

**LLOYDS TSB COMMERCIAL FINANCE LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 2011**

**Registered office**

No 1 Brookhill Way  
Banbury  
Oxon  
OX16 3EL

**Registered number**

00733011

**Directors**

M J Cooper  
R J Eddowes  
I D Larkin  
I D Lomas  
J N Maltby  
M Mazzocchi  
C K Sarfo-Agyare

**Company secretary**

P Gittins

Member of Lloyds Banking Group

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# **LLOYDS TSB COMMERCIAL FINANCE LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2011**

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# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the Company for the year ended 31 December 2011

### Business review and principal activities

Lloyds TSB Commercial Finance Limited ("the Company") is a limited company registered and domiciled in England and Wales

The principal activity of the Company is, and will continue to be, the provision of asset based lending which includes receivables finance and hire purchase of plant and equipment. Business is carried out primarily in the United Kingdom although it does have clients in other European locations. Its German and Irish clients are now serviced from the United Kingdom following branch closures in 2010 and 2011 respectively. The Company also continues to play an active role in developing the syndication market in the United Kingdom and leading and participating in a number of syndicated deals. As at 31 December 2011 syndicated lending was £240m (2010 £297m)

The Company made a profit before taxation for the year of £124,154k (2010 £122,415k) which represents a 1.4% increase on the prior year. This is despite a fall in dividend income of £21,250k. Revenue increased by £19,474k, driven primarily by higher unit sales, inflation and VAT increasing revenue from our clients. Impairment on loans and advances to customers in the year amounted to £13,732k (2010 £23,579k) which represents a 41.8% decrease on the prior year.

### Future outlook

Latest economic forecasts indicate that the UK economy will grow during 2012, in spite of a disappointing 2011 fourth quarter decrease in GDP. The Company continues to be firmly committed to providing cash flow solutions to fund future growth in the SME market.

### Principal risks and uncertainties

The key business risks and uncertainties affecting the Company are closely related to the condition of the economic climate. In the context of significant credit pressures, risk management has been further strengthened throughout 2011.

The Commercial Finance Board of Directors, assisted by the Risk Management Committee, continues to maintain the focus on Corporate Governance ensuring that legislative, regulatory and compliance requirements are met. Integral to the risk management processes is the Commercial Finance Independent Credit Risk Control Unit which ensures that the Company's risk capital is managed effectively, reacting appropriately to changes in the economy and borrower behaviour.

Further details of the Company's financial risk management policies are contained in note 28 to the financial statements.

### Key performance indicators ('KPI's')

The Company monitors three KPI's in relation to its business, being the average numbers of clients, new assignments of debt and new advances to clients.

	2011	2010	Variance	% movement
Average number of clients	9,687	9,992	(305)	(3.1%)
New assignments of debt £m	£46,702	£41,753	£4,949	11.9%
New advances to clients £m	£2,992	£2,714	£0,278	10.2%

Whilst average client numbers have decreased by 3.1% in 2011, the assignments and new advances have both increased by over 10% this year, which has resulted in turnover growth of 8.6%. This increase relates mainly to larger corporations with turnover greater than £100m.

# **LLOYDS TSB COMMERCIAL FINANCE LIMITED**

## **REPORT OF THE DIRECTORS (continued)**

### **Policy and practice on payment of suppliers**

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

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

Trade creditor days at the year end were 5 days (2010 9 days), based on the ratio of trade creditors at the end of the year to amounts invoiced during the year by suppliers.

### **Dividends**

The directors recommend and paid interim dividends of £80,000k. Dividends paid during the year are disclosed in note 26. No final dividend is proposed (2010 nil).

### **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.

Lloyds Banking Group is a member of the Employers' Forum on Disability in support of employment of people with disabilities. This recognises the need for ensuring fair employment practices in recruitment and selection, and the retention, training and career development of disabled staff.

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings and internal communications. There are well-established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions.

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

### **Directors**

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on page 1. The following changes have taken place during the year:

	<u>Resigned</u>	<u>Appointed</u>
S A Featherstone	29 July 2011	
I D Larkin		19 September 2011

### **Directors' indemnities**

The Directors have the benefit of a contract of indemnity which constitutes a "qualifying third party indemnity provision".

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## REPORT OF THE DIRECTORS (continued)

### Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 the case of each of the persons who are directors at the time when the report is approved, the following applies

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

On behalf of the board

C. K. Sarfo-Agyare  
Director

Date 31 May 2012

## **LLOYDS TSB COMMERCIAL FINANCE LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS TSB COMMERCIAL FINANCE LIMITED**

We have audited the financial statements of Lloyds TSB Commercial Finance Limited for the year ended 31 December 2011 which comprise the Balance Sheet, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. 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.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of directors' responsibilities set out on page 5, 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). 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.

#### **Scope of the audit of the financial statements**

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. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit and cash flows 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


#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where 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



Michael Newman (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
United Kingdom

Date 1 June 2012

# **LLOYDS TSB COMMERCIAL FINANCE LIMITED**

## **STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Revenue	3	246,519	227,045
Staff costs	4	(51,676)	(46,517)
Other operating expenses	5	(53,537)	(64,363)
Other operating income	6	9,546	29,026
Depreciation and amortisation	10, 11	(1,356)	(1,385)
Interest expense	7	(25,342)	(21,391)
<b>Profit before tax</b>	8	<b>124,154</b>	<b>122,415</b>
Taxation	9	(31,508)	(4,423)
<b>Profit for the year</b>		<b>92,646</b>	<b>117,992</b>
<b>Other comprehensive income</b>			
Exchange differences on foreign operations		256	139
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<b>92,902</b>	<b>118,131</b>

The notes on pages 11 to 40 are an integral part of these financial statements

All results derive from continuing activities

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

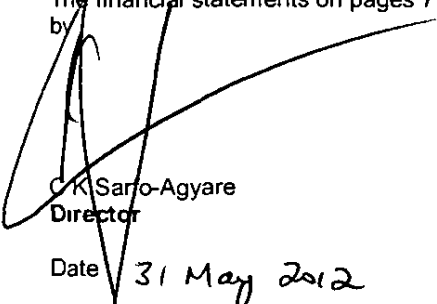
## BALANCE SHEET

As at 31 December 2011

	Note	2011 £'000	2010 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	10	9,000	9,036
Property, plant and equipment	11	1,591	1,925
Investments	12	16,683	16,683
Deferred tax assets	16	3,457	2,964
Retirement benefits	20	26,479	15,434
		<u>57,210</u>	<u>46,042</u>
<b>Current assets</b>			
Trade and other receivables	13	3,380,025	2,950,296
Other current assets	14	7,341	9,083
Cash and cash equivalents	15	93,945	87,838
		<u>3,481,311</u>	<u>3,047,217</u>
<b>Total assets</b>		<u>3,538,521</u>	<u>3,093,259</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	157,740	152,384
Amounts owed to group undertakings	17	3,230,917	2,835,956
Current tax payable		30,150	560
		<u>3,418,807</u>	<u>2,988,900</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	16	6,620	4,167
		<u>6,620</u>	<u>4,167</u>
<b>Equity</b>			
Share capital	18	1,011	1,011
Revaluation reserve	18	2,399	2,399
Retained earnings		109,684	96,782
<b>Total equity</b>		<u>113,094</u>	<u>100,192</u>
<b>Total equity and liabilities</b>		<u>3,538,521</u>	<u>3,093,259</u>

The notes on pages 11 to 40 are an integral part of these financial statements

The financial statements on pages 7 to 40 were approved by the Board of Directors and were signed on its behalf by

  
C.K. Sario-Agyare  
Director

Date 31 May 2012

Company registered number 00733011



# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Note	Share capital £'000	Revaluation reserve £'000	Retained profits £'000	Total equity £'000
<b>Balance at 1 January 2010</b>		<b>1,011</b>	<b>2,399</b>	<b>31,901</b>	<b>35,311</b>
<b>Comprehensive income</b>					
Profit for the year		-	-	117,992	117,992
<b>Other comprehensive income</b>					
Currency translation differences		-	-	139	139
<b>Total other comprehensive income</b>		-	-	139	139
<b>Total comprehensive income</b>		-	-	<b>118,131</b>	<b>118,131</b>
<b>Transactions with owners</b>					
Dividends paid	26	-	-	(53,250)	(53,250)
<b>Total transactions with owners</b>		-	-	<b>(53,250)</b>	<b>(53,250)</b>
<b>Balance at 1 January 2011</b>		<b>1,011</b>	<b>2,399</b>	<b>96,782</b>	<b>100,192</b>
<b>Comprehensive income</b>					
Profit for the year		-	-	92,646	92,646
<b>Other comprehensive income</b>					
Currency translation differences		-	-	256	256
<b>Total other comprehensive income</b>		-	-	256	256
<b>Total comprehensive income</b>		-	-	<b>92,902</b>	<b>92,902</b>
<b>Transactions with owners</b>					
Dividends paid	26	-	-	(80,000)	(80,000)
<b>Total transactions with owners</b>		-	-	<b>(80,000)</b>	<b>(80,000)</b>
<b>Balance at 31 December 2011</b>		<b>1,011</b>	<b>2,399</b>	<b>109,684</b>	<b>113,094</b>

All amounts are attributable to the owner, Lloyds TSB Bank plc

The notes on pages 11 to 40 are an integral part of these financial statements

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
<b>Cash expended on operations</b>	19	(284,822)	(110,713)
Interest paid		(23,272)	(21,457)
Tax received / (paid)		41	(10,339)
<b>Net cash used in operating activities</b>		<b>(308,053)</b>	<b>(142,509)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		176	-
Purchase of property, plant and equipment	11	(859)	(946)
Purchase of intangible assets	10	(303)	(229)
Purchase of investments		-	(100)
Dividends received		2,000	23,250
<b>Net cash from investing activities</b>		<b>1,014</b>	<b>21,975</b>
<b>Cash flows from financing activities</b>			
Dividends paid	26	(80,000)	(53,250)
Advances of other funding amounts from Group undertakings		287,387	221,637
<b>Net cash from financing activities</b>		<b>207,387</b>	<b>168,387</b>
<b>Effects of exchange rates on cash and cash equivalents</b>		<b>256</b>	<b>139</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(99,396)</b>	<b>47,992</b>
Overdrafts net of cash and cash equivalents at beginning of year		(32,927)	(80,919)
<b>Overdrafts net of cash and cash equivalents at end of year</b>	15	<b>(132,323)</b>	<b>(32,927)</b>

The notes on pages 11 to 40 are an integral part of these financial statements

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Accounting policies

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.

#### a) **Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have 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.

The Company has adopted the following new and amended IFRSs as of 1 January 2011:

IFRIC 14 (amendment) 'Prepayments of a Minimum Funding Requirement' Applies when an entity is subject to minimum funding requirements in respect of its defined benefit plans and makes an early payment of contributions to cover those requirements and permits such an entity to treat the benefit of such an early payment as an asset.

IAS 24 'Related Party Disclosures' simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities.

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.

The Company is reliant on funding provided by Lloyds TSB 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 and, accordingly, the financial statements have been prepared on a going concern basis.

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 IAS 27 "Consolidated and Separate Financial Statements" and Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company (see Note 25).

#### b) **Financial assets and financial liabilities**

Financial assets and liabilities comprise trade and other receivables, other debtors, trade creditors, amounts due to group companies, 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 when the rights to receive cash flows, or obligations to pay cash flows, have expired.

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee. When assets are held subject to hire purchase, the present value of the lease payments is recognised as a receivable within loans and advances to customers.

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies (continued)

#### c) Investments in subsidiary undertakings

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

#### d) Property, plant and equipment

Property, plant and equipment is 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, and are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (not exceeding 5 years).

##### Goodwill

Goodwill arising on the acquisition of subsidiary undertakings represents the excess of cost over the fair value of net identifiable assets acquired. Goodwill arising on acquisitions is capitalised within intangible assets and carried at cost less accumulated impairment losses. Goodwill is assessed annually for impairment.

#### f) Taxation

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.

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 TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Accounting policies (continued)

#### g) **Employee benefits**

##### Pensions

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

The liability recognised in the balance sheet in respect of defined benefit pension plan 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 Group's statement of comprehensive income charge includes the current service cost of providing pension benefits, the expected return on the schemes' assets, net of expected administration costs, and the interest cost on the schemes' liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are not recognised unless the cumulative unrecognised gain or loss at the end of the previous reporting period exceeds the greater of 10 per cent of the scheme assets or liabilities ('the corridor approach'). In these circumstances the excess is charged or credited to the income statement over the employees' expected average remaining working lives. Past service costs are charged immediately to the statement of comprehensive income, unless the charges are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

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 further payment obligation once the contributions have been paid. 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.

#### h) **Leases**

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

# **LLOYDS TSB COMMERCIAL FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **i) Foreign currency translation**

#### **a) Functional and presentation currency**

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

#### **b) Transactions and balances**

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

### **j) Impairment of financial assets**

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

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

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

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

### **k) Cash and cash equivalents**

For the purposes of the balance sheet and statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. Bank overdraft balances are presented in the statements of financial position under amounts owed to group undertakings (see note 17).

# **LLOYDS TSB COMMERCIAL FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **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.

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.

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 paid (note 26).

### **n) Offsetting financial instruments**

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

### **o) Borrowing costs**

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

### **p) Borrowings**

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

### **q) Share capital**

Ordinary shares are classified as equity (note 18).

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 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 next financial year. 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

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

A collective provision is set for the remainder of the book and is split into two elements, those clients in 'default' but where the collection process has not flagged a specific provision and those clients not in default. The collective provision is reviewed monthly and adjusted accordingly. The collective provisions are based on Basel compliant Probability of Default (PD) ratings.

### 3 Revenue

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

	2011 £'000	2010 £'000
United Kingdom	245,504	225,715
Germany	479	639
Ireland	536	691
	<u>246,519</u>	<u>227,045</u>

	2011 £'000	2010 £'000
Factoring	76,055	72,656
Invoice discounting	145,812	132,880
Hire purchase	14,280	13,626
Payroll services	7,842	6,825
Supplier finance	2,530	1,058
	<u>246,519</u>	<u>227,045</u>

Included within revenue in 2011 is £46k (2010: £44k) in respect of impaired financial assets.



# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 4 Directors and employees

#### a) **Staff costs**

The average number of Full Time Equivalent Employees (FTE's) employed by the Company during the year was as follows

	2011 Number	2010 Number
By activity		
Factoring	636	636
Invoice discounting	284	299
Payroll services	24	25
Hire purchase	8	8
Support services	136	125
	<b>1,088</b>	<b>1,093</b>

Staff included within the hire purchase activity, carry out services for a number of other Lloyds Banking Group companies related to the 'Commercial Finance division', in addition to Lloyds TSB Commercial Finance Limited itself. The hire purchase total for 2010 has been increased from 4 to 8 to reflect the total number of staff employed in this activity within the Commercial Finance division.

<b>Staff costs</b>	2011 £000	2010 £000
Wages and salaries	43,991	42,273
Social security costs	4,367	4,164
Share-based payments (note 21)	626	1,311
Other pension costs / (credit) - defined benefit schemes (note 20)	1,308	(2,465)
Other pension costs - defined contribution schemes (note 20)	1,384	1,234
	<b>51,676</b>	<b>46,517</b>

#### b) **Directors' emoluments**

	2011 £000	2010 £000
Aggregate emoluments	<b>1,523</b>	<b>1,095</b>
Highest paid director		
- Emoluments	372	276
- Contributions paid into defined contributions pension scheme	17	29

The highest paid director exercised nil shares in respect of qualifying services during the year (2010 nil shares)

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 4 Directors and employees (continued)

#### b) Directors' emoluments (continued)

None of the directors were paid or were due to receive amounts under long-term incentive schemes in respect of qualifying services in 2011 or 2010. 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 (2010 £nil).

During the financial year no directors exercised share options.

The emoluments of the directors have been apportioned between Lloyds TSB Bank plc, and the 'Commercial Finance division' according to their services as directors or officers of those companies.

Retirement benefits in respect of services to Lloyds TSB Commercial Finance Limited are accruing to three (2010 three) directors under defined benefit pension schemes. Three of the directors have benefits accruing under money purchase schemes (2010 five).

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.

### 5 Other operating expenses

	2011 £'000	2010 £'000
Impairment on loans and advances	13,732	23,579
Premises costs	2,698	4,362
Travel and motor expenses	5,420	5,681
Printing, postage and stationery	4,928	5,296
Agents' commission	2,591	2,397
Credit information	586	669
Consultancy and professional fees	1,285	2,616
Indirect staff costs	943	1,324
Marketing fees	2,011	1,980
Management fees (note 27)	1,713	1,442
Other administrative expenses	17,630	15,017
	<b>53,537</b>	<b>64,363</b>

### 6 Other operating income

	2011 £'000	2010 £'000
Recharge of costs to other group companies (note 27)	7,546	5,776
Dividends received	2,000	23,250
	<b>9,546</b>	<b>29,026</b>

### 7 Interest expense

	2011 £'000	2010 £'000
On balances with group undertakings (note 27)	<b>25,342</b>	<b>21,391</b>

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 base rate plus an applicable margin.

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8 Profit before tax

Profit before tax is stated after charging

	2011 £'000	2010 £'000
Operating lease rentals on land and buildings	1,505	2,195

#### Services provided by the Company's auditor and its associates

During the year the following services were obtained from the Company's auditor and its associates

Fees payable to Company's auditors for the audit of these financial statements	64	94
Fees payable to Company's auditors for the audit of other group companies	13	17
Fees payable to the Company's auditors and its associates for other work		
- tax services	32	69
- other services	18	145

All above fees are borne by Lloyds TSB Commercial Finance Limited

### 9 Taxation

#### a) Analysis of charge for the year

	2011 £'000	2010 £'000
UK corporation tax		
Current tax on profit for the year	30,264	781
Adjustments in respect of prior years	(716)	(5)
<b>Current tax charge</b>	<b>29,548</b>	<b>776</b>
Origination and reversal of timing differences	2,000	-
Adjustment in respect of prior years	(40)	-
<b>Deferred tax (note 16)</b>	<b>1,960</b>	<b>3,647</b>
<b>Charge for taxation</b>	<b>31,508</b>	<b>4,423</b>

The charge for tax on the profit for the year is based on a UK corporation tax rate of 26.5% (2010 28.0%)

#### 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

	2011 £'000	2010 £'000
<b>Profit before tax</b>	<b>124,154</b>	<b>122,415</b>
Tax charged at UK corporation tax rate of 26.5% (2010 28.0%)	32,901	34,276
Factors affecting charge		
Group relief not paid for	-	(23,889)
Disallowed and non-taxable items	(425)	(5,915)
Adjustment in respect of prior years	(756)	(5)
UK corporation tax rate change	(212)	(44)
<b>Tax on profit on ordinary activities</b>	<b>31,508</b>	<b>4,423</b>
<b>Effective rate</b>	<b>25.4%</b>	<b>3.6%</b>

During the year no group relief was surrendered by fellow group undertakings to the Company for no payment (2010 £23,889k)

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 10 Intangible assets

Cost	Software £'000	Goodwill £'000	Total £'000
At 1 January 2010	4,236	8,529	12,765
Additions	229	-	229
At 31 December 2010	4,465	8,529	12,994
Additions	303	-	303
At 31 December 2011	4,768	8,529	13,297
<b>Aggregate amortisation and impairment</b>			
At 1 January 2010	2,637	901	3,538
Charge for the year	420	-	420
At 31 December 2010	3,057	901	3,958
Charge for the year	339	-	339
At 31 December 2011	3,396	901	4,297
<b>Net book value</b>			
At 31 December 2011	1,372	7,628	9,000
At 31 December 2010	1,408	7,628	9,036

The Company's investment in Cash Friday gave rise to goodwill which is held on the Company's balance sheet and tested annually for impairment. For the purposes of impairment testing goodwill is allocated to the appropriate cash generating unit which is Cash Friday.

The recoverable amount has been based on a value in use calculation. The calculation uses projections of future cash flows based upon budgets and plans approved by management covering a four-year period, and a discount rate of 13 per cent (gross of tax). The budgets and plans are based on past experience and adjusted to take into account anticipated changes in assignments and fee rates having regard to expected market conditions and competitor activity. The discount rate is determined with reference to internal measures and available industry information. Cash flows have been extrapolated beyond the first four years using a steady 2.25 per cent growth rate. Management believes that any reasonable change in the key assumptions would not cause the recoverable amount to fall below its balance sheet carrying value.

Software additions during the year relate to an ongoing risk project called 'Dia Decoupling' which is expected to enhance the Company's risk database relating to its hire purchase lending. Amortisation charges will begin once the project is complete.

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Property, plant and equipment

	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>			
At 1 January 2010	14,202	10	14,212
Additions	946	-	946
Disposals	(6,588)	-	(6,588)
At 31 December 2010	8,560	10	8,570
Additions	859	-	859
Disposals	(538)	-	(538)
At 31 December 2011	8,881	10	8,891
<b>Depreciation</b>			
At 1 January 2010	12,258	10	12,268
Charge for the year	965	-	965
Disposals	(6,588)	-	(6,588)
At 31 December 2010	6,635	10	6,645
Charge for the year	1,017	-	1,017
Disposals	(362)	-	(362)
At 31 December 2011	7,290	10	7,300
<b>Net book value</b>			
At 31 December 2011	1,591	-	1,591
At 31 December 2010	1,925	-	1,925

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 12 Investments

	2011 £'000	2010 £'000
<b>Investment in group undertakings</b>		
Investment in group undertakings at 1 January	16,666	16,566
Additions	-	100
Investment in group undertakings at 31 December	16,666	16,666
Trade investments	17	17
Total investments at 31 December	16,683	16,683

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

Name	Year ended	Profit for the year £'000	Assets £'000	Liabilities £'000	Capital and Reserves £'000
Alex Lawrie Factors Limited	31 December 2011	-	-	(5)	(5)
Alex Lawrie Receivables Financing Limited	31 December 2011	-	200	-	200
Azedcrest Limited	30 November 2011	-	80	-	80
Eurolead Services Holdings Limited	31 December 2011	82	5,098	-	5,098
Evansville Limited	31 May 2011	(9)	41	-	41
Glythorne Limited	28 February 2011	(4)	73	(1)	72
Kingstar Leasing Limited	31 August 2011	-	105	-	105
Lloyds TSB Commercial Finance Scotland Limited	31 December 2011	4,864	171,622	(164,109)	7,513
LTSBCF Limited	31 December 2011	-	11,978	-	11,978
Snowglen Securities Limited	31 March 2011	(10)	162	(44)	118

The following above mentioned subsidiaries are dormant: Alex Lawrie Factors Limited, Alex Lawrie Receivables Financing Limited and LTSBCF Limited. Chancery Factors Limited was liquidated during the year.

The directors consider the value of investments to be supported by their underlying assets.

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 13 Trade and other receivables

	2011 £'000	2010 £'000
Loans and advances to customers	3,426,719	3,022,783
Amounts receivable under non-recourse factoring agreements	28,242	26,268
	<u>3,454,961</u>	<u>3,049,051</u>
Impairment losses on loans and advances (note 28 1)	(74,936)	(98,755)
	<u>3,380,025</u>	<u>2,950,296</u>

Loans and advances to customers include hire purchase

	2011 £'000	2010 £'000
Gross investment in hire purchase contracts, receivable		
- no later than one year	115,626	100,683
- later than one year and no later than five years	159,599	137,072
	<u>275,225</u>	<u>237,755</u>

Unearned future finance income on hire purchase contracts (18,438) (16,295)

Net investment in hire purchase contracts 256,787 221,460

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

	2011 £'000	2010 £'000
- no later than one year	106,092	92,384
- later than one year and no later than five years	150,695	129,076
	<u>256,787</u>	<u>221,460</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 £1,093k (2010 £1,524k)

### 14 Other current assets

	2011 £'000	2010 £'000
Prepayments	6,036	6,547
Other debtors	1,305	2,536
	<u>7,341</u>	<u>9,083</u>

### 15 Cash and cash equivalents

	2011 £'000	2010 £'000
Cash at bank and in hand	93,945	87,838
Overdrafts (note 17)	(226,268)	(120,765)
Net overdrafts	<u>(132,323)</u>	<u>(32,927)</u>

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 £93,006k (2010 £83,530k) of balances with related parties (note 27)

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 16 Deferred tax

The movement in the net deferred tax balance is as follows

	2011 £'000	2010 £'000
At 1 January	(1,203)	2,444
Statement of comprehensive income charge (note 9)	(1,960)	(3,647)
At 31 December	<u>(3,163)</u>	<u>(1,203)</u>

The deferred tax charge in the statement of comprehensive income comprises the following temporary differences

Pensions	(2,453)	(3,905)
Accelerated capital allowances	335	220
Accounting provisions disallowed	(129)	(122)
Short term timing differences	287	160
	<u>(1,960)</u>	<u>(3,647)</u>

Deferred tax at 31 December comprises

Pensions	(6,620)	(4,167)
Deferred tax liability	<u>(6,620)</u>	<u>(4,167)</u>
Accelerated capital allowances	2,067	1,731
Accounting provisions disallowed	368	497
Short term timing differences	1,022	736
Deferred tax asset	<u>3,457</u>	<u>2,964</u>
	<u>(3,163)</u>	<u>(1,203)</u>

The net deferred tax liability is payable as follows

	2011 £'000	2010 £'000
After more than 12 months	(3,163)	(1,203)
Within 12 months	-	-

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. In his Budget speech on 23 March 2011 the Chancellor announced a further reduction in the rate of corporation tax to 26% with effect from 1 April 2011. This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 29 March 2011.

Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 has been included in the Finance Act 2011 and substantively enacted on 5 July 2011. Accordingly the Deferred tax asset has been recognised at 25%.

On 21 March 2012, the Chancellor announced that the main rate of corporation tax will be reduced from 26% to 24% with effect from 1 April 2012. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014.

The proposed further reductions in the rate of corporation tax by 1% per annum to 22% by 1 April 2014 are expected to be enacted separately each year. The effect of these further changes upon the Company's deferred tax balances cannot be reliably quantified at this stage.



# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 17 Trade and other payables

	2011 £'000	2010 £'000
Amounts due to clients on collections	107,536	107,131
Due to clients on collection under non-recourse factoring agreements	18,515	14,453
Trade creditors	454	926
Other taxation and social security	8,880	7,250
Accruals and deferred income	21,443	22,403
Other creditors	912	221
	<b>157,740</b>	<b>152,384</b>

Amounts owed to group undertakings (note 27)

- Bank overdraft balances (note 15)	226,268	120,765
- Other funding balances	3,002,309	2,714,921
- Interest payable to Group Treasury	2,340	270
	<b>3,230,917</b>	<b>2,835,956</b>

Funding for the Company's loans and advances to customers is provided by Lloyds TSB Bank plc. Amounts relating to Asset Based Lending are based mainly on 3 months rolling 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. All amounts within trade and other payables are unsecured.

### 18 Capital and reserves

#### Called up share capital

	2011 £'000	2010 £'000
Authorised, issued and fully paid 101,100,000 ordinary shares of £0.01 each	<b>1,011</b>	<b>1,011</b>

Each authorised, issued and fully paid ordinary share of £0.01 carries equal voting and dividend rights.

#### Revaluation reserve

The reserve amounting to £2,399k (2010: £2,399k) relates to the revaluation of investments in subsidiaries held by the Company prior to IFRS transition. These are non-distributable reserves.

### 19 Cash flow from operating activities

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	124,154	122,415
Adjustments for:		
Depreciation and amortisation	1,356	1,385
Dividends received	(2,000)	(23,250)
Interest expense	25,342	21,391
Defined benefit pension schemes costs	1,308	(2,465)
Contributions paid to defined benefit pension schemes	(12,353)	(12,033)
Increase in trade and other receivables	(429,729)	(199,721)
Decrease / (increase) in other current assets	1,743	(1,260)
Increase / (decrease) in trade and other payables	5,357	(17,175)
Cash expended on operations	<b>(284,822)</b>	<b>(110,713)</b>

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 20 Retirement benefit obligations

#### Defined contribution schemes

The Company's ultimate parent company operates a number of defined contribution pension schemes, principally the defined contribution sections of the Lloyds TSB Group Pension Schemes Nos 1 and 2 (Your Tomorrow), new employees are offered membership of the defined contribution section of the Lloyds TSB Group Pension Scheme No 1. During the year ended 31 December 2011 the charge to the statement of comprehensive income in respect of this scheme was £1,384k (2010 £1,234k), representing the contributions payable by the employer in accordance with the scheme rules. There are no outstanding or prepaid contributions at 31 December 2011 (2010 £nil).

#### Defined benefit schemes

The Company's ultimate parent company has established a number of defined benefit pension schemes in the UK. The majority of the Company's employees are members of the defined benefit sections of the Lloyds TSB Group Pension Schemes Nos 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 50.

The latest full valuations of the two main schemes were carried out as at 30 June 2008, these have been updated to 31 December 2011 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

	2011 £'000	2010 £'000
Defined benefit pension schemes net assets	<u>(26,479)</u>	<u>(15,434)</u>

The amounts recognised in the balance sheet are represented as follows

	2011 £'000	2010 £'000
Company's share of present value of funded obligations	241,447	224,698
Company's share of fair value of scheme assets	<u>(255,986)</u>	<u>(229,791)</u>
	(14,539)	(5,093)
Company's share of unrecognised actuarial losses	<u>(11,940)</u>	<u>(10,341)</u>
	<u>(26,479)</u>	<u>(15,434)</u>

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

	2011 £'000	2010 £'000
At 1 January	(15,434)	(936)
Net charge / (credit) to the statement of comprehensive income	1,308	(2,465)
Contributions paid	<u>(12,353)</u>	<u>(12,033)</u>
At 31 December	<u>(26,479)</u>	<u>(15,434)</u>

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 20 Retirement benefit obligations (continued)

The expense recognised in the statement of comprehensive income comprises

	2011 £'000	2010 £'000
Current service cost	4,182	6,216
Interest cost	22,495	26,540
Expected return on plan assets	(25,369)	(27,132)
Curtailment	-	(9,404)
Amortisation outside corridor	-	1,315
	<u>1,308</u>	<u>(2,465)</u>

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are not recognised unless the cumulative unrecognised gain or loss at the end of the previous reporting period exceeds the greater of 10 per cent of the scheme assets or liabilities ('the corridor approach'). In these circumstances the excess is charged or credited to the income statement over the employees' expected average remaining working lives

Movements in the defined benefit obligation

	2011 £'000	2010 £'000
At 1 January	224,698	230,245
Current service cost	4,182	6,216
Interest cost	22,495	26,540
Actuarial (gains) / losses	5,189	(8,788)
Benefits paid	(15,117)	(17,672)
Curtailment	-	(11,843)
At 31 December	<u>241,447</u>	<u>224,698</u>

Changes in the fair value of scheme assets

	2011 £'000	2010 £'000
At 1 January	229,791	178,380
Expected return	25,369	27,132
Employer contributions	12,353	12,033
Actuarial gains	3,590	29,918
Benefits paid	(15,117)	(17,672)
At 31 December	<u>255,986</u>	<u>229,791</u>
Actual return on scheme assets	<u>28,959</u>	<u>57,050</u>

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 20 Retirement benefit obligations (continued)

The principal actuarial and financial assumptions used were as follows

	2011 %	2010 %
Discount rate	5.00	5.50
Rate of inflation – Retail price index	3.00	3.40
- Consumer price index	2.00	2.90
Rate of salary increases	2.00	2.00
Rate of increase for pensions in payment	2.80	3.20
	2011 Years	2010 Years
Life expectancy for member aged 60, on the valuation date		
- Men	27.3	27.2
- Women	28.4	28.3
Life expectancy for member aged 60, 15 years after the valuation date		
- Men	28.8	28.2
- Women	30.0	29.9

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

	2011 %	2010 %
Equities	38	46
Fixed interest gilts	2	3
Index linked gilts	27	19
Non-government bonds	17	14
Property	7	8
Other	9	10
At 31 December	<u>100</u>	<u>100</u>

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

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets. Experience adjustments history

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of defined benefit obligations	241,447	224,698	230,245	154,003	186,820
Fair value of scheme assets	(255,986)	(229,791)	(178,380)	(147,492)	(212,057)
	(14,539)	(5,093)	51,865	6,511	(25,237)
Unrecognised actuarial (losses) / gains	(11,940)	(10,341)	(52,801)	(1,521)	38,538
(Asset) / liability in the balance sheet	(26,479)	(15,434)	(936)	4,990	13,301
Experience (gains) / losses on scheme liabilities	(3,481)	10,869	3	(576)	(5,290)
Experience gains / (losses) on scheme assets	3,591	29,927	11,667	(89,153)	3,582

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 21 Share based payments

During the year ended 31 December 2011, 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 £626k (2010 £1,311k)

#### **Executive schemes**

The executive share option schemes were long-term incentive schemes available to certain senior executives of the Lloyds Banking Group, with grants usually made annually. Options were granted within limits set by the rules of the schemes relating to the number of shares under option and the price payable on the exercise of options. The last grant of executive options was made in August 2005. These options were granted without a performance multiplier and the maximum limit for the grant of options in normal circumstances was three times annual salary. Between April 2001 and August 2004, the aggregate value of the award based upon the market price at the date of grant could not exceed four times the executive's annual remuneration and, normally, the limit for the grant of options to an executive in any one year would be equal to 1.5 times annual salary with a maximum performance multiplier of 3.5. Prior to 18 April 2001, the normal limit was equal to one year's remuneration and no performance multiplier was applied.

#### ***Performance conditions for executive options***

##### *For options granted up to March 2001*

The performance condition was that growth in earnings per share must be equal to the aggregate percentage change in the Retail Price Index plus three percentage points for each complete year of the relevant period together with a further condition that Lloyds Banking Group plc's ranking based on total shareholder return (calculated by reference to both dividends and growth in share price) over the relevant period should be in the top fifty companies of the FTSE 100.

The relevant period for the performance conditions began at the end of the financial year preceding the date of grant and continued until the end of the third subsequent year following commencement or, if not met, the end of such later year in which the conditions were met. Once the conditions were satisfied the options remain exercisable without further conditions. If they were not satisfied by the tenth anniversary of the grant the options would lapse.

##### *For options granted from August 2001 to August 2004*

The performance condition was linked to the performance of Lloyds Banking Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 17 companies including Lloyds Banking Group plc.

The performance condition was measured over a three year period which commenced at the end of the financial year preceding the grant of the option and continued until the end of the third subsequent year. If the performance condition was not then met, it was measured at the end of the fourth financial year. If the condition has not then been met, the options would lapse.

To meet the performance conditions, the Lloyds Banking Group's ranking against the comparator group was required to be at least ninth. The full grant of options only became exercisable if the Group was ranked first. A performance multiplier (of between nil and 100 per cent) was applied below this level to calculate the number of shares in respect of which options granted to executive directors would become exercisable, and were calculated on a sliding scale. If Lloyds Banking Group plc was ranked below median the options would not be exercisable.

Options granted to senior executives other than executive directors were not so highly leveraged and as a result, different performance multipliers were applied to their options. For the majority of executives, options were granted with the performance condition but with no performance multiplier.

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 21 Share based payments (continued)

#### *For options granted in 2005*

The same conditions applied as for grants made up to August 2004, except that

- the performance condition was linked to the performance of Lloyds Banking Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 15 companies including Lloyds Banking Group plc,
- if the performance condition was not met at the end of the third subsequent year, the options would lapse, and
- the full grant of options became exercisable only if the Lloyds Banking Group plc is ranked in the top four places of the comparator group. A sliding scale applies between fourth and eighth positions. If Lloyds Banking Group plc was ranked below the median (ninth or below) the options would lapse

#### **Save-As-You-Earn schemes**

Eligible employees may enter into contracts through the Save-As-You-Earn (SAYE) schemes to save up to £250 per month and, at the expiry of a fixed term of three, five or seven 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 TSB Group Executive Share Plan 2003**

The plan was adopted in December 2003 and under the plan share options may be granted to senior employees. Options under this plan have been granted specifically to facilitate recruitment and as such were not subject to any performance conditions. The plan's usage has now been extended to not only 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

##### **Lloyds Banking Group Share Buy Out Awards**

As part of arrangements to facilitate the recruitment of certain Executives, options have been granted by individual deed and, where appropriate, in accordance with the Listing Rules of the UK Listing Authority

The awards were granted in recognition that the Executives' outstanding awards over shares in their previous employing company lapsed on accepting employment with the Lloyds Banking Group

#### **Other share plans**

##### *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 the Lloyds Banking Group 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

The performance conditions for awards made in March, April and August 2008 are as follows

- (i) For 50 per cent of the award (the EPS Award) – the percentage increase in earnings per share of Lloyds Banking Group plc (on a compound annualised basis) over the relevant period needed to be at least an average of 6 percentage points per annum greater than the percentage increase (if any) in the Retail Price Index over the same period. If it was less than 3 per cent per annum the EPS Award would lapse. If the increase was more than 3 per cent but less than 6 per cent per annum then the proportion of shares released would be on a straight line basis between 17.5 per cent and 100 per cent. The relevant period commenced on 1 January 2008 and ended on 31 December 2010

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 21 Share based payments (continued)

(ii) For the other 50 per cent of the award (the TSR Award) – it was necessary for Lloyds Banking Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) to exceed the median of a comparator group (13 companies) over the relevant period by an average of 7.5 per cent per annum for the TSR Award to vest in full. 17.5 per cent of the TSR Award would vest where Lloyds Banking Group plc's total shareholder return was equal to median and vesting would occur on a straight line basis in between these points. Where Lloyds Banking Group plc's total shareholder return was below the median of the comparator group, the TSR Award would lapse. The relevant period commenced on 6 March 2008 and ended on 5 March 2011.

In 2008, awards were made of 375 per cent of base salary to the Lloyds Banking Group plc Chief Executive and two of the Lloyds Banking Group plc Executive Directors for retention purposes, and in light of data reviewed by the Remuneration Committee which showed total remuneration to be behind median both for the FTSE 20, and the other major UK banks.

As a consequence of the acquisition of HBOS and the general market turmoil, in March 2009 the Remuneration Committee decided that the performance test for the 2007 awards should be based on the performance of Lloyds Banking Group plc up to 17 September 2008, the date prior to the announcement of the HBOS acquisition. The performance test was on a fair value basis, on the estimated probability, as at that date, of achieving the performance conditions.

The performance conditions for awards made in April, May and September 2009 are as follows:

(i) Earnings per share (EPS) relevant to 50 per cent of the award. Performance will be measured based on EPS growth over a three-year period from the baseline EPS of 2008.

(ii) Economic Profit (EP) relevant to 50 per cent of the award. Performance will be measured based on the extent to which cumulative EP targets are achieved over the three-year period.

An additional discretionary award was made in April, May and September 2009. The performance conditions for those awards are as follows:

(i) Synergy savings. The release of 50 per cent of the shares will be dependent on the achievement of target run-rate synergy savings in 2009 and 2010 as well as the achievement of sustainable synergy savings of at least £1.5 billion by the end of 2011. The award will be broken down into three equally weighted annual tranches. Performance will be assessed at the end of each year against annual performance targets based on a trajectory to meet the 2011 target. The extent to which targets have been achieved will determine the proportion of shares to be banked each year. Any release of shares will be subject to the Remuneration Committee judging the overall success of the delivery of the integration programme.

(ii) Integration balanced scorecard. The release of the remaining 50 per cent of the shares will be dependent on the outcome of a Balanced Scorecard of non-financial measures of the success of the integration in each of 2009, 2010 and 2011. The Balanced Scorecard element will be broken down into three equally weighted tranches. The tranches will be crystallised and banked for each year of the performance cycle subject to separate annual performance targets across the four measurement categories of Building the Business, Customer, Risk and People and Organisation Development.

The performance conditions for awards made in March and August 2010 are as follows:

(i) EPS relevant to 50 per cent of the award. Performance will be measured based on EPS growth over a three-year period from the baseline EPS of 2009.

(ii) Economic Profit relevant to 50 per cent of the award. Performance will be measured based on the compound annual growth rate of adjusted Economic Profit over the three financial years starting on 1 January 2010 relative to an adjusted 2009 Economic Profit base.

The performance conditions for awards made in March and September 2011 are as follows:

(i) EPS relevant to 50 per cent of the award. The performance target is based on 2013 adjusted EPS outcome.

(ii) EP relevant to 50 per cent of the award. The performance target is based on 2013 adjusted EP outcome.

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 21 Share based payments (continued)

#### Share incentive plan

##### *Free shares*

An award of shares may be made annually to employees based on a percentage of each employee's salary in the preceding year up to a maximum of £3,000. The percentage is normally announced concurrently with Lloyds Banking Group plc's annual results and the price of the shares awarded is announced at the time of award. The shares awarded 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 the Lloyds Banking Group within this three-year period for other than a 'good' reason, all of the shares awarded will be forfeited.

The last award of free shares was made in 2008.

##### *Matching shares*

Lloyds Banking Group plc undertakes to match shares purchased by employees up to the value of £30 per month; these shares are held in trust for a mandatory period of three years on the employees' 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.

The number of shares awarded to employees of Lloyds Banking Group relating to matching shares in 2011 was 30,999,387 (2010: 17,411,651), with an average fair value of £0.42 (2010: £0.63), based on market prices at the date of award.

##### *Other information*

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

Full details of the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and number of options outstanding for the above schemes overall can be found in the 2011 annual report and financial statements of the Company's ultimate parent company. Copies of the ultimate parent company's 2011 annual report and financial statements may be obtained from the Company Secretary's Department, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

### 22 Operating lease commitments relating to property

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

	2011 £'000	2010 £'000
Due within one year	1,330	1,330
Due between one and five years	4,731	5,011
Due beyond five years	4,806	5,856
	<b>10,867</b>	<b>12,197</b>

Operating lease payments made during the year amount to £1,505k (2010: £2,195k), sublease payments receivable during the year amount to £60k (2010: £84k). Total future sublease payments receivable relating to the above operating leases amounted to £119k (2010: £276k).

### 23 Capital expenditure commitments

There is no capital expenditure that has been committed but not provided for at 31 December 2011 (2010: £nil).



# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 24 Commitments to lend and contingent liabilities

	2011 £'000	2010 £'000 Re-stated
Undrawn amounts	1,143,035	1,023,731
Guarantees	65,304	86,484
Total commitments	<u>1,208,339</u>	<u>1,110,215</u>

Undrawn amounts relate to amounts clients have yet to draw down from their invoice finance current accounts. Guarantees relate bank overdrafts and syndicated lending. The re-statement referred to above relates to guarantees amounting to £72,294k which had previously been included by mistake.

Commitments may be broken down as follows

	2011 £'000	2010 £'000
Revocable commitments	1,171,577	1,053,337
Irrevocable commitments	36,762	56,878
Total commitments	<u>1,208,339</u>	<u>1,110,215</u>

### 25 Ultimate parent undertaking

The Company's immediate parent company is Lloyds TSB 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 TSB 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 Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

### 26 Dividends per share

	2011 £'000	Dividend per Share p	2010 £'000	Dividend per Share p
First interim dividend paid	56,000	55.39	30,000	29.67
Second interim dividend paid	<u>24,000</u>	<u>23.74</u>	<u>23,250</u>	<u>23.00</u>
Total	<u>80,000</u>		<u>53,250</u>	

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 27 Related party transactions

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

	2011 £000	2010 £000
<b>Cash at bank and in hand (note 15)</b>		
Lloyds TSB Bank plc	31,251	34,552
HBOS plc	61,755	48,978
	<b>93,006</b>	<b>83,530</b>
<b>Creditors outstanding at 31 December (note 17)</b>		
Lloyds TSB Bank plc	(2,931,775)	(2,592,379)
HBOS plc	(4,292)	(3,283)
Lloyds TSB Commercial Finance Scotland Limited	(471)	(4,366)
Lloyds UDT Limited	(279,865)	(221,414)
Other fellow LBG group undertakings	(14,514)	(14,514)
	<b>(3,230,917)</b>	<b>(2,835,956)</b>
<b>Interest expense (note 7)</b>		
Lloyds TSB Bank plc	18,316	14,094
Lloyds UDT Limited	5,956	6,798
Lloyds TSB Scotland plc	1,070	499
	<b>25,342</b>	<b>21,391</b>
<b>Management fees payable (note 5)</b>		
Lloyds UDT Limited	1,713	1,442
	<b>1,713</b>	<b>1,442</b>
<b>Recharge of costs (note 6)</b>		
Lloyds TSB Bank plc	6,505	4,696
Lloyds TSB Commercial Finance Scotland Limited	1,041	1,080
	<b>7,546</b>	<b>5,776</b>

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

Included in other administrative expenses is an amount of £12,525k (2010 £7,724k) relating to costs recharged by Lloyds TSB Bank plc to the Company in relation to shared services. There were no other related-party transactions with the ultimate parent company or with the parent company, Lloyds TSB Bank plc, other than the payment of dividends on ordinary shares.

#### Directors and key management personnel

The remuneration of directors is set out in note 4. The directors consider that there are no other key management personnel. Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprise the directors of the Company and the members of the Lloyds Banking Group plc board which comprises the statutory directors of that company and certain other senior management.

# **LLOYDS TSB COMMERCIAL FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **28 Financial risk management**

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

Lending activity is largely in the form of advances to customers. The Company seeks to maximise margins on all products whilst maintaining its long-standing commitment of interest rate consistency to customers. The Company's other principal financial instruments are amounts to and from group companies, 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 operations. 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.

Responsibility for the control of overall risk within the Company lies with the Board of Directors. However, as the Company's funding is provided and managed on behalf of the Company by its parent Lloyds TSB Bank plc, the interest rate and the liquidity risk faced by the Company is in substance managed and borne by its parent. A description of the financial assets, liabilities and associated accounting is shown in note 1.

#### **28.1 Credit risk**

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

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

##### **Credit concentration**

The Company lends to commercial customers geographically located within the United Kingdom, Ireland and Germany.

# **LLOYDS TSB COMMERCIAL FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **28 1 Credit risk (continued)**

#### **Loans and advances to customers – maximum exposure**

31 December 2011

	<b>£'000</b>
Neither past due nor impaired	3,372,747
Past due but not impaired	880
Impaired	81,334

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<b>Gross exposure – loans and advances (note 13)</b>	<b>3,454,961</b>
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Commitments to lend (note 24)	1,208,339
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<b>Maximum credit exposure</b>	<b>4,663,300</b>
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#### **Loans and advances to customers – maximum exposure**

31 December 2010

	<b>£'000</b>
Neither past due nor impaired	2,919,922
Past due but not impaired	2,071
Impaired	127,058

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<b>Gross exposure – loans and advances (note 13)</b>	<b>3,049,051</b>
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Commitments to lend (note 24)	1,110,215
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<b>Maximum credit exposure</b>	<b>4,159,266</b>
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# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 28 1 Credit risk (continued)

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

31 December 2011	£'000
Good quality	246,424
Satisfactory quality	1,810,607
Lower quality	1,315,716
Below standard, but not impaired	-
<b>Total</b>	<b>3,372,747</b>

31 December 2010	£'000
Good quality	571
Satisfactory quality	1,634,362
Lower quality	1,241,439
Below standard, but not impaired	43,550
<b>Total</b>	<b>2,919,922</b>

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

#### Loans and advances to customers which are past due but not impaired

	2011 £'000	2010 £'000
Past due up to 30 days	752	1,740
Past due up to 30-60 days	107	170
Past due over 90 days	21	161
<b>Total</b>	<b>880</b>	<b>2,071</b>

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

#### Allowance for loans and advances to customers which are impaired

	2011 Total £'000	2010 Total £'000
Balance at 1 January	(98,775)	(93,397)
Exchange and other adjustments	-	15
Advances written off, net of recoveries	37,471	17,938
Notional income	100	268
Charge to statement of comprehensive income	(13,732)	(23,579)
<b>At 31 December</b>	<b>(74,936)</b>	<b>(98,755)</b>

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

# **LLOYDS TSB COMMERCIAL FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **28 1 Credit risk (continued)**

#### **Renegotiated loans and advances to customers**

During the year the Company renegotiated no loans and advances to customers, which would otherwise have been past due or impaired (2010 nil)

#### **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 2011 agents held, on the Company's behalf, reposessed collateral of £5,623k (2010 £4,449k) in respect of defaulted debt. 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 borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

### **28 2 Liquidity risk**

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

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

The Company is funded on an ongoing basis by Lloyds TSB Bank plc. The majority of the funding balance, which relates to Asset Based Lending, is based on 3 months rolling LIBOR and is technically repayable on demand, although there is no expectation that such a demand would be made. All other financial liabilities are repayable on demand.

### **28 3 Interest rate risk**

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

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

The Commercial Finance 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.

### **28 4 Foreign currency exchange rate risk**

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

The Company manages foreign currency exchange rate risk by borrowing in the same currency that it lends to its customers to minimise exposure (i.e. it matches currency assets and liabilities). Foreign currency balances are monitored closely and currency exposures eliminated regularly to minimise foreign exchange risk. As at 31 December 2011, lending denominated in foreign currencies totalled £338,000k (2010 £157,000k).

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 28.5 Fair values of financial assets and liabilities

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 companies. The accounting policy for such financial instruments is explained in note 1. These products are accounted for on an amortised cost basis and no financial instruments use fair value accounting.

The Company provides loans and advances to commercial and corporate customers at both fixed and variable rates. The carrying value of the variable rate loans is assumed to be their fair value and so the aggregated fair value of loans and advances to customers, excluding those relating to hire purchase, is approximately £3.2 billion (2010: £2.8 billion). The aggregated fair value of loans and advances to customers relating to hire purchase is £264,021k (2010: £239,947k). 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.

### 29 Capital management

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

The Company's parent manages the Company's capital structure and advises the Board to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company's parent may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, 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 9. The Company receives its funding requirements from its parent and does not raise funding externally.

### 30 Future accounting developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2011 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Amendments to IAS 1 Presentation of financial statements	Requires entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. Additionally, requires tax associated with items presented before tax to be shown separately for each of the two groups of OCI items.	Annual periods beginning on or after 1 July 2012
IFRS 12 Disclosure of Interests in Other Entities <sup>1</sup>	Sets out disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.	Annual periods beginning on or after 1 January 2013

# LLOYDS TSB COMMERCIAL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 30 Future accounting developments (continued)

Pronouncement	Nature of change	Effective date
IAS 27 Separate Financial Statements (as amended in 2011) <sup>1</sup>	Sets standards to be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10.	Annual periods beginning on or after 1 January 2013
IFRS 13 Fair value Measurement <sup>1</sup>	Sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements.	Annual periods beginning on or after 1 January 2013
IFRS 9 Financial Instruments Classification and Measurement <sup>1 &amp; 2</sup>	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. Requires financial assets to be classified into two measurement categories, fair value 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 instrument. The available-for-sale financial asset and held-to-maturity categories in existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2015
IAS 19 Employee Benefits <sup>1</sup>	Removes the option to defer the recognition of gains and losses using the corridor approach and requires remeasurements to be presented in OCI. Enhances disclosure requirements on the risks to which the entity is exposed in relation to defined benefit plans.	Annual periods beginning on or after 1 January 2013

<sup>1</sup> At the date of this report, these pronouncements are awaiting EU endorsement.

<sup>2</sup> IFRS 9 is the initial stage of the project to replace IAS 39. Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements.