

COMMERCIAL BANKING

OPERATING
CONDITIONS
PART III

Last updated July 2018



LLOYDS BANK

Provisions relating to invoice discounting clients only

1. Agency appointment

- 1.1 We appoint you as our agent, at your expense, to administer Customers' accounts and to collect and enforce payment of Invoices for our benefit. You accept such appointment and agree to act promptly and efficiently in carrying out your duties and to follow any instructions which we may give you. You will ensure that all Invoices are promptly and accurately entered in your sales ledger. You will instruct your bankers to transfer to the Trust Account all credit transfers received by you. You will not instruct a solicitor or other agent to collect any Invoice without our prior written approval and, then, only on terms approved by us.
- 1.2 You will open a Trust Account in respect of each Invoice Discounting, Currency and/or Export Facility made available by us to you. All balances in the Trust Account are held on trust for us and you will give notice to the bank holding the Trust Account of such trust. Until we serve notice on you to the contrary, you will direct your Customers to settle their Invoices by making payment directly into that account. If you receive payment (even if it is made payable to us) you will immediately upon receipt pay it into the Trust Account. Alternatively, if we require, you will deliver to us or pay into such bank account as we may nominate all cash or other remittances endorsing the same where necessary. You will keep any payment received by you (other than pursuant to a Scottish Invoice) as our agent, pending payment into the Trust Account or to any other account nominated by us, separate from your own money. Any payment received by you in respect of a Scottish Invoice shall be trust property in accordance with Clause 3.4 of the Agreement and you shall hold such payment separate from your own money pending payment into the Trust Account or to any other account nominated by us.
- 1.3 Where we have agreed that this Agreement is disclosed, then you will include the wording which we will provide to you on each Invoice.
- 1.4 Where we have agreed that this Agreement is undisclosed, then, for the moment, neither you nor we will give notice to your Customers of the fact that you have assigned your Invoices to us. However, we may at any time vary or terminate your agency to collect either some or all of your Invoices. We may:
 - 1.4.1 give (or require you to give) notice to some or all of your Customers of the Assignment of their Invoices and the Related Rights to us;

- 1.4.2 either simultaneously with giving such notice or at a later date, instruct your Customers to pay us directly;
- 1.4.3 require you to send us a copy of your sales and purchase ledgers and such other records as we may require;
- 1.4.4 require you to forward all Invoices to us for issuing by us and we will, at your expense, administer Customers' accounts.

You will confirm to your Customers the effect of any notice served on them and if your agency to collect Invoices has been terminated you will cease to hold yourself out as our agent to collect Invoices. The provisions of condition 5 (Collection of Invoices) of the Operating Conditions – Part II) shall then apply.

- 1.5 You will pay those costs specified in the Commercial Terms for maintaining the Trust Account.
- 1.6 You hereby authorise us or any person or entity nominated by us or otherwise acting on our behalf to contact your Customers to verify the amount of each Invoice due from them and the due date for payment. You will assist us or our nominee in any way we require and you authorise us and them to disclose their identity if required to do so by law or if requested by a Customer. Any nominee will act on your behalf and will report the results of its investigations to us. Notwithstanding any audit of your sales ledger by us or our nominee you are wholly responsible for:
 - 1.6.1 maintaining proper accounting records as required by law;
 - 1.6.2 complying with your obligations under this Agreement; and
 - 1.6.3 complying with your obligations under any applicable laws, including statute and relevant regulatory rules.

2. Information and reporting requirements

- 2.1 You will maintain a monthly open item ageing analysis, in such form as we may require, showing the position of each Customer's account on the last day of each month, including details of any outstanding credit balances.
- 2.2 You will supply to us wherever possible via the Website (or at our option make available for inspection by us) the following documents and/or information:

- 2.2.1 forthwith upon our request:
 - i. (unless we have agreed to raise the Invoices or credit notes on your behalf) copies of Invoices and all debit and credit notes or other documents evidencing how an Invoice is reduced, paid or otherwise satisfied;
 - ii. the full terms of any Contract of Sale;
 - iii. proof of the complete performance of each Contract of Sale; and
 - iv. such other information and evidence as we may require relating to Invoices, Related Rights or Contracts of Sale;
- 2.2.2 daily: a report detailing monies collected by you as our agent;
- 2.2.3 within 15 days of the end of the month to which they relate or promptly upon our request copies of:
 - i. your open item ageing analysis;
 - ii. your sales ledger control account with a reconciliation of it to our month end statement;
 - iii. your reconciliation of cash receipts into the Trust Account; and
 - iv. your purchase ledger; and
- 2.2.4 within one month (or other such period as we may reasonably specify) of the end of the month to which they relate, your monthly management accounts.

3. Our services

- 3.1 In return for the Service Fee we will at your request or at any other time should we so decide provide the following services relating to Notified Invoices:
 - 3.1.1 discussing improvements to your collection procedures;
 - 3.1.2 discussing standard sales contracts, terms of payment, the use of settlement discounts, evaluating the effect of changing invoicing methods and terms;
 - 3.1.3 providing statistical information based upon Invoices Notified to us;
 - 3.1.4 considering export procedures and the specific requirements of major trading countries where we have arrangements with correspondents;
 - 3.1.5 assistance in reviewing general terms and conditions of suppliers in relation to their reservations of title and provisions against the transfer of your invoices;

- 3.1.6 reviewing your relationship with your bankers;
- 3.1.7 checking on the accuracy of the monthly reconciliation of your sales ledger to our month end statement;
- 3.1.8 reviewing your need for foreign exchange facilities or contingent liability cover;
- 3.1.9 informing you daily as to the status of your accounts with us;
- 3.1.10 reviewing your reconciliation and monitoring the operation of the Trust Account, including detailing dishonoured cheques or other defects in payment;
- 3.1.11 liaising with solicitors instructed to collect Invoices;
- 3.1.12 inspecting your books and records relating to Invoices, including:
 - i. general and control systems;
 - ii. sales ledger;
 - iii. debt chasing letter cycles;
 - iv. overdue Invoices.

The provision of any of the services in this condition 3 of these Operating Conditions – Part III shall be without responsibility on our part to the fullest extent permitted by law.

4. Invoice discounting clients which become factoring clients

- 4.1 If following a Termination Event we exercise our rights to cancel your agency to collect Invoices and disclose this Facility to your Customers, we may also convert you to a Factoring Client in which case the following shall apply:
 - 4.1.1 we will send you (at the same time as we serve notice on you) details of the revised Commercial Terms which will include an increased Service Fee to reflect the additional services provided by us to Factoring Clients and may also include a Refactoring Charge which we will charge in respect of Invoices which remain outstanding more than 3 months after the end of the month in which the Invoice is raised;
 - 4.1.2 (if you cannot already access it) we will provide you with access rights to Cash Connect which is the Website interface for Factoring Clients;
 - 4.1.3 Operating Conditions – Part III – Provisions relating to Invoice Discounting Clients only which only apply to Invoice Discounting

Clients will cease to apply to you and Operating Conditions – Part IV – Provisions relating to Factoring Clients only will apply;

- 4.1.4 all Invoices subsequently issued by you will be endorsed as assigned to us.

If you do not wish to become a Factoring Client then you must serve a counter-notice on us to this effect within seven days of service of our original notice of change. You will then also be treated as having served notice on us to end this Agreement immediately. If you do not serve this counter-notice then you will be treated as having accepted the varied and new fees and the Factoring Facility. The Commercial Terms will be treated as amended accordingly.

5. Our fees and charges for invoice discounting clients

- 5.1 If we have agreed a Monthly Minimum Fee:
- 5.1.1 we will debit to your Current Account on the first Working Day of each month the amount of the Monthly Minimum Fee; and
- 5.1.2 where the Start Date occurs during a month we will divide the Monthly Minimum Fee by the number of days in the month and multiply it by the number of days to the last day of the month and debit this amount to your Current Account.
- 5.2 If we have agreed an Annual Minimum Fee:
- 5.2.1 we will debit to your Current Account on the last Working Day of each month any shortfall between the actual Service Fee paid by you in that month and the monthly amount of any Minimum Fee; and
- 5.2.2 this calculation will commence in the calendar month in which the Start Date occurs.
- 5.3 We will debit any Arrangement Fee, Facility Fee and any Under Utilisation Fee specified in the Commercial Terms to your Current Account at the intervals agreed with you.
- 5.4 Where an Under Utilisation Fee is specified in the Commercial Terms, we will charge one twelfth of the Under Utilisation Fee monthly in arrears on the amount by which during the preceding calendar month:

- 5.4.1 your average Debit Balance; or
- 5.4.2 where we have agreed to make Facilities available to you and any other members of your group, your and their combined average Debit Balances; or
- 5.4.3 where we have agreed to make a stock finance facility available to you and/or any other member(s) of your group (and agreed to take it into account for these purposes) the combined average debit balance on any such stock finance loan account(s) and your and their combined Debit Balances;

falls short by more than the Agreed Percentage of the Review Limit (or any aggregate Review Limit of the Facility/facility as indicated in condition 5.4.3 of these Operating Conditions – Part III, where one has been agreed).

- 5.5 If we provide services to a level or intensity which were not envisaged by us at the time of entry into this Agreement (which includes you communicating with us other than via the Website or by email) then, in addition to the Service Fee, we may by notice to you either:
- 5.5.1 increase the Service Fee; or
- 5.5.2 charge a reasonable additional fee or fees; to compensate us for all costs and expenses (including the cost of our administrative time) for providing such service.
- 5.6 If at any time you exceed your Availability, then, in addition to demanding immediate repayment of the excess, we may by notice to you increase our Fees and Charges to reflect our increased risk.

6. Export/currency invoices

- 6.1 We may Approve, make Advances and pay the Purchase Price in Sterling for Export Invoices Notified to us from time to time. If we do this we may adjust the Service Fee to compensate for the additional work involved and a reasonable profit margin thereon.
- 6.2 Unless we have agreed to make a Currency Facility available, all Currency Invoices will be converted into Sterling at the spot rate of exchange on the day on which the Invoice is Notified to us.



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