Lloyds Bank Commercial Finance Limited

Report & Accounts 2020

Member of Lloyds Banking Group plc

Strategic report

For the year ended 31 December 2020

The Directors present their Strategic report of Lloyds Bank Commercial Finance Limited (the "Company") for the year ended 31 December 2020.

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.

From March 2013 until January 2017, the Company entered into an agency agreement with Lloyds Bank Plc which had the effect of transferring sterling loan balances together with all associated risks and returns from the Company to Lloyds Bank Plc. As part of this agreement, the Company retained legal title and continued to service these loans as an agent of Lloyds Bank Plc alongside managing its own loan portfolio. As of 3rd January 2017, this agreement is no longer in place with the company now entering in to new business in the Company's name. The loans that were agreed as part of the agency agreement above will continue until maturity .

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 £12,297,000 (2019: £16,372,000 profit before tax)

Firstsource Solutions Limited continues to run the back office Receivables Finance and ABL operations for the Company.

The Global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to normal patterns of business activity. Due to support offered to businesses throughout the pandemic through government schemes, there has been a significant reduction in lending business of the Company during the year. The impact of COVID-19 is discussed further in Principal Risks and Uncertainties below.

Details of the Company's and Lloyds Banking Group Plc's (the "Group's") risk management policy are contained in note 28 to the financial statements.

Key performance indicators ("KPIs")

The Commerical Finance business is part of the Group's 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:

		2020	2019	Variance	
		£'000	£'000	**£'000**	**%**
a)	**Interest income (own portfolio)**				
	Receivables Finance and Asset Based Lending	**29,959**	37,527	**(7,568)**	**(20%)**
	Hire Purchase	**9**	25	**(16)**	**(62%)**
	Total (note 4)	**29,969**	37,552	**(7,583)**	**(20%)**

		2020	2019	Variance	
		£'000	£'000	**£'000**	**%**
b)	**Agency income (servicing portfolio)**				
	Agency income (note 4)	**42,320**	56,309	**(13,989)**	**(25%)**
c)	**Gross loans and advances to customers**				
	Own portfolio	**316,467**	489,714	**(173,247)**	**(35%)**
	Service portfolio	**3,909,920**	5,159,696	**(1,249,776)**	**(24%)**
	Total	**4,226,387**	5,649,410	**(1,423,023)**	**(25%)**

	2020	2019	Variance	
	No.	No.	**No.**	**%**
Number of facilities managed				
Own portfolio	**2,560**	4,071	**(1,511)**	**(37%)**
Service portfolio	**21,266**	25,622	**(4,356)**	**(17%)**
Total	**23,826**	29,693	**(5,867)**	**(20%)**

Strategic report (continued)
For the year ended 31 December 2020

Future outlook

The Company is part of the wider Group, and, at that level, the effects on the UK, European and global economies following the UK's exit from the EU-UK Trade and Cooperation Agreement signed on 30 December 2020 (the "EU-UK TCA") remain difficult to predict but may include economic and financial instability in the UK and other types of risks that could aversley impact the business of the Company, results of operations, financial conditional and prospects. In the event of any further substantial weakening in the UK's economic growth, the possibility of decreases in interest rates by the Bank of England or sustained low or negative interst rates would put further pressure on the Company's interest margins and potentially adversely affect its profitability and prospects.

Research and development activities

The Company has undertaken new developments in 2020 as it entered into a commercial pilot, Invoice Finance Management ("IFM"), with Satago Financial Solutions Limited, an established award winning FinTech, to rapidly launch a unique, best-in-class digital working capital solution for SME and Business Banking clients. It offers clients a digital, pay-as-you-go single invoice finance solution combined with digital tools to protect against late payment risk and control cashflow. IFM is expected to become an important proposition for our clients, especially during COVID-19 recovery, and it represents a huge step forward in digitising our Invoice Financing capabilities. This was initiated in Jan 2021 so does not impact the 2020 results of the Company.

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 2020, 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 and employees. The Company is a subsidiary of Lloyds Banking Group Plc ("the Group"), and as such follows many of the processes and practices of the Group, 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 the Group's customer ambitions and focussing on treating customers fairly. The Group 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 the Group's Commercial Banking 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 the Group, ensuring that the interests of the Group as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of the Group with its shareholders is included within the Strategic Report within the Lloyds Banking Group Plc Annual Report and Accounts for 2020, which does not form part of this report, available on the Group's website.

- Colleagues

The Company’s approach in respect of employees, including their engagement, is part of that of the Group, 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 2020, the Lloyds Banking Group Plc Board agreed how the Group, including the Company, would engage with the workforce. The definition of ‘workforce’, as agreed by the Board is permanent employees, contingent workers and third-party suppliers that work on Group 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 Group CEO and the Chair of the Group Remuneration Committee meet with recognised unions.

As well as its own engagement survey, of which the Company is part, the Group 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 Group 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 Group related initiatives, including Helping Britain Prosper by actively managing its current lending book. Further information in respect of the Group's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Group's Annual Report and Accounts for 2020, which does not form part of this report. Additional information on the Group'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 the Group, 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 the Group serves its customers, and through it the reach is considerable.

The Company and the Group 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 the Group and the Company’s whistleblowing service.

- 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 the Group 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 2020 the Company and Group 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, the Company 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, the Company 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 the Group, including that of the Company, to managing regulatory change is discussed further on page 11 of the Lloyds Banking Group Plc Annual Report and Accounts for 2020 available on the Group's website.

Strategic report (continued)
For the year ended 31 December 2020

Principal risks and uncertainties

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

The global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to normal patterns of business activity across the world, including in the UK, and volatility in financial markets. Measures taken to contain the health impact of the COVID-19 pandemic have resulted in an adverse impact on economic activity across the world and the duration of these measures remains uncertain. Monetary policy loosening has supported asset valuations across many financial markets, but longer-term impacts on inflation, interest rates, credit spreads, foreign exchange rates and commodity, equity and bond prices remain unclear.

Synchronisation of emergency measures to slow the spread of COVID-19 across the world has brought about rapid deterioration in economic growth across all countries and regions, directly adversely impacting the UK through many channels, including trade and capital flows. The UK experienced a deep contraction in economic activity during 2020 as a result of the COVID-19 pandemic, and both private and public sector debt have risen significantly. If the economic downturn damage were to be prolonged significantly by inability to control COVID-19 spread with vaccines, public finances would likely continue to deteriorate and could result in a sovereign downgrade that could also impact the credit ratings of the Company. No material impact on the Company's ability to raise funding would be expected however, as the Company relies on internal funding.

As a result of the COVID-19 pandemic, the potential for conduct and compliance as well as operational risks materialising has increased, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers.

The Company has seen a significant reduction in its lending business during the year as a result of government support offered to businesses throughout the pandemic. It is the intention of the Group to continue to provide funding to the Company as long as required and there is no intention to recall any intercompany funding arrangements within the next 12 months.

The 2020 Strategic report has been approved by the Board of Directors.

On behalf of the Board

B Stephenson
Director
15th July 2021

Directors' report

For the year ended 31 December 2020

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 2020.

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 £12,297,000 (2019: £16,372,000 profit before taxation) for the year as set out in the Income statement.

The Company has shareholders' equity of £55,881,000 (2019: £45,810,000).

The Company is funded entirely by other companies within the Group.

Principal risks and uncertainties

These are explained in the Strategic report (page 3) and Financial risk management note (note 28).

Dividends

No dividends were paid or proposed during the year ended 31 December 2020 (2019: £nil).

Directors

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

There was no change to Directors in 2020. The following change to Directors took place after the year end:

G Master (appointed 29 March 2021)

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.

Future developments

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

Going concern

The Company has a net asset position at the year end. The Directors have considered this, along with the expected activities of the company for the foreseeable future, and have reached the conclusion that the company will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis. The expectation of the Directors is that the results of the Company will improve once the impact of COVID has decreased.

It is the current intention of Lloyds Banking Group Plc to continue to provide financial support to the Company indefinately and there are no plans to recall any intercompany funding arrangements within the next 12 months.

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

The Group has granted to the directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the directors who joined the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this 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 in respect of the financial statements

The directors are responsible for preparing the Annual Report and the 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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' report (continued)

For the year ended 31 December 2020

Directors' confirmations

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

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the Directors of the Company resolve to terminate their appointment. Following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the Company for accounting periods ending on or after 31 December 2021.

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

B Stephenson
Director

15th July 2021

Income statement
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	4	**72,289**	93,861
Other operating income	5	**-**	11,227
Total income		**72,289**	105,088
Staff costs	6	**(15,709)**	(18,605)
Other operating expenses	7	**(31,095)**	(43,495)
Impairment	14	**(2,872)**	(2,227)
Interest payable	8	**(1,531)**	(6,331)
Depreciation of property, plant and equipment	15	**(1,557)**	(1,603)
Amortisation of computer software	16	**(7,228)**	(5,228)
Impairment of subsidiary undertaking	20	**-**	(11,227)
Total expenses		**(59,992)**	(88,716)
Profit before tax		**12,297**	16,372
Taxation	9	**(2,226)**	(3,350)
Profit after tax		**10,071**	13,022

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

Statement of Comprehensive Income

For the year ended 31 December 2020

	2020	2019
	£'000	£'000
Profit after tax	**10,071**	13,022
Other comprehensive income		
Items that will not be reclassified to profit and loss:		
- tax on retirement defined benefit scheme re-measurements	**-**	469
Other comprehensive income for the year, net of tax	**-**	469
Total comprehensive income for the year	**10,071**	13,491

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

Balance sheet

As at 31 December 2020

	Note	**2020 £'000**	2019 £'000
ASSETS			
Cash at bank	10	**371,738**	139,657
Amounts due from group undertakings	11	**106,276**	106,523
Other current assets	12	**1,057**	890
Trade and other receivables	13	**308,539**	482,738
Property, plant and equipment	15	**4,956**	6,408
Intangible assets	16	**25,196**	27,842
Deferred tax assets	17	**900**	1,539
Retirement assets	18	**-**	-
Investment in subsidiary undertakings	20	**5,439**	5,439
Total assets		**824,101**	771,036
LIABILITIES			
Amounts due to group undertakings	21	**634,821**	624,085
Trade and other payables	22	**123,551**	92,880
Current tax liability		**9,848**	8,261
Total liabilities		**768,220**	725,226
EQUITY			
Share capital	23	**1,011**	1,011
Other reserves	24	**2,399**	2,399
Retained earnings		**52,471**	42,400
Total equity		**55,881**	45,810
Total equity and liabilities		**824,101**	771,036

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

15th July 2021

Statement of changes in equity

For the year ended 31 December 2020

	Note	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2018	23, 24	1,011	2,399	28,909	32,319
Balance at 1 January 2019	23, 24	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	23, 24	**1,011**	**2,399**	**42,400**	**45,810**
Comprehensive income					
Profit for the year		**-**	**-**	**10,071**	**10,071**
Total comprehensive income		**-**	**-**	**10,071**	**10,071**
At 31 December 2020	23, 24	**1,011**	**2,399**	**52,471**	**55,881**

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

Cash flow statement
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Profit before tax		**12,297**	16,372
Adjustments for:			
- Interest expense	8	**1,531**	6,331
- Non-cash interest expense due to group undertakings		**(2,724)**	-
- Amortisation of intangible assets	16	**7,228**	5,228
- Depreciation of property, plant and equipment	15	**1,557**	1,603
- Non-cash dividends received from subsidiary undertakings	5	**-**	(11,227)
- Impairment of subsidiary undertakings	20	**-**	11,227
Operating cash flows before movements in working capital		**19,889**	29,534
Decrease/(increase) in trade and other receivables		**174,199**	(55,709)
Increase in other current assets		**(167)**	(108)
Increase in trade and other payables		**30,670**	18,053
Increase in net amounts due to group undertakings		**55,972**	73,926
Cash generated from operations		**280,564**	65,696
Interest received/(paid)		**1,193**	(6,588)
Net cash generated from operating activities		**281,757**	59,108
Cash flows used in investing activities			
Purchase of intangible assets	16	**(4,582)**	(7,000)
Purchase of property, plant & equipment	15	**(105)**	(74)
Net cash used in investing activities		**(4,687)**	(7,074)
Change in cash and cash equivalents		**277,070**	52,034
Cash and cash equivalents at beginning of year	10	**(179,923)**	(231,957)
Cash and cash equivalents at end of year	10	**97,147**	(179,923)
Cash and cash equivalents comprise of:			
Cash at bank		**371,738**	139,657
Bank overdrafts		**(274,591)**	(319,580)
Total cash and cash equivalents	10	**97,147**	(179,923)

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

Notes to the financial statements
For the year ended 31 December 2020

1. Basis of preparation

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

These financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board (IASB) and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the IFRS Interpretations Committee 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 the preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

No new IFRS pronouncements have been adopted in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2020 and which have not been applied in preparing these financial statements are given in note 30. No standards have been early adopted.

The Company is out of scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not have to report on SECR in its own Director' Report where included in the Group SECR statement of a UK Group report. Further information in respect of SECR is included within the Lloyds Banking Group plc Annual Report and Accounts for 2020, which does not form part of this report, available on the Lloyds Banking Group plc website.

The Company has a net asset position at the year end. The directors have considered this, along with the expected activities of the company for the foreseeable future, and have reached the conclusion that the company will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis.

The directors are also satisfied that it is the intention of the Group that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future.

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.

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
Right of use assets	3 - 10 years

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

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 liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

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).

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

Revenue in the Company is made up of Invoice Discounting, Invoice Factoring and Asset based lending. Within each of these many fees are applied which inlcude Fixed fees charged at the start of the contract and Continuous/Maintenance fees which are charged over the life of the contract. 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

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.

Notes to the financial statements (continued)
For the year ended 31 December 2020

2. Accounting policies (continued)

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.

2.13 Impairment of financial assets

The impairment charge in the Income statement includes the change in expected credit losses and including those arising from fraud. Expected credit losses are recognised for loans and advances to customers and other financial assets held at amortised cost. Expected credit losses are calculated as an unbiased and probability weighted estimate 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, repayments, or other mitigates of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision) 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 since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. The collective assessment of impairment aggregates financial instruments with similar risk characteristics.

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. 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 indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensure alignment between the assessment of staging and the Group's management of credit risk which utilises these internal metrics within risk management practices. 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. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. 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). On renegotiation the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate. 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.

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.

Defined contribution schemes

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.

Defined benefits schemes

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.

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.

2. Accounting policies (continued)

2.14 Employee benefits (continued)

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.

3. Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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 expected credit losses

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

Definition of default

The probability of default (PD) of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of 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 2.1 Impairment of financial assets.

Lifetime of an exposure

The PD of a financial asset is independent of its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. Changes to the assumed expected lives of the Group's assets could impact the ECL allowance recognised by the Group. The assessment of SICR and corresponding lifetime loss, and the PD, of a financial asset deemed to be Stage 2, or Stage 3, is dependent on its expected life.

Significant increase in credit risk

Performing assets are defined as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified in Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk ("SICR") since initial recognition. Credit impaired assets are transferred to Stage 3 with a lifetime expected losses allowance. The Company uses both quantitative and qualitative indicators to determine whether there has been a SICR for an asset.

The Company uses the internal credit risk classification and watchlist as qualitative indicators to identify SICR. 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.

A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no cure period is applied to Stage 3. If an exposure that is classified as Stage 2 no longer meets the SICR criteria, which in some cases include a minimum cure period, it is moved back to Stage 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. The Group monitors the effectiveness of SICR criteria on an ongoing basis.

Economic Assumptions

The rapid pace and scale of measures to contain 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 economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the commercial customers of the Company and as a result have a material adverse effect on the Company's results of operations, financial condition or prospects.

3. Critical accounting estimates and judgements (continued)

3.2 Allowance for expected credit losses (continued)

Generation of Multiple Economic Scenarios (MES)

The measurement of expected credit losses is required to reflect an unbiased probability weighted range of possible future economic outcomes. In addition to a defined base case, as used for planning, the Company's approach relies on model-generated scenarios, reducing scope for bias in the selection of scenarios and their weightings. The assumptions underpinning the base case scenario reflect the Company's best view of future events. The base case is therefore central to the range of outcomes created as no alternative conditioning assumptions are factored into the model-generated scenarios.

The Company models a full distribution of economic scenarios around this base case, ranking them using estimated relationships with industry-wide historical loss data. The full distribution is summarised by a practical number of scenarios to run through ECL models representing four sections: an upside, the base case, and a downside scenario weighted at 30 per cent each, with a severe downside scenario weighted at 10 per cent. With the base case already pre-defined, the other three scenarios are constructed as averages of constituent modelled scenarios around the 15th, 75th and 95th percentiles of the distribution. The scenario weights therefore represent the allocation to each summary segment of the distribution and not a subjective view on likelihood.

ECL sensitivity to economic assumptions

The table below shows the Company's ECL for the upside, base case, downside and severe downside scenarios. 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 the scenarios.

Impact of multiple economic scenarios	**Probability Weighted £'000**	**Upside £'000**	**Base £'000**	**Downside £'000**	**Severe downside £'000**
At 31 December 2020	8,280	7,559	7,857	8,801	10,148

4. Revenue

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

	2020 £'000	2019 £'000
Agency fee	**42,320**	56,309
Receivables Finance and Asset Based Lending	**29,959**	37,527
Hire Purchase business	**9**	25
	72,289	93,861

5. Other operating income

	2020 £'000	2019 £'000
Dividends received from subsidiary undertakings	**-**	11,227
	-	11,227

In the prior year, dividends of £11,227,000 were received from LBCF Limited.

6. Directors and employees

6.1 Staff costs

	2020 £'000	2019 £'000
Wages and salaries	**9,821**	12,715
Social security costs	**1,903**	1,845
Share-based payments	**688**	648
Other pension costs - defined benefit schemes	**2,588**	2,786
Other pension costs - defined contribution schemes	**708**	611
	15,709	18,605

The Company had an average of 203 (2019: 208) employees working within its Asset Based Lending and Hire Purchase business during the year.

Notes to the financial statements (continued)
For the year ended 31 December 2020

6. Directors and employees (continued)

6.2 Directors' emoluments

	2020 £'000	2019 £'000
Aggregate emoluments	**390**	463
Highest paid director - emoluments	**390**	463

The highest paid director did not exercise any share options in respect of qualifying services during the year (2019: nil). During the financial year no other directors exercised share options (2019: nil).

One of the directors was paid or was due to receive amounts under long-term incentive schemes in respect of qualifying services in 2020 (2019: 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 (2019: £nil).

Retirement benefits in respect of services to the Company are accruing to nil (2019: nil) directors under defined benefit pension schemes. None of the directors have benefits accruing under money purchase schemes (2019: none). The remaining directors had no retirement benefits accruing for which the cost was borne by the Company.

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 in place during the financial year, received no remuneration in respect of their services to the Company.

7. Other operating expenses

	2020 £'000	2019 £'000
Premises costs	**748**	719
Travel and motor expenses	**677**	1,377
Printing, postage and stationery	**198**	953
Agents' commission	**775**	409
Consultancy and professional fees	**14,529**	12,222
Management fees and costs recharged by other group companies	**8,622**	23,789
Other administrative expenses	**5,546**	4,026
	31,095	43,495

Fees payable to the Company's auditors for the audit of the financial statements of £135,000 (2019: £135,000) have been borne by the parent company and recharged to the Company.

8. Interest payable

	2020 £'000	2019 £'000
Interest payable to other group undertakings	**1,446**	6,231
Interest payable on leases	**85**	100
	1,531	6,331

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 2020

9. Taxation

	2020 £'000	2019 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax payable on taxable profit for the year	**(1,554)**	(3,376)
- Adjustment in respect of prior years	**(32)**	(806)
Current tax (charge)	**(1,586)**	(4,182)
UK deferred tax:		
- Origination and reversal of timing differences	**(821)**	224
- Impact of deferred tax rate change	**181**	(25)
- Adjustment in respect of prior years	**-**	633
Deferred tax (charge)/credit (see note 17)	**(640)**	832
Tax (charge)	**(2,226)**	(3,350)

Corporation tax is calculated at a rate of 19.00% (2019: 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:

	2020 £'000	2019 £'000
Profit before tax	**12,297**	16,372
Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	**(2,337)**	(3,111)
Factors affecting charge:		
- Disallowed items	**(38)**	(2,174)
- Non-taxable items	**-**	2,133
- Adjustments in respect of prior years	**(32)**	(173)
- Effect of change in tax rate and related impacts	**181**	(25)
Tax (charge) on profit on ordinary activities	**(2,226)**	(3,350)
Effective rate	**18.1%**	20.5%

10. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank	**371,738**	139,657
Overdrafts	**(274,591)**	(319,580)
Net cash	**97,147**	(179,923)

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 £371,738,000 (2019: £139,657,000) of balances with related parties (note 26).

11. Amounts due from group undertakings

	2020 £'000	2019 £'000
Amounts due from group undertakings	**106,276**	106,523
	106,276	106,523

12. Other current assets

	2020 £'000	2019 £'000
Prepayments	**572**	240
Other debtors	**486**	650
	1,058	890

Notes to the financial statements (continued)

For the year ended 31 December 2020

13. Trade and other receivables

	2020 £'000	2019 £'000
Gross Loans and advances	**316,467**	489,714
Less: allowance for losses	**(7,928)**	(6,976)
Net Loans and advances to customers	**308,539**	482,738

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance at 1 January 2020	**404,900**	**78,551**	**6,263**	**489,714**
Transfers to Stage 1	**21,872**	**(21,872)**	**-**	**-**
Transfers to Stage 2	**(32,654)**	**32,868**	**(214)**	**-**
Transfers to Stage 3	**(2,721)**	**(1,413)**	**4,134**	**-**
Net increase/(decrease) in loans and advances	**(141,432)**	**(27,909)**	**(2,165)**	**(171,506)**
Financial assets that have been written off during the year	**-**	**-**	**(1,741)**	**(1,741)**
Gross Loans and advances at 31 December 2020	**249,965**	**60,225**	**6,277**	**316,467**
Allowance for impairment losses	**(1,133)**	**(1,089)**	**(5,706)**	**(7,928)**
Net Loans and advances at 31 December 2020	**248,832**	**59,136**	**571**	**308,539**

	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

Loans and advances consists of:	2020 £'000	2019 £'000
Loans and advances to customers	**308,442**	482,320
Hire purchase contracts receivables	**97**	418
Total Loans and advances	**308,539**	482,738

Loans and advances to customers represents amounts recoverable as follows:	£'000	£'000
Not later than 1 year	**308,442**	482,320
Total Loans and advances to customers	**308,442**	482,320

Notes to the financial statements (continued)
For the year ended 31 December 2020

13. Trade and other receivables (continued)

Hire purchase contracts receivables represents amounts recoverable as follows:

	2020	2019
	£'000	£'000
Gross investment in hire purchase, receivable:		
Not later than 1 year	**97**	418
Later than 1 year and not later than 2 years	**-**	-
	97	418
Unearned future finance income on hire purchase	**-**	-
Net investment in hire purchase	**97**	418

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

	2020	2019
	£'000	£'000
Not later than 1 year	**97**	418
Later than 1 year and not later than 2 years	**-**	-
Net investment in hire purchase	**97**	418

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 (2019: £nil).

14. Allowance for impairment losses

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

In respect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2020	**(1,042)**	**(1,131)**	**(4,803)**	**(6,976)**
Transfers to Stage 1	**(337)**	**337**	**-**	**-**
Transfers to Stage 2	**187**	**(237)**	**50**	**-**
Transfers to Stage 3	**52**	**57**	**(109)**	**-**
Impact of transfers between stages	**238**	**831**	**(3,867)**	**(2,798)**
Additions/Repayments/Other changes in credit quality	**(231)**	**(946)**	**1,262**	**85**
(Charge)/credit for the year (including recoveries)	**(91)**	**42**	**(2,664)**	**(2,713)**
Advances written off	**-**	**-**	**1,741**	**1,741**
Recovery of prior advances written off	**-**	**-**	**20**	**20**
At 31 December 2020	**(1,133)**	**(1,089) -**	**(5,706)**	**(7,928)**

In respect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2020	**(146)**	**(47)**	**-**	**(193)**
Transfers to Stage 1	**(15)**	**15**	**-**	**-**
Transfers to Stage 2	**10**	**(10)**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Impact of transfers between stages	**9**	**(42)**	**-**	**(33)**
Additions/Repayments/Other changes in credit quality	**(108)**	**(18)**	**-**	**(126)**
Charge for the year (including recoveries)	**(104)**	**(55)**	**-**	**(159)**
Advances written off	**-**	**-**	**-**	**-**
Recovery of prior advances written off	**-**	**-**	**-**	**-**
At 31 December 2020	**(250)**	**(102)**	**-**	**(352)**

14. Allowance for impairment losses (continued)

In respect 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)/credit 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 respect 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)/credit for the year (including recoveries)	(80)	56	-	(24)
Advances written off	-	-	-	-
Recovery of prior advances written off	-	-	-	-
At 31 December 2019	(146)	(47)	-	(193)

15. Property, plant and equipment

	Leasehold properties £'000	**Computer and office equipment £'000**	**Motor vehicles £'000**	**Right of use assets £'000**	**Total £'000**
Cost:					
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
At 1 January 2020	**1,876**	**12,525**	**10**	**4,501**	**18,912**
Additions	**79**	**-**	**-**	**34**	**113**
Disposals	**-**	**(8)**	**-**	**-**	**(8)**
At 31 December 2020	**1,955**	**12,517**	**10**	**4,535**	**19,017**
Accumulated depreciation:					
At 1 January 2019	(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)
Charge for the year	**(192)**	**(688)**	**-**	**(685)**	**(1,565)**
Disposals	**-**	**8**	**-**	**-**	**8**
At 31 December 2020	**(1,171)**	**(11,509)**	**(10)**	**(1,371)**	**(14,061)**
Net book value at 31 December 2020	**784**	**1,008**	**-**	**3,164**	**4,956**
Net book value at 31 December 2019	897	1,696	-	3,815	6,408

Right of use assets primarily relate to leasehold property. Liabilities related to leases are disclosed in Trade & Other Payables (Note 22) on the Balance sheet. The expense relating to these leases is disclosed in Interest payable (Note 8) on the Profit and loss account.

16. Intangible assets

	2020 £'000	2019 £'000
Cost:		
At 1 January	**39,829**	32,856
Adjustment in respect of prior year	**817**	-
Additions	**3,765**	7,000
Disposals	**-**	(27)
At 31 December	**44,411**	39,829
Accumulated amortisation:		
At 1 January	**(11,987)**	(6,786)
Charge for the year	**(7,228)**	(5,228)
Disposals	**-**	27
At 31 December	**(19,215)**	(11,987)
Net book value at 31 December	**25,196**	27,842

Intangible assets primarily consist of capitalised software costs for the new Receivables Finance and ABL core system called Aquarius. Of the £25,196,000 above, 88% is attributable to the Aquarius system. The system came into operation in 2017 but costs continue to be capitalised as the functionality of the system is improved. 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.

17. Deferred taxation

The movement in the Deferred taxation is as follows:

	2020 £'000	2019 £'000
At 1 January	**1,539**	238
Income statement (charge)/credit	**(640)**	832
Other comprehensive income: pension re-measurement	**-**	469
At 31 December	**900**	1,539

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

	2020 £'000	2019 £'000
Accounting provisions disallowed	**(643)**	570
Accelerated capital allowances	**5**	274
Other temporary differences	**(2)**	(12)
Deferred tax charge/(credit)	**(640)**	832

Deferred taxation assets are comprised as follows:	2020 £'000	2019 £'000
Accelerated capital allowances	**818**	813
Accounting provisions disallowed	**-**	642
Other temporary differences	**82**	84
Total deferred taxation assets	**900**	1,539

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 Finance Bill 2021, which was substantially enacted on 24 May 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

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 2020 the charge to the Income statement in respect of this scheme was £708,000 (2019: £611,000), representing the contributions payable by the employer in accordance with the scheme rules. There are no outstanding or prepaid contributions at 31 December 2020 (2019: £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.

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.

19. Share based payments

During the year ended 31 December 2020 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 £688,000 (2019: £648,000).

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 Executive Group Ownership Share (EGOS)

The Executive Group Ownership Share (EGOS) changed its name from the Long-Term Incentive Plan (LTIP) in 2020. This scheme was introduced in 2006 is aimed at delivering shareholders 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.

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 2020 annual report and financial statements of the Company's ultimate parent company, Lloyds Banking Group plc. Copies of the ultimate parent company's 2020 annual report and financial statements may be downloaded via www.lloydsbankinggroup.com.

20. Investment in subsidiary undertakings

	2020 £'000	2019 £'000
Cost		
At 1 January	**16,666**	16,666
At 31 December	**16,666**	16,666
Provision for impairment		
At 1 January	**(11,227)**	-
Charge for the year	**-**	(11,227)
At 31 December	**(11,227)**	(11,227)
Net investment in subsidiary undertakings at 31 December	**5,439**	5,439

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%	Dormant	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

	2020 £'000	2019 £'000
Bank overdraft balances (Note 11)	**274,591**	319,580
Amounts due to other group undertakings	**360,230**	304,505
	634,821	624,085

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 SONIA 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

	2020 £'000	2019 £'000
Amounts due to clients on collections	**114,818**	78,762
Trade creditors	**498**	154
Other tax and social security	**1,996**	3,246
Accruals and deferred income	**1,868**	5,686
Other creditors	**4,372**	5,032
	123,551	92,880

23. Share capital

	2020 £'000	2019 £'000
Allotted, issued and fully paid		
101,100,000 (2019: 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 shareholders' 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.

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.

	2020 £'000	2019 £'000
At 1 January	**2,399**	2,399
At 31 December	**2,399**	2,399

25. Commitment to lend and contingent liabilities

	2020 £'000	2019 £'000
Undrawn amounts		
Revocable commitments	**169,933**	143,412
Irrevocable commitments	**14,511**	23,556
At 31 December	**184,444**	166,968

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

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 its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in early 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £31,168,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

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			**2020 £'000**	2019 £'000
Related party	Repayment	Interest		
Lloyds Bank Plc	No fixed date	N/a	**308,663**	115,169
HBOS Plc	No fixed date	N/a	**63,075**	24,488
Total cash and cash equivalents			**371,738**	139,657

Amounts due from group undertakings			**2020 £'000**	2019 £'000
Related party	Repayment	Interest rate		
United Dominions Leasing Limited	No fixed date	N/a	**105,945**	105,724
Lloyds Bank Corporate Markets Plc	No fixed date	N/a	**320**	789
Lloyds Bank Commercial Finance Scotland Limited	No fixed date	N/a	**11**	10
Other fellow group undertakings	No fixed date	N/a	**-**	-
Total amounts due from group undertaking			**106,276**	106,523

Amounts due to group undertakings			**2020 £'000**	2019 £'000
Related party	Repayment	Interest rate		
Lloyds Bank Plc	No fixed date	Various	**(326,134)**	(271,882)
HBOS Plc	No fixed date	N/a	**(30,025)**	(29,126)
LBCF Limited	No fixed date	N/a	**(751)**	(750)
Other fellow group undertakings	No fixed date	N/a	**(3,320)**	(3,564)
Total amounts due to group undertakings			**(360,230)**	(305,322)

Bank overdrafts			**2020 £'000**	2019 £'000
Related party	Repayment	Interest rate		
Lloyds Bank Plc	No fixed date	Various	**(274,591)**	(319,580)
Total bank overdrafts			**(274,591)**	(319,580)

Income statement	**2020 £'000**	2019 £'000
Agency fee		
Lloyds Bank Plc	**42,320**	56,309
Interest payable		
Lloyds Bank Plc	**1,531**	6,340
United Dominions Leasing Limited	**-**	(4)
Lloyds UDT Limited	**-**	(5)
Management fee		
Lloyds Bank Plc	**8,622**	23,789
Staff related costs		
Lloyds Bank Plc	**3,985**	4,045

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 of up to 1.10% have been incurred. On Amounts due to group undertakings rates of interest between nil and 1.10% have been incurred.

The Company paid taxation of £nil (2019: £1,469,000) during the year to fellow subsidiary undertakings.

Notes to the financial statements (continued)
For the year ended 31 December 2020

26. Related party transactions (continued)

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
United Dominions Trust Limited	Fellow group undertaking	25 Gresham Street, London EC2V 7HN
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.

27. Ultimate parent undertaking

The Company's immediate parent undertaking is Lloyds Bank Plc (incorporated in England and Wales), which is the parent undertaking of the smallest group to consolidate these Financial Statements. Copies of the consolidated Annual Report and Accounts of Lloyds Bank plc may be obtained from 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

The ultimate parent undertaking and controlling party is Lloyds Banking Group Plc, which is the parent undertaking of the largest group to consolidate these Financial Statements. Copies of the consolidated Annual Report and Accounts of Lloyds Banking Group Plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

28. 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 note 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.

	2020 **£'000**	2019 £'000
Cash and cash equivalents	**371,738**	139,657
Amounts due from other group undertakings	**106,276**	106,523
Trade and other receivables	**308,539**	489,714
	786,553	735,894

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

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 Commercial 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.

as at 31st December 2020

		Stage 1	**Stage 2**	**Stage 3**	**Total**
Grade	**PD Range**	**£'000**	**£'000**	**£'000**	**£'000**
CMS 1-10	0.00-0.50%	62,639	-	-	62,639
CMS 11-14	0.51-3.00%	73,861	5,308	-	79,169
CMS 15-18	3.01-20.00%	104,245	36,020	-	140,265
CMS 19	20.01-99.99%	9,220	18,897	-	28,117
CMS 20-23	100%	-	-	6,277	6,277
		249,965	60,225	6,277	316,467

as at 31st December 2019

		Stage 1	Stage 2	Stage 3	Total
Grade	PD Range	£'000	£'000	£'000	£'000
CMS 1-10	0.00-0.50%	97,158	-	-	97,158
CMS 11-14	0.51-3.00%	123,304	13,997	-	137,301
CMS 15-18	3.01-20.00%	164,621	39,605	-	204,226
CMS 19	20.01-99.99%	19,817	24,949	-	44,766
CMS 20-23	100%	-	-	6,263	6,263
		404,900	78,551	6,263	489,714

Credit concentration - Trade and other receivables

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

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 2020

	On demand £'000	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Bank overdraft	**274,591**	**-**	**-**	**-**	**-**	**274,591**
Amount due to clients on collections	**114,818**	**-**	**-**	**-**	**-**	**114,818**
Amount due to group undertakings	**360,230**	**-**	**-**	**-**	**-**	**360,230**
	749,639	**-**	**-**	**-**	**-**	**749,639**

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	305,322	-	-	-	-	305,322
	703,664	-	-	-	-	703,664

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

The sensitivity analysis is based on the Company's Loans and advances to customers and Amounts due to group undertakings and takes account of movement in the Bank of England base rate and SONIA (2019: LIBOR) which are the basis for the interest rate on loans and advances to customers and intercompany balances. A 0.54% increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as the Bank of England base rate decreased by 0.54% during the year. A 0.66% increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as this is the amount by which SONIA (2019: LIBOR) decreased in the year.

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.

	2020	**2020**	2019	2019
	Carry value	**Fair value**	Carry value	Fair Value
Financial assets	**£'000**	**£'000**	£'000	£'000
Cash at bank	**371,738**	**371,738**	139,657	139,657
Amounts due from group undertakings	**106,276**	**106,276**	106,523	106,523
Trade and other receivables	**308,539**	**308,539**	482,738	482,738
Financial liabilities				
Amounts due to clients on collections	**114,818**	**114,818**	78,762	78,762
Amounts due to group undertakings	**360,230**	**360,230**	305,322	305,322
Bank overdrafts	**274,591**	**274,591**	319,580	319,580

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 financial 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.

28. Financial risk management (continued)

28.5 Fair values of financial assets and liabilities

Valuation of financial 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 2020	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Cash at bank	**371,738**	**-**	**-**	**371,738**
Amounts due from group undertakings	**-**	**106,276**	**-**	**106,276**
Trade and other receivables	**-**	**308,539**	**-**	**308,539**
Financial liabilities				
Amounts due to clients on collections	**-**	**114,818**	**-**	**114,818**
Amounts due to group undertakings	**-**	**360,230**	**-**	**360,230**
Bank overdrafts	**274,591**	**-**	**-**	**274,591**

At 31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Cash at bank	139,657	-	-	139,657
Amounts due from group undertakings	-	106,523	-	106,523
Trade and other receivables	-	482,738	-	482,738
Financial liabilities				
Amounts due to clients on collections	-	78,762	-	78,762
Amounts due to group undertakings	-	305,322	-	305,322
Bank overdrafts	319,580	-	-	319,580

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

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 shareholders 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 9. 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, the Company has entered into a commercial pilot, Invoice Finance Manager (IFM), with Satago Financial Solutions Limited, an established award winning Financial Technology company, to rapidly launch a unique, best-in-class digital working capital solution for SME and Business Banking clients. It offers clients a digital, pay-as-you-go single invoice finance solution combined with digital tools to protect against late payment risk and control cashflow. Since the initiation of the pilot in January 2021, the company has provided £100,000 of lending to SME and Business Banking clients.The commercial pilot is anticipated to run for up to 6 months with the acquisition of up to 250 clients and if success criteria are met is expected to lead to a 5 year term agreement.

30. Future developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2020 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes is being assessed by the Company, however, the initial view is that this is not expected to cause any material adjustments to the reported numbers in the financial statements.

With the exception of certain minor amendments, as at 31 December 2020 these pronouncements have been endorsed for use in the United Kingdom.

Pronouncement	**Nature of change**	**Effective date**
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	The IASB's Phase 2 amendments in response to issues arising from the planned replacement of interest rate benchmarks in a number of jurisdictions are effective for annual periods beginning on or after 1 January 2021. Under these amendments, an immediate gain or loss is not recognised in the income statement where the contractual cash flows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms. In addition, hedge accounting is continued for relationships that are directly affected by the reform. These amendments are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2021
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company.	1 January 2021 and 1 January 2022

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company.

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 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020; 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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 and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are 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 directors are 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 directors are 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of industry laws and regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manual elements of the control environment, specifically the posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Obtaining an understanding of the legal and regulatory framework applicable to the company and how the company is complies with that framework;
- Held discussions with management and those charged with governance including making specific inquiries about any consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewed minutes of meetings of those charged with governance along with key transaction documents; and
- Tested a sample of manual journal entries and other adjustments impacting the company's the accounting records.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

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 obtained 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
16 July 2021