loss accounting models should interact with a bank's credit risk practices. The existing impairment processes, controls and governance will be reviewed and changed where necessary to reflect the increased demands of an expected credit loss impairment model.</p> <p>The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The accounting policy choice to continue with IAS 39 hedge accounting is still being considered by the Company.</p> <p>The Company has an established IFRS 9 programme to ensure a high quality implementation in compliance with the standard and regulatory guidance. The programme involves Finance and Risk functions across the Group with Divisional and Group steering committees providing oversight. The key responsibilities of the programme include defining IFRS 9 methodology and accounting policy, identifying data and system requirements, and establishing an appropriate operating model and governance framework. The impairment workstreams have developed methodologies for many of the IFRS 9 requirements, although additional validation of these decisions will be ongoing to reflect the uncertainty around regulatory and audit expectations. Some risk model build has started and detailed plans, including resource needs, are in place. We expect the majority of model build to be completed in 2016 to allow robust testing and the development of management information to take place in 2017.</p>	Annual periods beginning on or after 1 January 2018.
<i>IFRS 15 Revenue from Contracts with Customers</i>	Replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope.	Annual periods beginning on or after 1 January 2018

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31. Future accounting developments (continued)

Pronouncement	Nature of change	Effective date
<i>IFRS 16 Leases</i>	On 13 January 2016 the IASB issued IFRS 16 to replace IAS 17 Leases. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessor accounting requirements remain aligned to the current approach under IAS 17.	Annual periods beginning on or after 1 January 2019
<i>Amendments to IAS 7 Statement of Cash Flows and IAS 12 Income Tax</i>	In January 2016 the IASB issued amendments to IAS 7 Statement of Cash Flows which require additional disclosure about an entity's financing activities and IAS 12 Income Taxes which clarify when a deferred tax asset should be recognised for unrealised losses. These requirements are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2017

The full impact of these pronouncements is being assessed by the Company.

32. Restatements

The restatements referred to above are explained below:

	Original £'000	Revised £'000	Movement £'000
At 31 December 2014			
Revenue 1	(127,368)	(121,899)	5,469
Tax charge 2	7,315	6,123	(1,192)
Retained profits	(67,432)	(63,155)	4,277
Current tax payable	(3,399)	(2,031)	1,368
Deferred tax liabilities	(4,587)	(4,763)	(176)
Cash and cash equivalents 3	15,510	187,959	172,449
Loans and advances to customers (note 13) 4	320,545	373,864	53,319
Amounts owed to group undertakings (notes 17/27)	(294,145)	(525,382)	(231,237)

1 A correction in relation to the notional cost of funds has been made resulting in a reduction to revenue of £11,887k. In addition, an adjustment to remove debtor protection insurance costs has been made resulting in an increase to revenue of £6,418k. The other counterparty to these entries is Lloyds Bank plc. Net impact of these two adjustments is a reduction to revenue of £5,469k.

2 The tax charge has reduced by £1,192k due to the fall in profit before tax.

3 An adjustment has been made to recognise cash held on debtor collection accounts as at 31 December 2014 of £172,449k.

4 A change to the process in relation to last day's cash receipts was implemented in 2015, the adjustment above relates to the impact on the 2014 position where the Company's loans and advances were understated by £53,319k.