Lloyds Bank International Limited

Annual Report 2015

LLOYDS
BANKING
GROUP

Lloyds Bank International Limited

Annual Report 2015

Contents

Lloyds Bank International Limited

Corporate information

Directors	Timothy John Cooke **Chairman**
	Michael Joseph Starkey
	Ross Davey Willcox
	Adrian David Lane
	Peter Hemingway Reid
	Adrian Simon Prescott
	Gregor Dalgetty Allan **Non-executive Director**
	Richard John Musty
	Christopher John Howland **Non-executive Director**
	Michael David Chaytor
	David Stephenson
	Secretary Lloyds Corporate Services (Jersey) Limited (resigned 16 February 2016) Marnie Martin (appointed 16 February 2016)
Registered office	P.O. Box 160 25 New Street St Helier Jersey JE4 8RG Channel Islands
Independent auditors	PricewaterhouseCoopers CI LLP 37 Esplanade St Helier Jersey JE1 4XA Channel Islands

Chairman's statement

I am pleased to report that in 2015 Lloyds Bank International Limited (the 'Company') has strengthened its profit before impairment losses on loans and advances. This is a result of an improvement in net interest income and a strong focus on cost management within the recurring cost base. The impairment charge has been significantly impacted by a single case. It is reassuring to observe that despite this impairment the Company remains profitable, reflecting the strength of the underlying business; the financial position of the Company has allowed us to pay a dividend to our shareholder for the first time in a number of years.

During the last financial year the Company has made several significant commercial loans to businesses based in the Channel Islands and the Isle of Man. In addition, the Company has developed its product offering to meet customer needs, including a greatly enhanced Digital offering to personal customers. This demonstrates our continued commitment to the Group's purpose of 'Helping Britain Prosper' within the jurisdictions where we operate.

I remain confident in the future of the business and the strategy agreed by the Board of Directors. We are currently developing our response to the requirements of the Banking Commission which will place the Company outside the Ring Fence, bringing a number of new and interesting opportunities for growth.

The Company has won several business awards in 2015, reflecting the creativity and hard work of our dedicated colleagues. These include a number of customer service awards, notably the 'Best Overall Customer Experience Winner 2015' and the 'Best Team Winner 2015' in Guernsey and Jersey respectively. These awards were open to all sectors and relied on members of the public voting for the team that they believed had provided outstanding customer service. Our own measures within the business evidence high levels of customer satisfaction and very low numbers of complaints.

As a Company we employ more than 1,000 people across Jersey, Guernsey, Alderney and the Isle of Man and we play an important role in the communities we serve. We also make a significant contribution to the wider community through numerous fund raising events and by our donating time and expertise.

On behalf of the Board, I would like to thank all colleagues for their continued dedication to the Company and their significant contribution to its current and future success.

Timothy Cooke (Chairman)
24 March 2016

Directors' report

The Directors submit their report and the audited financial statements for the year ended 31 December 2015.

Activities
The Company is incorporated and domiciled in Jersey, and operates branches in Guernsey and the Isle of Man.

The Company's revenue is earned through interest and fees on a wide range of financial services products, including current and savings accounts, personal loans, and mortgages within the retail market, loans and deposit products to commercial customers, and private banking and asset management.

Profit and dividend
The profit attributable to the shareholder of the Company for the year ended 31 December 2015 was £16,900,000 (2014: £39,706,000). The Directors declared and paid the following dividends for the year ended 31 December 2015 £97,500,000 (2014: £Nil).

Business review
The environment within which the Company operates remains competitive. The Company has written a satisfactory level of new business in the year and this is expected to continue in the foreseeable future. The Directors are supporting a strategy designed to ensure that the Company's interest and other charges fully reflect the risks associated with its core products whilst maintaining competitiveness.

The board monitors progress on the overall Company strategy together with the individual strategic elements of the business by reference to Key Performance Indicators ("KPI"). The performance in 2015 reflects more stable market conditions and the Company has selectively reduced its appetite for certain deposit segments in order to improve net interest margin.

Directors' report (continued)

Business review (continued)

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

KPI	2015	2014	Definition, method of calculation and analysis
Deposit Growth	(8%)	(1%)	Change in customer deposits during the year The Company has selectively reduced its appetite for certain deposit segments in order to improve net interest margin.
Lending growth	10%	(1%)	Change in net loans and advances to customers during the year The Company is selectively increasing its appetite for lending to businesses and consumers in its local markets.
Net interest margin	0.74%	0.59%	Net interest margin, divided by average interest earning assets The Company has selectively reduced its appetite for certain deposit segments in order to improve net interest margin.
Cost/income ratio	59%	50%	Operating expenses divided by total income The Company has increased net interest income, whilst controlling its recurring expenses. Certain one off items have lead to an overall increase in costs including pension curtailments and customer remediation.
Funds under management	£561,984,943	£620,055,000	Total managed funds The Company has sought to retain and extend its investment management relationships with core customers. The Company has closed a legacy portfolio book and exited relationships with customers in certain countries which fall outside of its cross border risk appetite.
Core Tier 1 capital ratio	14. 6%	15.00%	Regulatory core tier 1 capital after deductions, divided by risk weighted assets The Company has maintained its capital ratios in excess of internal limits and regulatory capital guidance and was able to make a dividend payment in the year.
Asset Quality Ratio	1.94%	1.10%	Provision charge for the year divided by average lending. The 2015 impairment charge has been significantly impacted by a single case.

Ownership

The ultimate holding company is Lloyds Banking Group plc (the “Group”), which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings. Lloyds Banking Group plc is registered in Scotland and Lloyds Bank plc is registered in England and Wales. The immediate holding company is Lloyds Holdings (Jersey) Limited a company incorporated in Jersey, Channel Islands.

Directors

The present members of the board are shown on page 1. The Directors have no interest in the shares of the Company.

Directors' report (continued)

Statement of Directors' responsibilities
The Directors are required by the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007, the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005, and International Financial Reporting Standards, to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007, the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005, and International Financial Reporting Standards. 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.

A copy of these financial statements is placed on the website http://international.lloydsbank.com/legal-information/company-information. The Directors are responsible for the maintenance and integrity of information published in relation to the Company on that website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors
The independent auditors PricewaterhouseCoopers CI LLP have indicated their willingness to continue in office.

By order of the board

Marnie Martin **Secretary**
24 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK INTERNATIONAL LIMITED

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007 and the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005.

This opinion is to be read in the context of what we say below.

What we have audited

The financial statements for the year ended 31 December 2015, which are prepared by Lloyds Bank International Limited, comprise:

- the statement of comprehensive income for the year ended 31 December 2015;
- the balance sheet as at 31 December 2015;
- the statement of changes in equity for the year ended 31 December 2015;
- the statement of cash flows for the year ended 31 December 2015; and
- the notes to the financial statements, which include a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and International Financial Reporting Standards.

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.

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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK INTERNATIONAL LIMITED (continued)

Opinion on other matter

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies (Jersey) Law 1991 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
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 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.

Mark James
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants
Jersey, Channel Islands
24 March 2016

Statement of comprehensive income

For the year ended 31 December 2015

	Note	**2015**	2014
		£000	£000
Interest and similar income	3	**187,597**	198,005
Interest and similar expense	3	**(80,165)**	(111,191)
Net interest income		**107,432**	86,814
Fee and commission income	4	**20,478**	24,409
Fee and commission expense	5	**(791)**	(633)
Net fee and commission income		**19,687**	23,776
Net trading income	6	**20,013**	20,325
Other operating income	7	**229**	319
Total other income		**39,929**	44,420
Total income		**147,361**	131,234
Operating expenses	8	**(87,101)**	(65,153)
Impairment losses on loans and advances and other credit risk provisions	9	**(24,456)**	(16,609)
Dividend from subsidiary	15	**557**	-
Loss on disposal of subsidiary	15	**(316)**	-
Profit before tax		**36,045**	49,472
Income tax expense	10	**(3,545)**	(3,166)
Profit for the year		**32,500**	46,306
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Remeasurements of retirement benefit obligations	21.2	**(15,600)**	(6,600)
Total comprehensive income for the year		**16,900**	39,706

All items dealt with in arriving at the total comprehensive profit for the years ended 31 December 2015 and for the year end 31 December 2014 relate to continuing operations.

The accompanying notes on pages 12 - 48 are an integral part of the financial statements.

Balance sheet

As at 31 December 2015

	Note	2015 £000	2014 £000
Assets			
Cash	30.1	**12,462**	10,740
Items in the course of collection from banks	30.1	**3,190**	1,991
Derivative financial instruments	20	**21,405**	40,240
Loans and receivables			
Loans and advances to banks	11	**12,708,066**	13,808,583
Loans and advances to customers	12	**1,287,750**	1,169,192
		13,995,816	14,977,775
Core deposit intangible	13	**-**	2,900
Tangible fixed assets	14	**24,176**	27,783
Investment in subsidiary undertakings	15	**-**	1,510
Retirement benefit asset	21.2	**5,300**	16,700
Deferred tax asset	16	**3,351**	6,951
Other assets	17	**11,671**	7,139
Total assets		**14,077,371**	15,093,729
Liabilities			
Deposits from banks	18	**314,064**	140,366
Items in course of transmission to banks	18	**40,407**	10,888
Customer deposits	19	**12,782,992**	13,910,592
Derivative financial instruments	20	**21,405**	40,240
Other liabilities	22	**23,325**	15,865
Total liabilities		**13,182,193**	14,117,951
Equity			
Share capital	23	**536,852**	536,852
Share premium account	24	**14,985**	14,985
Retained profits		**343,341**	423,941
Total shareholder's equity		**895,178**	975,778
Total equity and liabilities		**14,077,371**	15,093,729

The accompanying notes on pages 12 - 48 are an integral part of the financial statements.

The financial statements on pages 8 - 48 were approved by the Board of Directors on 24 March 2016 and were signed on its behalf by:

Timothy John Cooke
Director

Adrian David Lane
Director

Statement of changes in equity

For the year ended 31 December 2015

	Attributable to equity shareholders			
	Share capital £000	Share premium £000	Retained profit £000	Total £000
Balance at 1 January 2014	536,852	14,985	384,235	936,072
Other comprehensive income	-	-	(6,600)	(6,600)
Profit for the year	-	-	46,306	46,306
Balance at 31 December 2014	536,852	14,985	423,941	975,778
Balance at 1 January 2015 (see notes 23 and 24)	**536,852**	**14,985**	**423,941**	**975,778**
Other comprehensive income	-	-	**(15,600)**	**(15,600)**
Profit for the year	-	-	**32,500**	**32,500**
Dividends paid	-	-	**(97,500)**	**(97,500)**
Balance at 31 December 2015	**536,852**	**14,985**	**343,341**	**895,178**

The accompanying notes on pages 12 - 48 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2015

	Note	**2015** **£000**	2014 £000
Net cash used in operating activities	30	**(608,208)**	(784,963)
Investing activities:			
Purchases of fixed assets		**(1,947)**	(1,830)
Disposal of fixed assets		**-**	1,150
Return on capital on dissolution		**1,193**	-
Dividend received from subsidiary		**557**	-
Net cash used in investing activities		**(197)**	(680)
Cash flow from financing activities:			
Dividends paid to equity shareholders		**(97,500)**	-
Net decrease in cash and cash equivalents		**(705,905)**	(785,643)
Cash and cash equivalents at beginning of year		**7,105,513**	7,891,156
Cash and cash equivalents at end of year	30.1	**6,399,608**	7,105,513

The accompanying notes on pages 12 – 48 are an integral part of the financial statements.

Notes to the financial statements
For the year ended 31 December 2015

1. Accounting policies

1.1. Basis of preparation
The financial information for the Company has been prepared under the historical cost convention, as modified by the revaluation of derivative contracts. The financial statements have been prepared under International Financial Reporting Standards ("IFRS"). IFRS comprises 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 International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

There are no new or amended accounting standards that have required a change to accounting policies for the 2015 financial year.

1.2. Consolidation
Consolidated accounts are not prepared as the Company is itself a wholly owned subsidiary of Lloyds Bank plc, which prepares consolidated accounts, which are publicly available. The Company's investments in subsidiaries are held at cost less any provisions considered necessary to reflect a permanent impairment.

1.3. Revenue recognition
Interest income and expense are recognised in the statement of comprehensive income for all interest bearing financial instruments, except for those classified at fair value through profit or loss, using the effective interest method. The effective interest 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 that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

Fees and commissions which are not an integral part of the effective interest rate are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Net trading income comprise all gains and losses from changes in fair value of financial assets and liabilities held at fair value though profit or loss and all gains and losses from foreign exchange transactions.

Dividends from subsidiaries are recognised when the right to receive payment is established.

1. Accounting policies (continued)

1.4. Financial assets and liabilities

On initial recognition, financial assets are classified into fair value through profit or loss, available-for-sale financial assets, or loans and receivables. Financial liabilities are measured at amortised cost.

1.4.1. Financial instruments designated at fair value through profit or loss

Financial instruments are classified at fair value through profit or loss where they are designated at fair value through profit or loss by management. Derivatives are carried at fair value (see 1.5 below).

1.4.2. Loans and receivables

Loans and receivables include loans and advances to banks and customers, debt securities and eligible assets. 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 1.3 above) less provision for impairment (see 1.7 below). Regular way purchases and sales of financial assets are recognised at trade date, being the date that the Company is committed to purchase or sell an asset.

1.4.3. Borrowings

Borrowings (which include deposits from banks and customer deposits), 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 method.

1.4.4. Available-for-sale and held for trading financial assets

The Company holds no financial assets in either available-for-sale or held for trading classification.

1.4.5. Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either:

- substantially all of the risks and rewards of ownership have been transferred; or
- the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when they have been extinguished (i.e. when the obligation is discharged), cancelled or expired.

1.5. Derivative financial instruments

All derivatives are recognised at their fair value. 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. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

1.6. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of set-off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to the financial statements (continued)

For the year ended 31 December 2015

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 is experiencing significant financial difficulty, default or delinquency in interest or principal payments, or the fact that the debt is 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. For the Company's lending portfolios, provisions are established on a case-by-case basis. If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the original 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, whether or not foreclosure is probable.

If there is no objective evidence of individual impairment the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Segmentation takes into account such factors as the type of asset, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, interest income continues to be recognised on an effective interest rate basis, on the asset's carrying value net of impairment provisions. 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 allowance is adjusted and the amount of the reversal is recognised in the statement of comprehensive income.

Loan renegotiations and forbearance

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. Where the renegotiated payments of interest and principal will not recover the original carrying value of the asset, the asset continues to be reported as past due and is considered impaired. Where the renegotiated payments of interest and principal will recover the original carrying value of the asset, the loan is no longer reported as past due or impaired provided that payments are made in accordance with revised terms. Renegotiation may lead to the loan and associated provision being derecognised and a new loan being recognised initially at fair value.

Collateral repossessed

In certain circumstances the Company takes physical possession of assets held as collateral against lending. In such cases, the assets are carried on the Company's balance sheet and are classified according to the Company's accounting policies.

Notes to the financial statements (continued)

For the year ended 31 December 2015

1. Accounting policies (continued)

1.7. Impairment (continued)

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of the debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

1.8. Intangible assets

The premium paid for acquisition of customer assets and liabilities is recognised at cost. This is initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. These assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairments, if any. They are amortised on a straight line basis over 5 years, representing the Company's best estimate of the average holding period for such deposits.

1.9. Tangible fixed assets

Property, plant, equipment and purchased software are included at cost less accumulated depreciation. The value of land (included in premises) is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows:

Premises (excluding land):

- Freehold/long and short leasehold premises: shorter of 50 years or the remaining period of the lease.
- Leasehold improvements: shorter of 10 years or the remaining period of the lease.

Equipment:

- Other equipment and motor vehicles: 3 - 8 years.
- Software up to 7 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down in the statement of comprehensive income immediately.

1.10. Leases

The leases entered into by the Company are all operating leases. Operating lease rentals are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the period of termination.

Leasehold premises that are included within property, plant and equipment are recognised at cost and depreciated over the life of the lease after taking into account anticipated residual values.

The Company evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then separately accounted for.

1. Accounting policies (continued)

1.11. Employee benefits

The Company operates a number of post-retirement benefit schemes for its employees including both defined benefit and defined contribution pension plans. A defined benefit pension scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a pension plan into which the Company pays fixed contributions; there are no legal or constructive obligations to pay future contributions.

A full actuarial valuation of the Company's defined benefit scheme is carried out every three years with interim reviews in the intervening years; these valuations are updated to 31 December each year by qualified independent actuaries. For the purpose 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 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, and that have terms to maturity approximating to the terms of the related pension liability.

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

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 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 the statement of comprehensive income.

The Company's balance sheet includes the net surplus or deficit, being the difference between the fair value of scheme assets and 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 and the Group's defined contribution plans are charged to the statement of comprehensive income in the period in which they fall due.

Refer to note 21 for full details of the defined benefit pension scheme.

1.12. Income taxes, including deferred income taxes

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise. The tax is calculated based on applicable law and agreements with the tax authorities in the jurisdiction in which the profit was earned.

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. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which 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. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

1. Accounting policies (continued)

1.13. Foreign currency translation

1.13.1. Functional and presentation currency

Items included in the financial statements are measured in Pound Sterling being the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are also presented in Pound Sterling.

1.13.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Non-monetary items that are measured at fair value are translated using the exchange rate at the date that the fair value was determined.

1.14. Provisions

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.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes unless they are remote.

1.15. Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of the consideration received over the par value of shares issued is recorded as share premium in equity.

1.16. Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are proposed and approved.

1.17. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with original maturities of three months or less, including cash, loans and advances to banks and items in the course of collection from other banks.

2. Critical accounting estimates and judgments

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based on amounts which differ from those estimates. Estimates, judgments and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Following banking reforms made by the Independent Commission on Banking, the Crown Dependencies fall outside the "Ring-Fence" as a result the Company will be outside the "Ring-Fence". In Implementing the requirements of being outside the "Ring-Fence", due by 1 January 2019, the Company will need to make significant judgments which will have an impact on future position and results.

Notes to the financial statements (continued)
For the year ended 31 December 2015

1. Accounting policies (continued)

2. Critical accounting estimates and judgments (continued)

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Company's financial results and position, are as follows:

2.1. Impairment of loans and advances to customers
The Company regularly reviews its loan portfolios to assess both collective and specific impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgments concerning whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Such observable data includes whether there has been an adverse change in the payment status of borrowers as well as economic conditions that correlate with defaults on assets in the Company. The Company uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows.

The methodology used to calculate the required provision varies according to the type of lending portfolio. For portfolios of smaller balance homogenous loans, such as residential mortgages, personal loans and credit card balances, specific provisions are calculated using formulae which take into account factors such as the length of time that the customer's account has been delinquent, historic loss rates and the value of any collateral held. The variables used in the formulae are kept under regular review to ensure that as far as possible they reflect the current economic circumstances, although actual experience may differ from that assumed.

For other lending portfolios, provisions are calculated with reference to expected future cash flows including those arising from the realisation of collateral. The determination of these provisions often requires the exercise of considerable judgment by management involving matters such as future economic conditions and the resulting trading performance of the customer and the value of collateral, for which there may not be a readily accessible market. As a result these provisions can be subject to significant variation as time progresses and the circumstances of the customer become clearer.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 12 for analysis of loan book and impairment provisions.

2.2. Fair value of financial instruments
In accordance with IFRS 13, the Company categorises financial instruments, including derivatives, 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 unadjusted in active markets and, therefore, there is minimal judgment applied in determining fair value. However, the fair value of financial instruments categorised as level 2, the inputs are observable and, in particular, level 3 inputs are unobservable and determined using valuation techniques including discounted cash flow analysis and valuation models. These require management judgment and contain significant estimation uncertainty. In particular, significant judgment is required by management in determining appropriate assumptions to be used for level 3 financial instruments.

Refer to note 29.2 for details of valuation categorisation.

2.3. Retirement benefit obligations/assets
The value of the Company's defined benefit pension schemes liabilities requires significant management judgment in determining the appropriate assumptions to be used. The key areas of estimation uncertainty are the discount rate applied to future cash flows and the expected lifetime of the schemes members. The size of the deficit or surplus is sensitive to changes in the discount rate, which is affected by market conditions and, therefore, potentially subject to

Notes to the financial statements (continued)

For the year ended 31 December 2015

1. Accounting policies (continued)

2. Critical accounting estimates and judgments (continued)

2.4. Retirement benefit obligations/assets (continued)

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 upon recent experience, however given the rate of advance in medical science and increasing levels of obesity, it is uncertain whether they will ultimately reflect actual experience.

Assumptions used by management reflect recent longevity experience and extrapolation of the improving trend.

The effect on the gross defined benefit pension scheme asset or liability and on the pension charge in the Company's statement of comprehensive income of changes to the principal actuarial assumptions are set out in note 21.

3. Net interest income

	2015	2014
	£000	£000
Interest and similar income:		
Loans and advances to customers	**42,656**	40,837
Loans and advances to fellow group companies	**144,941**	157,168
	187,597	198,005
Interest and similar expenses:		
Customer accounts	**(78,879)**	(110,150)
Payable to fellow group companies	**(1,286)**	(1,041)
	(80,165)	(111,191)
	107,432	86,814

4. Fee and commission income

	2015	2014
	£000	£000
Current account fees	**5,156**	5,577
Insurance broking commission	**297**	248
Card services	**3,935**	4,427
Structured deposit fee income	**-**	300
Asset management and related fees	**6,411**	8,346
Credit related fees and commissions	**1,081**	1,202
Other fees and commissions	**3,598**	4,309
	20,478	24,409

Included in fee and commission income in the "other fees and commissions" caption are fees receivable of £682,000 (2014: £805,000) receivable from fellow group companies. The structured deposit fee income is also receivable from fellow group companies.

5. Fee and commission expense

	2015	2014
	£000	£000
Dealer commissions	**(663)**	(607)
Other	**(128)**	(26)
	(791)	(633)

Notes to the financial statements (continued)
For the year ended 31 December 2015

6. Net trading income

	2015 £000	2014 £000
Profit on foreign exchange transactions	**20,013**	20,325

7. Other operating income

	2015 £000	2014 £000
Rents receivable	**213**	184
Other income	**16**	135
	229	319

8. Operating expenses

	2015 £000	2014 £000
Salaries	**(36,177)**	(35,239)
Social security contributions	**(2,950)**	(2,831)
Pensions	**(3,950)**	2,980
Other staff costs	**(3,887)**	(4,118)
Total staff costs	**(46,964)**	(39,208)
Depreciation	**(5,543)**	(5,543)
Operating lease rentals	**(4,106)**	(3,500)
Communications and data processing	**(5,579)**	(2,871)
Professional fees	**(1,390)**	(1,545)
(Profit)/loss on sale of premises	**(11)**	560
Premises and equipment costs	**(4,805)**	(4,648)
Group recharges	**(2,793)**	264
Operational losses and customer remediation costs	**(12,703)**	(4,796)
Other	**(3,207)**	(3,866)
	(87,101)	(65,153)

Operating expenses include costs of £2,793,000 paid to (2014 : £264,000 received from) fellow group companies.

9. Impairment losses on loans and advances and other credit risk provisions

	2015 £000	2014 £000
Charge to the income statement specific provision	**(24,484)**	(17,050)
Release to income statement collective provision	**28**	441
	(24,456)	(16,609)

10. Income tax expense

The Company is subject to Jersey income tax at 10%. The Company's profits arising in the Isle of Man are subject to tax at 10%. The Company's profits arising in Guernsey are subject to tax at 10% or 20% depending on the stream of income.

	2015	2014
	£000	£000
Analysis of (charge)/credit in the year:		
Jersey income tax (charge)/credit at 10%	**-**	-
Jersey deferred taxation (charge)/credit	**(3,531)**	(3,448)
Adjustments in respect of prior years for Jersey	**(14)**	420
Adjustments in respect of prior years for Guernsey	**-**	(138)
Adjustments in respect of prior years for Isle of Man	**-**	-
Income tax expense	**(3,545)**	(3,166)

	2015	2014
Factors affecting the tax (charge)/credit for the year		
Profit/(loss) on ordinary activities before tax	**36,044**	49,472
Tax charge at standard rate of income tax applicable to the Company		
Tax rate effective in other jurisdictions		
Tax charge at the applicable tax rate of 10%	**(3,604)**	(4,947)
Adjusted for:		
Utilisation of prior year losses	**3,531**	3,448
Capital allowances in excess of depreciation	**(122)**	(50)
Profit on disposal of fixed assets	**-**	56
Loss on disposal of subsidiary	**(32)**	-
Dividend received from subsidiary	**56**	-
Additional allowances given in the year (pension)	**284**	1,608
Disallowable expenses	**(113)**	(115)
	-	-

11. Loans and advances to banks

	2015	2014
	£000	£000
Included in cash and cash equivalents (note 30.1)	**6,383,956**	7,092,782
Loans and advances to banks	**6,324,110**	6,715,801
Total loans and advances to banks	**12,708,066**	13,808,583

Included in the amounts above are £12,700,000,000 (2014: £13,800,000,000) of deposits with fellow group banks.

There is no impairment of loans and advances to banks.

Notes to the financial statements (continued)

For the year ended 31 December 2015

12. Loans and advances to customers

	2015 £000	2014 £000
Loans and advances to customers	**1,336,341**	1,238,951
Allowance for impairment losses	**(48,591)**	(69,759)
Net loans and advances to customers	**1,287,750**	1,169,192

Included in the amounts above are amounts due from fellow group companies of £67,000 (2014: £871,000). There have been no impairments to amounts due from fellow group companies during the period (2014: £Nil).

Allowance for impairment losses on loans and advances to customers

	2015 £000	2014 £000
Specific provision		
At 1 January	**(68,805)**	(74,037)
Advances written off	**41,838**	19,693
Charge for the year	**(24,483)**	(17,051)
Exchange movements	**3,785**	2,590
At 31 December	**(47,665)**	(68,805)
Collective provision		
At 1 January	**(954)**	(1,396)
Release for the year	**28**	442
At 31 December	**(926)**	(954)
Allowance for impairment losses	**(48,591)**	(69,759)

All impairment allowances are in respect of loans and advances to customers.

13. Core deposit intangible

	Total £000
Cost:	
At 1 January 2014	14,500
Additions	-
At 31 December 2014	14,500
Additions	-
At 31 December 2015	**14,500**
Accumulated amortisation:	
At 1 January 2014	(8,700)
Amortisation charge	(2,900)
At 31 December 2015	(11,600)
Amortisation charge	(2,900)
At 31 December 2015	**(14,500)**
Net book value at 31 December 2015	**-**
Net book value at 31 December 2014	2,900

In 2010 the Company acquired certain customer assets and liabilities from Bank of Scotland plc for a consideration of £14,500,000 (the "Premium") above the carrying value of those assets and liabilities. The core deposit intangible represents that Premium. The core deposit intangible is being amortised over 5 year on a straight-line basis and is fully amortised as at 31 December 2015.

Notes to the financial statements (continued)

For the year ended 31 December 2015

14. Tangible fixed assets

	Premises £000	Equipment £000	Total £000
Cost:			
At 1 January 2014	24,730	49,393	74,123
Additions	961	869	1,830
Disposals	(1,157)	(382)	(1,539)
Write off	-	(39)	(39)
At 31 December 2014	**24,534**	**49,841**	**74,375**
Additions	**679**	**1,268**	**1,947**
Disposals	**-**	**(74)**	**(74)**
Write off	**-**	**(14)**	**(14)**
At 31 December 2015	**25,213**	**51,021**	**76,234**
Accumulated depreciation and impairment:			
At 1 January 2014	14,880	27,140	42,020
Depreciation charge	1,097	4,446	5,543
Disposals	(589)	(382)	(971)
At 31 December 2014	**15,388**	**31,204**	**46,592**
Depreciation charge	**1,127**	**4,416**	**5,543**
Disposals	**-**	**(63)**	**(63)**
Write off	**-**	**(14)**	**(14)**
At 31 December 2015	**16,515**	**35,543**	**52,058**
Net book value at 31 December 2015	**8,698**	**15,478**	**24,176**
Net book value at 31 December 2014	9,146	18,637	27,783

15. Investment in subsidiary undertakings

On 30 December 2015 the Company dissolved Lloyds Offshore Private Clients Limited ('OPCL') which had a carrying amount of £1,510,000. OPCL was incorporated in Jersey providing investment management and other financial services. Prior to dissolution OPCL paid a dividend of £557,000. There was a loss on dissolution of £316,000. The Company also owns 100% of the issued share capital of Nominees (Jersey) Limited of £121 a company incorporated and with a place on business Jersey providing nominee services, as at years ended 31 December 2014 and 31 December 2013. There is no impairment of the investments in subsidiary undertakings.

16. Deferred tax asset

	2015 **£000**	2014 £000
Opening balance	**6,951**	10,276
Adjustments in respect of under/(over) provision of prior year taxation	**-**	123
Other movements	**(69)**	-
Losses utilised	**(3,531)**	(3,448)
Tax allowable losses carried forward	**3,351**	6,951

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. After reviews of medium term profit forecasts, the Directors consider that there will be sufficient profits in the future against which these losses will be offset.

Notes to the financial statements (continued)

For the year ended 31 December 2015

17. Other assets

	2015 £000	2014 £000
Prepayments	**6,064**	4,367
Accrued fee income	**1,707**	1,912
Other assets	**3,900**	860
	11,671	7,139

18. Deposits from banks

	2015 £000	2014 £000
Interest bearing	**314,064**	140,366
Items in course of transmission to banks	**40,407**	10,888
Total deposits from banks	**354,471**	151,254

Included in the amounts above are £259,253,000 (2014: £86,099,000) due to fellow group banks.

19. Customer deposits

	2015 £000	2014 £000
Non-interest bearing current accounts	**408,933**	273,728
Interest bearing current accounts	**4,435,695**	5,437,537
Savings and investment accounts	**2,780,613**	1,974,731
Other customer deposits	**5,157,752**	6,224,596
Total customer deposits	**12,782,992**	13,910,592

Included in the amounts above are £58,157,000 (2014: £380,771,000) due to fellow group companies.

20. Derivative financial instruments

The principal derivatives used by the Company are exchange rate related contracts and equity linked options which are embedded as part of particular customer deposits with an equity linked return. Particular attention is paid to the liquidity of the markets and products in which the Company trades to ensure that there are no undue concentrations of activity and risk.

Exchange rate related contracts include forward foreign exchange contracts only. 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.

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. They include embedded derivatives as matching deposits that are placed by the Company with its parent include equity contracts.

The Company does not take market risk in derivatives and therefore offsets their customer requirements for derivatives with Lloyds Bank plc. As a result the market risk is transferred to Lloyds Bank plc.

	Contract/notional amount £000	Fair value Assets £000	Liabilities £000
31 December 2015			
Trading			
Forward foreign exchange contracts	49,371	2,450	(2,450)
Equity linked options	268,099	18,955	(18,955)
Total derivative assets/(liabilities) held for trading	**317,470**	**21,405**	**(21,405)**
31 December 2014			
Trading			
Forward foreign exchange contracts	131,511	314	(314)
Equity linked options	334,711	39,926	(39,926)
Total derivative assets/(liabilities) held for trading	466,221	40,240	(40,240)

Included in the amounts reported above are amounts due to fellow group companies of £8,291,000 (2014: £8,510,000) and due from fellow group companies of £13,114,851 (2014: £39,926,000).

21. Retirement benefit obligations

The Company participates in a number of pension schemes operated by the Group. These are all umbrella schemes which have a combination of defined benefit and defined contribution elements. In respect of the Lloyds Group Pension Schemes No's 1 and 2 (the "Lloyds 1 and 2 Schemes"), the Company has no liability to the defined benefit section of the scheme and these are, therefore, accounted for wholly as a defined contribution plan and as a result no further disclosure is made.

In addition, the Company is an employer in the Lloyds Bank Offshore Pension Scheme ("the Scheme").

Notes to the financial statements (continued)

For the year ended 31 December 2015

21. Retirement benefit obligation (continued)

The information set out below provides information of both the pension charge for the year and the value of the Scheme assets and liabilities and the resultant movement in the Scheme deficit.

The defined benefit element of the Scheme was closed to new members in 2002 and therefore the age profile of the active members is increasing and hence under the projected credit unit method, the current service cost will increase as the members of the Scheme approach retirement.

Full actuarial valuations of the Scheme are carried out every three years with interim reviews at each balance sheet date. The last full valuation of the Scheme was completed in 2012 and has been updated to 31 December 2015 by independent qualified actuaries Willis Towers Watson Limited. The full actuarial valuation of the scheme as at 31 December 2012 has been approved in 2015.

21.1. Funded status	**2015**	2014
	£m	£m
Present value of defined benefit obligation	**(273.6)**	(274.1)
Assets at fair value	**278.9**	290.8
Funded status	**5.3**	16.7

21.2. Reconciliation of defined benefit asset/(liability)	**2015**	2014
	£m	£m
Defined benefit liability at 1 January	**16.7**	(2.3)
Service cost	**(10.9)**	5.0
Net interest on defined benefit liability	**0.8**	0.6
Remeasurement effects recognised in OCI	**(15.6)**	(6.6)
Employer contributions actually paid	**8.9**	20.8
Past service costs- curtailments	**6.4**	-
Administration costs incurred during the period	**(1.0)**	(0.8)
Defined benefit asset/(liability) at 31 December	**5.3**	16.7

21.3. Present value of defined benefit obligation	**2015**	2014	2013	2012
	£m	£m	£m	£m
Present value of defined benefit obligation at 1 January	**(274.1)**	(242.3)	(239.4)	(206.7)
Current service cost	**(3.6)**	(3.2)	(3.5)	(3.2)
Interest cost	**(10.0)**	(10.7)	(10.9)	(10.2)
Remeasurement:				
Experience gain/(loss)	**1.4**	-	16.0	(6.6)
Loss from change in demographic assumptions	**(0.8)**	-	-	(0.4)
Loss from change in financial assumptions	**8.5**	(34.7)	(10.4)	(14.3)
Actual benefit payments	**12.3**	8.6	6.6	2.1
Past service cost – plan amendments	**(0.9)**	(1.2)	(0.7)	(0.1)
Past service cost – curtailments	**(6.4)**	9.4	-	-
Present value of defined benefit obligation at 31 December	**(273.6)**	(274.1)	(242.3)	(239.4)

Notes to the financial statements (continued)

For the year ended 31 December 2015

21. Retirement benefit obligations (continued)

21.4. Fair value of assets	**2015**	2014	2013	2012
	£m	£m	£m	£m
Fair value of scheme assets at 1 January	**290.8**	240.0	206.1	179.6
Interest income on plan assets	**10.8**	11.3	9.8	9.4
Return on plan assets greater than discount rate	**-**	28.1		
	(18.3)		11.1	(0.5)
Employer contributions	**8.9**	20.8	19.9	20.0
Benefits paid from fund	**(12.3)**	(8.6)	(6.6)	(2.1)
Administrative costs paid	**(1.0)**	(0.8)	(0.3)	(0.3)
Fair value of scheme assets at 31 December	**278.9**	290.8	240.0	206.1

21.5. Allocation of fair value of assets	**2015**	2014
	%	%
Equities	**40**	39
Bonds	**58**	59
Property	**2**	2
Total	**100**	100

21.6. Actuarial assumptions	**2015**	2014
	%	%
Discount rate	**3.9**	3.7
RPI inflation	**3.0**	3.0
CPI inflation	**2.0**	2.0
Rate of salary increase	**-**	-

21.7. Expected contributions and benefit payments		**Year commencing**
	1 Jan 2016	1 Jan 2015
	£m	£m
Current service cost	**(2.9)**	(3.6)
Net interest on net defined benefit liability	**-**	0.9
Administration cost incurred during the period	**(1.1)**	(0.8)
Total pension expense	**(4.0)**	(3.5)

21. Retirement benefit obligations (continued)

21.8. Sensitivity analysis

The effect of reasonably possible changes in key assumptions on the value of scheme liabilities and the resulting change on the Company's net defined benefit pension scheme liability is set out below. The sensitivities provided assume that all other assumptions and the value of the schemes assets remain unchanged, and are not intended to represent changes that are at the extremes of possibility. The calculations are approximate in nature and full detailed calculations could lead to a different result. It is unlikely that isolated changes to individual assumptions will be experienced in practice. Due to correlation of assumptions, aggregating the effects of these isolated changes may not be a reasonable estimate of the actual effect of changes in multiple assumptions.

21.8.1 Discount rate

An increase of 0.2% per annum in the discount rate would decrease the combined defined benefit obligation by approximately 3-4% (2014: 3-4%).

21.8.2 Retail Price Index (RPI)

An increase of 0.2% per annum in the RPI assumption would increase the combined defined benefit obligation by approximately 2-3% (2014: 3%).

21.9. Risk exposure of defined benefit schemes

Whilst the Company is not exposed to any unusual, entity specific or scheme specific risks in its defined benefit pension schemes, it is exposed to a number of significant risks, detailed below.

Inflation rate risk: The majority of the plan's benefit obligations are linked to inflation both in deferment and once in payment. Higher inflation will lead to higher liabilities although this will be partially offset by holdings of inflation-linked gilts, and in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation.

Interest rate risk: The defined benefit obligation is determined using a discount rate derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities although this will partially be offset by an increase in the value of bond holdings.

Longevity risk: The majority of the scheme obligations are to provide benefits for the life of the members so increases in life expectancy will result in an increase in the plan liabilities.

Investment risk: Scheme assets are invested in a diversified portfolio of debt securities, equities and other return-seeking assets. If the assets underperform the discount rate used to calculate the defined benefit obligation, it will reduce the surplus or increase the deficit.

Notes to the financial statements (continued)

For the year ended 31 December 2015

22. Other liabilities

	2015	2014
	£000	£000
Accruals	5,381	8,267
Customer remediation	12,221	832
Other liabilities	5,723	6,766
	23,325	15,865

Included within customer remediation are provision amounts in respect of Payment Protection Insurance ("PPI") compensation claims and other customer claims.

23. Share capital

	2015	2014
	£000	£000
Authorised		
1,000,000,000 ordinary shares of £1 each	1,000,000	1,000,000
Issued and fully paid		
Ordinary shares of £1 each	536,852	536,852

24. Share premium account

	2015	2014
	£000	£000
Share premium	14,985	14,985

25. Share based payments

During the year ended 31 December 2015, the Company's ultimate parent company operated a number of share based payments schemes in which employees of the Company participated. The Company contribution to these schemes is based on a percentage of salary paid to employees. There have been no changes to the schemes in the year that affect employees of the Company.

Full details of the schemes operated can be found in the 2015 annual report and accounts of the Company's ultimate parent company, as set out in note 27.

26. Related party transactions

The key management personnel of the Company are deemed to be the Directors. Related party transactions not disclosed elsewhere in the notes to the financial statements are set out below:

Key management compensation

	2015	2014
	£000	£000
Salaries and other short term benefits	1,299	1,226
Post-employment benefits	183	196
Share based payment	402	251
	1,884	1,673

Notes to the financial statements (continued)

For the year ended 31 December 2015

26. Related party transactions (continued)

Key management compensation includes the compensation of all directors paid directly by the Company and an imputed management recharge to the Company for the services of certain directors in relation to the Company even though there is no intention to recharge those costs.

Other transactions with key management

	2015	2014
	£000	£000
Loans		
At 1 January	**1,958**	2,066
Advanced during the year	**-**	104
Interest charged during the year	**16**	16
Repayments during the year	**(169)**	(228)
At 31 December	**1,805**	1,958
Deposits		
At 1 January	**822**	381
Deposited during the year	**2,915**	5,805
Interest paid on deposits	**2**	1
Withdrawn during the year	**(3,418)**	(5,365)
At 31 December	**321**	822

Amounts advanced and deposited include the balances with directors appointed during the year at the date of appointment. Amounts repaid and withdrawn include the balances with directors resigning during the year at the date of resignation. No provisions for impairments of loans and advances to key management are held (2014: £Nil).

Transactions with fellow group companies, which all form part of Lloyds Banking Group plc, are disclosed in notes 3, 4, 8, and 21. Balances with fellow group companies are disclosed in notes 11, 12, 18, 19, 20 and 21.

27. Ultimate parent undertaking

The immediate parent undertaking is Lloyds Holdings (Jersey) Limited.

The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements is Lloyds Bank plc. Copies of the consolidated annual report and accounts of Lloyds Bank plc may be obtained from Lloyds Bank plc head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and accounts of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

28. Contingent liabilities and commitments

28.1. Legal proceedings

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 2015. 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 22.

28. Contingent liabilities and commitments (continued)

28.1. Legal proceedings (continued)

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.

28.2. Contingent liabilities and commitments arising from the banking business

Customer guarantees include standby letters of credit, bonds and other transaction related contingencies issued on behalf of customers, where the Company has an irrevocable obligation to pay a third party beneficiary if the customer fails to pay an outstanding commitment.

The table below shows the Company's maximum exposure to loss represented by the contractual nominal amount as at the balance sheet date. Consideration has not been taken of any possible recoveries from customers in respect of such guarantee under recourse provisions or from collateral held. It is not practicable to quantify any future financial effect.

Contingent liabilities	**2015**	2014
	£000	£000
Customer guarantees	**121,438**	113,723

Commitments	**2015**	2014
	£000	£000
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Not later than 1 year	**119,610**	77,997

Commitments in respect of forward foreign exchange contracts are disclosed in note 20.

28.3. Operating lease commitments

The future minimum lease payments under non-cancellable premises and equipment operating leases are as follows:

	2015	2014
	£000	£000
Not later than 1 year	**3,284**	3,417
Later than 1 year and not later than 5 years	**11,885**	12,828
Later than 5 years	**15,509**	17,850
	30,678	34,095

The future minimum lease receipts under non-cancellable operating leases are as follows:

	2015	2014
	£000	£000
Not later than 1 year	**72**	127
Later than 1 year and not later than 5 years	**111**	161
Later than 5 years	**28**	51
	211	339

Operating lease payments represent rental payable by the Company for certain of its properties. Some of these operating lease arrangements have renewal options and rent escalation clauses although the effect of these is not material. No arrangements have been entered into for contingent rental payments.
There are no other restrictions imposed by leases that require disclosure in these financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2015

29. Financial risk management

The Company uses financial instruments (including derivatives) to meet the financial needs of its customers, and to reduce its own exposure risk. The Company accepts deposits from and makes loans to commercial and retail customers at both fixed and floating rates and for various periods. Such exposures to customers involve both on-balance sheet loans and advances and guarantees and other commitments such as letters of credit and irrevocable commitments. The Company does not enter into the trading of financial instruments.

The primary risks affecting the Company through its use of financial instruments are: credit risk, interest rate risk, market risk, foreign exchange risk and liquidity risk.

The Board of Directors is responsible for identifying measuring, monitoring and controlling the risks. The Directors and management of the Company, as the primary risk managers, are responsible for establishing proper control frameworks to ensure that the Company's business is conducted effectively but prudently. They are responsible for ensuring that the risks within their business are identified, assessed, monitored, controlled and reported to the board.

Notes to the financial statements (continued)

For the year ended 31 December 2015

29. Financial risk management (continued)

29.1. Classification of financial assets and liabilities

The following table analyses the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

	Financial assets at amortised cost	Fair value through profit or loss	Financial liabilities at amortised cost	Total
	£000	**£000**	**£000**	**£000**
As at 31 December 2015				
Financial assets				
Cash balances	**12,462**	**-**	**-**	**12,462**
Items in the course of collection from banks	**3,190**	**-**	**-**	**3,190**
Derivative financial instruments	**-**	**21,405**	**-**	**21,405**
Loans and receivables:				
Loans and advances to banks	**12,708,066**	**-**	**-**	**12,708,066**
Loans and advances to customers	**1,287,750**	**-**	**-**	**1,287,750**
	13,995,816	**-**	**-**	**13,995,816**
	14,011,468	**21,405**	**-**	**14,032,873**
Financial liabilities				
Deposits from banks	**-**	**-**	**314,064**	**314,064**
Items in the course of collection from banks	**-**	**-**	**40,407**	**40,407**
Customer accounts	**-**	**-**	**12,782,992**	**12,782,992**
Derivative financial instruments	**-**	**21,405**	**-**	**21,405**
	-	**21,405**	**13,137,463**	**13,158,868**
	£000	£000	£000	£000
As at 31 December 2014				
Financial assets				
Cash balances	10,740	-	-	10,740
Items in the course of collection from banks	1,991	-	-	1,991
Derivative financial instruments	-	40,240	-	40,240
Loans and receivables:				
Loans and advances to banks	13,808,583	-	-	13,808,583
Loans and advances to customers	1,169,192	-	-	1,169,192
	14,977,775	-	-	14,997,775
	14,990,506	40,240	-	15,030,746
Financial liabilities				
Deposits from banks	-	-	140,366	140,366
Items in the course of collection from banks	-	-	10,888	10,888
Customer accounts	-	-	13,910,592	13,910,592
Derivative financial instruments	-	40,240	-	40,240
	-	40,240	14,061,846	14,102,086

Notes to the financial statements (continued)

For the year ended 31 December 2015

29. Financial risk management (continued)

29.2. Fair values of financial assets and liabilities

	Carrying value 2015 £000	Carrying value 2014 £000	**Fair value 2015 £000**	Fair value 2014 £000
Financial assets				
Derivative financial instruments	**21,405**	40,240	**21,405**	40,240
Loans and receivables:				
Loans and advances to banks	**12,708,066**	13,808,583	**12,712,963**	13,818,263
Loans and advances to customers	**1,287,750**	1,169,192	**1,292,109**	1,173,554
	13,995,816	14,997,775	**14,005,072**	14,991,817
	14,017,221	15,038,015	**14,026,477**	15,032,057
Financial liabilities				
Deposits from banks	**314,064**	140,366	**318,423**	144,728
Customer accounts	**12,782,992**	13,910,592	**12,787,889**	13,920,272
Derivative financial instruments	**21,405**	40,240	**21,405**	40,240
	13,118,460	14,091,198	**13,127,717**	14,105,240

The carrying amount of the following financial instruments is a reasonable approximation of fair value: cash and items in the course of collection from the banks, other assets and other liabilities.

Financial assets and liabilities carried at fair value

Valuation hierarchy

The table below analyses the financial assets and liabilities of the Company which are carried at fair value. They are categorised into levels 1 to 3 based on the degree to which their fair value is observable. The fair value measurement approach is recurring in nature.

Notes to the financial statements (continued)

For the year ended 31 December 2015

29. Financial risk management (continued)

29.2. Fair values of financial assets and liabilities (continued)

	Level 1	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
As at 31 December 2015				
Financial assets				
Derivative financial instruments	-	21,405	-	21,405
	-	**21,405**	-	**21,405**
Financial liabilities				
Derivative financial instruments	-	21,405	-	21,405
	-	**21,405**	-	**21,405**

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
As at 31 December 2014				
Financial assets				
Derivative financial instruments	-	40,240	-	40,240
	-	40,240	-	40,240
Financial liabilities				
Derivative financial instruments	-	40,240	-	40,240
	-	40,240	-	40,240

Valuation classifications

Level 1

Level 1 valuation are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. The Company has no financial instruments classified as level 1.

Level 2

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

Level 3

Level 3 valuations are those where at least one input which could have a significant effect on the instruments valuation, is not based on observable market data and are valued using valuation techniques that require significant management judgement in determining appropriate assumptions. The Company has no financial instruments classified as level 3.

There have been no transfers between valuation classification levels in the year.

29. Financial risk management (continued)

29.2. Fair values of financial assets and liabilities (continued)

Derivative financial instruments
Derivative financial instruments comprise forward foreign exchange contracts and equity linked options disclosed in note 20. The fair values are determined using observable inputs from quoted market prices in active markets, including recent market transactions using valuation techniques including discounted cash flows and option pricing models. These are classified as level 2 investments.

Loans and receivables
The Company provides loans and advances to commercial and personal customers at both fixed and variable rates. The carrying value of the variable rate loans is assumed to be their fair value.

For fixed rate lending the fair value is estimated by discounting the anticipated cash flows, (including interest at contractual rates) at market rates for similar loans offered by the Company. These are classified as level 2 investments.

Other assets
The fair value approximates to their carrying value due to their short term nature.

Deposits from banks and customers
The fair value of deposits repayable on demand or with no stated maturity is considered to be equal to their carrying value. The fair value of all other deposits is estimated using discounted cash flows applying either market rates, where applicable, or current rates of deposits of similar remaining maturities. These are classified as level 2 investments.

Other liabilities
The fair value approximates to their carrying value due to their short term nature.

29.3. Credit risk

Definition
Credit risk is the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the failure of the party with whom has been contracted to meet its obligations (both on and off-balance sheet).

Exposures
The principal sources of credit risk within the Company arise from loans and advances to banks and customers. Credit risk arises both from amounts lent and commitments to extend credit to a customer as required. These commitments can take the form of loans and overdrafts, or credit instruments such as guarantees and standby, documentary and commercial letters of credit.

Credit risk can also arise from debt securities, derivatives and foreign exchange activities. Note 20 to the financial statements shows the total notional principal amount of interest rate, exchange rate, equity and other contracts outstanding at 31 December 2015. The notional principal amount does not, however, represent the Company's credit risk exposure, which is limited to the current cost of replacing contracts with a positive value to the Company.

Measurement
In measuring the credit risk of loans and advances to customers and to banks at a counterparty level, the Company reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and their likely future development, from which the Company derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

29. Financial risk management (continued)

29.3. Credit risk (continued)

The Company assesses the probability of default of individual counterparties using internal rating models tailored to the various categories of counterparty. All rating models are authorised by executive management. They have been developed internally and use statistical analysis, combined, where appropriate, with external data and/or credit officer judgment. Each rating model is subject to a rigorous validation process, undertaken by independent risk teams.

Mitigation

The Company uses a range of approaches to mitigate credit risk in respect of both on and off-balance sheet exposures.

Counterparty limits: Credit risk in bank and corporate portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities. Approval requirements for each decision are based on the transaction amount, the customer's aggregate facilities, credit risk ratings and the nature and term of the risk.

Credit scoring: In its principal retail portfolios, the Company uses statistically-based decision techniques (primarily credit scoring). The risk department reviews scorecard effectiveness and changes are approved by the Credit Committee.

Cross-border and cross-currency exposures: Country limits are authorised and managed by a dedicated unit taking into account economic and political factors.

Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite. Exposures are monitored to prevent excessive concentration of risk. The Company's large exposures are managed in accordance with regulatory requirements.

Specialist units: Credit quality is maintained by specialist units providing, for example, intensive management expertise in documentation for lending, sector-specific expertise and legal services.

Collateral

The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Guarantees received from third parties.

The Company has guidelines on the acceptability of specific classes of collateral.

It is the Company policy that collateral should always be realistically valued by an appropriately qualified source, independent of the customer, at the time of borrowing. Collateral is reviewed on a regular basis and in order to minimise the credit risk, the Company may seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Notes to the financial statements (continued)

For the year ended 31 December 2015

29. Financial risk management (continued)

29.3. Credit risk (continued)

Mortgages

An analysis by loan-to-value ratio of the Company's residential mortgage lending is provided below. The value of collateral used in determining the loan-to-value ratios has been estimated based upon the last actual valuation.

	2015	2014
	£000	£000
Less than 70 per cent	**365,771**	340,841
70 per cent to 80 per cent	**108,183**	95,338
80 per cent to 90 per cent	**159,104**	133,296
90 per cent to 100 per cent	**9,153**	16,544
Greater than 100 per cent	**12,317**	28,661
Total	**654,528**	614,680

Non-mortgage lending

At 31 December 2015, the net non-mortgage lending amounted to £634,138,000 (2014: £554,440,000). In determining the value of collateral, no specific amounts have been attributed to the costs of realisation and the value of collateral for each loan has been limited to the principal amount of the outstanding advance in order to eliminate the effects of any over-collateralisation and to provide a clearer representation of the Company's exposure.

Unsecured lending

No collateral is held in respect of overdrafts, or unsecured personal loans which amounted to £101,410,000 (2014: £71,191,000).

Derivatives

Credit risk exposure on individual derivative transactions is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Monitoring

Credit risk is monitored through:

- Portfolio monitoring and reporting: Portfolio's of credit and related risk exposures are identified and defined by the Company, along with key benchmarks, behaviours and characteristics by which those portfolios are managed in terms of credit risk exposure;

- Risk assurance and oversight: The Credit Risk Committee monitors credit performance trends, review and challenge exceptions to planned outcomes and test the adequacy of credit risk infrastructure and governance processes throughout the Company; and

- Term to maturity: The Company monitors the term to maturity of credit commitments because longer term commitments inherently have a greater degree of credit risk than shorter term commitments.

The maximum credit risk of the Company in the event of other parties failing to perform their obligations is the balance sheet value of assets, the guarantees and commitments off-balance sheet exposure detailed in note 28 and forward foreign exchange contracts detailed in note 20. No account is taken of any collateral held and the maximum exposure to loss is considered to be the balance sheet carrying amount.

Notes to the financial statements (continued)
For the year ended 31 December 2015

29. Financial risk management (continued)

29.3. Credit risk (continued)

Loans and advances	31 December 2015		31 December 2014	
	Loans and advances to customers £000	Loans and advances to banks £000	Loans and advances to customers £000	Loans and advances to banks £000
Good quality	1,110,340	12,708,066	974,249	13,808,583
Lower quality but not impaired	101,979	-	69,898	-
Lower quality impaired	75,431	-	125,045	-
	1,287,750	12,708,066	1,169,192	13,808,583
Neither past due nor impaired	1,170,285	-	1,038,881	-
Past due up to 30 days	704	-	1,194	-
Past due 30-60 days	1,339	-	1,201	-
Past due 60-90 days	568	-	943	-
Past due 90-180 days	3,015	-	1,697	-
Past due over 180 days	10,845	-	1,195	-
Past due but not impaired	16,471	-	6,230	-
Impaired	149,585	-	193,840	-
Gross	1,336,341	12,708,066	1,238,951	13,808,583
Less: allowance for impairment	(48,591)	-	(69,759)	-
Net	1,287,750	12,708,066	1,169,192	13,808,583

Good quality lending comprises lending with the lowest probability of default, lower quality comprises of loans subject to close monitoring or where there is doubt about recoverability.

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

	2015 £000	2014 £000
Good quality	1,110,339	974,249
Special mention	37,321	39,001
Lower quality	22,625	25,631
Total	1,170,285	1,038,881

Good quality lending comprises lending with the lowest probability of default, special mention identifies potential problems which may result in deterioration of repayment prospects, and lower quality reflects progressively higher risk of default.

Loans and advances to customers which are impaired

		2015 £000	2014 £000
Companies	- Property	138,957	134,566
	- Other	4,492	53,114
Personal	- House purchase	5,827	5,706
	- Other	309	454
Total		149,585	193,840

Notes to the financial statements (continued)

For the year ended 31 December 2015

29. Financial risk management (continued)

29.3. Credit risk (continued)

Lending concentration

	31 December 2015		
	Gross loans	**Provisions**	**Loans and advances to customers**
	£000	**£000**	**£000**
Non-personal			
Property companies	**426,417**	**(42,553)**	**383,864**
Other	**211,773**	**(1,349)**	**210,424**
	638,190	**(43,902)**	**594,288**
Personal			
House purchase	**657,908**	**(3,564)**	**654,344**
Other advances	**40,243**	**(1,125)**	**39,118**
	698,151	**(4,689)**	**693,462**
Total loans and advances to customers	**1,336,341**	**(48,591)**	**1,287,750**

	31 December 2014		
	Gross loans	Provisions	Loans and advances to customers
	£000	£000	£000
Non-personal			
Property companies	385,310	(25,389)	359,921
Other	187,775	(40,271)	147,504
	573,085	(65,660)	507,425
Personal			
House purchase	617,781	(3,102)	614,679
Other advances	48,085	(997)	47,088
	665,866	(4,099)	661,767
Total loans and advances to customers	1,238,951	(69,759)	1,169,192

Notes to the financial statements (continued)
For the year ended 31 December 2015

29. Financial risk management (continued)

29.4. Market risk

Definition
Market risk is defined as the risk to earnings, value and/or reserves through financial or reputation loss, arising from unexpected changes in financial prices including interest rates, and exchange rates.

Interest rate risk
Interest rate risk arises primarily from the Company's exposure to interest rate fluctuations whilst offering customer products which are at a fixed interest rate. The Company manages its interest rate risk within strict limits and over the short-term to limit the adverse effect of defined rate movements on the consistency of the Company's net interest income.

Measurement
Interest rate risk is managed by the Company's treasury department, but monitored on a daily basis by the middle office function within the finance department using One-Year Equivalent (OYE).

	2015	2014
	£000	£000
OYE	**200,383**	214,615
OYE limit	**377,000**	390,000

OYE is a measure of interest rate risk. The methodology is to express the portfolio in terms of a one year equivalent position between the assets and liabilities. If the interest rate increases by 1%, the impact on statement of comprehensive income will equate to 1% of the OYE. This is used to estimate the sensitivity of a portfolio to movements in interest rates. The limit is set by the Directors and is aligned with the Company's risk appetite.

29. Financial risk management (continued)

29.4. Market risk (continued)

Interest rate sensitivity gap analysis

The following table summarises the re-pricing mismatches of the Company's financial assets and liabilities at 31 December 2015:

As at 31 December 2015	**Less than 3 months**	**3-12 months**	**1-4 years**	**Over 4 years**	**Non interest bearing**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial assets						
Loans and advances to banks	11,464,211	964,987	231,375	47,493	-	12,708,066
Loans and advances to customers	931,856	35,983	143,855	176,056	-	1,287,750
Other assets	9	12,313	9,084	-	24,610	46,016
	12,396,076	**1,013,283**	**384,314**	**223,549**	**24,610**	**14,041,832**
Financial liabilities						
Deposits from banks and customers	11,497,512	1,000,703	374,566	224,274	-	13,097,055
Other liabilities	9	12,313	9,084	-	63,732	85,138
	11,497,521	**1,013,016**	**383,650**	**224,274**	**63,732**	**13,182,193**
Interest rate re-pricing gap	**898,555**	**267**	**664**	**(725)**	**(39,122)**	**859,639**

As at 31 December 2014	Less than 3 months	3-12 months	1-4 years	Over 4 years	Non interest bearing	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Loans and advances to banks	12,400,276	954,577	360,814	92,916	-	13,808,583
Loans and advances to customers	881,637	34,787	101,113	151,655	-	1,169,192
Other assets	4,329	9,882	18,885	7,144	22,454	62,694
	13,286,242	999,246	480,812	251,715	22,454	15,040,469
Financial liabilities						
Deposits from banks and customers	12,355,882	990,089	460,417	244,570	-	14,050,958
Other liabilities	4,329	9,882	18,885	7,144	26,753	66,993
	12,360,211	999,971	479,302	251,714	26,753	14,117,951
Interest rate re-pricing gap	926,031	(725)	1,510	1	(4,299)	922,518

29. Financial risk management (continued)

29.5. Foreign exchange risk
The Company incurs foreign exchange risk in the course of providing services to their customers. The Company manages its foreign exchange risk within strict limits to limit the adverse effect of defined rate movements on the consistency of the Company's income.

Measurement
Foreign exchange risk is managed by the Company's treasury department, but monitored on a daily basis by the middle office function within the finance department using Open Exchange Positions (OEP). At 31 December 2015 the Company's aggregate net OEP limit, either long or short, was £1,000,000 (2014: £1,000,000). The table below indicates maximum net limits, either long or short, for individual currencies.

	2015	**2015**	2014	2014
	£000	**£000**	£000	£000
	Long/(short)	**Limit**	Long/(short)	Limit
OEP expressed in GBP equivalent				
USD	**60**	**1,000**	204	1,000
EUR	**310**	**1,000**	44	1,000
Other Currencies	**(106)**	**Max £1,000**	(21)	Max 1,000
Total	**264**		227	

The OEP limits above are per currency and the aggregate limit across all currencies is £1,000,000 (2014: £1,000,000).

Monitoring
Market risk is monitored through the Assets and Liabilities Committee ("ALCO") on a monthly basis and the Board of Directors on a quarterly basis. This includes the monitoring of compliance with internal limits which are aligned with the Company's risk appetite.

29.6. Liquidity risk

Definition
Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments when they fall due.

Exposure
Liquidity exposure represents the amount of potential outflows in any future period less committed inflows in that period such that the Company is unable to meet its financial obligations as they fall due, or can secure them only at excessive cost. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of loan capital and borrowings as they mature, the payment of operating expenses and taxation, the ability to fund new and existing loan commitments, and the ability to take advantage of new business opportunities.

Measurement
The Company manages the liquidity profile of the balance sheet through both short term liquidity management and long term strategic funding. Short term liquidity management is considered from two perspectives; business as usual and crisis liquidity, both of which relate to funding in the less than one year time horizon. Longer term funding is used to manage the Company's strategic liquidity profile which is determined by the Company's balance sheet structure, and decided by the Company. Longer term is defined as an original maturity of more than one year.

The table below analyses financial liabilities of the Company, on an undiscounted future cash flows basis according to contractual maturity into relevant maturity groupings based on the remaining period at the balance sheet date.

Notes to the financial statements (continued)

For the year ended 31 December 2015

29. Financial risk management (continued)

29.6. Liquidity risk (continued)

As at 31 December 2015	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Financial liabilities						
Deposits from banks and customers	10,756,299	1,110,894	975,991	243,806	10,065	13,097,055
Derivative financial instruments	8	91	12,222	9,084	-	21,405
Other liabilities	63,733	-	-	-	-	63,733
	10,820,040	**1,110,985**	**988,213**	**252,890**	**10,065**	**13,182,193**

As at 31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Deposits from banks and customers	12,117,578	503,577	966,423	420,450	42,930	14,050,958
Derivative financial instruments	32	4,298	9,882	26,068	-	40,280
Other liabilities	26,713	-	-	-	-	26,713
	12,144,323	507,875	976,305	446,518	42,930	14,117,951

Geographical analysis of deposits from banks and customers

	2015	2014
	£000	£000
Jersey, Guernsey, and Isle of Man	**4,933,297**	4,593,086
UK	**4,152,230**	5,153,634
Other EU	**599,608**	664,211
European non-EU	**368,248**	383,663
Middle East	**580,339**	611,541
Far East	**483,734**	522,025
North America	**631,157**	698,322
Other	**1,350,692**	1,424,476
Total	**13,099,305**	14,050,958

Mitigation

A significant part of the liquidity of the Company's banking businesses arises from its ability to generate customer deposits. A substantial proportion of the customer deposit base is made up of current and savings accounts which, although repayable on demand, have traditionally in aggregate provided a stable source of funding.

29. Financial risk management (continued)

29.6. Liquidity risk (continued)

Monitoring
Liquidity is monitored at the end of day and reported to senior management and to Group on a daily basis. Liquidity is also monitored on a monthly basis by ALCO and on a quarterly basis by the Board of Directors.

Off-balance sheet items
Loan commitments
The dates of the contractual amounts of the Company's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are disclosed in note 28.

29.7. Capital management

Definition
Capital risk is defined as the risk that the Company has insufficient capital to provide a stable resource to absorb any losses or that the capital structure is inefficient.

Exposure
Capital exposure arises should the Company have insufficient capital resources to support its strategic objectives and plans, and meet external stakeholder requirements and expectations. Capital is considered from an internal, regulatory and rating agency perspective.

Measurement
For the banking businesses the international standard for measuring capital adequacy is the risk asset ratio, which relates regulatory capital to balance sheet assets and off-balance sheet exposures weighted according to broad categories of risk as defined by the Basel II framework.

The Company's capital comprises entirely of equity, movements in which appear in the statement of changes in equity on page 10. The Company receives its funding requirements from its parent and does not raise funding externally.

The Company is in compliance with the minimum requirements of the Jersey Financial Services Commission. The Basel II Ratio at 31 December 2015 was 14.6% (2014: 15.0%).

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

29.8. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2015

29. Financial risk management (continued)

29.9. 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 risk 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 group audit department of Lloyds Banking Group, within group wide standards of control.

30. Notes to the statement of cash flows		**2015**	2014
		£000	£000
Reconciliation of profit to net cash flow from operating activities			
Profit before tax		**36,045**	49,472
Adjustments for non operating items included in operating profit			
Dividend from subsidiary		**316**	-
Loss on dissolution of subsidiary		**(557)**	-
Operating profit before tax		**35,804**	49,472
Adjustments for non cash items included in profit			
Profit on disposal of fixed assets	(Note 14)	**-**	(560)
Loss on disposal of fixed assets	(Note 14)	**11**	17
Depreciation of fixed assets	(Note 14)	**5,543**	5,543
Amortisation of intangible assets	(Note 13)	**2,900**	2,900
Adjustments for net cash movements in balance sheet			
Movement in loans and advances to banks		**391,691**	(1,259,401)
Movement in loans and advances to customers		**(118,558)**	8,252
Movement in derivative assets		**18,835**	44,930
Movement in deferred tax assets		**-**	288
Movement in other assets		**(4,532)**	942
Movement in deposits from banks		**203,215**	89,790
Movement in customer accounts		**(1,127,600)**	340,988
Movement in derivative liabilities		**(18,835)**	(44,930)
Movement in other liabilities		**7,460**	1,451
Tax receipt		**-**	955
Movement in retirement benefit obligations		**-**	(2,300)
Movement in retirement benefit asset		**11,400**	(16,700)
Other non cash movements	(Note 21.2)	**(15,542)**	(6,600)
Total adjustments for non cash items		**(644,012)**	(834,435)
Net cash used by operating activities		**(608,208)**	(784,963)

Notes to the financial statements (continued)

For the year ended 31 December 2015

30. Notes to the statement of cash flows (continued)

30.1 Analysis of cash as shown in the balance sheet	2015 £000	2014 £000
Cash balances	**12,462**	10,740
Items in the course of collection from banks	**3,190**	1,991
Loans and advances to banks included within cash and cash equivalents (note 11)	**6,383,956**	7,092,782
Total cash and cash equivalents	**6,399,608**	7,105,513

31. Post balance sheet events

There are no material post balance sheet events.

Notes to the financial statements (continued)

For the year ended 31 December 2015

32. Future accounting developments

The following pronouncements are not applicable for the year ended 31 December 2015 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments*[1]	IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the Company. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. This change is likely to result in an increase in the Group's balance sheet provisions for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the Group's lending portfolios and forecast economic conditions at the date of implementation. In February 2015, the Basel Committee on Banking Supervision published a consultative document outlining supervisory expectations regarding sound credit risk practices associated with implementing and applying an expected credit loss accounting framework. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The revised requirements are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018.
IFRS 15 *Revenue from Contracts with Customers*[1]	IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018.

[1] As at the balance sheet date, these pronouncements are awaiting EU endorsement.