Lloyds Bank Commercial Finance Limited

Annual report and financial statements for the year ended 31 December 2019

Registered office

No. 1 Brookhill Way
Banbury
Oxon
OX16 3EL

Registered number

00733011

Current directors

A C Smithson
B Stephenson

Company Secretary

P Gittins

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2019

The Directors present their Strategic report and audited financial statements of Lloyds Bank Commercial Finance Limited (the "Company") for the year ended 31 December 2019.

Principal activities

The principal activity of the Company is to provide Receivables Finance ("RF") and Asset Based Lending (“ABL”) to Commercial customers primarily based in the United Kingdom.

The Company also acts as an agent to service loans on behalf of Lloyds Bank plc.

The Company ceased writing Hire Purchase business with effect from 1 April 2014, hence this book is in a state of run off.

Business overview

The Company made a profit before tax of £16,372,000 (2018: £10,791,000) which represents an increase on the prior year of 52% (2018: decrease of 25%).

Firstsource Solutions Limited continues to run the back office Receivables Finance and ABL operations for the Company. The average lending managed by Firstsource Solutions Limited in the Company amounted to £462,048,000 across an average 3,528 different facilities within the year.

The Company continues to capitalise costs as it improves the functionality of its new Receivables Finance and ABL core system called Aquarius which came into operation in 2017; amortisation has been applied at different stages during the life of the system (note 2.4).

There have been no other developments in the business during the year, hence the Company’s long-term strategic objectives continue to be the provision of finance to businesses primarily located in the UK and to service loans as an agent of Lloyds Bank plc.

Key performance indicators ("KPIs")

The Commerical Finance business is part of the Lloyds Banking Group Commercial Banking division, and the key performance indicators for the business are aligned with those of the wider Commercial Banking division and the Group. These are aligned under the Group's strategic objective of Helping Britain prosper.

Commerical Finance key objective is to retain existing and attract new customers by treating them fairly, providing a high quality product offering and exceptional customer service. The level of existing and new facilities, as well as overall lending balances, are seen as important measures of success.

The key performance metrics considered to be KPIs for the Company are listed below:

		2019	2018	Variance	
		£'000	£'000	£'000	%
a)	**Interest income (own portfolio)**				
	Receivables Finance and Asset Based Lending	**37,527**	28,794	**8,733**	**30%**
	Hire Purchase	**25**	64	**(39)**	**(61%)**
	Total (note 4)	**37,552**	28,858	**8,694**	**30%**

	2019	2018
	%	%
EIR % (own portfolio)		
Receivables Finance and Asset Based Lending	**2.8**	2.4
Hire Purchase	**3.5**	3.5

		2019	2018	Variance	
		£'000	£'000	£'000	%
b)	**Agency income (servicing portfolio)**				
	Agency income (note 4)	**56,309**	66,556	**(10,247)**	**(15%)**

Strategic report (continued)
For the year ended 31 December 2019

Key performance indicators ("KPIs") (continued)

		2019 £'000	2018 £'000	Variance £'000	%
c)	**Gross loans and advances to customers**				
	Own portfolio	**489,714**	434,382	**55,332**	**13%**
	Service portfolio	**5,159,696**	5,402,884	**(243,188)**	**(5%)**
	Total	**5,649,410**	5,837,266	**(187,856)**	**(3%)**

	2019 No.	2018 No.	Variance No.	%
Number of facilities managed				
Own portfolio	**4,071**	2,985	**1,086**	**36%**
Service portfolio	**25,622**	26,232	**(610)**	**(2%)**
Total	**29,693**	29,217	**476**	**2%**

Future outlook

The Company is part of the wider Lloyds Banking Group, and, at that level, consideration of many of the potential implications following the UK's vote to leave the European Union ("EU") has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Research and development activities

The Company is in the process of developing a core system for its Receivables Finance and ABL business. An external supplier is used and relevant costs are capitalised shortly after being incurred. These costs will be amortised over the useful economic life.

Section 172(1) statement and statement of engagement with employees and other stakeholders

In accordance with the Companies Act 2006 (the 'Act'), for the year ended 31 December 2019, the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the Directors have engaged with, and had regard to, the interest of key stakeholders only as the Company has no direct employees. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

- Customers

The Directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions and focussing on treating customers fairly. Lloyds Banking Group plc regularly benchmarks amongst its customers the performance of itself and its subsidiaries, and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience.

The Company utilises a range of tools to assess performance and continuously review the customer journey, including obtaining regular direct client feedback, complaints monitoring and net promotor score tracking. The outputs of insights are used to inform strategic decisions with principles of consistency, simplicity and overall satisfaction underpinning activity which aims to improve the customer experience.

- Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's commerical division. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

Strategic report (continued)

For the year ended 31 December 2019

Section 172(1) statement and statement of engagement with employees and other stakeholders (continued)

- Colleagues

The Company's approach in respect of employees, including their engagement, is part of that of LBG, where colleagues take pride in working for an inclusive and diverse organisation which continues to work towards building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. In 2019, the LBG Board agreed how LBG, including the Company, would engage with the workforce. The definition of 'workforce', as agreed by the LBG Board is permanent employees, contingent workers and third-party suppliers that work on LBG premises delivering services to customers and supporting key business operations. A Company workplan was discussed and agreed in April 2019 and as a result the Board now receives quarterly updates which comprise a summary of the Company's engagement activity with colleagues and key themes raised by colleagues and trends on people matters, including for example absence or attrition. In addition the Board receives regular updates on colleague matters. On at least an annual basis, the LBG CEO and the Chair of the LBG Remuneration Committee meet with recognised unions.

As well as its own engagement survey, of which the Company is part, LBG takes part in the Banking Standards Board assessment on a yearly basis, which provides member firms with the evidence, support and challenge to help them achieve and maintain high standards of behaviour and competence both individually and collectively. There are five parts to the assessment: an online employee survey, a set of Board questions, interviews with executive directors, interviews with non-executive directors and employee focus groups.

The Board considers that the above arrangements are effective in giving the Board an understanding of the views of the workforce as they generate feedback, themes and viewpoints which the Board discuss and debate to encourage meaningful dialogue between the LBG Board, the Board and the workforce.

- Communities and the Environment

Due to its limited physical presence, the Company has a minimal direct impact on the community and the environment, it does however continue to support Lloyds Banking Group plc's related initiatives, including Helping Britain Prosper by actively managing its current lending book. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2019, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Prosper Plan is available on the Lloyds Banking Group plc website.

- Suppliers

The Company's approach to external supplier management makes use of that of LBG, which works with around 3,100 active suppliers of varying sizes, most in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communication. The supply chain is crucial to the way the Company and LBG serves its customers, and through it the reach is considerable.

The Company and LBG seek to improve the experience of suppliers, with feedback regularly sought on related assurance processes to ensure continued improvement in the process. Suppliers are also encouraged to express their satisfaction or otherwise, and have access to LBG and the Company's whistleblowing service.

In 2019 LBG's supplier expenditure was £5.9 billion, with 95.5% of third party suppliers being located in the UK. Importance is placed on having the right supplier framework to operate responsibly. LBG's Sourcing & Supply Chain Management Policy applies to all businesses, divisions, and subsidiaries of LBG, including the Company, with the directors assuming ultimate responsibility for its application as relevant to the Company. This Policy has been designed to assist in managing the inherent risk in outsourcing services, and in dealing with third party suppliers. Suppliers are required to adhere to relevant LBG policies and comply with LBG's Code of Supplier Responsibility which can be found on the LBG website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and LBG to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

Strategic report (continued)

For the year ended 31 December 2019

Section 172(1) statement and statement of engagement with employees and other stakeholders (continued)

- Regulators

The Company and its directors have a strong, open and transparent relationship with relevant regulators and other authorities and liaise regularly both directly and as part of LBG to ensure the business is aligned to the evolving regulatory framework. Key areas of focus have included ensuring robust prudential standards and supervision arrangements are in place, ensuring the fair treatment of customers, adapting to changes in regulatory requirements, recovery and resolution and preparations for the UK’s withdrawal from the EU.

Regular updates are received on regulatory interaction, providing a view of key areas of focus, alongside progress made addressing regulatory actions and current enforcement activity. During 2019 the Company and LBG colleagues had regular meetings with the regulators and governing bodies, representing the interests of the Company as required. Engagement continues with the regulators through proactive meetings to discuss various key themes such as achieving a customer centric culture, transformation and change, operational and financial resilience and credit risk.

Though Invoice Finance remains an unregulated industry, LBCF adopts the highest standards in respect of all elements of regulatory compliance and customer treatment in line with Lloyds Bank plc strategy, supported by robust internal frameworks and monitoring. In addition, LBCF maintains a strong relationship with, and is a board member of, the IF governing body, UK Finance, and is proactive in influencing the industry to maintain customer centric practices.

The approach of LBG, including that of the Company, to managing regulatory change is discussed further on page 11 of the LBG Annual Report and Accounts for 2019 available on the LBG website.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Commerical Banking division in its parent LBG. While these risks are not managed separately for the Company, the Company is a main trading company of the LBG Commercial Banking division. The Commerical Banking division is a portfolio of businesses and operates in a number of specialist markets providing corporate lending. Further details of the Comany's and Group's risk managemen policy are contained within note 28 to the financial statements.

The rapid pace and scale of measure to contian a major health issue such as the Covid-19 pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the current substantial impact to the UK economy, which may be temporary, but depending on the severity could lead to a significant loss of output and recession in the UK. Any sector-specifc or wider impact due to this could potentially impact the Commerical Banking customers of Lloyds Banking Group plc and as a result have a material adverse effect on the Lloyds Banking Group plc's results of operations, financial conditions or prospects.

As a result of the global health issues, the potential for operational risks materialsing increases, notably in the areas of cyber fraud, people, technology, operational relience and where there is a reliance on third-party suppliers. In addition to the key operational risks, new risks are likey to arise as the business will need to change its ways of working whilst managing any site contamination to ensure continuity and support of colleagues and customers. The Company believe the business is well positioned to manage and mitigate the existing and new risks and are confident that both the Company and LBG will continue to support our clients and the communities in which they operate.

The 2019 Strategic report has been approved by the Board of Directors.

On behalf of the Board

B Stephenson
Director
17th September 2020

Registered number: 00733011

Directors' report

For the year ended 31 December 2019

The directors present their Annual report and the audited financial statements of Lloyds Bank Commercial Finance Limited ("the Company") for the year ended 31 December 2019.

General information

The Company is a private company limited by shares, incorporated and domiciled in England and Wales, United Kingdom (registered number: 00733011).

Results

The results of the Company show a profit before taxation of £16,372,000 (2018: £10,791,000) for the year as set out in the Income statement on page 8.

The Company has shareholder's equity of £45,810,000 (2018: £32,319,000).

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

Principal risks and uncertainties

These are explained in the Strategic report (page 5) and Financial risk management note (note 28).

Dividends

No dividends were paid or proposed during the year ended 31 December 2019 (2018: £nil).

Directors

The current directors of the Company are shown on the front cover.

The following changes have taken place between the beginning of the reporting year and the approval of the Annual report and financial statements:

D K Reed (resigned 29 July 2019)
A C Smithson (appointed 29 July 2019)

Employees

The Company is committed to ensuring that employees feel valued and empowered to thrive in a truly inclusive business. Employees are offered a competitive and fair reward package that supports its aims as a responsible business. The Company's employees have the ability to join the Group's trade unions, Accord and Unite, which negotiate and consult on behalf of Group employees.

The Company aims to appoint the best person available into any role and to attract talented people from diverse backgrounds. Applications from people with a disability are encouraged and give full and fair consideration. The Company is unbiased in the way it approaches assessment, appointment, training and promotion. A wide range of programmes are available to support colleagues who become disabled or develop a long-term health condition during employment.

Directors' report (continued)
For the year ended 31 December 2019

Future developments

Information regarding future developments of the Company can be found in the Strategic report.

Going concern

The financial statements have been prepared on a going concern basis. There is a net asset position of £45,810,000 (2018: £32,319,000). The Company does not have material external debt and is funded by other companies within the Group.

A letter of support had been issued by Lloyds Banking Group plc, dated 19 February 2020, confirming that it was its current intention to provide financial support to Lloyds Bank plc and its subsidiaries (of which the Company is one) to meet their respective financial liabilities as they fall due.

As a result, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual report and financial statements.

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company, a deed of indemnity through deed poll which constituted ‘qualifying third party indemnity provisions’ for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the director who joined the Board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this deed of indemnity during that period of service. The indemnity remains in force for the duration of a Director’s period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement of directors’ responsibilities

The Directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulation.

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

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

The Directors are 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.

Statement of disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the Directors’ report is approved:

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

Independent auditors

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

Approved by the board of directors and signed on its behalf by:

B Stephenson
Director
17th September 2020

Income statement

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Revenue	4	**93,861**	95,418
Other operating income	5	**11,227**	-
Total income		**105,088**	95,418
Staff costs	6	**(18,605)**	(24,837)
Other operating expenses	7	**(45,722)**	(48,118)
Interest payable	8	**(6,331)**	(6,580)
Depreciation of property, plant and equipment	15	**(1,603)**	(991)
Amortisation of computer software	16	**(5,228)**	(4,101)
Impairment of subsidiary undertaking	20	**(11,227)**	-
Total expenses		**(88,716)**	(84,627)
Profit before tax		**16,372**	10,791
Taxation	9	**(3,350)**	(2,156)
Profit after tax		**13,022**	8,635

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

Statement of comprehensive income

For the year ended 31 December 2019

	Note	**2019**	2018
		£'000	£'000
Profit after tax		**13,022**	8,635
Other comprehensive income			
Items that will not be reclassified to profit and loss:			
- retirement defined benefit scheme re-measurements		**-**	(1,495)
- tax on retirement defined benefit scheme re-measurements		**469**	254
Other comprehensive income for the year, net of tax		**469**	(1,241)
Total comprehensive income for the year		**13,491**	7,394

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

Balance sheet

As at 31 December 2019

	Note	**2019** **£'000**	2018 £'000
ASSETS			
Cash and cash equivalents	10	**139,657**	264,298
Amounts due from group undertakings	11	**106,523**	106,653
Other current assets	12	**890**	782
Trade and other receivables	13	**482,738**	428,256
Property, plant and equipment	15	**6,408**	3,436
Intangible assets	16	**27,842**	26,070
Deferred tax assets	17	**1,539**	238
Retirement assets	18	**-**	2,757
Investment in subsidiary undertakings	20	**5,439**	16,666
Total assets		**771,036**	849,156
LIABILITIES			
Amounts due to group undertakings	21	**624,085**	737,931
Trade and other payables	22	**92,880**	74,827
Current tax liability		**8,261**	4,079
Total liabilities		**725,226**	816,837
EQUITY			
Share capital	23	**1,011**	1,011
Other reserves	24	**2,399**	2,399
Retained earnings		**42,400**	28,909
Total equity		**45,810**	32,319
Total equity and liabilities		**771,036**	849,156

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

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

B Stephenson
Director
17th September 2020

Registered number: 00733011

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2017	1,011	2,399	22,026	25,436
Adjustment on adoption of IFRS 9	-	-	(511)	(511)
Balance at 1 January 2018	1,011	2,399	21,515	24,925
Comprehensive income				
Profit for the year	-	-	8,635	8,635
Other comprehensive income				
Retirement defined benefit scheme remeasurement (net of tax)	-	-	(1,241)	(1,241)
Total comprehensive income	**-**	**-**	**7,394**	**7,394**
At 31 December 2018	**1,011**	**2,399**	**28,909**	**32,319**
Comprehensive income				
Profit for the year	**-**	**-**	**13,022**	**13,022**
Other comprehensive income				
Retirement defined benefit scheme remeasurement (net of tax)	**-**	**-**	**469**	**469**
Total comprehensive income	**-**	**-**	**13,491**	**13,491**
At 31 December 2019	**1,011**	**2,399**	**42,400**	**45,810**

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

Cash flow statement

For the year ended 31 December 2019

	2019 **£'000**	2018 £'000
Profit before tax	**16,372**	10,791
Adjustments for:		
- Interest paid	**6,331**	6,580
- Amortisation of intangible assets	**5,228**	4,101
- Depreciation of property, plant and equipment	**1,603**	991
- Defined benefit pension scheme costs	**-**	753
- Contributions paid to defined benefit pension schemes	**-**	(1,755)
- Non-cash dividends received from subsidiary undertakings	**(11,227)**	-
- Impairment of subsidiary undertakings	**11,227**	-
Operating cash flows before movements in working capital	**29,534**	21,461
Increase in trade and other receivables	**(55,709)**	(136,631)
Increase in other current assets	**(108)**	(214)
Increase in trade and other payables	**18,053**	33,936
Increase in net amounts due to group undertakings	**73,926**	46,741
Cash generated from/(used in) operations	**65,696**	(34,707)
Interest paid	**(6,588)**	(6,991)
Tax paid	**-**	(1,469)
Net cash generated from/(used in) operating activities	**59,108**	(43,167)
Cash flows used in investing activities		
Purchase of intangible assets	**(7,000)**	(7,403)
Purchase of property, plant & equipment	**(74)**	(26)
Net cash used in investing activities	**(7,074)**	(7,429)
Change in cash and cash equivalents	**52,034**	(50,596)
Cash and cash equivalents at beginning of year	**(231,957)**	(181,361)
Cash and cash equivalents at end of year	**(179,923)**	(231,957)
Cash and cash equivalents comprise		
Cash at bank	**139,657**	264,298
Bank overdrafts	**(319,580)**	(496,255)
Total cash and cash equivalents	**(179,923)**	(231,957)

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

Notes to the financial statements
For the year ended 31 December 2019

1. Basis of preparation

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

The financial information has been prepared under the historical cost convention. As stated below, the directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

In preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

The following new IFRS pronouncement relevant to the Company has been adopted in these financial statements:

(i) IFRS 16 'Leases' replaces IAS 17 'Leases' and addresses the classification and measurement of all leases. The Company's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17; however for lessee accounting there is no longer a distinction between finance and operating leases.

For all assets the lessee recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with leases with a lease term of 12 months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 30. No standards have been early adopted.

The financial statements have been prepared on a going concern basis. There is a net asset position of £45,810,000 (2018: £32,319,000). The Company does not have material external debt and is funded by other companies within the Group.

It was further noted that a letter of support had been issued by Lloyds Banking Group plc, dated 19 February 2020, confirming that it was its current intention to provide financial support to Lloyds Bank plc and its subsidiaries (of which the Company is one) to meet their respective financial liabilities as they fall due.

As a result, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual report and financial statements.

2. Accounting policies

The Company’s accounting policies are set out below. These accounting policies have been applied consistently.

2.1 Financial assets and liabilities

Financial assets comprise Trade and other receivables, Amounts owed from group undertakings, Other current assets and Cash and cash equivalents. Financial liabilities comprise Trade and other payables and Amounts due to group undertakings.

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company’s business model for managing the financial assets and whether the cashflows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Company reclassifies financial assets when and only when its business model for managing those assets changes.

A reclassification will only take place when the change is significant to the Company’s operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless the Company elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment.

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 the obligation is discharged, cancelled or expires.

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Financial assets measured at amortised cost are Loans and advances to customers, Cash and cash equivalents, Amounts due from group undertakings and Trade and other receivables. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method.

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

2.2 Investments

Investments in subsidiary undertakings

Subsidiaries are entities controlled by the Company. The Company controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to any of these factors. Details of the principal subsidiaries are given in Note 20 to the financial statements. Subsidiaries comprise of leasing, investment and dormant companies. These are carried at cost less impairment provisions.

Notes to the financial statements (continued)
For the year ended 31 December 2019

2. Accounting policies (continued)

2.3 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on assets so as to write off their cost less residual value on a straight line basis over their expected useful lives as follows:

Leasehold premises	3 - 10 years
Computer and office equipment	3 - 10 years
Motor vehicles	4 years

2.4 Intangible assets

Computer software

Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, new systems and enhancements to existing systems are recognised as intangible assets if they are expected to generate future economic benefits. Costs include software development, employee costs and an appropriate portion of relevant overheads. Computer software development costs are amortised using the straight-line method over their useful lives (not exceeding 7 years) from the point when the asset is brought into use.

2.5 Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the Balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each Balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the Balance sheet date, and 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 to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

2.6 Cash and cash equivalents

For the purposes of the Cash flow statement, cash and cash equivalents comprise balances with original maturity of three months or less, and bank overdrafts. Bank overdraft balances are included within other amounts owed to Group companies under current liabilities in the Balance sheet.

2.7 Share capital

Ordinary shares are classified as equity (note 23).

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.8 Dividends

Dividends paid on the Company's ordinary shares are recognised as a reduction in equity in the period in which they are paid.

2.9 Revenue recognition

Factoring and invoice discounting income and expenses are recognised in the Income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset. Amounts received but not yet recognised in the Income statement are held on the Balance sheet as deferred income.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the interest but not future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs (including commissions payable on new business) related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

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

Fees and commissions which are not an integral part of the effective interest rate are recognised on an accruals basis when the service has been provided.

Agency revenue is recognised monthly in arrears and calculated on a cost plus 7.5% basis. Service costs are those incurred by the Company in respect of agreements where Lloyds Bank plc acts as principal. Agency costs do not include costs where the Company acts as principal nor costs directly attributable to loans that have been transferred to Lloyds Bank plc.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10 Foreign currency translation

Functional and presentation currency

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

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 Income statement.

2.11 Borrowing costs

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

2.12 Borrowings

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

2. Accounting policies (continued)

2.13 Impairments

Financial assets

The impairment charge in the Income statement includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for Loans and advances to customers and other financial assets held at amortised cost. Expected credit losses are calculated by using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigates of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some undrawn loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12 month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency, credit weakness or financial difficulty. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. The Company uses the IFRS 9 rebuttable presumption that default occurs no later than when a payment is 90 days past due.

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. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer in default (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income statement. The write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

Non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable and at the end of each reporting period. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the Income statement.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

At the end of each reporting period the Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indicator exists, and there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised, the previously recognised impairment loss is reversed through the Income Statement. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements (continued)
For the year ended 31 December 2019

2. Accounting policies (continued)

2.13 Impairments (continued)

Non-financial assets (continued)

Intangible assets with finite useful lives are reviewed at each reporting date to assess whether there is any indication that they are impaired. If any such indication exists the recoverable amount of the asset is determined and in the event that the asset's carrying amount is greater than its recoverable amount, it is written down immediately. Certain brands have been determined to have an indefinite useful life and are not amortised. Such intangible assets are reassessed annually to reconfirm that an indefinite useful life remains appropriate. In the event that an indefinite life is inappropriate a finite life is determined and an impairment review is performed on the asset.

In respect of investments in subsidiaries this assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the subsidiary.

2.14 Employee benefits

Retirement benefit obligations

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the Lloyds Banking Group.

A defined benefit 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 Group pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

With effect from 1 January 2019, Lloyds Banking Group revised its methodology for the intra-group re-charge relating to defined benefit scheme costs. Under this revised approach, the Company is charged the cash contributions paid to the various schemes during the year relating to its employees' current service. The Company accounts for its pension arrangements in accordance with IAS 19. As the amount charged to the Company is based on the cash contributions of Lloyds Bank plc, no asset or liability or movements in other comprehensive income are recognised by the Company. Further details are set out in note 18: Retirement Benefit Obligations and further details of the Pension scheme can be found in the financial statements of Lloyds Bank plc. Copies of the Lloyds Bank plc's 2019 annual report and financial statements may be downloaded via www.lloydsbankinggroup.com.

In 2018, the amount charged to the Company was based on Lloyds Banking Group's IAS 19 pension cost and the Company recognised its share of Lloyds Banking Group's Income statement charge, together with its share of the surplus/ deficit and movement in other comprehensive income.

Costs relating to Lloyds Banking Group's defined contribution plans are charged to the income statement in the period in which they fall due.

Share-based payments

The Company's ultimate parent company operates a number of group-wide equity-settled, share-based compensation plans. The Company's share of the value of its employees' services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments with a corresponding liability to the ultimate parent undertaking. This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest. The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique such as a Black-Scholes option pricing model.

The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest. At each balance sheet date, this estimate is reassessed and if necessary revised. Any revision of the original estimate is recognised in the Income statement over the remaining vesting period.

2.15 Offsetting financial instruments

With the exception of deferred tax assets and liabilities which are analysed separately for clarity (note 17), financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to the financial statements (continued)
For the year ended 31 December 2019

3. Critical accounting estimates and judgements

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgements, 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 upon amounts which differ from those estimates. Estimates, judgements 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.

In the course of preparing the financial statements, no critical accounting judgements have been made in the process of applying the Company's accounting policies.

The following are critical accounting estimates that the Directors have made in the process of applying the Company's accounting policies which have the most significant effect on the amounts recognised in the financial statements:

3.1 Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

3.2 Allowance for impairment losses

The calculation of the Company's expected credit loss (ECL) allowances and provisions against drawn and undrawn loan commitments under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

Similarity of loan book credit quality to other portfolios in the Group

The Company's loan book modelling solution segments the loan book into categories based on utilisation, arrears and credit bureau data. The ECL allowance is calculated at a segment level by using consistent coverage rates with that applied to other unsecured portfolios within the Group for the same segments. The appropriateness of the ECL allowance is therefore contingent on similarity of credit performance between the Company and other portfolios in the Group.

Definition of default

The potential losses from an exposure, both over a 12 month period and over its lifetime, are a key consideration in the calculation of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in Note 2.13 Impairments.

Lifetime of an exposure

The Company has considered the losses beyond the contractual term over which the Company is exposed to credit risk. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.

Significant increase in credit risk

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's individual characteristics and performance. Management used various information sources, including observed account performance and other credit data available for the lifetime of the asset. The use of proxies and simplifications is not considered to materially impact the ECL allowance either at transition or now.

Performing assets are defined as either Stage 1 or Stage 2. An ECL allowance equivalent to the loss anticipated should default occur over a 12 month period is established against assets in Stage 1; assets classified in Stage 2 carry an ECL allowance equivalent to the loss anticipated should default occur over the life of the instrument. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk ("SICR") since initial recognition.

The Company uses qualitative indicators such as watchlists and other indicators of historical delinquency, to determine whether there has been an SICR for an asset. Any account meeting the criteria is treated as an SICR. All financial assets are assumed to have suffered an SICR if they are more than 30 days past due.

Notes to the financial statements (continued)
For the year ended 31 December 2019

3. Critical accounting estimates and judgements (continued)

3.2 Allowance for impairment losses (continued)

Significant increase in credit risk (continued)

For disclosure in these financial statements, the Company has applied the Group's Corporate Master Scale ("CMS") model and probability of default ("PD") ranges of its commercial finance portfolio to align to its current model, with a deterioration by 4 or more grades treated as a SICR. Further information can be found in note 28.1.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

Forward looking

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Company used the Group's economic model, which has been designed to project a number of key impairment drivers using information derived mainly from external sources. These drivers include factors such as the unemployment rate and other factors. The model-generated economic scenarios for the 6 years beyond 2019 are mapped to industry-wide historical loss data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. 4 scenarios from specified points along the loss distribution are selected to reflect the range of outcomes; the central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario.

Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events. To allow for this a relatively unlikely severe downside scenario is therefore included.

Impact of multiple economic scenarios

The measurement of ECL reflects an unbiased probability weighted range of possible future economic outcomes. The Company achieves this by selecting four economic scenarios to reflect the range of outcomes; the central scenario reflects the Company's base case assumptions used for medium term planning purposes, an upside and downside scenario are also selected together with a severe downside is weighted at 10 per cent. The table below shows the decomposition of the final probability weighted ECL for each forward looking economic scenario. The stage allocation for an asset is based on the overall scenario probability weighted PD and, hence, the Stage 3 allocation is constant across all scenarios.

The table below shows the ECL calculated under each scenario on both an underlying and statutory basis.

Impact of multiple economic scenarios	**Probability Weighted £'000**	**Upside £'000**	**Base £'m**	**Downside £'m**	**Severe downside £'m**
At 31 December 2019	7,169	6,744	6,861	7,501	8,375

4. Revenue

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

	2019 £'000	2018 £'000
Agency fee	**56,309**	66,556
Receivables Finance and Asset Based Lending	**37,527**	28,798
Hire Purchase business	**25**	64
	93,861	95,418

Notes to the financial statements (continued)

For the year ended 31 December 2019

5. Other operating income

	2019 £'000	2018 £'000
Dividends received from subsidiary undertakings	**11,227**	-
	11,227	-

Dividends in the year of £11,227,000 (2018: £nil) were received from LBCF Limited.

6. Directors and employees

6.1 Staff costs

	2019 £'000	2018 £'000
Wages and salaries	**12,715**	20,000
Social security costs	**1,845**	2,364
Share-based payments	**648**	533
Other pension costs - defined benefit schemes	**2,786**	753
Other pension costs - defined contribution schemes	**611**	1,187
Staff costs	**18,605**	24,837

The Company had an average of 208 (2018: 388) employees during the year working within its Asset Based Lending and Hire Purchase business during the year.

6.2 Directors' emoluments

	2019 £'000	2018 £'000
Aggregate emoluments	**463**	430
Highest paid director - emoluments	**463**	430

The highest paid director did not exercise any share options in respect of qualifying services during the year (2018: nil). During the financial year no other directors exercised share options (2018: nil).

One of the directors was paid or was due to receive amounts under long-term incentive schemes in respect of qualifying services in 2019 (2018: one). The net value of assets (excluding money, shares and share options) received or receivable by directors under such schemes in respect of such services was £nil (2018: £nil).

Retirement benefits in respect of services to Lloyds Bank Commercial Finance Limited are accruing to nil (2018: nil) directors under defined benefit pension schemes. None of the directors have benefits accruing under money purchase schemes (2018: none). The remaining directors had no retirement benefits accruing for which the cost was borne by Lloyds Bank Commercial Finance Limited.

None of the directors had a material interest, directly or indirectly, at any time during the year in any significant contract, transaction or arrangement with the Company or its subsidiaries.

One of the directors, who is considered to be key management, received remuneration in respect of their services to the Company as disclosed above. The other director received no remuneration in respect of their services to the Company.

7. Other operating expenses

	2019 **£'000**	2018 £'000
Impairment	**2,227**	3,894
Premises costs	**719**	1,399
Travel and motor expenses	**1,377**	2,382
Printing, postage and stationery	**953**	1,982
Agents' commission	**409**	281
Consultancy and professional fees	**12,222**	13,036
Indirect staff costs	**273**	932
Marketing fees	**10**	17
Management fees and costs recharged by other group companies	**23,789**	21,034
Other administrative expenses	**3,743**	3,161
Other operating expenses	**45,722**	48,118

Fees payable to the Company's auditors for the audit of the financial statements of £135,000 (2018: £120,000) have been borne by the parent company and recharged to the Company.

8. Interest payable

	2019 **£'000**	2018 £'000
Interest payable to other group undertakings	**6,331**	6,580
	6,331	6,580

Included in the interest expense charge above is interest paid on bank overdraft balances with Group undertakings. Generally interest is charged on overdraft balances at 3 month rolling LIBOR average by Group Corporate Treasury.

Notes to the financial statements (continued)

For the year ended 31 December 2019

9. Taxation

	2019 £'000	2018 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax payable on taxable profit for the year	**(3,376)**	(1,733)
- Adjustment in respect of prior years	**(806)**	(39)
Current tax charge	**(4,182)**	(1,772)
UK deferred tax:		
- Origination and reversal of timing differences	**224**	(377)
- UK corporation tax rate change and related impacts	**(25)**	(7)
- Adjustment in respect of prior years	**633**	-
Deferred tax credit/(charge) (see note 17)	**832**	(384)
Tax charge	**(3,350)**	(2,156)

Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

	2019 £'000	2018 £'000
Profit before tax	**16,372**	10,791
Tax charge thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**(3,111)**	(2,050)
Factors affecting charge:		
- Disallowed items	**(2,174)**	(60)
- Non-taxable items	**2,133**	-
- Adjustments in respect of prior years	**(173)**	(39)
- UK corporation tax rate change and related impacts	**(25)**	(7)
Tax charge on profit on ordinary activities	**(3,350)**	(2,156)
Effective rate	**20.46%**	19.98%

Notes to the financial statements (continued)

For the year ended 31 December 2019

10. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank	**139,657**	264,298
Overdrafts	**(319,580)**	(496,255)
Net cash	**(179,923)**	(231,957)

Cash and cash equivalents comprise cash and balances held at banks with a maturity of less than 3 months. Included in cash at bank is £139,657,000 (2018: £264,298,000) of balances with related parties (note 26).

11. Amounts due from group undertakings

	2019 £'000	2018 £'000
Amounts due from group undertakings	**106,523**	106,653
Amounts due from group undertakings	**106,523**	106,653

12. Other current assets

	2019 £'000	2018 £'000
Prepayments	**240**	248
Other debtors	**650**	534
Other current assets	**890**	782

Notes to the financial statements (continued)
For the year ended 31 December 2019

13. Trade and other receivables

	2019 £'000	2018 £'000
Gross loans and advances	**489,714**	434,382
Less: allowance for losses	**(6,976)**	(6,126)
Net loans and advances to customers	**482,738**	428,256

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2019	**360,492**	**66,374**	**7,516**	**434,382**
Transfers to Stage 1	**26,078**	**(26,009)**	**(69)**	**-**
Transfers to Stage 2	**(38,127)**	**38,127**	**-**	**-**
Transfers to Stage 3	**(1,851)**	**(1,738)**	**3,589**	**-**
Net increase/(decrease) in loans and advances	**58,308**	**1,797**	**(3,479)**	**56,626**
Financial assets that have been written off during the year	**-**	**-**	**(1,294)**	**(1,294)**
Gross loans and advances at 31 December 2019	**404,900**	**78,551**	**6,263**	**489,714**
Allowance for impairment losses	**(1,042)**	**(1,131)**	**(4,803)**	**(6,976)**
Net loans and advances at 31 December 2019	**403,858**	**77,420**	**1,460**	**482,738**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2018	230,673	60,091	3,317	294,081
Transfers to Stage 1	50,155	(50,155)	-	-
Transfers to Stage 2	(19,536)	19,536	-	-
Transfers to Stage 3	-	(3,581)	3,581	-
Net increase/(decrease) in loans and advances	99,200	40,483	1,535	141,218
Financial assets that have been written off during the year	-	-	(917)	(917)
Gross loans and advances	360,492	66,374	7,516	434,382
Allowance for impairment losses	(475)	(942)	(4,709)	(6,126)
Net loans and advances at 31 December 2018	360,017	65,432	2,807	428,256

Loans and advances consists of:	2019 £'000	2018 £'000
Loans and advances to cutomers	**482,320**	427,238
Hire purchase contracts receivables	**418**	1,018
Total loans and advances	**482,738**	428,256

Loans and advances to customers represents amounts recoverable as follows:	£'000	£'000
Not later than 1 year	**482,320**	427,238
Total loans and advances to customers	**482,320**	427,238

Notes to the financial statements (continued)

For the year ended 31 December 2019

13. Trade and other receivables (continued)

Hire purchase contracts receivables represents amounts recoverable as follows:

	2019 £'000	2018 £'000
Gross investment in hire purchase, receivable:		
Not later than 1 year	**418**	724
Later than 1 year and not later than 2 years	**-**	329
	418	1,053
Unearned future finance income on hire purchase	**-**	(35)
Net investment in hire purchase	**418**	1,018

The net investment in hire purchase represents amounts recoverable as follows:

	2019 £'000	2018 £'000
Not later than 1 year	**418**	699
Later than 1 year and not later than 2 years	**-**	319
Net investment in hire purchase	**418**	1,018

The Company provides hire purchase in connection with the financing of vehicles, plant and equipment. The accumulated allowance for uncollectible hire purchase agreements is £nil (2018: £nil).

14. Allowance for impairment losses

Analysis of movement in the allowance for impairment losses by stage:

In repect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2019	**(476)**	**(941)**	**(4,709)**	**(6,126)**
Transfers to Stage 1	**(351)**	**348**	**3**	**-**
Transfers to Stage 2	**64**	**(64)**	**-**	**-**
Transfers to Stage 3	**6**	**70**	**(76)**	**-**
Impact of transfers between stages	**283**	**(485)**	**(2,676)**	**(2,878)**
Charge for the year (including recoveries)	**(568)**	**(59)**	**1,339**	**712**
Advances written off	**-**	**-**	**1,294**	**1,294**
Recovery of prior advances written off	**-**	**-**	**22**	**22**
At 31 December 2019	**(1,042)**	**(1,131)**	**(4,803)**	**(6,976)**

In repect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2019	**(79)**	**(53)**	**-**	**(132)**
Transfers to Stage 1	**(11)**	**11**	**-**	**-**
Transfers to Stage 2	**19**	**(19)**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Impact of transfers between stages	**5**	**(42)**	**-**	**(37)**
Charge for the year (including recoveries)	**(80)**	**56**	**-**	**(24)**
Advances written off	**-**	**-**	**-**	**-**
Recovery of prior advances written off	**-**	**-**	**-**	**-**
At 31 December 2019	**(146)**	**(47)**	**-**	**(193)**

14. Allowance for impairment losses (continued)

In repect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2018	(246)	(376)	(1,722)	(2,344)
Transfers to Stage 1	(211)	211	-	-
Transfers to Stage 2	37	(37)	-	-
Transfers to Stage 3	-	22	(22)	-
Impact of transfers between stages	158	(84)	(3,156)	(3,082)
Charge for the year (including recoveries)	(214)	(677)	(1,054)	(1,945)
Advances written off	-	-	1,168	1,168
Recovery of prior advances written off	-	-	77	77
At 31 December 2018	(476)	(941)	(4,709)	(6,126)

In repect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2018	(70)	(42)	-	(112)
Transfers to Stage 1	(32)	32	-	-
Transfers to Stage 2	5	(5)	-	-
Transfers to Stage 3	-	-	-	-
Impact of transfers between stages	-	-	-	-
Charge for the year (including recoveries)	18	(38)	-	(20)
Advances written off	-	-	-	-
Recovery of prior advances written off	-	-	-	-
At 31 December 2018	(79)	(53)	-	(132)

Notes to the financial statements (continued)
For the year ended 31 December 2019

15. Property, plant and equipment

	Leasehold properties £'000	Computer and office equipment £'000	Motor vechicles £'000	Right of use assets £'000	Total £'000
Cost:					
At 1 January 2018	1,783	12,518	10		14,311
Additions	21	5	-		26
At 31 December 2018	1,804	12,523	10		14,337
Adjustment on adoption of IFRS16	**-**	**-**	**-**	**4,501**	**4,501**
At 1 January 2019	**1,804**	**12,523**	**10**	**4,501**	**18,838**
Additions	**72**	**2**	**-**	**-**	**74**
At 31 December 2019	**1,876**	**12,525**	**10**	**4,501**	**18,912**
Accumulated depreciation:					
At 1 January 2018	(616)	(9,284)	(10)		(9,910)
Charge for the year	(180)	(811)	-		(991)
At 31 December 2018	(796)	(10,095)	(10)		(10,901)
Charge for the year	**(183)**	**(734)**	**-**	**(686)**	**(1,603)**
At 31 December 2019	**(979)**	**(10,829)**	**(10)**	**(686)**	**(12,504)**
Net book value at 31 December 2019	**897**	**1,696**	**-**	**3,815**	**6,408**
Net book value at 31 December 2018	1,008	2,428	-		3,436

Right of use assets primarily relate to property.

16. Intangible assets

	2019 £'000	2018 £'000
Cost:		
At 1 January	**32,856**	25,453
Additions	**7,000**	7,403
Disposals	**(27)**	-
At 31 December	**39,829**	32,856
Accumulated amortisation:		
At 1 January	**(6,786)**	(2,685)
Charge for the year	**(5,228)**	(4,101)
Disposals	**27**	-
At 31 December	**(11,987)**	(6,786)
Net book value at 31 December	**27,842**	26,070

Intangible assets consist of capitalised software costs for the new Receivables Finance and ABL core system called Aquarius. The system came into operation in 2017 but costs continue to be capitlaised as the functionality of the system is improved.

17. Deferred taxation

The movement in the Deferred taxation is as follows:

	2019 £'000	2018 £'000
At 1 January	**238**	368
Income statement credit/(charge)	**832**	(384)
Other comprehensive income: pension re-measurement	**469**	254
At 31 December	**1,539**	238

The deferred tax credit/(charge) in the Income statement comprises the following temporary differences:

	2019 £'000	2018 £'000
Accounting provisions disallowed	**570**	(4)
Pensions	**-**	(170)
Accelerated capital allowances	**274**	(198)
Other temporary differences	**(12)**	(12)
Deferred tax credit/(charge)	**832**	(384)

Deferred taxation assets are comprised as follows:	2019 £'000	2018 £'000
Pensions	**-**	(469)
Accelerated capital allowances	**813**	539
Accounting provisions disallowed	**642**	72
Other temporary differences	**84**	96
Total deferred taxation assets	**1,539**	238

Notes to the financial statements (continued)
For the year ended 31 December 2019

17. Deferred taxation (continued)

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by The Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020.

The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

18. Retirement benefit obligations

Defined contribution schemes

The Company's ultimate parent company operates a number of defined contribution pension schemes. The majority of employees are members of the defined contribution sections of the Lloyds Banking Group plc Pension Schemes No's 1 and 2. New employees are offered membership of the defined contribution section of the Lloyds Banking Group plc Pension Scheme No. 1.

During the year ended 31 December 2019 the charge to the Income statement in respect of this scheme was £611,000 (2018: £1,187,000), representing the contributions payable by the employer in accordance with the scheme rules. There are no outstanding or prepaid contributions at 31 December 2019 (2018: £nil).

Defined benefit schemes

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

As discussed in Note 2 Accounting Policies, with effect from 1 January 2019 the Lloyds Banking Group has revised its methodology for the recharge of defined benefit pension costs. Under the new re-charge methodology, the Company is charged, and recognises as an expense, the cash contributions paid to the various Group schemes during the year relating to its employees' current service.

In previous years, the charge had been an allocation of the Group's pension cost determined in accordance with IAS 19 Employee Benefits. At 31 December 2018, the Company had recognised a net defined benefit asset of £2,757,000 which was reclassified as inter-company during 2019.

Further information on the various Group defined benefits schemes is included within the consolidated annual report and accounts of Lloyds Banking Group plc, the ultimate parent company.

The defined benefit pension charge for the year ended 31 December 2019 based on cash contributions amounted to £1,722,000. The charge for the year ended 31 December 2018 is set out below:

	2018 £'000
Expense recognised in the Income statement	
Current service costs	466
Interest income	(86)
Past service costs and curtailment	16
Past service costs - plan amendments	261
Administrative costs and other	96
	753

	2018 £'000
Amounts included in the Balance sheet	
Company's share of present value of funded obligations	(98,396)
Company's share of fair value of scheme assets	101,153
Net amount recognised in the Balance sheet	2,757

18. Retirement benefit obligations (continued)

Defined benefit schemes (continued)

	2018 £'000
Net amount recognised in the Balance sheet	
At 1 January	3,250
Charge to the statement of comprehensive income	(753)
Charge to other comprehensive income before tax	(1,495)
Contributions paid	1,755
At 31 December	2,757

	2018 £'000
Movements in the defined benefit obligation	
At 1 January	130,394
Current service cost	466
Interest cost	2,706
Actuarial gains	(27,728)
Benefits paid	(7,718)
Past service cost	276
At 31 December	98,396

	2018 £'000
Changes in the fair value of the scheme assets	
At 1 January	133,644
Expected return	(29,223)
Interest income	2,791
Employer contributions	1,755
Benefits paid	(7,718)
Administrative costs and other	(96)
At 31 December	101,153

	2018 %
Composition of scheme assets	
Equity instruments	2
Debt instruments	73
Pooled investment vehicles	37
Property	(1)
Other	(11)
At 31 December	100

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

	2018 %
Assumptions	
Discount rate	2.90
Rate of inflation	
- Retail price index	3.20
- Consumer price index	2.15
Rate of increase for pensions in payment and deferred pensions	2.73

18. Retirement benefit obligations (continued)

Defined benefit schemes (continued)

Assumptions (continued)

	2018 Years
Life expectancy for member aged 60, on the valuation date:	
- Men	27.8
- Women	29.4
Life expectancy for member aged 60, 15 years after the valuation date:	
- Men	28.8
- Women	30.6

The mortality assumptions used in the scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with both current industry experience and the actual experience of the relevant schemes.

19. Share based payments

During the year ended 31 December 2019 the Company's ultimate parent company operated the following share-based payment schemes, all of which are equity settled. The share based payment charge for the year allocated by the Group is £648,000 (2018: £533,000).

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn schemes to save up to £500 per month and, at the expiry of a fixed term of three or five years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in Lloyds Banking Group plc at a discounted price of no less than 80 per cent of the market price at the start of the invitation.

Lloyds Banking Group plc Executive Share Plan 2003

The Plan was adopted in December 2003 and under the Plan share options may be granted to senior employees. Options under this plan have been granted specifically to facilitate recruitment and as such were not subject to any performance conditions. The Plan is used not only to compensate new recruits for any lost share awards but also to make grants to key individuals for retention purposes with, in some instances, the grant being made subject to individual performance conditions.

Lloyds Banking Group plc Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) introduced in 2006 is aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of Lloyds Banking Group plc over a three year period. Awards are made within limits set by the rules of the Plan, with the limits determining the maximum number of shares that can be awarded equating to three times annual salary. In exceptional circumstances this may increase to four times annual salary.

Matching shares

Lloyds Banking Group plc undertakes to match shares purchased by employees up to the value of £45 per month; these matching shares are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market based condition: if an employee leaves within this three year period for other than a 'good' reason, 100 per cent of the matching shares are forfeited. Similarly if the employees sell their purchased shares within three years, their matching shares are forfeited.

Fixed Share Awards

Fixed share awards were introduced in 2014 in order to ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for certain Lloyds Banking Group plc employees, with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements. The Fixed Share Awards are delivered in Lloyds Banking Group plc shares, released over five years with 20 per cent being released each year following the year of award.

The Fixed Share Award is not subject to any performance conditions, performance adjustment or clawback. On an employee leaving the Group, there is no change to the timeline for which shares will become unrestricted.

19. Share based payments (continued)

Other information

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

Full details of the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life and number of options outstanding for the above schemes overall can be found in the 2019 annual report and financial statements of the Company's ultimate parent company, Lloyds Banking Group plc. Copies of the ultimate parent company's 2019 annual report and financial statements may be downloaded via www.lloydsbankinggroup.com.

20. Investment in subsidiary undertakings

	2019 £'000	2018 £'000
Cost		
At 1 January	**16,666**	16,666
At 31 December	**16,666**	16,666
Provision for impairment		
At 1 January	**-**	-
Charge for the year	**(11,227)**	-
At 31 December	**(11,227)**	-
Net investment in subsidiary undertakings at 31 December	**5,439**	16,666

Investment in subsidiary undertakings is stated at cost less provision for impairment. As permitted by section 611 of the Companies Act 2006, where the relief afforded under section 612 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiaries.

Subsidiary undertakings	**Company interest**	**Principal activities**	**Registered address**
Alex Lawrie Factors Limited	100%	Dormant	No.1 Brookhill Way, Banbury, OX16 3EL
Alex Lawrie Receivables Financing Limited	100%	Dormant	No.1 Brookhill Way, Banbury, OX16 3EL
Eurolead Service Holdings Limited	100%	Investment	No.1 Brookhill Way, Banbury, OX16 3EL
LBCF Limited	100%	Management of assets and liabilities	No.1 Brookhill Way, Banbury, OX16 3EL
Lloyds Bank Commercial Finance Scotland Limited	100%	Lending	110 St Vincent Street, Glasgow, G2 4QR

Indirect subsidiary undertakings	**Company**	**Principal**	**Registered address**
Cashfriday Limited	100%	Dormant	No.1 Brookhill Way, Banbury, OX16 3EL

21. Amounts due to group undertakings

	2019 £'000	2018 £'000
Bank overdraft balances (Note 11)	**319,580**	496,255
Amounts due to other group undertakings	**304,505**	241,419
Interest payable	**-**	257
Amounts due to group undertakings	**624,085**	737,931

Funding for the Company's loans and advances to customers is provided by Lloyds Bank plc. Amounts relating to Asset Based Lending are based mainly on 3 months rolling average LIBOR and are repayable on demand. Amounts relating to hire purchase are based mainly on fixed rates and are repayable over the term of the loan. Other amounts due to group undertakings are unsecured and interest free.

22. Trade and other payables

	2019 £'000	2018 £'000
Amounts due to clients on collections	**78,762**	65,136
Trade creditors	**154**	-
Other tax and social security	**3,246**	3,850
Accruals and deferred income	**5,686**	4,465
Other creditors	**5,032**	1,376
Trade and other payables	**92,880**	74,827

23. Share capital

	2019 £'000	2018 £'000
Allotted, issued and fully paid		
101,100,000 (2018: 101,100,000) ordinary shares of £0.01 each	**1,011**	1,011

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

The Company's parent manages the Company's capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or enter into debt financing.

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in shareholder's equity.

Each ordinary share carries equal voting and dividend rights. As permitted by the Companies Act 2006, the Company removed references to authorised share capital from its articles of association.

Notes to the financial statements (continued)

For the year ended 31 December 2019

24. Other reserves

Other reserves relates to the revaluation of the investment in Eurolead Services Holdings Limited held by the Company prior to IFRS transition. These are non-distributable reserves.

	2019 £'000	2018 £'000
At 1 January	**2,399**	2,399
At 31 December	**2,399**	2,399

25. Commitment to lend and contingent liabilities

	2019 £'000	2018 £'000
Undrawn amounts		
Revocable commitments	**143,412**	158,983
Irrevocable commitments	**23,556**	12,348
At 31 December	**166,968**	171,331

Undrawn amounts relate to amounts clients have yet to draw down from their invoice finance current accounts.

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £30,499,000 (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Notes to the financial statements (continued)
For the year ended 31 December 2019

26. Related party transactions

The Company's related parties include other companies in the Group and the Company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's directors, who are listed on the cover of these financial statements.

A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

Cash and cash equivalents			**2019 £'000**	2018 £'000
Related party	Repayment	Interest		
Lloyds Bank plc	No fixed date	N/a	**115,169**	220,120
HBOS plc	No fixed date	N/a	**24,488**	44,178
Total cash and cash equivalents			**139,657**	264,298

Amounts due from group undertakings			**2019 £'000**	2018 £'000
Related party	Repayment	Interest rate		
Lloyds UDT Limited *	No fixed date	N/a	**-**	105,377
United Dominions Leasing Limited *	No fixed date	N/a	**105,724**	-
Lloyds Bank Corporate Markets plc	No fixed date	N/a	**789**	1,252
Lloyds Bank Commercial Finance Scotland Limited	No fixed date	N/a	**10**	14
Other fellow group undertakings	No fixed date	N/a	**-**	10
Total amounts due from group undertaking			**106,523**	106,653

* Within the financial year Lloyds UDT Limited was placed into liquidation. Prior to being placed in liquidation it novated its assets and liabilities to United Dominions Leasing Limited which resulted in the movement in debtor balances noted in the related parties table above.

Amounts due to group undertakings			**2019 £'000**	2018 £'000
Related party	Repayment	Interest rate		
Lloyds Bank plc	No fixed date	Various	**(271,065)**	(201,359)
HBOS plc	No fixed date	N/a	**(29,126)**	(27,882)
LBCF Limited	No fixed date	N/a	**(750)**	(11,978)
Other fellow group undertakings	No fixed date	N/a	**(3,564)**	(200)
Total amounts due to group undertakings			**(304,505)**	(241,419)

Bank overdraft			**2019 £'000**	2018 £'000
Related party	Repayment	Interest rate		
Lloyds Bank plc	No fixed date	0.79%	**(319,580)**	(496,255)
Total bank overdrafts			**(319,580)**	(496,255)

Notes to the financial statements (continued)
For the year ended 31 December 2019

26. Related party transactions (continued)

	2019 £'000	2018 £'000
Agency fee		
Lloyds Bank plc	**56,309**	66,556
Interest payable		
Lloyds Bank plc	**6,340**	6,612
United Dominions Leasing Limited	**(4)**	-
Lloyds UDT Limited	**(5)**	(32)
Management fee		
Lloyds Bank plc	**23,789**	21,034
Staff related costs		
Lloyds Bank plc	**4,045**	2,473

There were no doubtful debts or bad debt expenses relating to the above balances incurred during the year.

Interest payable relates to interest payments both Bank overdrafts and Amounts due to other group undertakings. On Bank overdraft balances rates of interest between 0.765% and 0.919% have been incurred. On Amounts due to group undertakings rates of interest between nil and 0.919% have been incurred.

The Company paid taxation of £nil (2018: £1,469,000) during the year to fellow subsidiary undertakings.

The registered offices of related parties are noted below:

Related party	**Related party relationship**	**Registered address**
Lloyds Bank plc	Immediate parent	25 Gresham Street, London EC2V 7HN
HBOS plc	Fellow group undertaking	The Mound, Edinburgh, EH1 1YZ
Lloyds UDT Limited *	Fellow group undertaking	1 More London Place, London, SE1 2AF
Lloyds Bank Corporate Markets plc	Fellow group undertaking	25 Gresham Street, London EC2V 7HN
Lloyds Bank Commercial Finance Scotland Limited	Fellow group undertaking	110 St Vincent Street, Glasgow, G2 4QR
United Dominions Leasing Limited	Fellow group undertaking	25 Gresham Street, London EC2V 7HN

Other follow group undertakings consists of related party transactions with LBCF Limited, Alex Lawrie Receivables Finance Limited and Eurolead Services Holdings Limited. The registered addresses for these companies are disclosed within Note 20 – Investments.

* Company has been placed into liquidation.

27. Ultimate parent undertaking

The Company's immediate parent company is Lloyds Bank plc. The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Lloyds Bank plc. is the parent undertaking of the smallest such group of undertakings. Copies of the ultimate parent company's 2019 annual report and financial statements may be downloaded via www.lloydsbankinggroup.com.

Notes to the financial statements (continued)
For the year ended 31 December 2019

28. Financial risk management

Financial instruments are fundamental to the Company's activities and, as a consequence the risks associated with financial instruments represents a significant component of the risks faced by the Company. However, the Company does not trade in financial instruments, nor does it use derivatives.

Lending activity is largely in the form of advances to customers. The Company seeks to provide customers with products that best meet their needs and provide an economic return for shareholders. The Company's other principal financial instruments are amounts to and from group undertakings, which are used to finance the Company's lending business.

The primary risks affecting the Company through its use of financial instruments are: credit risk; market risk, which includes interest rate risk and currency risk; and liquidity risk. Information about the management of these risks is given below.

28.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Loans and advances to customers is managed through the application of strict underwriting criteria, determined by the Group's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for all losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in notes 1.4 and 2.

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focussed benchmark for credit decisions.

- The Company uses strict lending criteria when assessing applications for unsecured lending. The approval process uses credit acceptance scorecards and involves a review of the applicant's credit history using information held by Credit Reference Agencies. The Company also assesses the affordability and sustainability of lending for each borrower and takes steps to validate information used in the assessment of a customer's income and expenditure. Affordability assessments are compliant with regulatory conduct guidelines.

- Credit scoring: The Company uses statistically based automated decisioning techniques that utilise custom credit scores and the latest credit bureau information.

- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.

- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

Maximum credit exposure

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	2019	2018
	£'000	£'000
Cash and cash equivalents	**139,657**	264,298
Amounts due from other group undertakings	**106,523**	106,653
Trade and other receivables	**489,714**	428,256
	735,894	799,207

The credit risk associated with Cash and cash equivalents and Amounts due from group undertakings is not considered to be significant.

Notes to the financial statements (continued)
For the year ended 31 December 2019

28. Financial risk management (continued)

28.1 Credit risk (continued)

Credit quality of Trade and other receivables

The analysis of lending has been prepared by applying the Group's CMS scale to the Company's impairment model, for the Commercial Finance portfolio in the Commerical division. The internal credit ratings systems are set out below. The Group's probabilities of default ("PD"s), that have been applied, include forward-looking information and are based on 12 month values, with the exception of credit impaired.

	CMS Grade	Implied PD%
Good quality	**1 - 10**	0.00 - 0.50
Satisfactory quality	**11 - 14**	0.51 - 3.00
Lower quality	**15 - 18**	3.01 - 20.00
Below standard, but not impaired	**19**	20.01 - 99.99
Credit impaired	**20 - 23**	100

	2019 £'000	2018 £'000
Stage 1		
Good quality	**97,158**	114,853
Satisfactory quality	**123,304**	194,011
Lower quality	**164,621**	46,985
Below standard, but not impaired	**19,817**	4,643
	404,900	360,492
Stage 2		
Good quality	**-**	-
Satisfactory quality	**13,997**	17,745
Lower quality	**39,605**	28,225
Below standard, but not impaired	**24,949**	20,404
	78,551	66,374
Stage 3		
Credit-impaired	**6,263**	7,516
Total	**489,714**	434,382

Credit concentration - Trade and other receivables

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

28. Financial risk management (continued)

28.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

The Company is funded entirely by companies within the Group. Such funding is repayable on demand, although there is no expectation that such a demand would be made.

The liquidity profile of financial liabilities at the year end was as follows:

As at 31 December 2019

	On demand £'000	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Bank overdraft	**319,580**	**-**	**-**	**-**	**-**	**319,580**
Amount due to clients on collections	**78,762**	**-**	**-**	**-**	**-**	**78,762**
Amount due to group undertakings	**304,505**	**-**	**-**	**-**	**-**	**304,505**
	702,847	**-**	**-**	**-**	**-**	**702,847**

As at 31 December 2018

	On demand £'000	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Bank overdraft	496,255	-	-	-	-	496,255
Amount due to clients on collections	65,136	-	-	-	-	65,136
Amount due to group undertakings	240,730	-	126	573	319	241,748
	802,121	-	126	573	319	803,139

28.3 Interest rate risk

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

Through inter-company funding arrangements, the Company has effectively transferred its exposure to changes in interest rates to Lloyds Bank plc. The exposure and impact of substantial interest rate movements to the Company is not material.

The Company's treasury team continues to closely monitor the movement in interest rates to ensure a close alignment is maintained between the cost of funding and borrowing.

Interest rate risk – sensitivity analysis

Interest income on the Company's Loans and advances to customers and underlying funding are variable, therefore a movement in market rates of interest will immediately affect both the return on the portfolios loans and advances to customers and funding - this has been included in the sensitivity analysis. The sensitivity analysis has been performed to assess the impact on interest margins being 25 basis points higher or lower with all other variables held constant. The Company has taken a prudent approach to this analysis by assuming that any basis point movement would be reflected in all variable products. The impact if rates were to increase or decrease 25bps would be a net £18,000 (2018: £3,000) change to interest expense.

28. Financial risk management (continued)

28.4 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Exposure to foreign currency fluctuations arises due to its financial assets and liabilities being denominated in foreign currencies.

The Company follows a policy of ensuring that all foreign currency financial assets are matched with borrowings in the same currency, thus sensitivity to foreign exchange exposure is not considered to be material.

28.5 Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

Financial assets	**2019 Carry value £'000**	**2019 Fair value £'000**	2018 Carry value £'000	2018 Fair Value £'000
Cash and cash equivalents	**139,657**	**139,657**	264,298	264,298
Amounts owed from group undertakings	**106,523**	**106,523**	106,653	106,653
Loans and advances to customers	**482,738**	**482,738**	428,256	434,323
Financial liabilities				
Amounts due to clients on collections	**78,762**	**78,762**	65,136	65,136
Amounts owed to group undertakings	**304,505**	**304,505**	241,748	241,748
Bank overdrafts	**319,580**	**319,580**	496,255	496,255

The Company provides loans and advances to commercial and corporate customers at both fixed and variable interest rates. The carrying value of the variable rate loans is assumed to be their fair value. Fair value is principally estimated by discounting anticipated cash flows (including interest) at base rate plus a weighted average margin relating to new business written in the year.

Valuation of finanacial assets and liabilities

Assets and liabilities for which fair values are disclosed have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise equity shares, treasury bills and government securities.

Level 2 portfolios

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 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

Notes to the financial statements (continued)

For the year ended 31 December 2019

28. Financial risk management (continued)

28.5 Fair values of financial assets and liabilities

Valuation of finanacial assets and liabilities (continued)

The tables below provide an analysis of the financial assets of the Company that are carried at fair value in the Company's Balance sheet, grouped into Levels 1 to 3 based on the degree to which the inputs to fair value are observable.

At 31 December 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Cash and cash equivalents	**139,657**	**-**	**-**	**139,657**
Amounts owed from group undertakings	**-**	**106,523**	**-**	**106,523**
Loans and advances				
Loans and advances to customers	**-**	**482,738**	**-**	**482,738**
Financial liabilities				
Amounts due to clients on collections	**-**	**78,762**	**-**	**78,762**
Amounts owed to group undertakings	**-**	**304,505**	**-**	**304,505**
Bank overdrafts	**-**	**319,580**	**-**	**319,580**
At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Cash and cash equivalents	264,298	-	-	264,298
Amounts owed from group undertakings		106,653	-	106,653
Loans and advances				-
Loans and advances to customers	-	434,323	-	434,323
				-
Financial liabilities				-
				-
Amounts due to clients on collections	-	65,136	-	65,136
Amounts owed to group undertakings	-	241,748	-	241,748
Bank overdrafts	-	496,255	-	496,255

The fair value of assets and liabilities approximates their carrying values.

28. Financial risk management (continued)

28.6 Capital management

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

The Company's parent manages the Company's capital structure and advises the Board to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company's parent may adjust the amount of dividends to be paid, return capital, issue new shares, or sell assets.

The Company's capital comprises all components of equity, movements in which appear in the Statement of Changes in Equity on page 11. The Company receives its funding requirements from its parent and does not raise funding externally.

29. Events since the Balance sheet date

Since the Balance sheet date there has been a global pandemic from the outbreak of Covid-19 which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. At August 2020, there has been a sharp fall in lending balances due to the introduction of government schemes which offer alternative sources of funding. We have also seen an increase in credit risk reflecting a deterioration in forward looking economic outlook and a resulting increase in provision across the stages. The ECL provision has increased by £1.4m which represents an uplift in overall cover ratio of 1.3% to 2.8%.

30. Future developments

The following pronouncement is not applicable for the year ending 31 December 2019 and has not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.

With the exception of certain minor amendments, as at the date of signing these financial statements these pronouncements have been endorsed by the EU.

Minor amendments to other accounting standards
The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IAS 1 Presentation of Financial Statements). These amendments are not expected to have a significant impact on the Company.

31. IFRS 16

The Company adopted IFRS 16 Leases from 1 January 2019 and elected to apply the standard retrospectively with the cumulative effect of intial application being recognised at that date; comparative information has therefore not been restated. Comparative information was prepared in accordance with IAS 17, where the Company was lessee it charged operating lease rentals to the income statement on a straight-line basis over the life of the lease.

Operating lease commitments as at 31 December 2018 amounted to £4,983,000. Lease liabilities accounting to £4,501,000 in respect of leased properties previously accounted for as operating leases were recognised at 1 January 2019. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate appropriate for the related right-of-use asset as at that date, adjusted to excluded short-term leases and leases of low-value assets of approximately £nil. The weighted-average borrowing rate applied to these lease liabilities was 2.43%. The corresponding right-of-use asset of £4,501,000 was measured at an amount equal to the lease liabilities, adjusted for lease liabilities recognised at 31 December 2018 of £nil. The right-of-use asset and lease liabilities are included within Property, plant and equipment and Other liabilities respectively. There was no impact on shareholders' equity.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK COMMERCIAL FINANCE LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Lloyds Bank Commercial Finance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect oof the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report or Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the director's for the financial statements

As explained more fully in the statement of Director's Responsibilities Statement set out on page 6, the director is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The director is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the director is responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK COMMERCIAL FINANCE LIMITED (CONTINUED)

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Christopher J Dalton

Christopher Dalton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
17 September 2020