Lloyds TSB Commercial Finance Limited

Report and Accounts
31 December 2010

Registered office

No 1 Brookhill Way
Banbury
Oxon
OX16 3EL

Registered number

00733011

Directors

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

Company secretary

P Gittins

Member of Lloyds Banking Group

LLOYDS TSB COMMERCIAL FINANCE LIMITED

CONTENTS

Directors' report

For the year ended 31 December 2010

The directors present their report and audited financial statements for the year ended 31 December 2010

Business review and principal activities

Lloyds TSB Commercial Finance Limited ("the Company") is a limited company incorporated 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 clients are now serviced from the United Kingdom following the closure of the German branch in 2010 The company also continues to play a pioneering role in developing the syndication market in the United Kingdom and leading and participating in a number of syndicated deals As at 31 December 2010 syndicated lending was £297m (2009 £372m)

The Company made a profit before taxation for the year of £122,415,000 (2009 £40,047,000) which represents a 205 7% increase on the prior year During 2010, there were signs of economic recovery which contributed to the increase in revenue £227,045,000 (2009 £197,787,000) representing an increase of 14 8% on the prior year Impairment on loans and advances in the year amounted to £23,579,000 (2009 £42,137,000) which represents a 44 0% decrease on the prior year

Future outlook

Recent economic forecasts indicate that the UK economy will continue to grow in spite of disappointing 2010 fourth quarter GDP growth 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 2010

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 detail 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 served, new assignments of debt and new advances to clients

The Company has seen a movement in 2010 of average clients, assignments and advances of -0 8% (2009 -3 2%), 11 8% (2009 2 4%) and 9 4% (2009 17 8%) respectively

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 9 days (2009 55 days), based on the ratio of trade creditors at the end of the year to amounts invoiced during the year by suppliers

Directors' report (continued)

Dividends

The directors recommend the payment of an interim dividend of £56,000,000 In 2010 interim dividends totalling £53,250,000 were paid by the company

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

	Resigned	Appointed
M Mazzocchi		1 January 2010
G T Tate	29 June 2010	
Company secretary		
C K Sarfo-Agyare	13 September 2010	
P Gittins		13 September 2010

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 elected to prepare the company's 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 for that period In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the directors' remuneration report 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

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Directors' report (continued)

Disclosure of information to 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 auditor is 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 auditor is aware of that information

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006

On behalf of the board

C K Sarfo-Agyare
Director

Date 4 April 2011

Independent auditors' report to the member of Lloyds TSB Commercial Finance Limited

We have audited the financial statements of Lloyds TSB Commercial Finance Limited for the year ended 31 December 2010 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, 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 4, 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

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 2010 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

M Newman

Michael Newman (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
United Kingdom
Date 6 April 2011

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Statement of comprehensive income

For the year ended 31 December 2010

	Note	**2010 £'000**	2009 £'000
Revenue	3	**227,045**	197,787
Staff costs	4	**(46,517)**	(50,379)
Other operating expenses	5	**(64,363)**	(81,105)
Other operating income	6	**29,026**	5,615
Depreciation and amortisation	10, 11	**(1,385)**	(1,801)
Interest expense	7	**(21,391)**	(30,070)
Profit before tax	8	**122,415**	40,047
Taxation	9	**(4,423)**	(10,950)
Profit for the year attributable to owners of the parent		**117,992**	29,097
Other comprehensive income			
Exchange differences on foreign operations		**139**	242
Total comprehensive income for the year attributable to owners of the parent		**118,131**	29,339

The notes on pages 11 to 38 are an integral part of these financial statements

All results derive from continuing activities

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Registered number: 00733011

Statement of financial position

As at 31 December 2010

	Note	2010 £'000	2009 £'000
ASSETS			
Non-current assets			
Intangible assets	10	**9,036**	9,227
Property, plant and equipment	11	**1,925**	1,944
Investments	12	**16,683**	16,583
Deferred tax assets	16	**2,964**	2,962
Retirement benefits	20	**15,434**	936
		46,042	31,652
Current assets			
Trade and other receivables	13	**2,950,296**	2,750,575
Other current assets	14	**9,083**	7,823
Cash and cash equivalents	15	**87,838**	100,531
		3,047,217	2,858,929
Total assets		**3,093,259**	2,890,581
EQUITY AND LIABILITIES			
Liabilities			
Current liabilities			
Trade and other payables	17	**152,384**	170,242
Amounts owed to Group undertakings	17	**2,835,956**	2,674,386
Current tax payable		**560**	10,124
		2,988,900	2,854,752
Non-current liabilities			
Deferred tax liabilities	16	**4,167**	518
		4,167	518
Equity attributable to owners of the parent			
Called up share capital	18	**1,011**	1,011
Revaluation reserve	18	**2,399**	2,399
Retained earnings		**96,782**	31,901
Total equity		**100,192**	35,311
Total equity and liabilities		**3,093,259**	2,890,581

The notes on pages 11 to 38 are an integral part of these financial statements

The financial statements on pages 7 to 38 were approved by the Board of Directors and were signed on its behalf by

C K Sarfo-Agyare
Director

Date 4 April 2011

Company number 00733011

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Statement of changes in equity

For the year ended 31 December 2010

	Note	Share capital £'000	Revaluation reserve £'000	Retained profits £'000	Total equity £'000
Balance at 1 January 2009		**1,011**	**2,399**	**29,562**	**32,972**
Comprehensive income					
Profit for the year		-	-	29,097	29,097
Other comprehensive income					
Currency translation differences		-	-	242	242
Total other comprehensive income		-	-	242	242
Total comprehensive income		-	-	**29,339**	**29,339**
Transactions with owners					
Dividend paid relating to 2008		-	-	(27,000)	(27,000)
Transactions with owners		-	-	**(27,000)**	**(27,000)**
Balance at 1 January 2010		**1,011**	**2,399**	**31,901**	**35,311**
Comprehensive income					
Profit for the year		-	-	117,992	117,992
Other comprehensive income					
Currency translation differences		-	-	139	139
Total other comprehensive income		-	-	139	139
Total comprehensive income		-	-	**118,131**	**118,131**
Transactions with owners					
Dividend paid relating to 2009	26	-	-	(53,250)	(53,250)
Transactions with owners		-	-	**(53,250)**	**(53,250)**
Balance at 31 December 2010		**1,011**	**2,399**	**96,782**	**100,192**

All amounts are attributable to owners of the parent

The notes on pages 11 to 38 are an integral part of these financial statements

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Statement of cash flows

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash expended on operations	19	**(110,713)**	(222,867)
Interest paid		**(21,457)**	(30,375)
Tax paid		**(10,339)**	(1,495)
Net cash used in operating activities		**(142,509)**	(254,737)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**-**	-
Purchase of property, plant and equipment	11	**(946)**	(770)
Proceeds from sale of intangible assets		**-**	15
Purchase of intangible assets	10	**(229)**	-
Purchase of investments		**(100)**	-
Dividend received		**23,250**	-
Net cash used from investing activities		**21,975**	(755)
Cash flows from financing activities			
Dividends paid to shareholders	26	**(53,250)**	(27,000)
Advances of other funding amounts from Group undertakings		**221,637**	324,282
Net cash from financing activities		**168,387**	297,282
Effects of exchange rates on cash and cash equivalents		**139**	242
Net increase in cash and cash equivalents		**47,992**	42,032
Overdrafts net of cash and cash equivalents at beginning of year		**(80,919)**	(122,951)
Overdrafts net of cash and cash equivalents at end of year	15	**(32,927)**	(80,919)

The notes on pages 11 to 38 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2010

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 2010

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2010) deals with vesting conditions and cancellations It clarifies that vesting conditions are service conditions and performance conditions only Other features of a share-based payment are not vesting conditions These features would need to be included in the grant date fair value for transactions with employees and others providing similar services, they would not impact the number of awards expected to vest or valuation there of subsequent to grant date All cancellations, whether by the entity or by other parties, should receive the same accounting treatment The company has adopted IFRS 2 (amendment) from 1 January 2010 The amendment does not have a material impact on the Company's financial statements

IAS 1 (revised) Presentation of financial statements The financial statements have been prepared under the revised disclosure requirements, the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements

Details of those IFRS pronouncements which will be relevant in future periods but are not yet effective and so have not been applied in preparing these financial statements are set out in note 30

The Company is reliant on funding provided by Lloyds TSB Bank plc Notwithstanding the improvement in market liquidity during 2010, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including this Company will continue to receive funding in the 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 including in the consolidated financial statements of the Company's ultimate parent company (see Note 25)"

b) **Financial assets and financial liabilities**

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

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument Financial assets and liabilities are derecognised 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 a finance lease, the present value of the lease payments is recognised as a receivable within loans and advances to customers

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 fair 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 that will probably 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 statement of financial position 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

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

1 Accounting policies (continued)

g) Employee benefits (continued)

The liability recognised in the statement of financial position in respect of defined benefit pension plan is the Company's share of the present value of the defined benefit obligation at the statement of financial position 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 publicly or 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 expense 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 statement of financial position 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, unless another systematic basis is more appropriate

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

1. Accounting policies (continued)

j) **Impairment of financial assets**

At each statement of financial position 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 statement of financial position 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 statement of financial position 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 due to group undertakings (see note 17)

l) ***Revenue recognition***

Factoring and 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

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

Notes to the financial statements (continued)

For the year ended 31 December 2010

1 Accounting policies (continued)

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 statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

o) Borrowing costs

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

p) Borrowings

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

q) Share capital

Ordinary shares are classified as equity

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

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

	2010	2009
	£'000	£'000
United Kingdom	**225,715**	194,595
Germany	**639**	2,167
Ireland	**691**	1,025
	227,045	197,787

Notes to the financial statements (continued)

For the year ended 31 December 2010

3 Revenue (continued)

	2010 £'000	2010 £'000
Factoring	72,656	67,533
Invoice discounting	132,880	109,105
Hire purchase	13,626	14,047
Payroll services	6,825	6,483
Supplier finance	1,058	619
	227,045	197,787

Included within revenue in 2010 is £44,000 (2009 £50,000) in respect of impaired financial assets

4 Directors and employees

a) Staff costs

The average number of FTE's employed by the company during the year was as follows

	2010 Number	2009 Number
Factoring	636	536
Invoice discounting	299	260
Payroll services	25	23
Support services	125	124
Hire purchase	4	5
	1,089	948

Staff costs	2010 £000	2009 £000
Wages and salaries	42,273	37,915
Social security costs	4,164	3,745
Share-based payments (see note 21)	1,311	1,687
Other pension costs -Defined benefit schemes (see note 20)	(2,465)	6,127
Other pension costs -Defined contribution schemes (see note 20)	1,234	905
	46,517	50,379

b) Directors' emoluments

	2010 £000	2009 £000
Aggregate emoluments	1,095	1,140
Highest paid director		
- Emoluments	276	133
- Compensation for loss of office	-	264
	276	397
Contributions paid into defined contributions pension scheme in respect of the *highest paid director*	29	-
Accrued pension at end of year under defined benefit pension scheme - based on pensionable service to the company to 31 December but payable at normal retirement age in respect of the highest paid director	-	68

The highest paid director exercised nil shares in respect of qualifying services during the year (2009 nil shares)

None of the directors were paid or were due to receive amounts under long-term incentive schemes in respect of *qualifying services in 2009 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 (2009 £nil)

Notes to the financial statements (continued)

For the year ended 31 December 2010

4 Directors and employees (continued)

During the financial year no directors exercised share options during the year

The emoluments of the directors have been apportioned between Lloyds TSB Bank plc, and the Lloyds TSB Commercial Finance Limited Group 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 (2009 five) directors under defined benefit pension schemes Five of the directors have benefits accruing under money purchase schemes

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

Key management comprise only the directors of the Company (see note 27)

5 Other operating expenses

	2010 £'000	2009 £'000
Impairment on loans and advances	23,579	42,137
Premises costs	4,362	4,982
Travel and motor expenses	5,681	5,322
Printing, postage and stationery	5,296	4,736
Agents' commission	2,397	2,384
Credit information	669	759
Consultancy and professional fees	2,616	1,951
Indirect staff costs	1,324	960
Marketing fees	1,980	1,385
Management fees (see note 27)	1,442	4,959
Other administrative expenses	15,017	11,530
	64,363	81,105

6 Other operating income

	2010 £'000	2009 £'000
Recharge of costs to other Group companies (see note 27)	5,776	5,615
Dividends received	23,250	-
	29,026	5,615

7 Interest expense

	2010 £'000	2009 £'000
On balances with Group undertakings (see note 27)	21,391	30,070

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

Notes to the financial statements (continued)

For the year ended 31 December 2010

8 Profit before tax

Profit before tax is stated after charging / (crediting)

	2010 £'000	2009 £'000
Operating lease rentals on land and buildings	**2,195**	2,585
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 auditor for the audit of the parent company financial statements	**111**	104
Fees payable to the company's auditor and its associates for other services		
- tax services	**69**	12
- other services	**145**	26

9 Taxation

a) Analysis of charge for the year

	2010 £000	2009 £000
UK corporation tax		
Current tax on profit for the year	**781**	9,937
Adjustments in respect of prior years	**(5)**	36
Current tax charge	**776**	9,973
Deferred tax (see note 16)	**3,647**	977
Charge for taxation	**4,423**	10,950

The charge for tax on the profit for the year is based on a UK corporation tax rate of 28 0% (2009 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

	2010 £000	2009 £000
Profit before tax	**122,415**	40,047
Tax charged at UK corporation tax rate of 28 0% (2009 28 0%)	**34,276**	11,213
Factors affecting charge		
Group relief not paid for	**(23,889)**	-
Disallowed and non-taxable items	**(5,920)**	80
Adjustments in respect of prior years	**-**	(343)
UK corporation tax rate change	**(44)**	-
Tax on profit on ordinary activities	**4,423**	10,950
Effective rate	**3 6%**	27 3%

During the year group relief of £23,889,000 was surrendered by fellow Group Undertakings to the Company for no payment (2009 nil)

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2010

10 Intangible assets

	Software £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2009	4,251	8,529	12,780
Disposals	(15)	-	(15)
At 31 December 2009	4,236	8,529	12,765
Additions	229	-	229
At 31 December 2010	4,465	8,529	12,994
Aggregate amortisation and impairment			
At 1 January 2009	1,924	901	2,825
Charge for the year	713	-	713
At 31 December 2009	2,637	901	3,538
Charge for the year	420	-	420
At 31 December 2010	3,057	901	3,958
Net book value			
At 31 December 2010	1,408	7,628	9,036
At 31 December 2009	1,599	7,628	9,227

The Company's investment in Cash Friday gave rise to goodwill which is held on the Company's statement of financial position and tested at least 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 statement of financial position carrying value

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2010

11 Property, plant and equipment

	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 January 2009	13,432	10	13,442
Additions	770	-	770
Disposals	-	-	-
At 31 December 2009	14,202	10	14,212
Additions	946	-	946
Disposals	(6,588)	-	(6,588)
At 31 December 2010	8,560	10	8,570
Depreciation			
At 1 January 2009	11,170	10	11,180
Charge for the year	1,088	-	1,088
Disposals	-	-	-
At 31 December 2009	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
Net book value.			
At 31 December 2010	**1,925**	-	**1,925**
At 31 December 2009	1,944	-	1,944

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2010

12 Investments

	2010 £'000	2009 £'000
Investment in Group undertakings		
Investment in Group undertakings at 1 January	**16,566**	16,566
Additions – see below	**100**	-
Investment in Group undertakings at 31 December	**16,666**	16,566
Trade investments	**17**	17
Total investments at 31 December	**16,683**	16,583

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
Eurolead Services Holdings Limited	31 December 2010	92	5,016	-	5,016
Alex Lawrie Factors Limited	31 December 2010	-	-	(4,662)	(4,662)
Alex Lawrie Receivables Financing Ltd	31 December 2010	-	200	-	200
Chancery Factors Limited	31 December 2010	-	-	-	-
LTSBCF Limited	31 December 2010	-	11,978	-	11,978
Additions to investments in 2010					
Glythorne Limited	28 February 2010	3	978	(2)	(976)
Snowglen Securities Limited	31 March 2010	12	1,677	(100)	1,577
Evansville Limited	31 May 2010	7	624	(24)	600
Kingstar Leasing Limited	31 August 2010	3	1,704	-	1,704
Azedcrest Limited	30 November 2009	1	80	-	80
Lloyds TSB Commercial Finance Scotland Limited	31 December 2010	4,285	196,721	191,049	5,672

The following above mentioned subsidiaries are dormant Alex Lawrie Factors Limited, Alex Lawrie Receivables Financing Ltd, Chancery Factors Limited (in the process of being struck off) and LTSBCF Limited

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

13 Trade and other receivables

	2010 £'000	2009 £'000
Loans and advances to customers	**3,022,783**	2,763,822
Amounts receivable under non-recourse factoring agreements	**26,268**	80,150
	3,049,051	2,843,972
Impairment losses on loans and advances (Note 28 1)	**(98,755)**	(93,397)
	2,950,296	2,750,575

13. Trade and other receivables (continued)

Loans and advances to customers include hire purchase

	2010 £000	2009 £000
Gross investment in hire purchase contracts, receivable		
- no later than one year	100,683	91,685
- later than one year and no later than five years	137,072	132,605
	237,755	224,290
Unearned future finance income on hire purchase contracts	(16,295)	(17,134)
Net investment in hire purchase contracts	221,460	207,156

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

	2010 £000	2009 £000
- no later than one year	92,384	83,813
- later than one year and no later than five years	129,076	123,343
	221,460	207,156

The Company provides hire purchase in connection with the financing of vehicles, plant and equipment The accumulated allowance for uncollectible hire purchase agreements is £1,524,000 (2009 £1,928,000)

14. Other current assets

	2010 £'000	2009 £'000
Prepayments	6,547	6,094
Other debtors	2,536	1,729
	9,083	7,823

15 Cash and cash equivalents

	2010 £'000	2009 £'000
Cash at bank and in hand	87,838	100,531
Overdrafts (see note 17)	(120,765)	(181,450)
Net overdrafts	(32,927)	(80,919)

Cash and cash equivalents comprise cash and balances held at banks with a maturity of less than 3 months

Incuded in cash at bank and in hand is £83,530,000 (2009 £95,852,000) of balances with related parties (see note 27)

Notes to the financial statements (continued)

For the year ended 31 December 2010

16 Deferred tax

The movement in the net deferred tax balance is as follows

	2010 £'000	2009 £'000
At 1 January	2,444	3,421
Statement of comprehensive income charge (see note 9)	(3,647)	(977)
At 31 December	(1,203)	2,444

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

	2010 £'000	2009 £'000
Pensions	(3,905)	(1,991)
Share based payments	256	(104)
Accelerated capital allowances	220	504
Provisions	(122)	504
Other temporary differences	(96)	110
	(3,647)	(977)

Deferred tax at 31 December comprises

	2010 £'000	2009 £'000
Pensions	(4,167)	(262)
Share based payments	-	(256)
Deferred tax liability	(4,167)	(518)
Accelerated capital allowances	1,731	1,511
Provisions	497	619
Other temporary differences	736	832
Deferred tax asset	2,964	2,962
	(1,203)	2,444

The net deferred tax liability / (asset) is recoverable / (payable) as follows

	2010 £'000	2009 £'000
After more than 12 months	(1,203)	1,720
Within 12 months	-	724

There are unrecognised foreign tax deferred tax assets of £nil (2009 £220,000)

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, proposed a reduction to the main rate of corporation tax from 28% to 27% Accordingly the deferred tax liability and deferred tax asset has been recognised at 27%

In the March 2011 Budget Statement a further reduction of the main rate of corporation tax by 1% to 26% was announced with effect from 1 April 2011 Further reductions of 1% per annum to 23% by 1 April 2014 were also announced These changes had not been substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements

The proposed further reductions in the rate of corporation tax by 1% per annum to 23% by 1 April 2014 are expected to be enacted separately each year starting in 2011 The effect of these further changes upon the company's deferred tax balances and leasing business cannot be reliably quantified at this stage

17. Trade and other payables

	2010 £'000	2009 £'000
Amounts due to clients on collections	107,131	98,727
Due to clients on collection under non-recourse factoring agreements	14,453	41,273
Trade creditors	926	6,335
Other taxation and social security	7,250	5,633
Accruals and deferred income	22,403	17,398
Bank overdraft balances (see note 15)	-	684
Other creditors	221	192
	152,384	170,242

Amounts owed to Group undertakings (see note 27)		
- Bank overdraft balances (see note 15)	120,765	180,766
- Other funding balances	2,714,921	2,493,284
- Interest payable to Group Treasury	270	336
	2,835,956	2,674,386

Amounts owed to Group undertakings are unsecured, repayable on demand and generally interest bearing Variable rates based primarily on base rate were charged during the year

18 Capital and reserves

Called up share capital

	2010 £'000	2009 £'000
Authorised, issued and fully paid 101,100,000 ordinary shares of £0 01 each	1,011	1,011

Each authorised, issued and fully paid ordinary share of £0 01 carries equal voting and dividend rights

Revaluation reserve

The reserve amounting to £2,399,000 (2009 £2,399,000) 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

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	122,415	40,047
Adjustments for		
Depreciation and amortisation	1,385	1,801
Dividend received	(23,250)	-
Interest expense	21,391	30,070
Increase in trade and other receivables	(199,721)	(315,222)
(Increase) / Decrease in other current assets	(1,260)	3,349
(Decrease) / Increase in trade and other payables	(17,175)	23,014
Net decrease in retirement benefit obligations	(14,498)	(5,926)
Cash expended on operations	(110,713)	(222,867)

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, 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 2010 the charge to the statement of comprehensive income in respect of this scheme was £1,234,000 (2009 £905,000), representing the contributions payable by the employer in accordance with the scheme rules There are no outstanding or prepaid contributions at 31 December 2010 (2009 £nil)

Notes to the financial statements (continued)

For the year ended 31 December 2010

20 Retirement benefit obligations (continued)

Defined benefit schemes

The Company's ultimate parent company has established a number of defined benefit pension schemes in the UK and overseas 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 2010 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 statement of financial position

	2010 £'000	2009 £'000
Defined benefit pension schemes net assets	(15,434)	(936)

The amounts recognised in the statement of financial position are represented as follows

	2010 £'000	2009 £'000
Company's share of present value of funded obligations	219,698	230,245
Company's share of fair value of scheme assets	(224,791)	(178,380)
	(5,093)	51,865
Company's share of unrecognised actuarial losses	(10,341)	(52,801)
	(15,434)	(936)

The movements in the amounts recognised in the statement of financial position are as follows

	2010 £'000	2009 £'000
At 1 January	(936)	4,990
Net (credit) / charge to the statement of comprehensive income	(2,465)	6,127
Contributions paid	(12,033)	(12,053)
At 31 December	(15,434)	(936)

The expense recognised in the statement of comprehensive income comprises

	2010 £'000	2009 £'000
Current service cost	6,216	5,840
Interest cost	26,540	23,115
Expected return on plan assets	(27,132)	(22,828)
Curtailment	(9,404)	-
Amortisation outside corridor	1,315	-
	(2,465)	6,127

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

Notes to the financial statements (continued)

For the year ended 31 December 2010

20 Retirement benefit obligations (continued)

Movements in the defined benefit obligation

	2010 £'000	2009 £'000
At 1 January	**230,245**	154,003
Current service cost	**6,216**	5,840
Interest cost	**26,540**	23,115
Actuarial (gains) / losses	**(8,788)**	62,964
Benefits paid	**(17,672)**	(15,677)
Curtailment	**(16,843)**	-
At 31 December	**219,698**	230,245

Changes in the fair value of scheme assets

	2010 £'000	2009 £'000
At 1 January	**178,380**	147,492
Expected return	**27,132**	22,828
Employer contributions	**7,033**	12,053
Actuarial gains	**29,918**	11,684
Benefits paid	**(17,672)**	(15,677)
At 31 December	**224,791**	178,380
Actual return on scheme assets	**57,050**	34,512

The principal actuarial and financial assumptions used were as follows

	2010 %	2009 %
Discount rate	**5.50**	5 70
Rate of inflation – Retail price index	**3 40**	3 40
- Consumer price index	**2 90**	-
Rate of salary increases	**2 00**	3 75
Rate of increase for pensions in payment	**3 20**	3 20

	2010 Years	2009 Years
Life expectancy for member aged 60, on the valuation date		
- Men	**27 2**	27 1
- Women	**28 3**	28 2
Life expectancy for member aged 60, 15 years after the valuation date		
- Men	**28 2**	28 7
- Women	**29 9**	29 8

Notes to the financial statements (continued)

For the year ended 31 December 2010

20 Retirement benefit obligations (continued)

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

	2010	2009
	%	%
Equities	46	47
Fixed interest gilts	3	9
Index linked gilts	19	8
Non-government bonds	14	12
Property	8	9
Other	10	15
At 31 December	100	100

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 statement of financial position date Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets Experience adjustments history

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Present value of defined benefit obligation	219,698	230,245	154,003	186,820	194,910
Fair value of scheme assets	(224,791)	(178,380)	(147,492)	(212,057)	(187,000)
	(5,093)	51,865	6,511	(25,237)	7,910
Unrecognised actuarial (losses) / gains	(10,341)	(52,801)	(1,521)	38,538	11,170
(Asset) / liability in the statement of financial position	(15,434)	(936)	4,990	13,301	19,080
Experience losses on scheme liabilities	10,869	3	(576)	(5,290)	(780)
Experience (losses) / gains on scheme assets	29,927	11,667	(89,153)	3,582	7,766

21 Share based payments

During the year ended 31 December 2010, the Company's ultimate parent company operated the following share based payment schemes, all of which are equity settled The share based payment charge for the year allocated by the group is £1,311,000 (2009 £1,687,000)

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

Notes to the financial statements (continued)

For the year ended 31 December 2010

21 Share based payments (continued)

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

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

21 Share based payments (continued)

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

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 and August 2007 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 2007 and ended on 31 December 2009

(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 (14 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 8 March 2007 and ended on 7 March 2010

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 March, April and August 2008 are as follows

(i) For 50 per cent of the award (the EPS Award) – the performance condition is as described for the 2007 awards with the relevant performance period commencing on 1 January 2008 and ending on 31 December 2010

(ii) For the other 50 per cent of the award (the TSR Award) – the performance condition is as described for the 2007 awards, except that the comparator group comprises of 13 companies, with the relevant performance period commencing on 6 March 2008 (the date of the first award) and ending on 5 March 2011

The current LTIP rules allow for awards to be made of up to 400 per cent of base salary Under normal circumstances awards are made of 300 per cent of salary with the additional 100 per cent available for circumstances that the Remuneration Committee deems to be exceptional In 2008, awards were made of 375 per cent of base salary to the chief executive and two of the Executive Directors for retention purposes, and in light of data reviewed by the committee which showed total remuneration to be behind median both for the FTSE 20, and the other major UK banks

Notes to the financial statements (continued)

For the year ended 31 December 2010

21 Share based payments (continued)

As for the 2007 LTIP awards, 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 2008 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

EPS *relevant to 50 per cent of the award* Performance will be measured on the extent to which the growth in EPS achieves cumulative EPS targets over the three-year period

Economic Profit relevant to 50 per cent of the award Performance will be measured based on the extent to which cumulative Economic Profit 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

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

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

EPS relevant to 50 per cent of the award Performance will be measured based on absolute improvement in adjusted EPS over the three financial years starting on 1 January 2010 relative to an adjusted fully diluted 2009 EPS base

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

Performance share plan

Under the performance share plan, introduced during 2005, participating executives would have been eligible for an award of free shares, known as performance shares, to match the bonus shares awarded as part of their 2004 and 2005 bonus The maximum match was two performance shares for each bonus share, awarded at the end of a three year period The actual number of shares which would have been awarded was dependent on Lloyds Banking Group plc's total shareholder return performance measured over a three year period, compared to other companies in the comparator group The maximum of two performance shares for each bonus share would have been awarded only if Lloyds Banking Group plc's total shareholder return performance placed it first in the comparator group, one performance share for each bonus share would have been granted if Lloyds Banking Group plc was placed fifth, and one performance share for every two bonus shares if Lloyds Banking Group plc was placed eighth (median) Between first and fifth position, and fifth and eighth position, sliding scales would have applied If the total shareholder return performance was below median, no performance shares would have been awarded There was no retest Whilst income tax and national insurance was deducted from the bonus before deferral into the plan, where a match of performance shares was justified, these shares would have been awarded as if income tax and national insurance had not been deducted

Notes to the financial statements (continued)

For the year ended 31 December 2010

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

No free shares were awarded in 2009 or 2010

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 relating to matching shares in 2010 was 17,411,651 (2009 16,746,310), with an average fair value of £0 63 (2009 £0 69), 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 2010 annual report and accounts of the Company's ultimate parent company Copies of the ultimate parent company's 2010 annual report and accounts 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

	2010	2009
	£'000	£'000
Due within one year	**1,330**	1,662
Due between one and five years	**5,011**	4,681
Due beyond five years	**5,856**	6,974
	12,197	13,317

Operating lease payments made during the year amount to £2,195,000 (2009 £2,585,000), sublease payments receivable during the year amount to £84,000 (2009 £98,000) Total future sublease payments receivable relating to the above operating leases amounted to £276,000 (2009 £240,000)

23 Capital commitments

There is no capital expenditure that has been committed but not provided for (2009 £nil)

Notes to the financial statements (continued)

For the year ended 31 December 2010

24 Commitments and contingent liabilities

	2010 £'000	2009 £'000
Commitments to lend	**46,427**	39,984
Total commitments	**46,427**	39,984

Commitments to lend relate to guarantees given by the Company to third parties in respect of bank overdrafts and syndicated lending The Company also has undrawn facilities of £1,096,025,000 relating to amounts clients have yet to draw down from their invoice finance current accounts

The Company has commitments of £40,057,000 (2009 £32,188,000) in respect of guarantees to group undertakings

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 accounts 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 accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN

26 Dividends per share

On 17 May 2010, an interim dividend of 29 67p per share amounting to a total of £30,000,000 was resolved On 13 September 2010, a further interim dividend of 23 00p per share amounting to a total of £23,250,000 was resolved Hence interim dividends paid in 2010 total £53,250,000 (2009 £27,000,000)

27 Related party transactions

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

	2010 £000	2009 £000
Cash at bank and in hand (amounts included in note 15)		
Lloyds TSB Bank plc	**34,552**	11,720
HBOS plc	**48,978**	84,132
	83,530	95,852
Creditors outstanding at 31 December (see note 17)		
Lloyds TSB Bank plc	**(2,592,379)**	(2,446,886)
HBOS plc	**(3,283)**	(502)
Lloyds TSB Commercial Finance Scotland Limited	**(4,366)**	(5,939)
Lloyds UDT Limited	**(221,414)**	(206,545)
Lloyds TSB Scotland plc	**-**	-
Other fellow LBG group undertakings	**(14,514)**	(14,514)
	(2,835,956)	(2,674,386)
Interest expense (see note 7)		
Lloyds TSB Bank plc	**14,094**	21,540
Lloyds TSB Commercial Finance Scotland Limited	**-**	131
Lloyds UDT Limited	**6,798**	7,993
Lloyds TSB Scotland plc	**499**	406
	21,391	30,070
Management fees payable (see note 5)		
Lloyds TSB Commercial Finance Scotland Limited	**-**	3,108
Lloyds UDT Limited	**1,442**	1,851
	1,442	4,959

27 Related party transactions (continued)

Recharge of costs (see note 6)

	2010 £000	2009 £000
Lloyds TSB Bank plc	4,696	4,764
Lloyds TSB Commercial Finance Scotland Limited	1,080	851
	5,776	5,615

Lloyds TSB Bank plc is the parent company, whilst Lloyds TSB Commercial Finance Scotland, Lloyds UDT Limited and Lloyds TSB Scotland plc are fellow subsidiaries

Included in other administrative expenses is an amount of £7,724,000 (2009 £4,689,000) 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

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 Banking Group 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 statement of financial position date

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

Notes to the financial statements (continued)

For the year ended 31 December 2010

28 Financial risk management (continued)

28 1 Credit risk (continued)

Credit concentration

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

Loans and advances to customers – maximum exposure

31 December 2010	£'000
Neither past due nor impaired	2,919,922
Past due but not impaired	2,071
Impaired	127,058
Gross exposure – loans and advances	3,049,051
Commitments to lend (see note 24)	46,427
Maximum credit exposure	3,095,478

Loans and advances to customers – maximum exposure

31 December 2009	£'000
Neither past due nor impaired	2,723,002
Past due but not impaired	3,795
Impaired	117,175
Gross exposure – loans and advances	2,843,972
Commitments to lend (see note 24)	39,984
Maximum credit exposure	2,883,956

Notes to the financial statements (continued)

For the year ended 31 December 2010

28 1 Credit risk (continued)

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

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

31 December 2009	**£'000**
Good quality	77,100
Satisfactory quality	1,814,087
Lower quality	790,823
Below standard, but not impaired	40,992
Total	2,723,002

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

	2010 £'000	2009 £'000
Past due up to 30 days	**1,740**	3,139
Past due up to 30-60 days	**170**	403
Past due over 90 days	**161**	253
Total	**2,071**	3,795

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

Allowance for loans and advances to customers which are impaired

	2010 Total £'000	2009 Total £'000
Balance at 1 January	(93,397)	(29,267)
Impairment allowances transferred with HBOS business	-	(29,534)
Exchange and other adjustments	15	(9)
Advances written off, net of recoveries	17,938	7,366
Notional income	268	184
Charge to statement of comprehensive income	(23,579)	(42,137)
At 31 December	(98,755)	(93,397)

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

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

Repossessed collateral

Repossessed 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 year end held by agents on the Company's behalf was repossessed collateral of £4,449,000 (2009 £5,671,000) 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 risks are managed as part of the Lloyds Banking Group by the intermediate parent company, Lloyds Banking Group plc, in consultation with the board of directors

The Company is funded on an ongoing basis entirely by companies within Lloyds Banking Group Such funding is technically repayable within three months, 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 2010, lending denominated in foreign currencies totalled £157,000,000 (2009 £167,000,000)

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

For the year ended 31 December 2010

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 and those relating to hire purchase financing is assumed to be their fair value The aggregated fair value of loans and advances to customers relating to hire purchase is approximately £239,947,000 (2009 £224,137,000) Fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by other financial institutions

The aggregated fair value of loans and advances to customers, excluding those relating to hire purchase is approximately £2 8 billion (2009 £2 6 billion)

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 shareholders 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 developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2010 and have not been applied in preparing these financial statements The full impact of these accounting changes is being assessed by the Company

Pronouncement	Nature of change	IASB effective date
Amendment to IAS 32 Financial Instruments Presentation – 'Classification of Rights Issues'	Requires rights issues denominated in a currency other than the functional currency of the issuer to be classified as equity regardless of the currency in which the exercise price is denominated	Annual periods beginning on or after 1 February 2010
Improvements to IFRSs (issued May 2010)	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 July 2010

30 Future developments (continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	Clarifies that when an entity renegotiates the terms of its debt with the result that the liability is *extinguished by the debtor issuing its own equity* instruments to the creditor, a gain or loss is recognised in profit or loss representing the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, the fair value of the financial liability is used to measure the gain or loss where the fair value of the equity instruments cannot be reliably measured This interpretation is consistent with the Group's existing accounting policy	Annual periods beginning on or after 1 July 2010
Amendment to IFRIC 14 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	Annual periods beginning on or after 1 January 2011
IAS24 Related Party Disclosures 1	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011
Amendments to IFRS 7 Financial Instruments Disclosures – 'Disclosures-Transfers of Financial Assets'	Requires additional disclosures in respect of risk exposures arising from transferred financial assets	Annual periods beginning on or after 1 July 2011
Amendments to IAS 12 Income Taxes – 'Deferred Tax Recovery of Underlying Assets'	Introduces a reputable presumption that investment *property measured at fair value* is recovered entirely through sale and that deferred tax in respect of such investment property is recognised on that basis	Annual periods beginning on or after 1 January 2012
IFRS 9 Financial Instruments Classification and Measurement 1	Simplifies the way entities will classify financial assets and reduces the number of classification categories to two, fair value and amortised cost The existing available-for-sale and held-to-maturity categories have been eliminated Classification will be made on the basis of the objectives of entity's business model for managing the assets and the characteristics of the contractual cash flows	Annual periods beginning on or after 1 January 2013

1 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 *Until all stages of the replacement project are complete, it is not* possible to determine the overall impact on the financial statements of the replacement of IAS 39 The effective date of the standard is annual periods beginning on or after 1 January 2013

At the date of this report, IFRS 9, Improvements to IFRSs (issued May 2010), the Amendments to IFRS 7 and the Amendments to IAS 12 are awaiting EU endorsement