Lloyds Bank Private Banking Limited

Annual report and accounts
for the year ended 31 December 2014

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

2019697

Directors

S Deaves
S J Kenyon
I Kirkpatrick
A D Lane

Company Secretary

K Melville

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2014

The directors present their report and the audited financial statements of Lloyds Bank Private Banking Limited ("the Company") for the year ended 31 December 2014.

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 2019697), and its immediate parent company is Lloyds Bank plc. The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group") and customer deposits. The Company is regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

Future outlook

The future outlook has been included within the Strategic report.

Employees

The Company has no direct employees (2013: nil). All staff are employed by other group undertakings, the majority by Lloyds Bank plc, and all staff costs are recharged to the Company. Full details of policies relating to disabled persons, together with details of actions taken regarding the provision of information to employees, their consultation and involvement, are shown in the financial statements of the Group.

Dividends

No dividends were paid or proposed during the year ended 31 December 2014 (2013: £nil).

Going concern

The directors are satisfied that it is the intention of the Group that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors

The directors of the Company who were in office at the date of signing the financial statements are shown on the cover.

The following changes have taken place during the year:

S Deaves	(appointed 27 October 2014)
R Galley	(resigned 11 November 2014)
P R Grant	(resigned 31 October 2014)
S J Kenyon	(appointed 11 November 2014)
I Kirkpatrick	(appointed 1 August 2014)
A D Lane	(appointed 28 October 2014)
A Lorenzo	(resigned 28 July 2014)
M T Miles	(resigned 12 September 2014)

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company, including former directors who retired during the year, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the directors who joined the board of the Company during the financial year. Directors no longer in office but who served on the board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

Directors' report (continued)

For the year ended 31 December 2014

Statement of directors' responsibilities

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

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

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

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

Disclosure of information to auditors

Each director in office at the date of this report confirms that:

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

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

Independent auditors

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

Approved by the board of directors and signed by its order by:

K Melville
Company Secretary

2 APRIL 2015

Strategic report
For the year ended 31 December 2014

Review of the business

The Company is part of the Retail Division of the Group, principally focussed on meeting the needs of private clients through the provision of banking and investment management services. Strategic direction is set by the board, aligned to the group strategy to Help Britain prosper. Objectives include:

Providing a source of liquidity to the Group by continuing to offer market competitive savings products at acceptable prices and to build and protect client wealth.

Reshaping the business to be the best bank for the customer through offering compelling propositions via multiple channels to suit the customers' preference for interaction.

Continued investment in the business to simplify processes, provide robust investment platforms, establish sophisticated financial planning tools and generate organic growth through self sufficiency initiatives.

The Company has been simplified during the year following the project to combine the Wealth Management Advisor and Relationship Manager roles across the wider Wealth business resulting in the activities being combined into a single role where circa 90% of customer interaction can be dealt with by the new advisor. In addition these roles together with the Management and Conduct Manager roles have been moved into Lloyds Bank plc, thereby reducing the number of employees charged to the Company.

Key performance indicators ("KPIs")

The board monitors progress against the strategy of the Company together with the performance of individual areas of the business, by reference to KPIs. The performance during 2014 generally reflects an improving economic environment for deposit takers and strong performance in customer portfolios.

Performance during the year, together with comparative historical data, is set out in the table below:

KPI	2014	2013	Definition, method of calculation and analysis
Income growth/(reduction) (%)	(21.3)	3.7	Change in total income (Net interest income/(expense), Net fees and commission income and Other operating income) as a percentage of total income from prior year. The Company has restructured, with all advisers registered to Lloyds Bank plc from 1 July 2014. This has the effect of removing advice fees from the Company's income, which together with the cessation of trail fees and the payment to Aberdeen Asset Management explains the reduction in income.
Cost/Income (%)	67.5	72.0	Other operating expenses as a percentage of total income. The company achieved cost savings through the re-registration of advisers which partially offset the reduction in income.
PBT growth/(reduction) (%)	(8.6)	72.1	Change in Profit before tax as a percentage of total Profit before tax from prior year. The Company has restructured, with all advisers registered to Lloyds Bank plc from 1 July 2014. This has the effect of removing advice fees from the Company's income, which together with the cessation of trail fees and the payment to Aberdeen Asset Management explains the reduction in income.
Customer lending, £m	142	162	Total Loans and advances to customers.
Customer deposits, £m	4,616	3,344	Total Customer accounts.
Funds under management, £m	12,066	12,374	Total amount of money customers have trusted to invest across investment products.
Core Tier 1 capital ratio, %	48.2	29.7	Ratio of the Bank's core equity capital to its risk weighted assets.

Strategic report (continued)

For the year ended 31 December 2014

Future outlook

The environment within which the Company operates remains competitive, and near term growth will likely be impacted by the revised Front office incentive scheme, the directors are supporting investment following a group strategic review which is expected to drive growth over a three to five year period. In addition they remain committed to ensure that the Company's interest and other charges fully reflect the risks associated with its core products whilst maintaining competitiveness.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Wealth Division of the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 23 to the financial statements.

Approved by the board of directors and signed by its order by:

K Melville
Company Secretary

2 APRIL 2015

Independent auditors' report to the member of Lloyds Bank Private Banking Limited

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Lloyds Bank Private Banking Limited's financial statements comprise:

- the Balance sheet as at 31 December 2014;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Cash flow statement for the year then ended;
- the Statement of changes in equity for the year then ended and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Independent auditors' report to the member of Lloyds Bank Private Banking Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

As explained more fully in the Statement of directors' responsibilities set out on page 2, 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 ISAs (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 member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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

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

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

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

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

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

2 April 2015

Income statement

For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Interest income		**31,022**	27,700
Interest expense		**(28,656)**	(37,597)
Net interest income/(expense)	3	**2,366**	(9,897)
Fees and commission income		**138,116**	188,733
Fees and commission expense		**(1,523)**	(1,533)
Net fees and commission income	4	**136,593**	187,200
Other operating income	5	**2,302**	2,303
Impairment gains	6	**176**	87
Other operating expenses	7	**(95,354)**	(129,275)
Profit before tax		**46,083**	50,418
Taxation	8	**(9,727)**	(3,308)
Profit for the year attributable to owners of the parent		**36,356**	47,110

Statement of comprehensive income

For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Profit for the year		**36,356**	47,110
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss:			
Post retirement defined benefit scheme remeasurements:			
- Remeasurements before taxation	20	**9,605**	24,658
- Taxation	8	**(1,921)**	(7,020)
		7,684	17,638
Total comprehensive income for the year attributable to owners of the parent		**44,040**	64,748

The accompanying notes to the financial statements are an integral part of these financial statements.

Balance sheet

As at 31 December 2014

	Note	2014 £'000	2013 £'000
ASSETS			
Items in course of collection		**4,354**	3,349
Other current assets		**6,624**	9,262
Loans and advances to banks	9	**4,994,673**	3,481,394
Loans and advances to customers	10	**142,440**	162,008
Derivative financial assets	11	**4,555**	4,346
Deferred tax asset	13	**1,105**	5,494
Total assets		**5,153,751**	3,665,853
LIABILITIES			
Items in the course of transmission to banks		**3,114**	1,167
Deposits from banks	15	**96,798**	68,202
Customer accounts	14	**4,616,493**	3,343,879
Other current liabilities	16	**160,653**	2,331
Derivative financial liabilities	11	**2,979**	5,963
Accruals and deferred income	17	**76,949**	73,099
Provision for liabilities and charges	18	**1,132**	3,530
Retirement benefit liability	20	**1,725**	25,073
Current tax liability		**18,778**	11,519
Total liabilities		**4,978,621**	3,534,763
EQUITY			
Share capital	19	**27,000**	27,000
Retained earnings		**148,130**	104,090
Total equity		**175,130**	131,090
Total equity and liabilities		**5,153,751**	3,665,853

The accompanying notes to the financial statements are an integral part of these financial statements.

The financial statements were approved by the board of directors and were signed on its behalf by:

S J Kenyon
Director

2 April 2015

Statement of changes in equity
For the year ended 31 December 2014

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2013	12,000	39,342	51,342
Profit for the year	-	47,110	47,110
Other comprehensive income for the year	-	17,638	17,638
Issue of ordinary shares	15,000	-	15,000
At 31 December 2013	**27,000**	**104,090**	**131,090**
Profit for the year	-	36,356	36,356
Other comprehensive income for the year	-	7,684	7,684
At 31 December 2014	**27,000**	**148,130**	**175,130**

The accompanying notes to the financial statements are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2014

	2014 £'000	2013 £'000
Cash flows generated from operating activities		
Profit before tax	**46,083**	50,418
Adjustments for:		
- Interest expense	**28,656**	37,597
- Interest income	**(31,022)**	(27,700)
- Impairment gains	**(176)**	(87)
Changes in operating assets and liabilities:		
- Items in course of collection	**(1,005)**	(121)
- Other current assets	**2,638**	6,892
- Loans and advances to banks with greater than 3 months maturity	**(14,987)**	320,818
- Loans and advances to customers	**19,684**	14,779
- Derivative financial assets	**(209)**	(2,242)
- Deposits from banks	**28,596**	(128,995)
- Customer accounts	**1,271,554**	82,975
- Items in the course of transmission to banks	**1,947**	(8,214)
- Accruals and Deferred income	**3,850**	8,118
- Derivatives financial liabilities	**(2,984)**	(310)
- Other current liabilities	**158,322**	321
- Provisions for liabilities and charges	**(2,398)**	2,628
- Retirement benefit liability	**(23,348)**	(27,892)
Cash generated from operations	**1,485,201**	328,985
Interest paid	**(27,597)**	(39,499)
Interest received	**31,370**	27,422
Taxes paid via group relief	**-**	(10,746)
Net gain on defined benefit scheme remeasurements	**9,605**	24,658
Net cash generated from operating activities	**1,498,579**	330,820
Cash flows from financing activities		
Proceeds from issue of ordinary shares	**-**	15,000
Net cash from financing activities	**-**	15,000
Change in cash and cash equivalents	**1,498,579**	345,820
Cash and cash equivalents at beginning of year	**3,363,855**	3,018,035
Cash and cash equivalents at end of year	**4,862,434**	3,363,855
Cash and cash equivalents comprise		
Loans and advances to banks with less than three months maturity	**4,862,434**	3,363,855
Cash and cash equivalents	**4,862,434**	3,363,855

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2014

1. Accounting policies

1.1 Basis of preparation

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

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements:

(i) Amendment to IAS 32 Financial instruments: Presentation on Offsetting financial assets and financial liabilities. Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement.

(ii) IAS 27 Separate financial statements (as amended in 2011). Sets standards to be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10.

The application of these pronouncements has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2014 and which have not been applied in preparing these financial statements are given in note 27. No standards have been early adopted.

These separate 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 exemptions under IAS 27 Consolidated and Separate Financial Statements and Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention, modified for the fair value of derivative contracts.

1.2 Income recognition

Valuation of foreign currency

The financial statements are presented in Sterling which is the Company's functional and presentation currency. Foreign currency transactions are translated into Sterling at the exchange rate prevailing at the date of the transaction. Exchange gains and losses resulting from the settlement of such transactions are recognised in the Income Statement.

Exchange gains and losses arising from the translation of monetary assets and liabilities at the exchange rate prevailing at the balance sheet date are recognised in the Income statement.

Interest income and expense

Interest income and expense are recognised in the Income statement for all interest bearing financial instruments, including loans and advances, using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument, but not future credit losses. The calculation includes all amounts paid or received by the Company including expected early redemptions and related penalties and premiums and discounts that are an integral part of the overall return, as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument.

1. Accounting policies (continued)

1.2 Income recognition (continued)

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 on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income and expense

Fees and commissions receivable from customers to reimburse the Company for costs incurred are taken to income when the service has been provided. Exchange gains and losses resulting from the settlement of such transactions are recognised in the Income statement.

Investment Portfolio Services ("IPS") fees are received annually in advance and are recognised in the Income statement in proportion to the service provided in each accounting period.

Other fees and commission receivable which are not an integral part of the effective interest rate are recognised when the service has been provided.

1.3 Financial assets and liabilities

On initial recognition, financial assets are classified into fair value through profit or loss, available for sale financial assets, held to maturity investments or loans and receivables. Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

Financial assets comprise Items in course of collection, Other current assets, Loans and advances to banks and Loans and advances to customers. Financial liabilities comprise Items in course of transmission to banks, Deposits from banks and Customer accounts. Derivative contracts can be either financial assets or financial liabilities and are discussed separately in note 1.4.

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.

Interest bearing financial assets and financial liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

1.4 Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each Balance sheet date. The resulting gain or loss is recognised in the Income statement. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other comprehensive income.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

1.5 Loans and receivables

Loans and receivables include Items in course of collection, Other current assets, Loans and advances to banks and Loans and advances to customers. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Financial assets classified as loans and receivables are accounted for at amortised cost using the effective interest method (see note 1.2 above) less provision for impairment (see note 1.7 below).

1.6 Borrowings

Borrowings (which include Deposits from banks and Customer accounts) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate method.

Market linked deposits within Customer accounts are recorded at fair value, with changes in fair value recognised immediately in the Income statement. All other Deposits from banks and Customer accounts are accounted for at amortised cost using the effective interest rate method.

1. Accounting policies (continued)

1.7 Impairment

Assets accounted for at amortised cost

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

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

The methodology 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 Income statement.

When a loan or advance is uncollectible, it is written off against the related provision once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Income statement on a cash receipts basis.

1.8 Dividends

Dividends on ordinary shares are recognised through equity in the period in which they are paid.

1.9 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents comprise Loans and advances to banks with less than three months' maturity.

1.10 Taxation, including deferred income taxes

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

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available in the Company or the Group against which these losses 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.

1. Accounting policies (continued)

1.11 Retirement benefit obligations

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the 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 salary. A defined contribution plan is a pension plan under which the Company pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

Full actuarial valuations of the Group's defined benefit schemes are carried out every three years with interim reviews in the intervening years; these are updated to 31 December each year by qualified independent actuaries. For the purposes of these annual updates scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. The defined benefit scheme liabilities are discounted using rates equivalent to the market yields at the balance sheet date on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, that have terms to maturity approximating to the terms of the related pension liability.

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

Remeasurements, comprising actuarial gains and losses, the return on plan assets (excluding amounts included in net interest expense (income) and net of the cost of managing the plan assets), and the effect of changes to the asset ceiling (if applicable) are reflected immediately in the Balance sheet with a charge or credit recognised in Other comprehensive income in the period in which they occur. Remeasurements recognised in Other comprehensive income are reflected immediately in retained profits and will not subsequently be reclassified to profit or loss.

The Company's Balance sheet includes the net surplus or deficit, being the difference between the fair value of scheme assets less the discounted value of scheme liabilities at the Balance sheet date. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes.

The costs of the Company's contributions towards the Group's defined contribution plans are charged to the Income statement in the period in which they fall due.

1.12 Share based payments

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant Group employees included in note 7. Full details of these schemes can be found in the 2014 Annual Report and Accounts of the Group.

1.13 Provision for liabilities and charges

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

1.14 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Defined benefit schemes

The value of the Group's defined benefit schemes' liabilities requires management to make a number of assumptions. The key areas of estimation uncertainty are the discount rate applied to future cash flows and the expected lifetime of the schemes' members. The accounting surplus or deficit is sensitive to changes in the discount rate, which is affected by market conditions and therefore potentially subject to significant variation. The cost of the benefits payable by the schemes will also depend upon the longevity of the members. Assumptions are made regarding the expected lifetime of scheme members based on recent experience and extrapolate the improving trend, however given the rate of advance in medical science and increasing levels of obesity, it is uncertain whether they will ultimately reflect actual experience.

The key assumptions used are set out in note 20.

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

Fair value of financial instruments

In accordance with IFRS 13 Fair value measurement, the Company categorises financial instruments carried on the Balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. Valuation techniques for level 2 financial instruments use inputs that are based on observable market data. Level 3 financial instruments are those where the instrument's valuation is not based on observable market data. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information.

Customer redress provision

Provisions for liabilities and charges relate to anticipated compensation payments in respect of products sold in the past where best advice may not have been given to the customer.

Determining the amount of the provisions, which represent management's best estimate of the cost of settling these issues, requires the exercise of significant judgement. It will often be necessary to form a view on matters which are inherently uncertain, such as the number of future complaints, the extent to which they will be upheld and the average cost of redress. Consequently the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate. Further information is provided in note 18.

Accruals and deferred income

The material accounting estimates relating to the Company are bonus accruals and deferred investment portfolio services management fees. The Company adheres to the policy on accounting estimates implemented by Lloyds Banking Group plc, its ultimate parent company. This policy applies to all estimates which have a material impact on the Group's financial statements. Requirements of the policy are defining the assumptions surrounding the estimates, reviewing and testing of them and director sign off, on a regular basis.

Management fees are levied on the IPS product, for ongoing servicing of the investment portfolio. The fees are approximately 1% of the market value of the portfolio and are paid annually in advance. In accordance with IAS 18, fees are recognised as earned and an estimate is used to align the fee recognition with the costs of services rendered. Historically a higher proportion of income was recognised upfront. The logic behind this estimate was that a higher proportion of the costs were incurred during the first month of opening the investment portfolio due to the account set up costs and increased advisor time, so the fees were spread in line with this methodology. Following changes to the operating model during 2014, the fees are now recognised evenly over a 12 month period.

This change in estimate simplifies the processes operated in finance, reducing the risk of operational failures causing a misstatement of the results and aligns revenue recognition across fund management platforms. Adoption of the new profile has resulted in a one off adverse impact to income recognised during 2014 of £4,900,000.

3. Net interest income/(expense)

	2014 £'000	2013 £'000
Interest income		
Loans and advances to customers	**5,550**	6,478
Loans and advances to banks (see note 22)	**25,472**	21,222
	31,022	27,700
Interest expense		
Customer accounts	**(28,656)**	(37,597)
Net interest income/(expense)	**2,366**	(9,897)

Notes to the financial statements (continued)

For the year ended 31 December 2014

4. Net fees and commission income

	2014 £'000	2013 £'000
Fees and commission income		
Wealth protection fees relating to trust and fiduciary activities	**18,380**	18,607
Private banking fees	**96,540**	119,850
Intragroup fees	**7,921**	31,994
Other fee and commission income	**15,275**	18,282
Fees and commission expense		
Other fees and commission payable	**(1,523)**	(1,533)
Net fees and commission income	**136,593**	187,200

5. Other operating income

	2014 £'000	2013 £'000
Commission received from the sale of market linked deposits	**563**	1,412
Foreign exchange gains	**1,739**	891
	2,302	2,303

6. Impairment gains

	2014 £'000	2013 £'000
Impairment gains on Loans and advances to customers	**176**	87

Impairment gains on Loans and advances to customers are individually assessed and represent the charge or release during the year to the Income statement.

7. Other operating expenses

	2014 £'000	2013 £'000
Salaries and benefits	**32,021**	42,643
Share based payments	**824**	1,232
Social security costs	**3,198**	4,404
Pension costs - defined benefit plans (see note 20)	**(4,667)**	7,441
Pension costs - defined contribution plans (see note 20)	**1,544**	2,062
Other staff costs	**4,144**	2,508
Administrative expenses	**58,290**	68,985
	95,354	129,275

Administrative expenses include auditors' remuneration:		
- Statutory audit	**144**	144
- Audit-related assurance services (regulatory returns)	**55**	30

The Company had no direct employees during the year (2013: nil). The employee costs, including pension costs shown above, are recharged from other group companies, largely from Lloyds Bank plc. The equivalent staff numbers during the year averaged 650 (2013: 802).

Notes to the financial statements (continued)

For the year ended 31 December 2014

8. Taxation

	2014 £'000	2013 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**7,299**	11,517
- Adjustments in respect of prior years	**(40)**	(8,316)
Current tax charge	**7,259**	3,201
UK deferred tax:		
- Origination and reversal of timing differences	**2,614**	287
- Adjustments in respect of prior years	**35**	347
- Effect of rate change and related impacts	**(181)**	(527)
Deferred tax charge	**2,468**	107
	9,727	3,308

Corporation tax is calculated at a rate of 21.50% (2013: 23.25%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

Where taxation on the Company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 21.50% (2013: 23.25%), the differences are explained below:

	2014 £'000	2013 £'000
Profit before tax	**46,083**	50,418
Tax charge thereon at UK corporation tax rate of 21.50% (2013: 23.25%)	**9,908**	11,722
Factors affecting charge:		
- Non-allowable and non-taxable items	**6**	82
- Adjustments in respect of prior years	**(6)**	(7,969)
- Effect of rate change and related impacts	**(181)**	(527)
Tax on profit on ordinary activities	**9,727**	3,308
Effective rate	**21.1%**	6.6%

c) Tax effects relating to Other comprehensive income

The tax effect relating to Other comprehensive income is as follows:

	Before tax amount £'000	Tax charge £'000	Net of tax amount £'000
2014			
Post retirement defined benefit scheme remeasurements	**9,605**	**(1,921)**	**7,684**
Other comprehensive income for the year	**9,605**	**(1,921)**	**7,684**
2013			
Post retirement defined benefit scheme remeasurements	24,658	(7,020)	17,638
Other comprehensive income for the year	24,658	(7,020)	17,638

9. Loans and advances to banks

	2014	2013
	£'000	£'000
Loans and advances to parent undertaking (see note 22)	**4,994,669**	3,478,814
Loans and advances to other banks (see note 22)	**4**	2,580
	4,994,673	3,481,394

Included within Loans and advances to banks are £58,869,000 (2013: £59,677,000) of non-current assets.

10. Loans and advances to customers

	2014	2013
	£'000	£'000
Loans and advances to individuals	**142,282**	162,074
Less: Allowance for losses on loans and advances (individually assessed)	**(587)**	(811)
Net loans and advances to customers	**141,695**	161,263
Loans and advances to other group undertakings (see note 22)	**745**	745
	142,440	162,008

Included within Loans and advances to customers are £52,512,000 (2013: £87,317,000) of non-current assets

Allowance for losses on Loans and advances to customers	**2014**	2013
	£'000	£'000
Balance at 1 January	**811**	900
Credit to the Income statement	**(176)**	(87)
Utilisation of the provision	**(48)**	(2)
Balance at 31 December	**587**	811

At 31 December 2014, the amount of interest income accrued on loans against which impairment allowances are held was £nil (2013: £nil).

11. Derivative financial instruments

The Company offers market-linked deposits to customers, which include embedded derivatives as disclosed in note 14. The Company uses derivative financial instruments purchased from its parent company to eliminate its exposure to interest rate, exchange rate and equity risks arising from these products. The derivatives used for this purpose include index linked equity options, interest rate contracts and exchange rate contracts, all of which are taken out with the immediate parent company, Lloyds Bank plc.

Index linked equity options are purchased which give the Company the right, but not the obligation, to buy or sell a specified amount of equities, or basket of equities in the form of published indices on or before a specified future date.

Interest rate contracts include interest rate swaps and options. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts. An interest rate option gives the buyer, on payment of a premium, the right, but not the obligation, to fix the rate of interest on a future loan or deposit, for a specified period and commencing on a specified future date.

The Company also offers exchange rate contracts to its customers, and purchases matching contracts from other group companies to eliminate the Company's exposure to exchange rate risk. Exchange rate contracts include forward foreign exchange contracts, currency options and currency swaps. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. A currency option gives the buyer, on payment of a premium, the right, but not the obligation, to sell specified amounts of currency at agreed rates of exchange on or before a specified future date. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies, the exchange of principal can be notional or actual.

Notes to the financial statements (continued)
For the year ended 31 December 2014

11. Derivative financial instruments (continued)

The principal amount of the contract does not represent the Company's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Company should the counterparty default. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate.

At 31 December 2014	**Contract / Notional amount**	**Fair value assets**	**Fair value liabilities**
	£'000	**£'000**	**£'000**
Interest rate contracts			
- Interest rate swaps	44,185	9	(2,975)
- Options purchased	-	-	-
Exchange rate contracts			
- Currency swaps	414	-	(4)
Equity contracts			
- Options purchased	35,940	4,546	-
Total derivative assets / liabilities	80,539	4,555	(2,979)
Current assets / liabilities		-	-
Non-current assets / liabilities		4,555	(2,979)

At 31 December 2013	Contract / Notional amount	Fair value assets	Fair value liabilities
	£'000	£'000	£'000
Interest rate contracts			
- Interest rate swaps	45,345	9	(5,080)
- Options purchased	900	-	-
Exchange rate contracts			
- Currency swaps	312	877	(857)
Equity contracts			
- Options purchased	37,750	3,460	(26)
Total derivative assets / liabilities	84,307	4,346	(5,963)
Current assets / liabilities		94	(7)
Non-current assets / liabilities		4,252	(5,956)

12. Investment in subsidiary

The Company owns 100% of the 'A' ordinary and 'B' ordinary shares of Lloyds Bank Financial Advisers Limited. Lloyds Bank Financial Advisers Limited is registered in England and Wales, and its business is to act as an independent intermediary and offer advice on investments, life assurance and pension products. In 2012, the directors of the Company decided to write down the Investment in subsidiary after taking into account historical and future anticipated performance of the subsidiary. This assessment remains unchanged as at 31 December 2014.

13. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2014	2013
	£'000	£'000
Brought forward	**5,494**	12,621
Charge for the year - Income statement	**(2,468)**	(107)
Charge for the year - Statement of comprehensive income	**(1,921)**	(7,020)
At 31 December	**1,105**	5,494

Notes to the financial statements (continued)

For the year ended 31 December 2014

13. Deferred tax asset (continued)

The deferred tax charge in the Income statement and Statement of comprehensive income comprises the following temporary differences:

	2014 £'000	2013 £'000
Accelerated capital allowances	**(1)**	(2)
Accounting provisions disallowed	**284**	44
Pension - Income statement	**(2,750)**	(147)
Pension - Statement of comprehensive income	**(1,921)**	(7,020)
Other temporary differences	**(1)**	(2)
	(4,389)	(7,127)

Deferred tax asset comprises:	2014 £'000	2013 £'000
Accelerated capital allowances	**2**	3
Accounting provisions disallowed	**757**	473
Pension	**344**	5,015
Other temporary differences	**2**	3
	1,105	5,494

The Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013. In addition, the Finance Act 2013, which was substantively enacted on 2 July 2013, included legislation to reduce the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

14. Customer accounts

	2014 £'000	2013 £'000
Deposit accounts - retail customers		
Current liabilities	**4,557,622**	3,284,202
Non-current liabilities	**58,871**	59,677
	4,616,493	3,343,879

Fixed term deposits of £59,595,000 (2013: £53,021,000) are interest bearing at fixed rates. All other customer deposits are interest bearing at variable rates.

Included within Customer accounts are the following embedded derivatives, which are recorded at a net negative fair value of £1,576,000 (2013: net positive fair value of £1,617,000).

At 31 December 2014	**Contract / Notional amount £'000**	**Fair value assets £'000**	**Fair value *liabilities* £'000**
Interest rate contracts			
- *Interest rate swaps*	44,185	2,975	(9)
- Options purchased	-	-	-
Exchange rate contracts			
- Currency swaps	414	4	-
Equity contracts			
- Options purchased	35,940	-	(4,546)
Total embedded derivative assets / (liabilities)	80,539	2,979	(4,555)

14. Customer accounts (continued)

At 31 December 2013	Contract / Notional amount £'000	Fair value assets £'000	Fair value liabilities £'000
Interest rate contracts			
- Interest rate swaps	45,345	5,080	(9)
- Options purchased	900	-	-
Exchange rate contracts			
- Currency swaps	312	857	(877)
Equity contracts			
- Options purchased	37,750	26	(3,460)
Total embedded derivative assets / (liabilities)	84,307	5,963	(4,346)

15. Deposits from banks

	2014 £'000	2013 £'000
Non-interest bearing (see note 22)	**96,798**	68,202

All deposits are by members of the Group, representing clearing balances and intercompany accounts for the processing of group transfer pricing and other such organisational arrangements, and are current liabilities.

16. Other current liabilities

	2014 £'000	2013 £'000
Other current liabilities	**160,653**	2,331

Included in Other current liabilities is an amount payable to group undertakings (see note 22) of £153,825,000 (2013: £nil).

17. Accruals and deferred income

	2014 £'000	2013 £'000
Deferred income	**49,497**	47,186
Other accruals	**27,452**	25,913
	76,949	73,099

Included within Accruals and deferred income are £nil (2013: £nil) of non-current liabilities.

18. Provision for liabilities and charges

	Customer Redress provision £'000
At 1 January 2013	902
Charge for the year	3,487
Utilised during the year	(859)
At 31 December 2013	3,530
Charge for the year	422
Transfer out	(1,500)
Released during the year	(1,068)
Utilised during the year	(252)
At 31 December 2014	**1,132**

Provisions relate to anticipated compensation payments in respect of life and pensions products sold in the past where best advice may not have been given to the customer and for other potential commercial settlements with third parties. The provision is calculated by reference to known outstanding cases and an estimated average payout, plus an expert assessment of the likely commercial settlements that will be reached. An amount of £1,500,000 was transferred to Lloyds Bank plc during the year as it was determined that the costs were not to be borne by the Company.

19. Share capital

	2014 £'000	2013 £'000
Allotted, issued and fully paid		
27,000,000 (2013: 27,000,000) ordinary shares of £1 each	**27,000**	27,000

As permitted by the Companies Act 2006, the Company removed references to authorised share capital from its articles of association.

20. Retirement benefit obligations

The Group operates a number of defined benefit and defined contribution schemes, in which the people providing services to the Company ("employees") participate.

Defined contribution schemes

The majority of the Company's employees are members of the defined contribution sections of the Lloyds Bank Group Pension Scheme No 1 and 2. New employees are offered membership of the defined contribution section of the Lloyds Bank Group Pension Scheme No 1.

During the year ended 31 December 2014 the charge to the Income statement in respect of the schemes was £1,544,000 (2013: £2,062,000), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2014 (2013: £nil).

Defined benefits schemes

The remaining employees of the Company are members of the defined benefit sections of the Lloyds Bank Group Pension Scheme No 1 and 2. These are funded schemes providing retirement benefits calculated as a percentage of final pensionable salary depending upon the length of service. The minimum retirement age under the rules of the schemes at 31 December 2014 was generally 55 although certain categories of member are deemed to have a contractual right to retire at 50. They are operated as separate legal entities under trust law by trustees and the responsibilities for their governance lies with Pension Trustees.

The latest full valuations of the two main schemes were carried out as at 30 June 2011; the results have been updated to 31 December 2014 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 scheme. The Company's ultimate parent company expects to pay contributions of approximately £250,000,000 to the defined benefit schemes in 2015.

Amount included in the Balance sheet:

	2014 £'000	2013 £'000
Bank's share of present value of funded obligations	**503,101**	459,552
Bank's share of fair value of scheme assets	**(501,376)**	(434,479)
Liability in the balance sheet	**1,725**	25,073

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

	2014 £'000	2013 £'000
At 1 January	**25,073**	52,965
Net (credit)/charge to the Income statement (see note 7)	**(4,667)**	7,441
Net credit to the statement of comprehensive income	**(9,605)**	(24,658)
Contributions paid	**(9,076)**	(10,675)
At 31 December	**1,725**	25,073

20. Retirement benefit obligations (continued)

Defined benefits schemes (continued)

The expense recognised in the Income statement comprises:

	2014 £'000	2013 £'000
Current service cost	**2,523**	4,631
Net interest amount	**81**	1,742
Plan administration costs incurred during the year	**(7,271)**	1,068
	(4,667)	7,441

Movements in the defined benefit obligation:

	2014 £'000	2013 £'000
At 1 January	**459,552**	434,498
Current service cost	**2,523**	4,631
Interest cost	**17,609**	24,975
Remeasurements:		
Actuarial (gains)/losses – experience	**(4,857)**	(2,651)
Actuarial losses– demographic assumptions	**-**	-
Actuarial losses – financial assumptions	**50,225**	15,990
Benefits paid	**(14,272)**	(18,761)
Past service cost	**163**	197
Curtailment	**(7,842)**	673
At 31 December	**503,101**	459,552

Changes in the fair value of scheme assets:

	2014 £'000	2013 £'000
At 1 January	**434,479**	381,533
Return on plan assets excluding amounts included in interest income	**54,973**	37,997
Contributions by employer	**9,076**	10,675
Interest income	**17,528**	23,233
Benefits paid	**(14,272)**	(18,761)
Administrative costs and other	**(408)**	(198)
At 31 December	**501,376**	434,479

The principal actuarial and financial assumptions used in valuations of the defined benefit pension schemes were as follows:

	2014 %	2013 %
Discount rate	**3.67**	4.60
Rate of inflation		
- Retail Price Index	**2.95**	3.30
- Consumer Price Index	**1.95**	2.30
Rate of salary increases	**0.00**	2.00
Rate of increase for pensions in payment	**2.59**	2.80

20. Retirement benefit obligations (continued)

Defined benefits schemes (continued)

	2014 Years	2013 Years
Life expectancy for member aged 60, on the valuation date:		
- Men	**27.5**	27.4
- Women	**29.8**	29.7
Life expectancy for member aged 60, 15 years after the valuation date:		
- Men	**28.7**	28.6
- Women	**31.1**	31.0

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 the actual experience of the relevant schemes.

An analysis of the impact of a reasonable change in these assumptions is provided in the 2014 financial statements of the Company's ultimate parent undertaking.

Composition of scheme assets:

	2014 %	2013 %
Equity instruments	**1.40**	3.90
Debt instruments	**51.81**	39.40
Property	**3.37**	3.30
Pooled investment vehicles	**40.09**	47.10
Derivative instruments, money market instruments and other assets and liabilities	**3.33**	6.30

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

21. Share based payments

During the year ended 31 December 2014, the Company's ultimate parent undertaking operated share based payment schemes, all of which are equity settled. As stated in note 7, the Company had no direct employees during the year (2013: nil). The employee costs, including a charge for share based payments of £824,000 (2013: £1,232,000), are recharged from other group companies.

Further details in respect of share based payment schemes can be found in the 2014 financial statements of the Company's ultimate parent undertaking, copies of which may be obtained from the Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

22. Related party transactions

The Company is controlled by Lloyds Bank plc. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

	2014 £'000	2013 £'000
Loans and advances to banks and customers		
Lloyds Bank plc (see note 9)	**4,994,669**	3,478,814
Other group undertakings (see note 9)	**4**	2,580
Lloyds Bank Financial Advisors Limited (see note 10)	**745**	745
Deposits from banks		
Lloyds Bank plc	**91,143**	67,488
Other group undertakings	**5,655**	714
Deposits from banks (see note 15)	**96,798**	68,202
Other current liabilities		
Lloyds Bank plc (see note 16)	**153,825**	-

22. Related party transactions (continued)

	2014 £'000	2013 £'000
Net derivative financial asset/(liability)		
Lloyds Bank plc (see note 11)	**1,576**	(1,617)
Interest income		
From group undertakings (see note 3)	**25,472**	21,222

The above balances are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Income statement.

Included in Administrative expenses of £58,290,000 (2013: £68,985,000) are amounts payable to Lloyds Bank plc of £53,265,000 (2013: £56,098,000). Included in Other operating income is an amount of £563,000 (2013: £1,412,000) receivable from Lloyds Bank plc.

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. Members of the Lloyds Banking Group plc board are employed by other companies within the Group and consider their services to the Company are incidental to their other responsibilities within the Group. Other than as set out below, there were no transactions between the Company and key management personnel during the current or preceding year.

Directors' emoluments

	2014 £'000	2013 £'000
Aggregate emoluments	**329**	204
Post employment benefits	**27**	23
	356	227
Highest paid director		
Aggregate emoluments	**87**	102
Compensation for loss of office	**74**	-
	161	102
Accumulated pension benefit of highest paid director	**-**	-

The number of directors accruing benefits under money purchase and defined benefit pension schemes is four and three respectively (2013: two and two).

No directors exercised share options in the ultimate parent undertaking during either year (2013: none).

Key personnel emoluments

	2014 £'000	2013 £'000
Salaries and short term benefits	**363**	230
Post employment benefits	**27**	23
	390	253

	2014 £'000	2013 £'000
Loans		
Brought forward	**225**	-
Loans advanced during the year		675
Loan repayments received	**(225)**	(450)
At 31 December	**-**	225
Of which unsecured	**-**	225

22. Related party transactions (continued)

The loans made to key management personnel comprise both secured and unsecured loans and overdraft facilities and are offered under normal customer terms and conditions. No allowances for impairment losses have been recognised in respect of loans advanced to key management personnel (2013: £nil).

	2014 £'000	2013 £'000
Deposits		
Brought forward	**4,686**	2,888
Placed during the year	**17,697**	16,814
Withdrawn during the year	**(11,949)**	(15,016)
At 31 December	**10,434**	4,686

The loans attracted interest rates of between 0.5 per cent and 23.9 per cent during the year. Deposits placed by key management personnel attracted interest rates of up to 4.7 per cent during the year.

UK Government

In January 2009, the UK Government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. As at 31 December 2014, HM Treasury retained a significant interest in Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of the Company during the year ended 31 December 2014.

23. Financial risk management

The directors are responsible for establishing a framework for evaluating, measuring, monitoring and controlling risk. They are responsible for ensuring that the risks within the business are identified, assessed, monitored and controlled. These controls and procedures where relevant comply with Lloyds Banking Group policies and standards.

23.1 Strategy in using financial instruments

As a banking institution, the Company's activities are principally related to the use of financial instruments. However, the Company does not trade in financial instruments. Lending activity is largely in loan products offered to high quality borrowers at fixed and floating rates. The Company also accepts deposits from retail customers at fixed and floating rates, and seeks to maximise margins on all banking products whilst maintaining its long standing commitment of interest rate consistency to customers. The Company offers some market-linked deposits to customers, which include embedded derivatives. Derivatives are held with Lloyds Bank plc in order to eliminate the Company's exposure to risk from these products.

23.2 Measurement of financial assets and liabilities

The following table analyses the carrying value of financial assets and financial liabilities within each balance sheet heading between the categories as defined in IAS 39 Financial Instruments: Recognition and Measurement.

At 31 December 2014	Fair value through profit or loss £'000	Loans and receivables £'000	Measured at amortised cost £'000	Total £'000
Financial assets				
Items in the course of collection	-	4,354	-	4,354
Other current assets	-	6,624	-	6,624
Loans and advances to banks	-	4,994,673	-	4,994,673
Loans and advances to customers	-	142,440	-	142,440
Derivative financial assets	4,555	-	-	4,555
	4,555	5,148,091	-	5,152,646
Financial liabilities				
Items in the course of transmission to banks	-	-	3,114	3,114
Deposits from banks	-	-	96,798	96,798
Customer accounts	1,576	-	4,614,917	4,616,493
Derivative financial liabilities	2,979	-	-	2,979
	4,555	-	4,714,829	4,719,384

Notes to the financial statements (continued)
For the year ended 31 December 2014

23. Financial risk management (continued)

23.2 Measurement of financial assets and liabilities (continued)

At 31 December 2013

	Fair value through profit or loss £'000	Loans and receivables £'000	Measured at amortised cost £'000	Total £'000
Financial assets				
Items in the course of collection	-	3,349	-	3,349
Other current assets	-	9,262	-	9,262
Loans and advances to banks	-	3,481,394	-	3,481,394
Loans and advances to customers	-	162,008	-	162,008
Derivative financial assets	4,346	-	-	4,346
	4,346	3,656,013	-	3,660,359
Financial liabilities				
Items in the course of transmission to banks	-	-	1,167	1,167
Deposits from banks	-	-	68,202	68,202
Customer accounts	(1,617)	-	3,345,496	3,343,879
Derivative financial liabilities	5,963	-	-	5,963
	4,346	-	3,414,865	3,419,211

Fair value hierarchy

At 31 December 2014	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Financial assets designated at fair value through profit or loss				
- Derivative financial instruments	-	4,555	-	4,555
Total assets	-	4,555	-	4,555
Financial liabilities				
Financial liabilities designated at fair value through profit or loss				
Customer accounts	-	1,576	-	1,576
Derivative financial instruments	-	2,979	-	2,979
Total liabilities	-	4,555	-	4,555

At 31 December 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Financial assets designated at fair value through profit or loss				
- Derivative financial instruments	-	4,346	-	4,346
Total assets	-	4,346	-	4,346
Financial liabilities				
Financial liabilities designated at fair value through profit or loss				
Customer accounts	-	(1,617)	-	(1,617)
Derivative financial instruments	-	5,963	-	5,963
Total liabilities	-	4,346	-	4,346

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

23. Financial risk management (continued)

23.3 Credit risk

Credit risk arises from extending credit in all forms, where there is a possibility that a counterparty may default. The Company is committed to a strong credit culture that recognises the need to ensure that risk assets are of high quality.

The Company maintains and adheres to a credit policy document in conjunction with the Group Risk Management department.

Credit facilities will be available for private individuals, or to companies which exist purely as an extension to an individual's financial activities. Credit facilities are also available in the administration of estates where the Company acts as principal.

With the exception of overdrafts provided for occasional use and granted to established clients, credit facilities will usually be formally secured. Types of collateral obtained include property, stocks and shares and formal guarantees.

There are sanctioning protocols in place for new borrowings in line with the Group's Risk Appetite Statement.

For capital coverage purposes, specifically the requirements of FSA008 (large exposures), any exposure to a counterparty in excess of 10% of capital for the legal entity requires the approval of a director of the Company. For new borrowings over 25% of the capital base, an approval is required from the FCA in accordance with capital adequacy requirements.

The Company adopts a prudent approach to the identification, definition, and control of bad and doubtful debts. Specific provisions are raised where there is clear evidence that the debt is not being serviced, interest on such accounts is no longer applied and/or the repayment route and/or security value is in doubt.

The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held and the maximum exposure to loss is considered to be the Balance sheet amount or, for non-derivative off balance sheet transactions and financial guarantees, their contractual nominal amounts.

	2014	2013
	£'000	£'000
Items in course of collection	**4,354**	3,349
Other current assets	**6,624**	9,262
Loans and advances to banks	**4,994,673**	3,481,394
Loans and advances to customers	**142,440**	162,008
Derivative financial assets	**4,555**	4,346
Gross exposure	**5,152,646**	3,660,359
Financial guarantees	**7,874**	12,751
Loan commitments and other credit-related contingencies	**53,995**	58,408
Maximum credit risk exposure	**5,214,515**	3,731,518

Financial guarantees represent undertakings that the Company will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Company is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments. However, the likely amount of loss is expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards.

An analysis of the credit quality of the Company's lending to customers is presented below. The assessment of the risk level of loans and advances which are neither past due nor impaired is according to the information presented to the Company's management.

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

	2014	2013
	£'000	£'000
Good quality	**139,342**	161,863
Satisfactory quality	**-**	-
Lower quality	**-**	-
Below standard, but not impaired	**-**	-
Total	**139,342**	161,863

23. Financial risk management (continued)

23.3 Credit risk (continued)

Definitions of good quality, satisfactory quality, lower quality and below standard, but not impaired, are not the same across each segment, reflecting different characteristics of these exposures and the way they are managed internally. 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

	2014 £'000	2013 £'000
Past due up to 30 days	**432**	51
Past due from 30-60 days	**2**	12
Past due from 60-90 days	**2,412**	82
Total	**2,846**	145

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

Impaired lending

	2014 £'000	2013 £'000
Impaired lending on an individual basis	**839**	811
Total loans and advances to customers gross of impairment allowances	143,027	162,819
Allowance for impairment losses	(587)	(811)
Total loans and advances to customers	142,440	162,008

The majority of lending to customers is secured, with collateral in a variety of forms including cash, shares, property and guarantees from other financial institutions. Collateral generally is not held against investments securities and due from banks.

No collateral is held in respect of overdrafts or unsecured personal loans which amounted to £46,414,000 (2013: £49,184,000).

The majority of Loans and advances to customers except overdrafts and unsecured personal loans are fully covered by collateral in both 2014 and 2013.

No assets have been obtained during the year from taking possession of collateral or calling on guarantees (2013: £nil). The carrying amount of Loans and advances to customers that would otherwise be past due or impaired but whose terms have been renegotiated is £nil (2013: £nil).

Items in course of collection, Loans and advances to banks and Derivative financial assets represent amounts due from other group companies, are neither past due nor impaired, and are considered to be of high quality.

23. Financial risk management (continued)

23.4 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk, a stock of liquid and tradable assets is maintained and extensive borrowing facilities are available from within the Group. Liquidity risks are managed as part of the Group by the immediate parent undertaking, Lloyds Bank plc,, in consultation with the board of directors.

The Company relies on deposits from customers as its primary source of funding, a large proportion of which are repayable on demand. The short term nature of these deposits increases the Company's liquidity risk, and it actively manages this risk through maintaining competitive pricing and constant monitoring of market trends, as well as appropriate arrangements in its onward lending to Lloyds Bank plc.

The table below analyses financial liabilities of the Company on an undiscounted future cash flows basis (which is different from the balance sheet measurement basis) according to contractual maturity into relevant maturity groupings based on the remaining period at the Balance sheet date. Balances with no fixed maturity are included in the 'Up to 1 month' category. Off Balance sheet commitments are disclosed in note 23.3.

As at 31 December 2014

	Up to 1 month £'000	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Deposits from banks	96,798	-	-	-	96,798
Customer accounts	4,475,778	8,716	74,065	59,642	4,618,201
Items in the course of transmission to banks	3,114	-	-	-	3,114
Other current liabilities	160,653	-	-	-	160,653
Other accruals	27,452	-	-	-	27,452
Financial guarantees	4,442	545	1,032	1,855	7,874
Derivative financial liabilities	414	-	-	80,125	80,539
Total financial liabilities	4,768,651	9,261	75,097	141,622	4,994,631

As at 31 December 2013

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Deposits from banks	68,202	-	-	-	68,202
Customer accounts	3,217,672	8,993	58,188	60,792	3,345,645
Items in the course of transmission to banks	1,167	-	-	-	1,167
Other current liabilities	2,331	-	-	-	2,331
Other accruals	25,913	-	-	-	25,913
Financial guarantees	9,353	116	1,369	1,913	12,751
Derivative financial liabilities	33	-	1,529	82,745	84,307
Total financial liabilities	3,324,671	9,109	61,086	145,450	3,540,316

The tables above show the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. The Company's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

23.5 Interest rate risk

Interest rate risk is the risk of financial loss as the result of adverse movements in interest rates, and arises largely because of timing differences between the re-pricing of financial assets and liabilities. Interest rate risk arises from the impact of interest rate changes stemming from the balance sheet mismatch positions inherent in the balance sheet structure.

Exposure to interest rate risk within the Company's activities is managed by the board, within the policies laid down by the Balance Sheet Management Department of the Group. The Company's policy is to be broadly neutral to movements in interest rates and operates within guidelines set by the Group. The principal objective in the management of interest rate risk is to protect the Company from an unacceptable reduction in its profit before tax.

Through the matching of intercompany deposits placed with customer deposits received, the Company has transferred its exposure to changes in interest rates to its immediate parent undertaking, Lloyds Bank plc, and does not retain any significant exposure to interest rate risk. Accordingly, no quantitative analysis of such exposures is presented.

23. Financial risk management (continued)

23.6 Foreign currency risk

Exposure to currency risk (or exchange rate risk) within the Company's activities is managed by the board, within the policies laid down by the Group. The Company's policy is to be broadly neutral to movements in exchange rates and operates within guidelines set by the Group.

The Company takes deposits from customers in foreign currencies. These are matched with assets in the same currency from the Corporate Treasury Department of the Group. All material exposure to currency risk is thus transferred to the Company's parent undertaking, Lloyds Bank plc, and accordingly no quantitative analysis of the Company's exposure to currency risk is presented.

23.7 Equity price risk

The Company is exposed to equity price risk through market linked deposits offered to customers, which have returns linked to stock market performance and a guaranteed minimum return. The Company's policy is to minimise the risk by fully matching the liabilities with equity options held with Lloyds Bank plc. The Company does not retain any significant exposure to equity price risk, and accordingly no quantitative analysis of such exposures is presented.

23.8 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities.

All areas of the business are responsible for identifying risks, reporting to a dedicated Compliance and Risk Department. Its role is to define, promote, and implement a policy for operational risk management which is consistent with the approach, aims and strategic goals of the Company and is designed to safeguard the Company's assets while allowing sufficient operational freedom to earn a satisfactory return to shareholders. This is monitored by the Audit Department of the Group, within group wide standards of control.

23.9 Geographical and sector concentrations of risk

The Company operates entirely within the United Kingdom retail banking sector, and all of the Company's customers with loans and deposit balances are based in the United Kingdom.

23.10 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy. In assessing business risk, consideration is given to internal and external factors such as products, funding, resource capability, and economic, political and regulatory factors.

Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary.

23.11 Fair values of financial assets and liabilities

The Company provides loans and advances to banks and customers at both fixed and variable rates. The fair value of the variable rate loans is assumed to be their carrying value. For fixed rate lending to commercial and personal customers, fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by the Company, the Group and other similar financial institutions. The table below summarises the carrying amounts and fair values of Loans and advances to banks and customers.

The fair value of Deposits from banks and Customer accounts repayable on demand is considered to be equal to their carrying value. The fair value for all other deposits and customer accounts is estimated using discounted cash flows applying either market rates, where applicable, or current rates for deposits of similar remaining maturities.

The fair value of derivative instruments is disclosed in note 23.2. The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

23. Financial risk management (continued)

23.11 Fair values of financial assets and liabilities (continued)

	2014 Carrying value £'000	2014 Fair value £'000	2013 Carrying value £'000	2013 Fair value £'000
Financial assets				
Loans and advances to banks	4,994,673	4,994,673	3,481,394	3,465,920
Loans and advances to customers	142,440	142,440	162,008	162,008
	5,137,113	5,137,113	3,643,402	3,627,928
Financial liabilities				
Deposits from banks	96,798	96,798	68,202	68,202
Customer accounts	4,616,493	4,617,745	3,343,879	3,328,405
	4,713,291	4,714,543	3,412,081	3,396,607

The fair value of the financial assets and liabilities at amortised costs is considered to be level 2 in the valuation hierarchy as their fair value is based on observable market data.

24. Capital disclosures

The Company's objectives when managing capital, which is a broader concept than 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Company operates;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide a return for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Company's management, employing techniques based upon the guidelines developed by the Basel Committee and the European Community Banking Consolidation Directives, as implemented by the United Kingdom PRA's General Prudential Sourcebook and the Bank of England for supervisory purposes.

The PRA requires each bank or banking group to: (a) hold a minimum level of regulatory capital, and (b) maintain a ratio of total regulatory capital to risk-weighted assets (the 'risk-asset ratio') at or above the internationally agreed minimum of 8%.

The Company's regulatory capital is entirely tier 1 capital, being share capital and retained earnings, subject to certain regulatory adjustments. Intangible assets and investments in subsidiaries are deducted from the total capital to arrive at the regulatory capital.

The risk weighted assets are determined according to a broad categorisation of the nature of each asset or exposure and counterparty. This includes assessments in relation to credit, operational, counterparty, market and concentration risks.

The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended 31 December 2013 and 2014, under the Basel II framework. During these two years, the Company complied with all of the externally imposed capital requirements to which it is subject.

	2014 £'000	2013 £'000
Tier 1 Capital		
Share capital	27,000	27,000
Retained earnings	148,130	104,090
Total regulatory capital	175,130	131,090
Total risk weighted assets equivalent (unaudited)	363,249	441,363
Risk asset ratio	48.2%	29.7%

The increase in total capital during the year is due to the profit recorded for the year. The reduction in risk weighted assets reflects the decrease in customer lending.

The above comparison is set out using the risk asset ratio framework, which, as explained above, remains the international standard for measuring capital adequacy. The approach to such measurement under Basel II framework is now based primarily on monitoring the relationship of the Capital Resources Requirement (calculated as 8% of risk weighted assets and thus representing the capital required under Pillar 1 of the Basel II framework) to available capital resources. The Company, however, expects the reporting and analysis of ratios to continue, both internally and externally.

25. Contingent liabilities and capital commitments

The Company had outstanding lending commitments at 31 December 2014 of £53,995,000 (2013: £58,408,000), representing the amount of authorised lending facility available to the Company's clients but unutilised at the balance sheet date.

The Company, in its capacity as trustee, owns land which was previously contaminated by waste products. Under the Environment Protection Act 1995, the Company, as trustee, is obliged to put right the contamination of the trust land. In 1994 a system of extraction was installed and to date this has proved effective. However, should gas emissions increase above acceptable levels or should the water on adjoining land become contaminated, the Company may be required to improve the system of extraction or even to remove all tipped materials.

To date all costs have been met from the Trust funds, but if the Company is required to clean up the site or if the extraction system needs major repair or replacement, then it is likely that the Trust funds will not be sufficient to cover all the costs. In this instance the Company will be liable for the balance of the costs.

The Company considers that, given the lack of an established market, the diversity of fee structures and the difficulty of separating the value of the instruments from the value of the overall transaction, it is not meaningful to provide an estimate of the fair value of financial commitments and contingent liabilities.

The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs ("HMRC") adopt a different interpretation and application of tax law which might lead to additional tax. A number of Group companies, including the Company, have an open matter in relation to a claim for group relief of losses incurred in a former Irish banking subsidiary of the Group, which ceased trading on 31 December 2010. In the second half of 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies these claims; if HMRC's position is found to be correct, management estimate that this would result in an increase in the Company's current tax liability of approximately £6,970,000. The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due on the Company.

The Company is periodically subject to potential and actual litigation, the outcome of which is frequently uncertain as to timing and whether any liability or asset exists. Management reviews the relevant cases and consults with in-house and external legal counsel, as appropriate.

There are claims and possible claims against the Company as at 31 December 2014. Due to inherent uncertainties involved in determining whether the Company has a present obligation and because the amount cannot be readily quantified, no provisions have been made at the year end except as disclosed in note 18.

Whilst the directors consider that the liabilities are fairly stated on the basis of the information currently available to them, significant adjustments may be required as actual claims and possible claims develop.

26. Post balance sheet events

Apart from the tax rate changes discussed in note 13, there are no other post balance sheet events requiring disclosure in these financial statements.

27. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2014 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued December 2013)	A collection of amendments to IFRSs from the 2010 - 12 and 2011 - 13 cycle of the annual improvements projects.	Annual periods beginning on or after 1 July 2014.
Amendment to IAS 19 regarding defined benefit plans	These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.	Annual periods beginning on or after 1 July 2014.

27. Future developments (continued)

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments: Classification and Measurement [1]	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2018.

1. At the date of this report, this pronouncement was awaiting EU endorsement.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

28. Ultimate parent undertaking and controlling party

The immediate parent company is Lloyds Bank plc (incorporated in England and Wales). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.