

**Co-operative Commercial Limited**  
**Directors' report and financial statements**  
**for the year ended 30 June 2018**

Registered Number: 00954488



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**Directors and advisors**

**Directors**

A J W Lillie

R J Adnett

I Chadwick (Resigned 28 February 2018)

**Secretary**

D C Whitehead (Resigned 14 February 2019)

C E Green (Appointed 14 February 2019)

**Independent auditor**

Ernst & Young LLP

2 St Peter's Square

Manchester

M2 3DF

**Registered office**

PO Box 101

1 Balloon Street

Manchester

United Kingdom

M60 4EP

**Registered number**

00954488

## Strategic report

### Principal activities

The company was previously engaged in holding investments and providing finance through the leasing of buildings and capital equipment to private companies and public sector organisations for periods of up to 25 years. The Company no longer provides finance and as a result is no longer trading. The Company is a wholly owned subsidiary of The Co-operative Bank plc (the Bank).

### Business review

A small amount of residual finance lease interest from the leasing of buildings and capital equipment has been recognised. The Company disposed of its equity investment in Unity Trust Bank (UTB) in April 2018. The Company is no longer originating new business.

### Strategy and future outlook

The directors have considered the Company's business activities together with its financial position and the factors likely to affect its future development and performance. The Company is non-trading. As such, the accounts have been prepared under a basis other than going concern.

### Principal risks and uncertainties

The principal risks and uncertainties of the Company relate to the recovery of the intercompany receivable given that the Company is no longer writing new business itself. The principal risks and uncertainties of the Bank are discussed within the Annual Report and Accounts, which does not form part of this report.

### Key performance indicators (KPIs)

There are no separate key performance indicators now that the Company is not writing new business. However the key performance indicator of the Company whilst it traded was the net interest income/expense and profit before tax disclosed on page 7.

Approved by the Board of Directors on 22 March 2019.

Signed on behalf of the Board:



Director RICHARD ADNETT

Date: 22 March 2019

## **Directors' report**

The directors present their report and the audited financial statements of Co-operative Commercial Limited (Registered Company No. 00954488) for the year ended 30 June 2018.

### **Future of the entity**

During the year, the Company stopped providing finance through the leasing of buildings and capital equipment and as a result is no longer trading. The company accounts are therefore prepared under a basis other than going concern.

### **Results**

The total comprehensive income for the financial period, after tax, amounted to an expense of £(266,316) (18 months ended June 2017: income of £420,244). Net assets at the balance sheet date amounted to £503,743 (2017: £469,810).

### **Dividends**

The directors have not proposed a dividend in the year ended 30 June 2018 (18 months to 30 June 2017: £7,850,000).

### **Likely future developments and financial risk management**

The future developments, principal risks and uncertainties and key performance indicators of the Company are dealt with in the Strategic report on page 2. The Company's approach to financial risk management is set out on pages 15 and 16.

### **Employees**

The Company had no employees during the year (18 months ended 30 June 2017: nil). The directors are employed by the Bank.

### **Directors' details**

The directors of the Company during the period were:

A J W Lillie

R J Adnett

I Chadwick (Resigned 28 February 2018)

No director had any beneficial interest in the share capital of the Company or any other company of the group at any time during the period under review.

### **Insurance and indemnities**

During the period the Company maintained appropriate directors' liability insurance in respect of legal action against its directors. In addition, qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in operation during the period and are in force for the benefit of the directors in relation to certain losses and liabilities which they may incur in connection with their appointment. The cost has been borne by the Bank and is not recharged.

### **Statement of directors' responsibilities in respect of the strategic report, directors' report and the financial statements**

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 period. Under that law they have elected to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law.

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 the financial statements, the directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. For the reasons stated in the directors' report and note 1.2, these accounts are not prepared on a going concern basis.

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

## Directors' report (continued)

### Statement on disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Independent auditor

The auditor, Ernst & Young LLP is deemed to have been reappointed in accordance with section 487 of the Companies Act 2006.

Approved by the Board of Directors on 22 March 2019.

Signed on behalf of the Board:



Director **RICHARD AONETT**

Date: **22 March 2019**

## Independent auditor's report to the members of Co-operative Commercial Limited

We have audited the financial statements of Co-operative Commercial Limited for the year ended 30 June 2018 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity, Statement of cash flows and the related notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter – financial statements prepared on a basis other than going concern

We draw attention to note 1.2 to the financial statements which explains that the company is not generating any new business, and is not trading and therefore the directors do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly the financial statements have been prepared on a basis other than going concern as described in note 1.2. Our opinion is not modified in respect of this matter.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### 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 directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

## Independent auditor's report to the members of Co-operative Commercial Limited (continued)

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

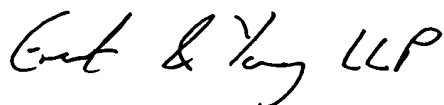
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signed



**Stephen Littler (Senior statutory auditor)**  
**for and on behalf of Ernst & Young LLP, Statutory Auditor**  
2 St Peter's Square  
Manchester  
M2 3DF

Date: 26 March 2019



## Statement of comprehensive income

	Notes	Year ended 30 June 2018 £	18 months ended 30 June 2017* £
Finance lease income	4	42,293	70,015
Interest expense	5	-	(185,312)
Investment income	6	-	27,120
<b>Net interest income/(expense)</b>		<b>42,293</b>	<b>(88,177)</b>
Administrative expenses	2	(2,196)	(45,100)
<b>Profit/(loss) before taxation</b>		<b>40,097</b>	<b>(133,277)</b>
Taxation (charge)/credit	7	(5,987)	253,095
<b>Profit attributable to equity holders</b>		<b>34,110</b>	<b>119,818</b>
<b>Other comprehensive income that may be recycled to profit or loss:</b>			
Changes in available-for-sale assets:			
Net changes in fair value recognised directly in equity		(300,426)	300,426
<b>Other comprehensive (expense)/income for the financial period, net of income tax</b>		<b>(300,426)</b>	<b>300,426</b>
<b>Total comprehensive (expense)/income attributable to equity holders</b>		<b>(266,316)</b>	<b>420,244</b>

\*In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. See note 1 to the financial statements for details of changes in accounting policy.

Profit is derived from discontinued operations and all activities are in the UK.

The notes on pages 11 to 20 form part of these financial statements.

**Balance sheet**

as at 30 June

	Notes	2018 £	2017* £
<b>Assets</b>			
Cash and cash equivalents	8	-	6,558,601
Amounts due from group undertakings	10	503,743	-
Equity shares	11	-	2,260,177
Deferred tax assets	7	-	5,987
<b>Total assets</b>		<b>503,743</b>	<b>8,824,765</b>
<b>Liabilities</b>			
Amounts due to group undertakings	12	-	8,312,662
Finance lease payables	9	-	42,293
<b>Total liabilities</b>		<b>-</b>	<b>8,354,955</b>
<b>Equity</b>			
Called-up share capital	13	1	1
Retained earnings		503,742	169,383
Available for sale reserve		-	300,426
<b>Total equity</b>		<b>503,743</b>	<b>469,810</b>
<b>Total equity and liabilities</b>		<b>503,743</b>	<b>8,824,765</b>

\*In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. See note 1 to the financial statements for details of changes in accounting policy.

The notes on pages 11 to 20 form part of these financial statements.

Approved by the Board of directors on 22 March 2019 and signed on its behalf by:



Director **RICHARD ADNETT**

Registered Company Number 00954488

**Statement of changes in equity**

as at 30 June

<b>Year ended 30 June 2018 (£)</b>	<b>Share capital</b>	<b>Retained earnings</b>	<b>Available for sale reserve</b>	<b>Total</b>
Balance at the beginning of the year	1	169,383	300,426	469,810
IFRS 9 opening balance adjustment	-	300,249	(300,426)	(177)
Balance at the beginning of the year – adjusted for IFRS 9	1	469,632	-	469,633
Total comprehensive income for the year	-	34,110	-	34,110
<b>Balance at the end of the year</b>	<b>1</b>	<b>503,742</b>	<b>-</b>	<b>503,743</b>

<b>18 months ended 30 June 2017* (£)</b>	<b>Share capital</b>	<b>Retained earnings</b>	<b>Available for sale reserve</b>	<b>Total</b>
Balance at the beginning of the period	1,000,000	6,899,566	-	7,899,566
Share capital reduction	(999,999)	999,999	-	-
Dividends paid	-	(7,850,000)	-	(7,850,000)
Total comprehensive income for the period	-	119,818	300,426	420,244
<b>Balance at the end of the period</b>	<b>1</b>	<b>169,383</b>	<b>300,426</b>	<b>469,810</b>

\*In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. See note 1 to the financial statements for details of changes in accounting policy.

The notes on pages 11 to 20 form part of these financial statements.

## Statement of cash flows

	Notes	Year ended 30 June 2018 £	18 months ended 30 June 2017 £
<b>Cash flows from operating activities:</b>			
Profit/(loss) before taxation		40,097	(133,277)
Adjustments for:			
Interest paid		-	185,312
Dividends received		-	(27,120)
Increase in amounts due from group undertakings		(503,743)	-
Decrease in finance lease receivables		-	987,354
Decrease in other receivables		-	11,070
Decrease in finance lease payables		(42,293)	-
(Decrease)/increase in amounts due to group undertakings		(8,312,662)	2,350,366
Income tax/group relief paid		-	(312,495)
Impairment of investments in group undertakings		-	217,910
<b>Net cash flows from operating activities</b>		<b>(8,818,601)</b>	<b>3,279,120</b>
<b>Cash flows from/(used in) investing activities:</b>			
Dividends received		-	27,120
Proceeds from sale of investment		2,260,000	-
<b>Net cash flows from investing activities</b>		<b>2,260,000</b>	<b>27,120</b>
<b>Cash flows (used in)/from financing activities:</b>			
Interest paid		-	(185,312)
Dividends paid		-	(7,850,000)
<b>Net cash flows used in financing activities</b>		<b>-</b>	<b>(8,035,312)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(6,558,601)</b>	<b>(4,729,072)</b>
Cash and cash equivalents at the beginning of the year		6,558,601	11,287,673
<b>Cash and cash equivalents at the end of the year</b>		<b>-</b>	<b>6,558,601</b>

The notes on pages 11 to 20 form part of these financial statements.

## Notes to the financial statements

## 1. Basis of preparation and significant accounting policies

## 1.1 Basis of preparation

Co-operative Commercial Limited is a company incorporated and domiciled in England. The company is limited by shares.

The Company's financial statements are prepared on an other than going concern basis to reflect the cessation of trade. Under this basis, the assets and liabilities are measured under the historical cost convention.

The accounting period is from 1 July 2017 to 30 June 2018. The prior accounting period was extended in anticipation of the entity being liquidated. However the entity has not been liquidated and no indication of imminent liquidation has been concluded. Amounts presented in the prior reporting period are not entirely comparable due to the period length.

The Company is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and implemented in the UK, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to organisations reporting under IFRS. The Company early adopted IFRS 9 on 1 July 2017 as explained below.

## 1.1.1 Standards and interpretation issued and effective

During the period, the Company adopted the following amendment to the standards and interpretations.

## • IFRS 9 (Financial Instruments (2014))

IFRS 9 as issued by the IASB in 2014 has been early adopted with an effective date of 1 July 2017. The adoption of IFRS 9 resulted in changes in accounting policies and adjustments to the opening reserves in the financial statements. Comparative information has not been restated as permitted by the transitional provisions of IFRS 9. Adjustments to the carrying values of financial instruments at the date of transition to IFRS 9 have been recognised in the opening reserves of the current year. Consequently, for note disclosures, the amendments to IFRS 7 as a result of adoption of IFRS 9 have only been applied to the current year. The comparative disclosures reflect those reported in financial statements for the period ended 30 June 2017.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition and de-recognition, classification and measurement of financial instruments and impairment of financial assets. The adoption of IFRS 9 also significantly amends other standards dealing with financial instruments, including IFRS 7 'Financial Instruments: Disclosures', which have been adopted within these financial statements.

Details of the specific IFRS 9 accounting policies applied in the current year as well as previous IAS 39 accounting policies applied in the comparative period are described below. The following table shows the impact of transition to IFRS 9:

	IAS 39 carrying amount 30 June 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 July 2017
<b>Available-for-sale (AFS)</b>				
<b>Equity shares</b>				
Closing balance under IAS 39	2,260,177			
Reclassification to FVTPL		(2,260,177)	-	
Opening balance under IFRS 9				-
<b>Total financial assets measured at AFS</b>	<b>2,260,177</b>	<b>(2,260,177)</b>	<b>-</b>	<b>-</b>

	IAS 39 carrying amount 30 June 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 July 2017
<b>Fair Value Through Profit or Loss (FVTPL)</b>				
<b>Equity shares</b>				
Closing balance under IAS 39	-			
Reclassification to FVTPL		2,260,177	-	
Opening balance under IFRS 9				2,260,177
<b>Total financial assets measured at FVTPL</b>	<b>-</b>	<b>2,260,177</b>	<b>-</b>	<b>2,260,177</b>

The Company did not elect to classify any equity instruments at FVOCI on transition to IFRS 9 and therefore these are required to be classified at fair value through profit or loss. The same applies to the associated deferred tax asset. There were no reclassifications of financial liabilities on transition to IFRS 9. The impact of transition to IFRS 9 on 1 July 2017 had nil impact on shareholder's funds.

## Notes to the financial statements (continued)

### 1. Basis of preparation and significant accounting policies (continued)

#### 1.1.2 Standards and interpretation issued and effective (continued)

Other standards and interpretations have been issued but these are not considered to be relevant to the Company's operations.

#### 1.1.3 Standards and interpretation in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, not yet adopted by the EU.

- IFRS 15 (Revenue from Contracts with Customers (2014))

This standard was issued in May 2014 and is a converged standard from the IASB and FASB on revenue recognition. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. This standard supersedes IAS 18 (Revenue) and a number of revenue interpretations. The standard will be effective for annual reporting years beginning on or after 1 January 2018, and was endorsed by the EU on 22 September 2016.

The Company intends on complying with IFRS 15 from the date it becomes effective. However, no material impact is expected as a result of implementing IFRS 15.

- IFRS 16 (Leases)

The IASB has published a new standard, IFRS 16 (Leases). The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

IFRS 16 supersedes IAS 17 (Leases) and related interpretations and is effective for periods on or after 1 January 2019 with earlier adoption permitted if IFRS 15 (Revenue from Contracts with Customers) has also been applied. IFRS 16 was endorsed by the EU on 31 October 2017.

The Company intends on complying with IFRS 16 from the date it becomes effective. However, no material impact is expected as a result of implementing IFRS 16.

### 1.2 Going concern

As stated in the Directors' Report, the Company is not generating any new business, and is not trading. Consequently the accounts have been prepared on a basis other than going concern.

### 1.3 Significant accounting policies

#### 1.3.1 Functional and presentational currencies

The financial statements are presented in Sterling, which is the Company's functional currency (i.e. the primary currency in which it transacts business) and presentational currency.

#### 1.3.2 Revenue recognition

The Company recognises revenue when the amount of revenue and related costs can be reliably measured, it is probable that the collectability of the related receivable is reasonably assured and when the specific criteria for each of the Company's activities are met.

#### 1.3.3 Finance lease income

Leases where the Company transfers substantially all the risks and rewards of ownership are classified as finance leases and are included within finance lease receivables. Assets leased to customers are deemed to be finance leases and are valued at an amount equal to the net investment in the lease, less any provisions for impairment.

Income from assets leased to customers and instalment credit agreements is credited to the income statement based on a pattern reflecting a constant periodic rate of the net investment in the lease. Initial direct costs incurred in arranging the lease are included in the initial measurement of the finance lease receivable and are recognised over the lease term.

#### 1.3.4 Interest income

Interest is accrued in the statement of comprehensive income using the effective interest rate of the intercompany receivable.

## Notes to the financial statements (continued)

### 1. Basis of preparation and significant accounting policies (continued)

#### 1.3.5 Investment income

Income from investments includes dividend income which is recognised in the statement of comprehensive income when the right to receive payment is established.

#### 1.3.6 Taxation

Tax on the profit for the period comprises current tax and movements in deferred tax.

##### *Current tax*

The expected tax payable on the results for the period is called current tax. It is calculated using the tax rates in force during the reporting period. The current tax charge includes adjustments to tax payable in prior periods.

##### *Deferred tax*

Deferred tax is provided in full using the liability method where there are temporary differences between the carrying value of assets and liabilities for accounting and for tax purposes.

Deferred tax is calculated using the tax rates that are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are only recognised as an asset where it is probable that there will be future taxable profits against which to offset them.

Movements in deferred tax are recognised in the statement of comprehensive income.

#### 1.3.7 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents consist of cash held on behalf of the Company, by the Bank.

#### 1.3.8 Equity instruments

##### **IFRS 9**

Equity instruments are those instruments which meet the definition of equity from the issuer's perspective. Such instruments do not contain a contractual payment obligation and evidence a residual interest in the issuer's net assets.

Equity instruments are initially measured at fair value based on current bid prices where quoted in an active market. Where equity instruments are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques.

All equity instruments are measured at Fair Value Through profit or Loss (FVTPL) unless an election is made to irrevocably designate, on an instrument by instrument basis, at FVOCI. When this election is applied, cumulative gains and losses are recognised in other comprehensive income but are not transferred to profit or loss on de-recognition of the equity instrument.

Gains and losses on equity instruments at FVTPL are recognised within the income statement.

##### **IAS 39**

Equity shares which are not quoted in an active market are classified as Available for sale financial assets. These are initially recognised on their trade date, measured at fair value based on recent purchase prices. Movements in fair value are recorded in equity as they occur. On disposal, gains and losses recognised previously in equity are transferred to the income statement.

#### 1.3.9 Other financial assets and liabilities

##### **IFRS 9 accounting policy – Financial assets**

Financial assets (excluding derivatives) are classified as:

- Amortised cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss.

## Notes to the financial statements (continued)

## 1. Basis of preparation and significant accounting policies (continued)

## 1.3.9 Other financial assets and liabilities (continued)

IFRS 9 financial asset classification		
category	Classification criteria	Subsequent measurement
Amortised cost	The business model objective in which the debt instrument is held is hold to collect the contractual cash flows, and the contractual cash flows of the debt instrument are solely payments of principal and interest.	Amortised cost financial assets are subsequently measured at the amount at which the financial asset was measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and the maturity amount and adjusted for any loss allowance.
Fair value through other comprehensive income	The business model objective in which the debt instrument is held is hold to collect the contractual cash flows and sell, and the contractual cash flows of the debt instrument are solely payments of principal and interest.	<p>Fair value through other comprehensive income financial assets are subsequently measured at fair value, with movements in fair value being recognised in other comprehensive income, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses on the debt instrument's amortised cost, which are recognised in the income statement.</p> <p>When the debt instrument is derecognised, cumulative gains and losses previously recorded in other comprehensive income are reclassified from equity to the income statement.</p> <p>Interest income from debt instruments classified at fair value through other comprehensive income is measured using the effective interest rate method.</p>
Financial assets at fair value through profit or loss	<p>Debt instruments which are not classified at amortised cost or fair value through other comprehensive income.</p> <p>Debt assets may also be irrevocably designated at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.</p>	<p>Financial assets at fair value through profit or loss are subsequently measured at fair value. The fair value gains and losses for those debt instruments which have not been designated with a hedge accounting relationship are recognised within the income statement for the year and recorded within other operating (expense)/income (net).</p> <p>The fair value gains and losses for those debt instruments which have been designated with a hedge accounting relationship are recognised within the income statement for the year.</p> <p>Interest income from debt instruments classified at fair value through profit or loss is measured using the effective interest rate method.</p>

Under IFRS 9, the expected credit loss (ECL) is assessed on a forward-looking basis for debt instruments carried at amortised cost and FVOCI, for exposures related to loan commitments, and for financial guarantee contracts. Under IFRS 9, a loss allowance for such losses is recognised, reflecting:

- an unbiased and probability weighted amount that was determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that was available without undue cost or effort at the reporting date about past events, current conditions and forecasts of economic data.

Credit risk is measured using probability of default (PD), the exposure at default (EAD) and loss given default (LGD). The IFRS 9 3 stage approach to model ECL is applied:

Stage 1 Initial recognition	Stage 2 Significant increase in credit risk	Stage 3 Credit impaired
12 month ECL		Lifetime ECL

Financial instruments are classified within stage 1 on initial recognition. If a significant increase in credit risk (SICR) since recognition is identified but the financial instrument is not credit impaired, then the financial instrument transitions to stage 2. A financial instrument transitions to stage 3 when it becomes credit impaired.



## Notes to the financial statements (continued)

### 1. Basis of preparation and significant accounting policies (continued)

#### 1.3.9 Other financial assets and liabilities (continued)

Financial instruments within stage 1 have a loss allowance reflecting a 12 month ECL whereas financial instruments within stage 2 and 3 have a loss allowance reflecting a lifetime ECL.

#### IFRS 9 accounting policy – Financial liabilities

Financial liabilities are measured at amortised cost unless designated at FVTPL, no such designations were made in the current year.

#### IAS 39 Available for sale

Other financial assets and liabilities are recognised on an amortised cost basis.

#### IAS 39 Impairment

Impairment is assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant.

Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after a principal payment is missed.

The recoverable amount of finance lease receivables carried at amortised cost is calculated as the present value of future cash flows, discounted at the original effective interest rate in the lease.

If impaired the carrying value is adjusted and the difference charged to the statement of comprehensive income.

### 1.4 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 current financial period. Estimates and judgments 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.

**IFRS 9** The Company assesses the expected credit loss (ECL) on a forward-looking basis for debt instruments carried at amortised cost and FVOCI, for exposures related to loan commitments and financial guarantee contracts. The Company applies the IFRS 9 three-stage approach to model ECL. It has been concluded that an expected credit loss in respect of amounts due from group undertakings of nil is appropriate. Unless the Co-operative Bank ceases to be a going concern, impairment of intercompany receivables will be nil as risk including liquidity risk is managed at the Co-operative Bank plc group basis.

**IAS 39** Where objective evidence of impairment has been observed as a result of one or more loss events, the impairment held at the balance sheet date is defined as identified impairment.

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

### 1.5 Risk management

#### 1.5.1 Credit risk

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit risk assessments on the provision of leasing facilities follow the basic principles of lending, i.e. consideration must be given to:

- the integrity and reliability of the lessee;
- the duration and amount of the transaction;
- the lessee's ability to repay; and
- the security.

The maximum exposure to credit risk equates to the carrying value of the net investment in finance leases (note 9).

**Notes to the financial statements (continued)****1. Basis of preparation and significant accounting policies (continued)****1.5.1 Credit risk (continued)***Security of asset*

In most cases the security for the expenditure on the asset purchase is the asset itself. It is not a prerequisite that security is limited to the asset only; other security may frequently be taken, particularly guarantees and/or bank securities. All security documents are referred to and approved by external solicitors where applicable and a record kept of all lease contracts approved by them.

Credit exposures also arise on cash and cash equivalents, which are held with the parent undertaking, The Co-operative Bank plc. These amounts are repayable on demand. The directors are satisfied that this asset remains recoverable at period end.

**1.5.2 Market risk**

Market risk is the risk of loss as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by the movement in market prices, interest rates or exchange rates. This mainly arises from movements in interest rates on the Company's intercompany funding and on its loans and advances to customers.

**1.5.3 Liquidity and funding risk**

Liquidity and funding risk is the risk that obligations cannot be met as they fall due or can only be met at excessive cost. However, this risk is mitigated by the Company having receivables from the loans and advances to customers in excess of the payables, and the sole provider of funding being the parent of the Company; therefore the liquidity risk is considered to be minimal. Currently the Company has no payables to The Co-operative Bank plc.

**1.6 Fair values**

For all financial assets and liabilities that are held at amortised cost, the fair value is materially equal to the carrying value.

# Co-operative Commercial Limited

## Notes to the financial statements (continued)

Year ended 30 June 2018

### 2. Profit/(loss) before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging:

	Year to 30 June 2018 £	18 months ended 30 June 2017 £
Administrative expenses	2,196	45,100

Administrative expenses include a management charge for the services provided by the Company's parent undertaking. Auditor's remuneration of £10,000 (2017: £10,000) for the audit of these financial statements was borne by the parent undertaking, and is not recharged separately.

### 3. Directors' emoluments

The directors received emoluments from The Co-operative Bank for services rendered to all group companies. However, these are not recharged to the individual companies.

At 30 June 2018 one director had pension benefits accruing (30 June 2017: two). Such benefits relate to their employment at the Bank.

### 4. Finance lease income

	Year to 30 June 2018 £	18 months ended 30 June 2017 £
Finance lease income	42,293	70,015

### 5. Interest expense

	Year to 30 June 2018 £	18 months ended 30 June 2017 £
Interest expense on intercompany balances	-	(185,312)

### 6. Investment income

	Year to 30 June 2018 £	18 months ended 30 June 2017 £
Dividend income	-	27,120

The Company disposed of its investment in Unity Trust Bank plc during the year and no further dividends have been received.

## Notes to the financial statements (continued)

## 7. Taxation

	Year ended 30 June 2018 £	18 months ended 30 June 2017 £
UK tax at 19% (18 months ended 30 June 2017: 19.83%)		
Corporation tax		
Current period charge	-	-
Adjustments in respect of prior periods	-	9,301
Total corporation tax	-	9,301
Deferred tax		
Current period charge/(credit)	11,256	(262,394)
Adjustments in respect of prior periods	(5,269)	-
Total tax charge/(credit)	5,987	(253,095)

## Factors affecting tax charge for the period

The average effective rate of corporation tax assessed for the period is different from the standard effective rate of corporation tax in the UK of 19% (18 months ended 30 June 2017: 19.83%).

	Year ended 30 June 2018 £	18 months ended 30 June 2017 £
Profit/(loss) on ordinary activities before tax	40,097	(133,277)
Tax calculated at a rate of 19% (18 months ended 30 June 2017: 19.83%)	7,618	(26,434)
Effects of:		
Expenditure not qualifying for capital allowances	(11,582)	(7,585)
Group relief not charged	9,233	40,632
Write off of deferred tax asset/(liability)	5,987	(267,195)
Adjustments in respect of prior periods	(5,269)	9,301
Impact of effective rate on deferred tax movements	-	1,349
UK dividends received	-	(3,163)
	5,987	(253,095)

The recognised deferred tax (asset)/liability includes the following amounts:

	30 June 2018 £	30 June 2017 £
Other temporary differences	-	(5,987)

The reconciliation of opening and closing deferred tax (asset)/liability is shown below:

	30 June 2018 £	30 June 2017 £
Balance at the beginning of the period	(5,987)	256,407
Deferred tax charge/(credit) to the statement of comprehensive income	5,987	(262,394)
Balance at the end of the period	-	(5,987)

## Notes to the financial statements (continued)

## 7. Taxation (continued)

The UK corporation tax rate reduced from 20% to 19% from 1 April 2017 and will reduce further to 17% effective from 1 April 2020. Deferred tax has been calculated by reference to the most appropriate rate based on forecasts.

## 8. Cash and cash equivalents

	30 June 2018 £	30 June 2017 £
Cash and cash equivalents	-	6,558,601

Cash and cash equivalents consist of cash held on behalf of the Company, by the Bank.

## 9. Finance lease payables

There are no finance lease payables at the end of the year (2017: £42,293). The prior year payable was due within one year and related to unearned finance income relating to future periods. The unguaranteed residual value is £nil (2017: £nil).

At 30 June 2017 there was one lease agreement remaining. The balance stated above comprises of the net of the customer finance lease receivable and the escrow bank account which the customer paid into and was used to settle the finance lease receivable on 30 September 2017. Due to timings of the cash flows, at 30 June 2017 the escrow account was greater than the finance lease receivable, which led to the net finance lease payable. This net finance lease payable fully unwound in the current period.

## 10. Amounts due from group undertakings

	30 June 2018 £	30 June 2017 £
Intercompany loan receivable	503,743	-

The financial asset reflects nil expected credit losses.

## 11. Equity shares

	30 June 2018 £	30 June 2017 £
Unlisted	-	2,260,177

Equity shares in the prior period related to an investment held in Unity Trust Bank plc (UTB), which were unquoted shares. The entire shareholding was repurchased by UTB at £2 per share in April 2018.

## 12. Amounts due to group undertakings

	30 June 2018 £	30 June 2017 £
Intercompany loan payable	-	8,312,662

The Company settled its intercompany loan payable to the Bank funded by its cash balance and proceeds from the sale of its investment in UTB.

## Notes to the financial statements (continued)

## 13. Called-up share capital

	30 June 2018 £	30 June 2017 £
<b>Issued and fully paid</b>		
1 ordinary share of £1 (2017: 1)	1	1

Each shareholder has one vote per share.

## 14. Ultimate parent undertaking and controlling entity

The Company is a wholly owned subsidiary of the Bank, which is incorporated in Great Britain and registered in England and Wales.

The directors regard The Co-operative Bank Holdings Limited as the ultimate parent company. The largest group in which the results of the Company are consolidated is The Co-operative Bank Holdings Limited, which is incorporated in England. The financial statements of this group are available from <http://www.co-operativebank.co.uk/investorrelations/financialresults> and from its registered office at PO Box 101, 1 Balloon Street, Manchester, M60 4EP.

## 15. Related party transactions

The directors of the Company consider the Bank and its subsidiaries to be related parties of the Company. Transactions with the Bank and its subsidiaries are disclosed below:

	Interest (expense)/ income £	Management charge £	Dividends paid £	Investment income £	Group tax relief payable £	Cash and cash equivalents £	Amounts due (to)/from group undertakings £
<b>Year ended 30 June 2018</b>							
The Co-operative Bank plc	-	-	-	-	-	-	503,743
<b>Total</b>	-	-	-	-	-	-	503,743

	Interest (expense)/ income £	Management charge £	Dividends paid £	Investment income £	Group tax relief payable £	Cash and cash equivalents £	Amounts due (to)/from group undertakings £
<b>18 months ended 30 June 2017</b>							
The Co-operative Bank plc	(185,312)	(34,030)	(7,850,000)	-	-	6,558,601	(8,312,662)
<b>Total</b>	(185,312)	(34,030)	(7,850,000)	-	-	6,558,601	(8,312,662)

No formal repayment terms have been agreed between the Bank and its subsidiary companies.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.