



LLOYDS BANK COMMERCIAL FINANCE LIMITED

Annual report and financial statements for the year ended 31 December 2016

Member of Lloyds Banking Group plc

Registered Number: 00733011

MONDAY



S6JMUXGQ
SCT 20/11/2017 #142
COMPANIES HOUSE

LLOYDS BANK COMMERCIAL FINANCE LIMITED

Contents	Pages
Company information	3
Strategic report	4 - 5
Directors' report	6 - 8
Independent auditors' report	9 - 10
Statement of comprehensive income	11
Balance sheet	12
Statement of changes in equity	13
Statement of cash flows	14
Notes to the financial statements	15 - 42

LLOYDS BANK COMMERCIAL FINANCE LIMITED

COMPANY INFORMATION

DIRECTORS

A K Walker
D K Reed
B Stephenson

COMPANY SECRETARY

P Gittins

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

BANKERS

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

REGISTERED OFFICE

No. 1 Brookhill Way
Banbury
Oxon
OX16 3EL

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

00733011

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their Strategic Report of Lloyds Bank Commercial Finance Limited ("the Company") for the year ended 31 December 2016.

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 until January 2017, 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 plc's ("the Group") aim of simplification. As part of this agreement, the Company retained legal title and continued 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 at the 31st December 2016 is primarily denominated in foreign currency. As of 3rd January 2017, this agreement is no longer in place with the company now entering into new business in sterling as well as foreign currency. The loans that were agreed as part of the agency agreement above will continue until maturity.

During 2016 a new product was launched, Receivables Purchased, which has resulted in a small number of large loans being written within the company in the final quarter of the year driving the increase in the trade and other receivables balance held at year end.

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 £13,102k (2015: £17,642k) which represents a decrease on the prior year of 25.7% (2015: decrease of 43.3%) mainly due to a reduction in income from its HP clients.

During 2015, 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 Solutions Limited and for the Company to pay a monthly fee for the provision of the service. Day to day operations have been largely unaffected by this arrangement which has continued throughout 2016.

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.

	2016 £'000	2015 £'000	Variance £'000	%
1. Interest income (own portfolio)				
Receivables Finance and Asset Based Lending	13,995	14,421	(426)	(3.0)
Hire Purchase	1,448	3,950	(2,502)	(63.3)
Total (note 3)	15,443	18,371	(2,928)	(15.9)

Interest income has decreased mainly due to a reduction in average HP client numbers.

	2016 %	2015 %
EIR % (own portfolio)		
Receivables Finance and Asset Based Lending	2.0	2.6
Hire Purchase	4.1	4.3

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

Key performance indicators ('KPIs') continued

	2016 £'000	2015 £'000	Variance £'000	%
2. <u>Agency income (servicing portfolio)</u>				
Agency fee (note 3)	87,820	105,195	(17,375)	(16.5)

Agency fee income has decreased mainly due to a reduction in the cost base of the Company on which the fee is based. Excluding one-off pension charges, a profit of 7% has been generated in both years from the Company's servicing business.

	2016 £'000	2015 £'000	Variance £'000	%
3. <u>Gross loans and advances to customers</u>				
Own portfolio (note 13)	367,806	231,019	136,787	59.2
Servicing portfolio	5,322,631	4,317,266	1,005,365	23.3
Total	5,690,437	4,548,285	1,142,152	25.1

	2016 No.	2015 No.	Variance No.	%
<u>Average number of clients</u>				
Own portfolio	1,614	3,418	(1,804)	(52.8)
Servicing portfolio	24,197	21,706	2,491	11.5
Total	25,811	25,124	687	2.7

Future developments

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

Capital position at 31 December 2016

Total equity per the balance sheet on page 12 amounts to £12,000k (2015: £28,650k). The reduction is due to a fall in retained profits for the year as a result of a large defined benefit pension adjustment.

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 such 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.

Information regarding the financial risk management objectives and policies of the Company in relation to the use of financial instruments is given in note 27. 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 2016 Strategic Report has been approved by the Board of Directors.

On behalf of the Board.

A K Walker
Director

Date: 16/11 2017

Lloyds Bank Commercial Finance Limited

LLOYDS BANK COMMERCIAL FINANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their Directors' Report together with the audited financial statements of the Company for the year ended 31 December 2016.

General Information

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

Results

The Statement of Comprehensive Income on page 11 shows a total comprehensive loss for the year ended 31 December 2016 of £16,650k (2015: £13,785k profit).

Principal risks and uncertainties

These are explained in the Strategic Report. Financial risk management is included in note 27.

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 1 day (2015: 5 days), based on the ratio of trade creditors at the end of the year to amounts invoiced during the year by suppliers.

Dividends

There were no dividends paid during the year (2015: £51,700k). No final dividend has been paid or proposed for the year ended 31 December 2016.

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 2016 (continued)

Directors

The names of the Directors of the Company are shown on page 3. Changes to the composition of the Board since 1 January 2016 up to the date of this report are shown below:

	Resigned	Appointed
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.

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 Act. The deed was in force during the whole of the financial year and at the date of approval of the financial statements (or from the date of appointment in respect of directors who joined the board of the company during the financial year). 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 25.

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 plc 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 2016 (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 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: 16/11 2017
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 2016 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 2016;
- 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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 SCOTLAND 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 8, 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

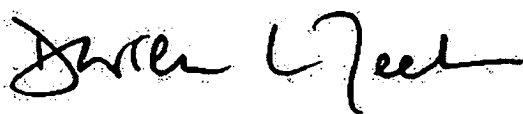
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 November 2017

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue	3	103,263	123,566
Other operating income	4	264	1,316
Total income		103,527	124,882
Staff costs	5	(31,641)	(50,655)
Other operating expenses	6	(55,213)	(53,599)
Interest payable	7	(953)	(996)
Amortisation of computer software	10	(1,112)	(758)
Depreciation of property, plant and equipment	11	(1,506)	(1,232)
Total expenses		(90,425)	(107,240)
Profit before tax	8	13,102	17,642
Tax charge	9	(2,581)	(3,020)
Profit for the year		10,521	14,622
Other comprehensive income/(loss):			
Items that will be reclassified subsequently to profit and loss once specific conditions are met:			
- changes in fair value of available-for-sale financial assets	12	103	-
- tax on changes in fair value		(20)	-
Items that will not be reclassified subsequently to profit and loss:			
- retirement defined benefit scheme re-measurements before tax	20	(33,647)	(914)
- tax on retirement defined benefit scheme re-measurements		6,393	77
Other comprehensive loss for the year, net of tax		(27,171)	(837)
Total comprehensive (loss)/income for the year		(16,650)	13,785

All amounts are attributable to the owners of the Company.

The notes on pages 15 to 42 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 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Intangible assets	10	18,458	17,206
Property, plant and equipment	11	6,541	7,678
Investments	12	16,786	16,683
Trade and other receivables	13	3,490	16,975
Deferred tax assets	16	841	-
Retirement benefits	20	16	31,676
		<u>46,132</u>	<u>90,218</u>
Current assets			
Trade and other receivables	13	358,327	184,905
Other current assets	14	767	1,350
Cash and cash equivalents	15	178,387	183,816
		<u>537,481</u>	<u>370,071</u>
Total assets		<u>583,613</u>	<u>450,289</u>
EQUITY AND LIABILITIES			
LIABILITIES			
Current liabilities			
Trade and other payables	17	29,346	55,610
Amounts owed to group undertakings	17	540,797	369,499
Current tax payable		1,470	1,908
		<u>571,613</u>	<u>427,017</u>
Non-current liabilities			
Deferred tax liabilities	16	-	4,622
		<u>-</u>	<u>4,622</u>
EQUITY			
Share capital	18	1,011	1,011
Revaluation reserve	18	2,399	2,399
Available-for-sale reserve		83	-
Retained earnings		8,507	25,240
Total equity		<u>12,000</u>	<u>28,650</u>
Total equity and liabilities		<u>583,613</u>	<u>450,289</u>

All amounts are attributable to the owners of the Company.

The notes on pages 15 to 42 are an integral part of these financial statements.

The financial statements on pages 11 to 42 were approved by the Board of Directors and were signed on its behalf by:

A K Walker
Director

Date: 16/11 2017

Company number: 00733011

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2016

	Note	Share capital £'000	Revaluation reserve £'000	AFS reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015		1,011	2,399	-	63,155	66,565
Comprehensive income						
Profit for the year		-	-	-	14,622	14,622
Other comprehensive loss						
Retirement defined benefit scheme re-measurements		-	-	-	(837)	(837)
Total comprehensive income		-	-	-	13,785	13,785
Transactions with owners						
Dividend paid	25	-	-	-	(51,700)	(51,700)
Balance at 31 December 2015		1,011	2,399	-	25,240	28,650
Comprehensive income						
Profit for the year		-	-		10,521	10,521
Other comprehensive loss						
Retirement defined benefit scheme re-measurements		-	-		(27,254)	(27,254)
Available for sale financial assets		-	-	83	-	83
Total comprehensive loss		-	-	83	(16,733)	(16,650)
Balance at 31 December 2016		1,011	2,399	83	8,507	12,000

All amounts are attributable to the owners of the Company.

The notes on pages 15 to 42 are an integral part of these financial statements.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash generated from operations	19	(92,581)	70,483
Interest paid		(552)	(1,092)
Tax paid via group relief		(2,109)	(3,207)
Net cash (used in) / generated from operating activities		<u>(95,242)</u>	<u>66,184</u>
Cash flows from investing activities			
Purchase of intangible assets	10	(2,364)	(8,835)
Purchase of property, plant and equipment	11	(370)	(2,900)
Disposal of investments	12	-	1
Dividends received	4	264	1,300
Net cash used in investing activities		<u>(2,470)</u>	<u>(10,434)</u>
Cash flows from financing activities			
Dividends paid	25	-	(51,700)
Net cash used in financing activities		<u>-</u>	<u>(51,700)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(97,712)</u>	<u>4,050</u>
Cash and cash equivalents net of overdrafts at beginning of year		17,812	13,762
Cash and cash equivalents net of overdrafts at end of year	15	<u>(79,900)</u>	<u>17,812</u>

The notes on pages 15 to 42 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 private limited liability company incorporated and domiciled in England & Wales and limited by shares.

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 24).

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 30.

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

Investments in subsidiary undertakings

Subsidiaries are entities controlled by the Company. The Company controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to any of these factors. Details of the principal subsidiaries are given in Note 12 to the financial statements. Subsidiaries comprise of leasing, investment and dormant companies. These are carried at cost less impairment provisions.

Available-for-sale financial assets

All other investment securities are classified as available-for-sale. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the Balance Sheet at fair value. Unrealised gains or losses arising from changes in the fair values are recognised in the Statement of Comprehensive Income and accumulated in the available-for-sale reserve, until the financial asset is either sold or matures, at which time the previously unrealised gains and losses are reclassified from other comprehensive income to profit or loss on disposal of investments in the Income Statement, except for impairment losses which are recognised immediately in the Income Statement as impairment on investment securities. Income from equity shares is recognised in investment income in the period in which they occur.

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 Lloyds Banking Group plc. 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) Impairments

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.

Non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable and at the end of each reporting period. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

j) Impairments (continued)

Non-financial assets (continued)

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

At the end of each reporting period the Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indicator exists, and there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised, the previously recognised impairment loss is reversed through the Income Statement. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Intangibles - Intangible assets with finite useful lives are reviewed at each reporting date to assess whether there is any indication that they are impaired. If any such indication exists the recoverable amount of the asset is determined and in the event that the asset's carrying amount is greater than its recoverable amount, it is written down immediately. Certain brands have been determined to have an indefinite useful life and are not amortised. Such intangible assets are reassessed annually to reconfirm that an indefinite useful life remains appropriate. In the event that an indefinite life is inappropriate a finite life is determined and an impairment review is performed on the asset.

Subsidiaries - In respect of investments in subsidiaries this assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the subsidiary.

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.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

l) Revenue recognition (continued)

Agency 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. Agency costs do not include costs where the Company acts as principal nor costs directly attributable to loans that have been transferred to the Bank.

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.

m) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved (note 25).

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 fair 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.

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 allowance for impairment losses on loans and receivables is management's best estimate of known and potential losses in the portfolio at the balance sheet date. In determining the required level of impairment provisions, management use the output from various statistical models. Management judgement is required to assess the robustness of the outputs from these models and, where necessary, make appropriate adjustments. Impairment allowances are made up of two components, those determined individually and those determined collectively.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Critical accounting estimates and judgements in applying accounting policies (continued)

Impairment losses on loans and advances to customers (continued)

Individual impairment allowances are established where a customer is in default or there are indicators that a default may occur. Assets are monitored closely and any adverse indicators in relation to the ability to repay are assessed when considering whether an individual impairment is required. For such individually identified financial assets, a review is undertaken of the expected future cash flows which requires significant management judgement as to the amount and timing of such cash flows. Where the debt is secured, the assessment reflects the expected cash flows from the realisation of the security, net of costs to realise, whether or not foreclosure or realisation of the collateral is probable. The determination of individual impairment allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions and the resulting trading performance of the customer, and the value of the security held, for which there may not be a readily accessible market. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

Collective provisions are established for losses that have been incurred but have not been separately identified at the balance sheet date. An assessment is made of the likelihood of assets being impaired at the balance sheet date and being identified subsequently; the length of time taken to identify that an impairment event has occurred is known as the loss emergence period and this is determined by management with reference to historic data trends and the characteristics of the portfolio. Loss emergence periods and the likelihood of impairment are reviewed regularly and updated when appropriate. Management use a significant level of judgement when determining the collective unidentified impairment provision, including the assessment of the level of overall risk existing within particular sectors and the impact of the low interest rate environment on loss emergence periods.

De-recognition of financial assets

Financial assets transferred from the Company to Lloyds Bank plc ("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 the 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:

	2016 £'000	2015 £'000
Hire Purchase business	1,448	3,950
Receivables Finance and Asset Based Lending	13,995	14,421
Agency fee (note 26)	87,820	105,195
	<u>103,263</u>	<u>123,566</u>

4. Other operating income

	2016 £'000	2015 £'000
Recharge of costs to other group undertakings	-	16
Dividends received	264	1,300
Total (note 26)	<u>264</u>	<u>1,316</u>

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:

	2016 Number	2015 Number
By activity		
Hire purchase	90	97
Asset based lending	407	698
Directors	1	2
	<u>498</u>	<u>797</u>

Staff costs:

	2016 £'000	2015 £'000
Wages and salaries	25,489	40,567
Social security costs	2,674	4,609
Share-based payments (note 21)	841	1,252
Other pension costs - defined benefit schemes (note 20)	964	2,180
Other pension costs - defined contribution schemes (note 20)	1,673	2,047
	<u>31,640</u>	<u>50,655</u>

b) Directors' emoluments

	2016 £'000	2015 £'000
Aggregate emoluments	<u>381</u>	<u>631</u>
Highest paid director: - Emoluments	<u>381</u>	<u>426</u>

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Directors and employees (continued)

b) Directors' emoluments (continued)

The highest paid director exercised 22,156 share options in respect of qualifying services during the year (2015: nil). During the financial year no other directors exercised share options (2015: nil).

One of the directors was paid or was due to receive amounts under long-term incentive schemes in respect of qualifying services in 2016 (2015: 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 (2015: £nil).

Retirement benefits in respect of services to Lloyds Bank Commercial Finance Limited are accruing to nil (2015: nil) directors under defined benefit pension schemes. One of the directors have benefits accruing under money purchase schemes (2015: 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.

The directors, who are considered to be key management, received no remuneration in respect of their services to the Company. Other than the director identified above, the emoluments of the directors are paid by a fellow group undertaking on behalf of the ultimate parent, Lloyds Banking Group plc, which makes no recharge to the Company. The directors are also substantially engaged in managing their respective business areas within Lloyds Banking Group plc. It is therefore not possible to make an accurate apportionment of directors' emoluments in respect of their services to this subsidiary. Accordingly, these financial statements include no emoluments in respect of the directors other than that stated above.

6. Other operating expenses

	2016 £'000	2015 £'000
Impairment (credit)/charge on loans and advances to customers (note 27.1)	(388)	157
Premises costs	2,405	2,461
Travel and motor expenses	3,219	3,783
Printing, postage and stationery	445	3,358
Agents' commission	255	410
Consultancy and professional fees	15,753	7,210
Indirect staff costs	535	1,090
Marketing fees	60	25
Management fees and costs recharged by other group companies (note 26)	30,678	30,116
Other administrative expenses	2,251	4,989
	55,213	53,599

7. Interest payable

	2016 £'000	2015 £'000
On balances with group undertakings (note 26)	953	996

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.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Profit before tax

Profit before tax is stated after charging:

	2016 £'000	2015 £'000
Operating lease payments on property and equipment	1,608	1,631

Services provided by the Company's auditors and its associates

Fees payable to Company's auditors for the audit of these financial statements	120	74
Fees payable to Company's auditors for the audit of other Group companies	-	3
Fees payable to Company's auditors for other work: other services	-	4

Audit fees are borne by Lloyds Bank plc and amounts disclosed are the amounts recharged to Lloyds Bank Commercial Finance Limited.

9. Tax charge

a) Analysis of charge for the year

	2016 £'000	2015 £'000
UK corporation tax:		
Current tax on profit for the year	1,470	3,084
Adjustment in respect of prior years	201	-
Current tax charge	1,671	3,084
Origination and reversal of timing differences	1,156	288
UK corporation tax rate change and related impacts	(58)	(352)
Adjustment in respect of prior years	(188)	-
Deferred tax (note 16)	910	(64)
Tax charge for the year	2,581	3,020

The charge for tax on the profit for the year is based on a UK corporation tax rate of 20% (2015: 20.25%).

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:

	2016 £'000	2015 £'000
Profit before tax	13,102	17,642
Tax charged at UK corporation tax rate of 20% (2015: 20.25%)	2,620	3,572
Factors affecting charge:		
Disallowed and non-taxable items	6	(200)
Adjustment in respect of prior years	13	-
UK corporation tax rate change and related impacts	(58)	(352)
Tax on profit on ordinary activities	2,581	3,020
Effective rate	20.0%	17.1%

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.

The Finance Act 2016 further reduced the corporate tax rate to 17% with effect from 1 April 2020.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Intangible assets

Cost	Computer Software £'000	Total £'000
At 1 January 2015	13,895	13,895
Additions	8,835	8,835
At 31 December 2015	22,730	22,730
Additions	2,364	2,364
At 31 December 2016	25,094	25,094
Accumulated amortisation		
At 1 January 2015	4,766	4,766
Charge for the year	758	758
At 31 December 2015	5,524	5,524
Charge for the year	1,112	1,112
At 31 December 2016	6,636	6,636
Net book value:		
At 31 December 2016	18,458	18,458
At 31 December 2015	17,206	17,206

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.

11. Property, plant and equipment

	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 January 2015	16,095	10	16,105
Additions	2,900	-	2,900
At 31 December 2015	18,995	10	19,005
Additions	370	-	370
Disposals	(1)	-	(1)
At 31 December 2016	19,364	10	19,374
Accumulated depreciation			
At 1 January 2015	10,085	10	10,095
Charge for the year	1,232	-	1,232
At 31 December 2015	11,317	10	11,327
Charge for the year	1,506	-	1,506
Disposals	-	-	-
At 31 December 2016	12,823	10	12,833
Net book value:			
At 31 December 2016	6,541	-	6,541
At 31 December 2015	7,678	-	7,678

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Investments

	2016 £'000	2015 £'000
Investment in group undertakings		
Investment in group undertakings at 1 January	16,666	16,667
Disposals ¹	-	(1)
Investment in group undertakings at 31 December	16,666	16,666
Available-for-sale investments	120	17
Total investments at 31 December	16,786	16,683

¹The companies that were dissolved during 2015 were Glythorne Limited, Snowglen Securities Limited, Evansville Limited, Kingstar Leasing Limited and Azedcrest Limited.

a) Investment in group undertakings

Details of the group undertakings are noted below.

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 of company	Principal Business	Reference date	Country of incorporation
Alex Lawrie Factors Limited	Dormant	31 December	UK
Alex. Lawrie Receivables Financing Limited	Dormant	31 December	UK
Eurolead Services Holdings Limited	Investment	31 December	UK
Lloyds Bank Commercial Finance Scotland Limited	Leasing	31 December	UK
LBCF Limited	Dormant	31 December	UK

The proportion of voting rights in the group undertakings held directly by the Company does not differ from the proportion of ordinary shares held.

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

All subsidiaries with the exception of Lloyds Bank Commercial Finance Scotland are registered at No. 1 Brookhill Way, Banbury, OX16 3EL. Lloyds Bank Commercial Finance Scotland is registered at 110 St Vincent Street, Glasgow, G2 4QR.

b) Available-for-sale investments

The movement in available-for-sale securities can be summarised as follows:

	2016 £'000	2015 £'000
Investment in available-for-sale equity securities		
Investments at 1 January	17	17
Movements in available-for-sale equity securities	103	-
Total investments at 31 December	120	17

Available-for-sale equity securities are carried at fair value through the Company's balance sheet and reportable within valuation hierarchy level 3. For definitions of the valuation methodology levels, please see note 28.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Trade and other receivables

	2016 £'000	2015 £'000
<u>Amounts falling due within one year</u>		
Loans and advances to customers	190,352	205,009
Amounts receivable under non-recourse factoring agreements	173,964	9,035
	<u>364,316</u>	<u>214,044</u>
Less allowance for losses on loans and advances (note 27.1)	(5,989)	(29,139)
	<u>358,327</u>	<u>184,905</u>

	2016 £'000	2015 £'000
<u>Amounts falling due after more than one year</u>		
Loans and advances to customers	3,490	16,975

	2016 £'000	2015 £'000
<u>Loans and advances to customers include hire purchase:</u>		

Gross investment in hire purchase contracts receivable:

- no later than one year	11,852	35,396
- later than one year and no later than five years	3,510	16,865
- later than five years	-	95
	<u>15,362</u>	<u>52,356</u>
Unearned future finance income on hire purchase contracts	(379)	(1,657)
Net investment in hire purchase contracts	<u>14,983</u>	<u>50,699</u>

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

	2016 £'000	2015 £'000
- no later than one year	11,578	34,187
- later than one year and no later than five years	3,405	16,418
- later than five years	-	94
	<u>14,983</u>	<u>50,699</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 (2015: £nil).

14. Other current assets

	2016 £'000	2015 £'000
Prepayments	497	640
Other debtors	270	710
	<u>767</u>	<u>1,350</u>

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	178,387	183,816
Overdrafts (note 17)	(258,287)	(166,004)
Net cash	(79,900)	17,812

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 £167,527k (2015: £181,382k) of balances with related parties (note 26).

16. Deferred tax

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

	2016 £'000	2015 £'000
At 1 January	(4,622)	(4,763)
Statement of Comprehensive Income charge (note 9)	(910)	64
Other Comprehensive Income: pension re-measurement	6,393	77
Other Comprehensive Income: AFS reserve movement	(20)	-
At 31 December	841	(4,622)

The deferred tax charge in the Statement of Comprehensive Income comprises the following temporary differences:

Pensions	(378)	212
Accelerated capital allowances	(210)	(417)
Other temporary differences	(322)	269
	(910)	64

Deferred tax balance at 31 December comprises:

Pensions	(3)	(6,019)
Accelerated capital allowances	775	986
Other temporary differences	69	411
Deferred tax liability	841	(4,622)

Deferred tax balance is settled as follows:-

After more than 12 months	841	(4,622)
---------------------------	-----	---------

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.

The Finance Act 2016 further reduced the corporate tax rate to 17% with effect from 1 April 2020.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and other payables

	2016 £'000	2015 £'000
Amounts due to clients on collections	14,368	17,127
Due to clients on collection under non-recourse factoring agreements	341	8,787
Trade creditors	46	412
Other tax and social security	4,669	5,797
Accruals and deferred income	9,526	22,300
Other creditors	396	1,187
	29,346	55,610

Amounts owed to group undertakings (note 26):

- Bank overdraft balances (note 15)	258,287	166,004
- Other funding balances	282,084	203,470
- Interest payable	426	25
	540,797	369,499

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.

18. Capital and reserves

Called up share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid:		
101,100,000 (2015: 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 (2015: £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

	2016 £'000	2015 £'000
Profit before tax	13,102	17,642
Adjustments for:		
Depreciation and amortisation	2,618	1,990
Profit on disposal of property, plant and equipment	1	-
Dividends received	(264)	(1,300)
Interest expense	953	996
Defined benefit pension schemes costs	964	2,180
Contributions paid to defined benefit pension schemes	(2,952)	(3,230)
(Increase)/decrease in trade and other receivables	(159,936)	199,898
Decrease in other current assets	583	2,159
Decrease in trade and other payables	(26,264)	(2,258)
Increase/(decrease) in amounts due to group undertakings	78,614	(147,594)
Cash (used in)/generated from operations	(92,581)	70,483

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 plc Pension Schemes No's 1 and 2. New employees are offered membership of the defined contribution section of the Lloyds Banking Group plc Pension Scheme No. 1.

During the year ended 31 December 2016 the charge to the statement of comprehensive income in respect of this scheme was £1,673k (2015: £2,047k), representing the contributions payable by the employer in accordance with the scheme rules. There are no outstanding or prepaid contributions at 31 December 2016 (2015: £nil).

Defined benefit schemes

The remaining employees are members of the defined benefit sections of the Lloyds Banking Group plc 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 2016 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:

	2016 £'000	2015 £'000
Defined benefit pension schemes net assets	16	31,676

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

	2016 £'000	2015 £'000
Company's share of present value of funded obligations	(199,677)	(449,857)
Company's share of fair value of scheme assets	199,693	481,533
	16	31,676

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

	2016 £'000	2015 £'000
At 1 January	31,676	31,540
Charge to the statement of comprehensive income	(964)	(2,180)
Charge to other comprehensive income before tax	(33,647)	(914)
Contributions paid	2,951	3,230
At 31 December	16	31,676

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. Retirement benefits (continued)

The expense recognised in the statement of comprehensive income comprises:

	2016 £'000	2015 £'000
Current service cost	866	2,050
Interest cost	(120)	(177)
Past service costs and curtailment	49	56
Administrative costs and other	169	251
	<u>964</u>	<u>2,180</u>

Movements in the defined benefit obligation:

	2016 £'000	2015 £'000
At 1 January	449,857	452,377
Current service cost	866	2,050
Interest income	6,172	11,635
Actuarial gains	(250,687)	(4,775)
Benefits paid	(6,581)	(11,486)
Past service costs and curtailment	50	56
At 31 December	<u>199,677</u>	<u>449,857</u>

Changes in the fair value of scheme assets:

	2016 £'000	2015 £'000
At 1 January	481,533	483,917
Expected return	(284,334)	(5,689)
Interest income	6,292	11,812
Employer contributions	2,952	3,230
Benefits paid	(6,581)	11,486
Administrative costs and other	(169)	(251)
At 31 December	<u>199,693</u>	<u>481,533</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:

	2016	2015
	%	%
Discount rate	2.76	3.87
Rate of inflation – Retail price index	3.23	2.99
- Consumer price index	2.18	1.99
Rate of salary increases	0.00	0.00
Rate of increase for pensions in payment	2.74	2.58

	2016	2015
	Years	Years
Life expectancy for member aged 60, on the valuation date:		
- Men	28.1	28.1
- Women	30.3	30.4
Life expectancy for member aged 60, 15 years after the valuation date:		
- Men	29.3	29.5
- Women	31.7	31.9

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:

	2016	2015
	%	%
Equity instruments	1	1
Debt instruments	56	53
Pooled investment vehicles	43	38
Property	0	4
Other	0	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 2016 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 £841k (2015: £1,252k).

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 plc 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 plc 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 plc 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 plc 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 participation of the Company's employees 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 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 and number of options outstanding for the above schemes overall can be found in the 2016 annual report and financial statements of the Company's ultimate parent company, Lloyds Banking Group plc. Copies of the ultimate parent company's 2016 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:

	2016 £'000	2015 £'000
Due within one year	1,131	1,608
Due between one and five years	4,049	4,168
Due beyond five years	2,725	3,737
	<u>7,905</u>	<u>9,513</u>

Operating lease payments made during the year amount to £1,608k (2015: £1,631k) and relate to rent on five (2015: five) 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 nil for the current year (2015: £80k) due to the one sublease in operation during 2016 being terminated on 14th December 2016. Total future sublease amounts receivable relating to the above operating leases amount to nil (2015: £144k) due to this termination.

23. Commitments to lend and contingent liabilities

	2016 £'000	2015 £'000
Undrawn amounts	135,289	166,762
Guarantees	50	3,957
Total commitments	<u>135,339</u>	<u>170,719</u>

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:

	2016 £'000	2015 £'000
Revocable commitments	132,027	167,034
Irrevocable commitments	3,312	3,685
Total commitments	<u>135,339</u>	<u>170,719</u>

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 plc, which ceased trading on 31 December 2010. In 2013 HMRC informed the Lloyds Banking Group plc 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 £28,256,000 (including interest on overdue tax). The Lloyds Banking Group plc 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.

24. 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.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25. Dividends per share

	2016 £'000	Dividend per Share p	2015 £'000	Dividend per Share p
Interim dividend paid	-	-	51,700	51.14
Total	-	-	51,700	

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

26. 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:

	Related party relationship	2016 £'000	2015 £'000
Cash and cash equivalents (note 15)			
Lloyds Bank Plc	Immediate parent	139,634	174,063
HBOS Plc	Fellow subsidiary	27,893	7,319
		<u>167,527</u>	<u>181,382</u>
Amounts owed (to) / from group undertakings (note 17)			
Lloyds Bank Plc	Immediate parent	(594,359)	(395,901)
HBOS Plc	Immediate parent	(25,707)	(13,795)
Lloyds UDT Limited	Fellow subsidiary	93,776	54,686
Other fellow group undertakings	Fellow subsidiary	(14,514)	(14,514)
Lloyds Bank Commercial Finance Scotland Limited	100% owned Subsidiary	6	25
		<u>(540,798)</u>	<u>(369,499)</u>
Income (notes 3 & 4)			
Lloyds Bank Plc	Immediate parent	87,820	105,195
Lloyds Bank Commercial Finance Scotland Limited	100% owned Subsidiary	264	1,316
		<u>88,084</u>	<u>106,511</u>
Staff related costs (notes 20 & 21)			
Lloyds Bank Plc	Immediate parent	3,478	5,479
		<u>3,478</u>	<u>5,479</u>
Management fees and other costs (note 6)			
Lloyds Bank Plc	Immediate parent	30,798	30,197
		<u>30,798</u>	<u>30,197</u>
Interest expense / (income) (note 7)			
Lloyds Bank Plc	Immediate parent	514	(142)
Lloyds UDT Limited	Fellow subsidiary	439	1,138
		<u>953</u>	<u>996</u>

All of the above companies are ultimately owned by Lloyds Banking Group plc. See notes 12 and 24 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 in the prior year the payment of dividends on ordinary shares.

Related Party addresses

Lloyds Bank plc – 25 Gresham Street, London, EC2V 7HN
Lloyds UDT limited – 25 Gresham Street, London, EC2V 7HN
HBOS plc – The Mound, Edinburgh, EH1 1YZ

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26. Related party transactions (continued)

Related Party addresses (continued)

Other follow group undertakings consists of related party transactions with LBCF Limited, Alex Lawrie Receivables Finance Limited and Eurolead Services Holdings Limited. The registered addresses for these companies as well as Lloyds Bank Commercial Finance Scotland Limited are disclosed within Note 12 – Investments.

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.

27. 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.

27.1 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 £10.3m (2015: £2.0m) and £0.5m (2015: £0.4m) 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 2016	£'000
Neither past due nor impaired	352,786
Past due but not impaired	29
Impaired	14,991
Gross exposure – loans and advances (note 13)	367,806
Commitments to lend (note 23)	135,339
Maximum credit exposure	503,145

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

27.1 Credit risk (continued)

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 23)	170,719
Maximum credit exposure	401,738

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

As at 31 December 2016	£'000
Good quality	100,139
Satisfactory quality	57,197
Lower quality	195,419
Below standard, but not impaired	31
Total	352,786

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

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:

	2016 £'000	2015 £'000
Past due up to 30 days	1	11
Past due 30-60 days	14	84
Past due 60-90 days	7	26
Past due over 90 days	7	18
Total	29	139

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

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

27.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired:

	2016 £'000	2015 £'000
Balance at 1 January	(29,139)	(42,490)
Exchange and other adjustments	(6,969)	(1,281)
Advances written off, net of recoveries	27,387	1,755
Notional income	86	121
Credit/(charge) to Statement of Comprehensive Income	388	(157)
Other movements	2,258	12,913
At 31 December	(5,989)	(29,139)

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 (2015: nil).

The book value (and fair value) of financial assets totalling £71,011k (2015: £83,329k) 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, Asset Based Lending loans and advances to customers. The Company's involvement in these loans going forward is to service them as an agent of the Bank, no longer as principal.

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 2016 agents held, on the Company's behalf, reposessed collateral of £nil (2015: £nil) 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.

27.2 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 Lloyds Banking Group plc

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.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

27.2 Liquidity risk (continued)

At 31 December 2016	Up to 1 month £'000	1 – 3 months £'000	3 – 12 months £'000	1 – 5 years £'000	Over 5 years £'000	Total £'000
Financial liabilities						
Amounts due to clients on collections	14,368	-	-	-	-	14,368
Trading and other payables	46	-	-	-	-	46
Amounts owed to group undertakings	268,002	2,840	7,837	3,405	-	282,084
Bank overdrafts	258,287	-	-	-	-	258,287
At 31 December 2015	Up to 1 month £'000	1 – 3 months £'000	3 – 12 months £'000	1 – 5 years £'000	Over 5 years £'000	Total £'000
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

27.3 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.

27.4 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 follows a policy of ensuring that all foreign currency financial assets are matched with borrowings in the same currency, thus minimal sensitivity to foreign exchange exposure is considered to exist.

28. 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.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28. Financial instruments (continued)

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.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Cash and cash equivalents	178,387	178,387	183,816	183,816
Loans and advances				
Loans and advances to customers: unimpaired	359,898	353,642	220,882	198,981
Loans and advances to customers: impaired	7,908	7,908	1,102	1,102

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.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Financial liabilities				
Amounts due to clients on collections	14,368	14,368	17,127	17,127
Trading and other payables	46	46	9,199	9,199
Amounts owed to group undertakings	282,084	282,084	203,495	203,495
Bank overdrafts	258,287	258,287	166,004	166,004

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.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28. Financial instruments (continued)

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).

At 31 December 2016	Fair value £'000	Valuation hierarchy		
		Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets				
Cash and cash equivalents	178,387	178,387	-	-
Loans and advances				
Loans and advances to customers: unimpaired	353,642	-	353,642	-
Loans and advances to customers: impaired	7,908	-	7,908	-
Financial liabilities				
Amounts due to clients on collections	14,368	-	14,368	-
Trading and other payables	46	-	46	-
Amounts owed to group undertakings	282,084	-	282,084	-
Bank overdrafts	258,287	-	258,287	-
At 31 December 2015				
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	-

29. 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 plc'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 13. 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

30. Future accounting developments

The following pronouncements are not applicable for the year ended 31 December 2016 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 Company and reliable estimates cannot be made at this stage.

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. This change is likely to result in an increase in the company's balance sheet provisions for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the company's lending portfolios and forecast economic conditions at the date of implementation. In December 2015, the Basel Committee on Banking Supervision ('the Committee') issued its Guidance on credit risk and accounting for expected credit losses ('the Guidance'). The Guidance sets out supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss (ECL) accounting frameworks, such as that introduced in IFRS 9, Financial Instruments. In January 2016, the Committee issued a Discussion paper on the Regulatory treatment of accounting provisions focusing on the policy considerations related to the regulatory treatment of accounting provisions under the Basel III regulatory capital framework.</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 revised requirements are not expected to have a significant impact on the company.</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
<i>IFRS 16 Leases:</i>	The IASB has issued IFRS 16 to replace IAS 17 Leases which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. This change will mainly impact the properties that the Group currently accounts for as operating leases. Lessor accounting requirements remain aligned to the current approach under IAS 17.	Annual periods beginning on or after 1 January 2019.