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LLOYDS BANK COMMERCIAL FINANCE LIMITED

Annual report and financial statements for the year ended 31 December 2017

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Member of Lloyds Banking Group plc

Registered Number: 00733011

LLOYDS BANK COMMERCIAL FINANCE LIMITED

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LLOYDS BANK COMMERCIAL FINANCE LIMITED

COMPANY INFORMATION

DIRECTORS

D K Reed
B Stephenson

COMPANY SECRETARY
P Gittins

INDEPENDENT AUDITORS
PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

BANKERS

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

REGISTERED OFFICE

No. 1 Brookhill Way
Banbury
Oxon
OX16 3EL

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

00733011

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their Strategic Report of Lloyds Bank Commercial Finance Limited ("the Company") for the year ended 31 December 2017.

Principal activities

The principal activity of the Company is to provide Receivables Finance and Asset Based Lending ("ABL") to Commercial customers primarily based in the United Kingdom and Hire Purchase ("HP") finance of plant and equipment mainly to Small and Medium sized Entities ("SMEs").

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 Lloyds Banking Group plc's ("the Group") aim of simplification. 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. Consequently, Receivables Finance and ABL business remaining in the Company at the 31st December 2016 was primarily denominated in foreign currency. As of 3rd January 2017, this agreement is no longer in place with the company now entering into new business in sterling as well as foreign currency. The loans that were agreed as part of the agency agreement above will continue until maturity.

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

Business review, development and performance

The Company made a profit before tax of £12,926k (2016: £13,102k) which represents a decrease on the prior year of 1.34% (2016: decrease of 25.7%).

During 2015, the Company entered into an agreement to outsource its back office Receivables Finance and ABL operations to Firstsource Solutions Limited. The initial impact of this agreement was to move over 300 employees to Firstsource Solutions Limited and for the Company to pay a monthly fee for the provision of the service. Day to day operations have been largely unaffected by this arrangement which has continued throughout 2017.

The Company continues to incur costs as it develops a new Receivables Finance and ABL core system called Aquarius and once the new system is ready for use, amortisation will begin in relation to this intangible asset.

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

Key performance indicators ('KPIs')

KPIs are now regarded as income from external customers, agency fees from Lloyds Bank Plc, loans and advances to customers and average numbers of clients from both its own and servicing loan portfolios.

	2017	2016	Variance	
	£'000	£'000	£'000	%
1. Interest income (own portfolio)				
Receivables Finance and Asset Based Lending	**22,404**	13,995	8,409	60.1
Hire Purchase	**109**	1,448	(1,339)	(92.5)
Total (note 3)	**22,513**	15,443	7,070	45.8

Interest income has increased due to the company now entering into new business in sterling following the end of the agency agreement with Lloyds Bank plc on 3rd January 2017.

	2017	2016
	%	%
EIR % (own portfolio)		
Receivables Finance and Asset Based Lending	**3.0**	2.0
Hire Purchase	**(2.9)**	4.1

Key performance indicators ('KPIs') continued

	2017	2016	Variance	
	£'000	£'000	£'000	%
2. Agency income (servicing portfolio)				
Agency fee (note 3)	**88,150**	87,820	330	0.4

	2017	2016	Variance	
	£'000	£'000	£'000	%
3. Gross loans and advances to customers				
Own portfolio (note 13)	**294,081**	367,806	(73,725)	(20.0)
Servicing portfolio	**5,049,938**	5,322,631	(272,693)	(5.1)
Total	**5,344,019**	5,690,437	(346,418)	(6.1)

	2017	2016	Variance	
	No.	No.	No.	%
Average number of clients				
Own portfolio	**871**	1,614	(743)	(46.1)
Servicing portfolio	**24,575**	24,197	378	1.6
Total	**25,446**	25,811	(365)	(1.4)

Future developments

Other than the developments referred to above, there are no other developments planned for the Company.

Capital position at 31 December 2017

Total equity per the balance sheet on page 11 amounts to £24,315k (2016: £12,000k).

Principal risks and uncertainties

The most significant risk faced by the Company which could impact on the success of delivering against the Company's long-term strategic objective is credit risk. This relates primarily to the non-payment of monies owed by customers. The Company has a rigorous process of monitoring such risk and instructs agents to repossess assets if required. The Company currently has exposure to foreign exchange risk with some agreements denominated in currencies other than sterling.

Information regarding the financial risk management objectives and policies of the Company in relation to the use of financial instruments is given in note 26. The objectives and policies of the board are designed to minimise the amount of financial risk that the Company is exposed to. The directors also consider non-financial business risk and uncertainties faced by the Company and have nothing specific to report in these financial statements.

The 2017 Strategic Report has been approved by the Board of Directors.

On behalf of the Board:

B Stephenson
Director
Date: 26 September 2018
Lloyds Bank Commercial Finance Limited

LLOYDS BANK COMMERCIAL FINANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their Directors' Report together with the audited financial statements of the Company for the year ended 31 December 2017.

General Information

The Company is a limited company registered and domiciled in England and Wales.

Results

The Statement of Comprehensive Income on page 10 shows a total comprehensive profit for the year ended 31 December 2017 of £12,315k (2016: £16,650 loss).

Principal risks and uncertainties

These are explained in the Strategic Report. Financial risk management is included in note 26.

Policy and practice on payment of suppliers

The Company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref. URN 04/606.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

Trade creditor days at the year-end was 7 days (2016: 1 day), based on the ratio of trade creditors at the end of the year to amounts invoiced during the year by suppliers.

Dividends

There were no dividends paid during the year (2016: £nil). No final dividend has been paid or proposed for the year ended 31 December 2017.

Going concern

The going concern of the Company is dependent on successfully funding its balance sheet and maintaining adequate levels of capital. In order to satisfy itself that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have obtained a letter of support from Lloyds Bank plc. Consequently, the Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Future developments

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

Directors

The names of the Directors of the Company are shown on page 2. Changes to the composition of the Board since 1 January 2017 up to the date of this report are shown below:

	Resigned	Appointed
A K Walker	27 February 2018	-

Appointment and retirement of Directors

The appointment of Directors is governed by the Company's articles of association and the Companies Act 2006. The Company's articles of association may only be amended by a special resolution of the shareholder in a general meeting.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the company, including former directors who resigned during the year, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Act. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. Directors no longer in office but who served on the board of the company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. 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.

Share capital and dividends

Information about share capital and dividends is shown in note 18.

Research and development activities

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

Employees

The Company is committed to employment policies that follow best practice, based on equal opportunities for all employees irrespective of sex, race, national origin, religion, colour, disability, sexual orientation, age or marital status.

The Group gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in maintaining its. The Group encourages involvement of employees.

Schemes offering share options for the acquisition of shares in Lloyds Banking Group plc are available for most staff, to encourage their financial involvement in the Group.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Statement of directors' responsibilities

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

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

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

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

Disclosure of information to independent auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the 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
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

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

Approved by the Board of Directors.

On behalf of the Board:

B Stephenson
Director
Date: 26 September 2018
Lloyds Bank Commercial Finance Limited
Registered in England & Wales
Company Number 00733011

LLOYDS BANK COMMERCIAL FINANCE LIMITED

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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements for the year ended 31 December 2017 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

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

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 2017 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 set out on page 7, 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.

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

We have no exceptions to report arising from this responsibility.

Darren Meek

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 September 2018

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Revenue	3	**110,663**	103,263
Other operating income	4	**102**	264
Total income		**110,765**	103,527
Staff costs	5	**(26,661)**	(31,641)
Other operating expenses	6	**(62,455)**	(55,213)
Interest payable	7	**(4,568)**	(953)
Amortisation of computer software	10	**(3,109)**	(1,112)
Depreciation of property, plant and equipment	11	**(1,046)**	(1,506)
Total expenses		**(97,839)**	(90,425)
Profit before tax	8	**12,926**	13,102
Tax charge	9	**(2,282)**	(2,581)
Profit for the year		**10,644**	10,521
Other comprehensive income/(loss):			
Items that will be reclassified subsequently to profit and loss once specific conditions are met:			
- changes in fair value of available-for-sale financial assets	12	**-**	**103**
- tax on changes in fair value		**20**	**(20)**
- amounts recognised in income statements		**(103)**	**-**
Items that will not be reclassified subsequently to profit and loss:			
- retirement defined benefit scheme re-measurements before tax	20	**2,113**	(33,647)
- tax on retirement defined benefit scheme re-measurements		**(359)**	6,393
Other comprehensive income/(loss) for the year, net of tax		**1,671**	(27,171)
Total comprehensive income/(loss) for the year		**12,315**	(16,650)

All amounts are attributable to the owners of the Company.

The notes on pages 14 to 42 are an integral part of these financial statements.

All results derive from continuing activities.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

BALANCE SHEET
As at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Non-current assets			
Intangible assets	10	16,918	18,458
Property, plant and equipment	11	4,401	6,541
Investments	12	16,666	16,786
Trade and other receivables	13	1,059	3,490
Deferred tax assets	16	260	841
Retirement benefits	20	3,250	16
		42,554	46,132
Current assets			
Trade and other receivables	13	291,183	358,327
Other current assets	14	568	767
Cash and cash equivalents	15	161,476	178,387
		453,227	537,481
Total assets		495,781	583,613
EQUITY AND LIABILITIES			
LIABILITIES			
Current liabilities			
Trade and other payables	17	40,890	29,346
Amounts owed to group undertakings	17	427,066	540,797
Current tax payable		3,510	1,470
		471,466	571,613
EQUITY			
Share capital	18	1,011	1,011
Revaluation reserve	18	2,399	2,399
Available-for-sale reserve		-	83
Retained earnings		20,905	8,507
Total equity		24,315	12,000
Total equity and liabilities		495,781	583,613

All amounts are attributable to the owners of the Company.

The notes on pages 14 to 42 are an integral part of these financial statements.

The financial statements on pages 10 to 42 were approved by the Board of Directors and were signed on its behalf by:

B Stephenson
Director
Date: 26 September 2018
Company number: 00733011

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Note	Share capital £'000	Revaluation reserve £'000	AFS reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016		1,011	2,399	-	25,240	28,650
Comprehensive income						
Profit for the year		-	-	-	10,521	10,521
Other comprehensive (loss)/income						
Retirement defined benefit scheme re-measurements (net of tax)		-	-	-	(27,254)	(27,254)
Available for sale financial assets		-	-	83	-	83
Total comprehensive loss		**-**	**-**	**83**	**(16,733)**	**(16,650)**
Balance at 31 December 2016		1,011	2,399	83	8,507	12,000
Comprehensive income						
Profit for the year		-	-		10,644	10,644
Other comprehensive income/(loss)						
Retirement defined benefit scheme re-measurements (net of tax)		-	-		1,754	1,754
Available for sale financial assets		-	-	(83)	-	(83)
Total comprehensive income		**-**	**-**	**(83)**	**12,398**	**12,315**
Balance at 31 December 2017		**1,011**	**2,399**	**-**	**20,905**	**24,315**

All amounts are attributable to the owners of the Company.

The notes on pages 14 to 42 are an integral part of these financial statements.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash used in operations	19	**(95,579)**	(92,581)
Interest paid		**(4,329)**	(552)
Tax paid via group relief		**-**	(2,109)
Net cash used in operating activities		**(99,908)**	(95,242)
Cash flows from investing activities			
Purchase of intangible assets	10	**(1,569)**	(2,364)
Purchase of property, plant and equipment	11	**(104)**	(370)
Proceeds on disposal of investments	12	**120**	-
Dividends received	4	**-**	264
Net cash used in investing activities		**(1,553)**	(2,470)
Net decrease in cash and cash equivalents		**(101,461)**	(97,712)
Cash and cash equivalents net of overdrafts at beginning of year		**(79,900)**	17,812
Cash and cash equivalents net of overdrafts at end of year	15	**(181,361)**	(79,900)

The notes on pages 14 to 42 are an integral part of these financial statements.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. **Accounting policies**

Lloyds Bank Commercial Finance Limited is a private limited liability company incorporated and domiciled in England & Wales and limited by shares.

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

a) Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 as applicable to companies using IFRS and IFRS Interpretations Committee (IFRS IC) interpretations. They have also been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

These financial statements contain information about the Company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under IFRS 10 "Consolidated Financial Statements" and Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company (see note 24).

There are no new IFRS pronouncements relevant to the Company requiring adoption in these financial statements.

Details of those IFRS pronouncements which will be relevant in future periods but are not yet effective and so have not been applied in preparing these financial statements are set out in note 29.

b) Financial assets and financial liabilities

Financial assets and liabilities comprise trade and other receivables, other debtors, trade creditors, amounts owed to group undertakings, amounts due to clients and other creditors. Loans and advances to customers are accounted for at amortised cost inclusive of transaction costs and are amortised using the effective interest rate method. Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' when the rights to receive cash flows, or obligations to pay cash flows, have expired. This applies to loans transferred to Lloyds Bank plc.

As lessor, when assets are held subject to a hire purchase contract, the present value of the lease payments plus any unguaranteed residual payments where applicable, are recognised as a receivable within loans and advances to customers (being the company's net investment in the lease).

Lease agreements are classified as finance leases or hire purchase agreements if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee.

1. Accounting policies (continued)

c) 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 12 to the financial statements. Subsidiaries comprise of leasing, investment and dormant companies. These are carried at cost less impairment provisions.

Available-for-sale financial assets
All other investment securities are classified as available-for-sale. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the Balance Sheet at fair value. Unrealised gains or losses arising from changes in the fair values are recognised in the Statement of Comprehensive Income and accumulated in the available-for-sale reserve, until the financial asset is either sold or matures, at which time the previously unrealised gains and losses are reclassified from other comprehensive income to profit or loss on disposal of investments in the Income Statement, except for impairment losses which are recognised immediately in the Income Statement as impairment on investment securities. Income from equity shares is recognised in investment income in the period in which they occur.

d) 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

e) 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).

f) Tax

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

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1. Accounting policies (continued)

g) Employee benefits

Pensions

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within Lloyds Banking Group plc. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity.

The asset recognised in the balance sheet in respect of defined benefit pension plans is the Company's share of the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

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

For defined contribution plans, the Company pays contributions into privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no legal or constructive obligation to pay further contributions. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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 statement of comprehensive income over the remaining vesting period.

1. Accounting policies (continued)

h) Leases

Operating lease rentals payable on property and equipment are recognised as an expense in the statement of comprehensive income on a straight line basis over the period of the lease.

i) Foreign currency translation

a) 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.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. The results of the foreign operations exchange differences arising from the translation of the net investment are taken to shareholders' equity via the Statement of Comprehensive Income.

j) Impairments

Financial assets

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

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

If there is no objective evidence of individual impairment the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The method and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between the loss estimates and actual loss experience. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the provision is adjusted and the amount of the reversal is recognised in the statement of comprehensive income.

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.

1. Accounting policies (continued)

j) Impairments (continued)

Non-financial assets (continued)

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.

Intangibles - 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.

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

k) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, 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.

l) Revenue recognition

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

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

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

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

1. Accounting policies (continued)

l) Revenue recognition (continued)

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 the Bank 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 the Bank.

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.

m) Dividends

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

n) Offsetting financial instruments

With the exception of deferred tax assets and liabilities which are analysed separately for clarity (note 16), 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.

o) 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.

p) 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 Statement of comprehensive income over the period of the borrowings using the effective interest method.

q) Share capital

Ordinary shares are classified as equity (note 18). Dividends paid on the Company's ordinary shares are recognised as a reduction in equity in the period in which they are approved.

2. Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgements 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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment losses on loans and advances to customers

The allowance for impairment losses on loans and receivables is management's best estimate of known and potential losses in the portfolio at the balance sheet date. In determining the required level of impairment provisions, management use the output from various statistical models. Management judgement is required to assess the robustness of the outputs from these models and, where necessary, make appropriate adjustments. Impairment allowances are made up of two components, those determined individually and those determined collectively.

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

Impairment losses on loans and advances to customers (continued)
Individual impairment allowances are established where a customer is in default or there are indicators that a default may occur. Assets are monitored closely and any adverse indicators in relation to the ability to repay are assessed when considering whether an individual impairment is required. For such individually identified financial assets, a review is undertaken of the expected future cash flows which requires significant management judgement as to the amount and timing of such cash flows. Where the debt is secured, the assessment reflects the expected cash flows from the realisation of the security, net of costs to realise, whether or not foreclosure or realisation of the collateral is probable. The determination of individual impairment allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions and the resulting trading performance of the customer, and the value of the security held, for which there may not be a readily accessible market. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

Collective provisions are established for losses that have been incurred but have not been separately identified at the balance sheet date. An assessment is made of the likelihood of assets being impaired at the balance sheet date and being identified subsequently; the length of time taken to identify that an impairment event has occurred is known as the loss emergence period and this is determined by management with reference to historic data trends and the characteristics of the portfolio. Loss emergence periods and the likelihood of impairment are reviewed regularly and updated when appropriate. Management use a significant level of judgement when determining the collective unidentified impairment provision, including the assessment of the level of overall risk existing within particular sectors and the impact of the low interest rate environment on loss emergence periods.

De-recognition of financial assets
Financial assets transferred from the Company to Lloyds Bank plc ("the Bank") have been derecognised in the balance sheet of the Company in accordance with the de-recognition criteria of IAS 39. The legal title to the assets remains with the Company but the assets have been deemed to be transferred to the Bank in accordance with IAS 39.

IAS 39 paragraph 17 allows an entity to derecognise a financial asset when certain de-recognition criteria are met. An entity transfers a financial asset if, and only if "it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 19".

The Company must also be satisfied that the risks and rewards of ownership have been transferred from the Company to the Bank in accordance with paragraph 20 of IAS 39. The transfer of risks and rewards is evaluated by comparing the entity's exposure before and after the transfer with the variability in amounts and timing of the net cash flows. The Company will be deemed to have transferred all risks and rewards if its exposure to the variability is no longer significant.

The assets have been transferred in return for a fixed mark-up on the cost of servicing the assets. All discount charges and interest payable by and collected from Agency Clients and goods purchase fees will be income of the Bank. The Bank will bear the credit risk in relation to each agency fee arrangement related Lloyds Bank Commercial Finance Limited facility and it is liable for and will reimburse Lloyds Bank Commercial Finance Limited for any losses relating to the loans transferred to the Bank.

Any potential variability in cash flows are the responsibility of the Bank, any cash flows that the Company does not receive from clients due to impairment or other reasons, will be reimbursed by the Bank. Therefore the fees received by the Company under the servicing arrangements are fixed at the outset and not likely to vary.

On this basis the directors are satisfied that the terms of the transfer meet the requirements for de-recognition of the financial assets in the Company.

The directors considered whether a servicing asset or liability arises on the transfer of assets. Paragraph 24 of IAS 39 states that; if the fee to be received is expected to be more than adequate compensation for the servicing, the entity should recognise a servicing asset for the servicing rights. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, the entity should recognise a servicing liability for the servicing obligations at its fair value. The directors have satisfied themselves that the servicing margin is a market rate and is adequate compensation. Therefore no servicing asset or liability has been recognised.

3. Revenue

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

	2017 £'000	2016 £'000
Hire Purchase business	**109**	1,448
Receivables Finance and Asset Based Lending	**22,404**	13,995
Agency fee (note 25)	**88,150**	87,820
	110,663	103,263

4. Other operating income

	2017 £'000	2016 £'000
Gain on disposal of investments	**102**	-
Dividends received	**-**	264
Total	**102**	264

5. Directors and employees

a) Staff costs

The monthly average number of Full Time Equivalent Employees (FTEs) employed by the Company during the year was as follows:

By activity	**2017 Number**	2016 Number
Hire purchase	**62**	90
Asset based lending	**349**	407
Directors	**1**	1
	412	498

Staff costs:	**2017 £'000**	2016 £'000
Wages and salaries	**20,924**	25,489
Social security costs	**3,133**	2,674
Share-based payments (note 21)	**570**	841
Other pension costs - defined benefit schemes (note 20)	**783**	964
Other pension costs - defined contribution schemes (note 20)	**1,251**	1,673
	26,661	31,641

b) Directors' emoluments

	2017 £'000	2016 £'000
Aggregate emoluments	**536**	381
Highest paid director:		
- Emoluments	**536**	381

5. Directors and employees (continued)

b) Directors' emoluments (continued)

The highest paid director exercised 22,156 share options in respect of qualifying services during the year (2016: 22,156). During the financial year no other directors exercised share options (2016: nil).

One of the directors was paid or was due to receive amounts under long-term incentive schemes in respect of qualifying services in 2017 (2016: 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 (2016: £nil).

Retirement benefits in respect of services to Lloyds Bank Commercial Finance Limited are accruing to £nil (2016: £nil) directors under defined benefit pension schemes. None of the directors have benefits accruing under money purchase schemes (2016: none). The remaining directors had no retirement benefits accruing for which the cost was borne by Lloyds Bank Commercial Finance Limited.

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

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

6. Other operating expenses

	2017 £'000	2016 £'000
Loss on disposal of fixed assets (note 11)	**1,147**	-
Impairment credit on loans and advances to customers (note 26.1)	**(803)**	(388)
Premises costs	**1,809**	2,405
Travel and motor expenses	**2,691**	3,219
Printing, postage and stationery	**(95)**	445
Agents' commission	**226**	255
Consultancy and professional fees	**12,678**	15,753
Indirect staff costs	**600**	535
Marketing fees	**22**	60
Management fees and costs recharged by other group companies (note 25)	**38,209**	30,678
Other administrative expenses	**5,971**	2,251
	62,455	55,213

7. Interest payable

	2017 £'000	2016 £'000
On balances with group undertakings (note 25)	**4,568**	953

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.

LLOYDS BANK COMMERCIAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Profit before tax

Profit before tax is stated after charging:

	2017 £'000	2016 £'000
Operating lease payments on property and equipment	**1,012**	1,608
Services provided by the Company's auditors and its associates		
Fees payable to Company's auditors for the audit of these financial statements	**120**	120

Audit fees are borne by Lloyds Bank plc and amounts disclosed are the amounts recharged to Lloyds Bank Commercial Finance Limited.

9. Tax charge

a) Analysis of charge for the year

	2017 £'000	2016 £'000
UK corporation tax:		
Current tax on profit for the year	**2,309**	1,470
Adjustment in respect of prior years	**(269)**	201
Current tax charge	**2,040**	1,671
Origination and reversal of timing differences	**222**	1,156
UK corporation tax rate change and related impacts	**(26)**	(58)
Adjustment in respect of prior years	**46**	(188)
Deferred tax (note 16)	**242**	910
Tax charge for the year	**2,282**	2,581

The charge for tax on the profit for the year is based on a UK corporation tax rate of 19.25% (2016: 20.00%).

b) Factors affecting the tax charge for the year

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

	2017 £'000	2016 £'000
Profit before tax	**12,926**	13,102
Tax charged at UK corporation tax rate of 19.25% (2016: 20.00%)	**2,488**	2,620
Factors affecting charge:		
Disallowed and non-taxable items	**44**	6
Adjustment in respect of prior years	**(224)**	13
UK corporation tax rate change and related impacts	**(26)**	(58)
Tax on profit on ordinary activities	**2,282**	2,581
Effective rate	**17.7%**	19.7%

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

The Finance Act 2016 further reduced the corporation tax rate to 17% with effect from 1 April 2020.

10. Intangible assets

Cost	Computer Software £'000	Total £'000
At 1 January 2016	22,730	22,730
Additions	2,364	2,364
At 31 December 2016	25,094	25,094
Additions	1,569	1,569
Disposals	(5,672)	(5,672)
At 31 December 2017	**20,991**	**20,991**
Accumulated amortisation		
At 1 January 2016	5,524	5,524
Charge for the year	1,112	1,112
At 31 December 2016	6,636	6,636
Charge for the year	3,109	3,109
Disposals	(5,672)	(5,672)
At 31 December 2017	**4,073**	**4,073**
Net book value:		
At 31 December 2017	**16,918**	**16,918**
At 31 December 2016	18,458	18,458

Additions to computer software during the year relate to costs for new systems which are in the course of construction. The new systems will replace existing receivables finance and asset based lending systems. Amortisation charges on the new system will begin once the systems are available for use.

11. Property, plant and equipment

	Lease hold properties £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2016	3,155	15,840	10	19,005
Additions	68	302	-	370
Disposals	(1)	-	-	(1)
At 31 December 2016	3,222	16,142	10	19,374
Additions	40	64	-	104
Disposals	(1,479)	(3,688)	-	(5,167)
At 31 December 2017	**1,783**	**12,518**	**10**	**14,311**
Accumulated depreciation				
At 1 January 2016	621	10,696	10	11,327
Charge for the year	300	1,206	-	1,506
At 31 December 2016	921	11,902	10	12,833
Charge for the year	197	849	-	1,046
Disposals	**(502)**	**(3,467)**	-	**(3,969)**
At 31 December 2017	**616**	**9,284**	**10**	**9,910**
Net book value:				
At 31 December 2017	**1,167**	**3,234**	-	**4,401**
At 31 December 2016	2,301	4,240	-	6,541

Leasehold properties have been extracted from Computer and office equipment in the fixed asset register above.

11. Property, plant and equipment (continued)

The Company exited two leasehold properties during March and April 2017 and a loss on exit of £1,147k was realised.

12. Investments

	2017 £'000	2016 £'000
Investment in group undertakings		
Investment in group undertakings at 1 January	**16,666**	16,666
Investment in group undertakings at 31 December	**16,666**	16,666
Available-for-sale investments		
Available-for-sale investments at 31 December	**-**	120
Total investments at 31 December	**16,666**	16,786

The companies that were disposed of during 2017 were the assets which were held as being available-for-sale in 2016: London Enterprise Investments Limited and Independent Growth Finance Limited.

a) Investment in group undertakings

Details of the group undertakings are noted below.

The Company owns 100% of the ordinary share capital of each of the following subsidiaries. With the exception of Lloyds Bank Commercial Finance Scotland Limited, which is registered in Scotland, all of the other subsidiaries are wholly owned and registered in England and Wales:

Name of company	Principal Business	Reference date	Country of incorporation
Alex Lawrie Factors Limited	Dormant	31 December	UK
Alex. Lawrie Receivables Financing Limited	Dormant	31 December	UK
Eurolead Services Holdings Limited	Dormant	31 December	UK
Lloyds Bank Commercial Finance Scotland Limited	Leasing	31 December	UK
LBCF Limited	Dormant	31 December	UK

The proportion of voting rights in the group undertakings held directly by the Company does not differ from the proportion of ordinary shares held.

With the exception of Alex Lawrie Factors Limited which is in a net liability position and carried at a nil value, the directors consider the value of investments to be supported by their underlying assets.

All subsidiaries with the exception of Lloyds Bank Commercial Finance Scotland are registered at No. 1 Brookhill Way, Banbury, OX16 3EL. Lloyds Bank Commercial Finance Scotland is registered at 110 St Vincent Street, Glasgow, G2 4QR.

12. Investments (continued)

b) Available-for-sale investments

The movement in available-for-sale securities can be summarised as follows:

	2017 £'000	2016 £'000
Investment in available-for-sale equity securities		
Investments at 1 January	**120**	17
Disposals	**(17)**	-
Movements in available-for-sale equity securities	**-**	103
Transferred to income statement	**(103)**	-
Total investments at 31 December	**-**	120

Available-for-sale equity securities are carried at fair value through the Company's balance sheet and reportable within valuation hierarchy level 3. For definitions of the valuation methodology levels, please see note 27.

13. Trade and other receivables

Amounts falling due within one year	2017 £'000	2016 £'000
Loans and advances to customers	**293,022**	190,352
Amounts receivable under non-recourse factoring agreements	**-**	173,964
	293,022	364,316
Less allowance for losses on loans and advances (note 26.1)	**(1,839)**	(5,989)
	291,183	358,327

Amounts falling due after more than one year	2017 £'000	2016 £'000
Loans and advances to customers	**1,059**	3,490

Loans and advances to customers relating to hire purchase:	2017 £'000	2016 £'000
Gross investment in hire purchase contracts receivable:		
- no later than one year	**1,945**	11,852
- later than one year and no later than five years	**1,059**	3,510
- later than five years	**-**	-
	3,004	15,362
Unearned future finance income on hire purchase contracts	**(89)**	(379)
Net investment in hire purchase contracts	**2,915**	14,983

The net investment in hire purchase contracts may be analysed as follows:

	2017 £'000	2016 £'000
- no later than one year	**1,891**	11,578
- later than one year and no later than five years	**1,024**	3,405
- later than five years	**-**	-
	2,915	14,983

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 (2016: £nil).

14. Other current assets

	2017 £'000	2016 £'000
Prepayments	**251**	497
Other debtors	**317**	270
	568	767

15. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	**161,476**	178,387
Overdrafts (note 17)	**(342,837)**	(258,287)
Net cash	**(181,361)**	(79,900)

Cash and cash equivalents comprise cash and balances held at banks with a maturity of less than 3 months. Included in cash at bank and in hand is £161,476k (2016: £167,527k) of balances with related parties (note 25).

16. Deferred tax

The movement in the net deferred tax balance is as follows:

	2017 £'000	2016 £'000
At 1 January	**841**	(4,622)
Statement of Comprehensive Income charge (note 9)	**(242)**	(910)
Other Comprehensive Income: pension re-measurement	**(359)**	6,393
Other Comprehensive Income: AFS reserve movement	**20**	(20)
At 31 December	**260**	841

The deferred tax charge in the Statement of Comprehensive Income comprises the following temporary differences:

	2017 £'000	2016 £'000
Pensions	**(190)**	(378)
Accelerated capital allowances	**(38)**	(210)
Other temporary differences	**(14)**	(322)
	(242)	(910)

Deferred tax balance at 31 December comprises:

	2017 £'000	2016 £'000
Pensions	**(552)**	(3)
Accelerated capital allowances	**736**	775
Other temporary differences	**76**	69
Deferred tax asset	**260**	841

	2017 £'000	2016 £'000
Deferred tax balance is settled as follows:-		
After more than 12 months	**260**	841

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

The Finance Act 2016 further reduced the corporation tax rate to 17% with effect from 1 April 2020.

17. Trade and other payables

	2017 £'000	2016 £'000
Amounts due to clients on collections	**27,343**	14,368
Due to clients on collection under non-recourse factoring agreements	**-**	341
Trade creditors	**555**	46
Other tax and social security	**4,330**	4,669
Accruals and deferred income	**7,385**	9,526
Other creditors	**1,277**	396
	40,890	29,346
Amounts owed to group undertakings (note 25):		
- Bank overdraft balances (note 15)	**342,837**	258,287
- Other funding balances	**83,564**	282,084
- Interest payable	**665**	426
	427,066	540,797

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

18. Capital and reserves

Called up share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid:		
101,100,000 (2016: 101,100,000) ordinary shares of £0.01 each	**1,011**	1,011

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.

Revaluation reserve

The reserve amounting to £2,399k (2016: £2,399k) 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.

19. Cash flow from operating activities

	2017 £'000	2016 £'000
Profit before tax	**12,926**	13,102
Adjustments for:		
Depreciation and amortisation	**4,154**	2,618
Loss on disposal of property, plant and equipment	**1,147**	1
Profit on disposal of investments	**(102)**	-
Dividends received	**-**	(264)
Interest expense	**4,568**	953
Defined benefit pension schemes costs	**783**	964
Contributions paid to defined benefit pension schemes	**(1,904)**	(2,952)
Decrease/(increase) in trade and other receivables	**69,627**	(159,936)
Decrease in other current assets	**199**	583
Increase/(decrease) in trade and other payables	**11,544**	(26,264)
Decrease in amounts due to group undertakings	**(198,521)**	78,614
Cash used in from operations	**(95,579)**	(92,581)

20. Retirement benefits

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 2017 the charge to the statement of comprehensive income in respect of this scheme was £1,251k (2016: £1,673k), representing the contributions payable by the employer in accordance with the scheme rules. There are no outstanding or prepaid contributions at 31 December 2017 (2016: £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.

The latest full valuations of the two main schemes were carried out as at 30 June 2014; these have been updated to 31 December 2017 by qualified independent actuaries.

The amounts shown below relate to the Company's share of obligations arising from membership by the Company's employees of the defined benefit schemes operated by the Company's ultimate parent company.

Amounts included in the balance sheet:

	2017	2016
	£'000	£'000
Defined benefit pension schemes net assets	**3,250**	16

The amounts recognised in the balance sheet are represented as follows:

	2017	2016
	£'000	£'000
Company's share of present value of funded obligations	**(130,394)**	(199,677)
Company's share of fair value of scheme assets	**133,644**	199,693
	3,250	16

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

	2017	2016
	£'000	£'000
At 1 January	**16**	31,676
Charge to the statement of comprehensive income	**(783)**	(964)
Credit/(charge) to other comprehensive income before tax	**2,113**	(33,647)
Contributions paid	**1,904**	2,951
At 31 December	**3,250**	16

20. Retirement benefits (continued)

The expense recognised in the statement of comprehensive income comprises:

	2017 £'000	2016 £'000
Current service cost	**664**	866
Interest income	**(25)**	(120)
Past service costs and curtailment	**24**	49
Administrative costs and other	**120**	169
	783	964

Movements in the defined benefit obligation:

	2017 £'000	2016 £'000
At 1 January	**199,677**	449,857
Current service cost	**664**	866
Interest cost	**3,675**	6,172
Actuarial gains	**(62,323)**	(250,686)
Benefits paid	**(11,323)**	(6,581)
Past service costs and curtailment	**24**	49
At 31 December	**130,394**	199,677

Changes in the fair value of scheme assets:

	2017 £'000	2016 £'000
At 1 January	**199,693**	481,533
Expected return	**(60,209)**	(284,334)
Interest income	**3,699**	6,292
Employer contributions	**1,904**	2,951
Benefits paid	**(11,323)**	(6,581)
Administrative costs and other	**(120)**	(168)
At 31 December	**133,644**	199,693

20. Retirement benefits (continued)

The principal actuarial and financial assumptions used were as follows:

	2017 %	2016 %
Discount rate	**2.59**	2.76
Rate of inflation – Retail price index	**3.20**	3.23
- Consumer price index	**2.15**	2.18
Rate of salary increases	**0.00**	0.00
Rate of increase for pensions in payment	**2.73**	2.74

	2017 Years	2016 Years
Life expectancy for member aged 60, on the valuation date:		
- Men	**27.9**	28.1
- Women	**29.5**	30.3
Life expectancy for member aged 60, 15 years after the valuation date:		
- Men	**28.9**	29.3
- Women	**30.7**	31.7

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

	2017 %	2016 %
Equity instruments	**1**	1
Debt instruments	**59**	56
Pooled investment vehicles	**40**	43
Property	**0**	0
Other	**0**	0
At 31 December	**100**	100

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

21. Share based payments

During the year ended 31 December 2017 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 £570k (2016: £841k).

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.

Other share option plans

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.

Other share plans

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

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

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

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

Other information

The charge made to the Statement of Comprehensive Income 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 2017 annual report and financial statements of the Company's ultimate parent company, Lloyds Banking Group plc. Copies of the ultimate parent company's 2017 annual report and financial statements may be downloaded via www.lloydsbankinggroup.com.

22. Operating lease commitments relating to property

The future aggregated minimum lease payments under non-cancellable operating leases relating to property are as follows:

	2017 £'000	2016 £'000
Due within one year	**769**	1,131
Due between one and five years	**3,074**	4,049
Due beyond five years	**1,908**	2,725
	5,751	7,905

Operating lease payments made during the year amount to £1,012k (2016: £1,608k) and relate to rent on three (2016: five) properties occupied by the Company. The basis on which contingent rent payable is determined is explicit in the terms of each lease. No renewal or purchase options and escalation clauses exist although Lloyds Bank plc has the right to renew on commercial property leases in England & Wales under the Landlord and Tenants Act.

23. Commitments to lend and contingent liabilities

	2017 £'000	2016 £'000
Undrawn amounts	**214,824**	135,289
Guarantees	**-**	50
Total commitments	**214,824**	135,339

Undrawn amounts relate to amounts clients have yet to draw down from their invoice finance current accounts. Guarantees relate to bank overdrafts and syndicated lending.

Commitments may be broken down as follows:

	2017 £'000	2016 £'000
Revocable commitments	**211,453**	132,027
Irrevocable commitments	**3,371**	3,312
Total commitments	**214,824**	135,339

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £28,884,000 (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

24. Ultimate parent undertaking

The Company's immediate parent company is Lloyds Bank Plc. The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Lloyds Bank Plc. is the parent undertaking of the smallest such group of undertakings. Copies of the ultimate parent company's 2017 annual report and financial statements may be downloaded via www.lloydsbankinggroup.com.

25. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. The outstanding balances at the year end, and related expense and income for the year are as follows:

	Related party relationship	2017 £'000	2016 £'000
Cash and cash equivalents (note 15)			
Lloyds Bank Plc	Immediate parent	**150,190**	139,634
HBOS Plc	Fellow subsidiary	**11,286**	27,893
		161,476	167,527
Amounts owed (to) / from group undertakings (note 17)			
Lloyds Bank Plc	Immediate parent	**(137,465)**	(336,071)
HBOS Plc	Immediate parent	**(36,603)**	(25,707)
Lloyds UDT Limited	Fellow subsidiary	**104,344**	93,776
Other fellow group undertakings	Fellow subsidiary	**(14,514)**	(14,514)
Lloyds Bank Commercial Finance Scotland Limited	100% owned Subsidiary	**9**	6
		(84,229)	(282,510)
Bank overdraft (note 17)			
Lloyds Bank plc	Immediate parent	**(342,837)**	(258,287)
		(342,837)	(258,287)
Income (notes 3 & 4)			
Lloyds Bank Plc	Immediate parent	**88,150**	87,820
Lloyds Bank Commercial Finance Scotland Limited	100% owned Subsidiary	**-**	264
		88,150	88,084
Staff related costs (notes 20 & 21)			
Lloyds Bank Plc	Immediate parent	**2,604**	3,478
		2,604	3,478
Management fees and other costs (note 6)			
Lloyds Bank Plc	Immediate parent	**38,209**	30,678
		38,209	30,678
Interest expense / (income) (note 7)			
Lloyds Bank Plc	Immediate parent	**4,690**	514
Lloyds UDT Limited	Fellow subsidiary	**(122)**	439
		4,568	953

All of the above companies are ultimately owned by Lloyds Banking Group plc. See notes 12 and 24 for further explanations as to ownership of Lloyds Bank Commercial Finance Limited and its subsidiaries.

There were no other related-party transactions with the ultimate parent company or with the parent company, Lloyds Bank Plc, other than in the prior year the payment of dividends on ordinary shares.

Related Party addresses

Lloyds Bank plc – 25 Gresham Street, London, EC2V 7HN
Lloyds UDT limited – 25 Gresham Street, London, EC2V 7HN
HBOS plc – The Mound, Edinburgh, EH1 1YZ

25. Related party transactions (continued)

Related Party addresses (continued)

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 as well as Lloyds Bank Commercial Finance Scotland Limited are disclosed within Note 12 – Investments.

Directors and key management personnel

The remuneration of directors is set out in note 5b. Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprise the directors of the Company and the members of the Lloyds Banking Group plc board which comprises the statutory directors of that company and certain other senior management.

26. Financial risk management

The Company's activities are principally related to the use of financial instruments. 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 Company's policies expose it to a variety of financial risks: credit risk, liquidity risk and interest-rate risk. The Company is also exposed to foreign currency risk arising from the investment in its overseas lending. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Whilst funding is provided by Lloyds Bank Plc, responsibility for the control and management of risk lies with the Company's Board of Directors and exposure to interest rate risk and foreign exchange risk is managed by use of various hedging practices. A description of the financial assets, liabilities and associated accounting is shown in note 1.

26.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

Credit risk is managed through the application of strict underwriting criteria. Significant credit exposures are measured and reported on a regular basis.

Credit concentration

The Company lends to commercial customers geographically located within the United Kingdom, Ireland and Germany. The Company also has money on deposit with Allied Irish Bank Plc and Commerzbank AG of £nil (2016: £10.3m) and £nil (2016: £0.5m) whose Standard & Poor's ratings for short term currency are B and A-2 respectively. Further details in relation to Cash at bank and in hand is shown in note 15.

Loans and advances to customers – maximum exposure

As at 31 December 2017	**£'000**
Neither past due nor impaired	**288,304**
Past due but not impaired	**2**
Impaired	**5,775**
Gross exposure – loans and advances (note 13)	**294,081**
Commitments to lend (note 23)	**214,824**
Maximum credit exposure	**508,905**

26.1 Credit risk (continued)

Loans and advances to customers – maximum exposure

As at 31 December 2016	£'000
Neither past due nor impaired	352,786
Past due but not impaired	29
Impaired	14,991
Gross exposure – loans and advances (note 13)	367,806
Commitments to lend (note 23)	135,339
Maximum credit exposure	503,145

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

As at 31 December 2017	**£'000**
Good quality	**184,189**
Satisfactory quality	**60,294**
Lower quality	**43,732**
Below standard, but not impaired	**89**
Total	**288,304**

As at 31 December 2016	£'000
Good quality	100,139
Satisfactory quality	57,197
Lower quality	195,419
Below standard, but not impaired	31
Total	352,786

In general, good quality lending comprises those balances with a lower probability of default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability of default.

Loans and advances to customers which are past due but not impaired:

	2017 **£'000**	2016 £'000
Past due up to 30 days	**-**	1
Past due 30-60 days	**-**	14
Past due 60-90 days	**2**	7
Past due over 90 days	**-**	7
Total	**2**	29

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

26.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired:

	2017 £'000	2016 £'000
Balance at 1 January	**(5,989)**	(29,139)
Exchange and other adjustments	**492**	(6,969)
Advances written off, net of recoveries	**3,887**	27,387
Notional income	**60**	86
Credit/(charge) to Statement of Comprehensive Income	**803**	388
Other movements	**(1,092)**	2,258
At 31 December	**(1,839)**	(5,989)

The criteria used to determine whether there is objective evidence of impairment are disclosed in note 1j.

Interest received on impaired financial assets amounts to £nil (2016: nil).

The book value (and fair value) of financial assets totalling £166,234k (2016: £71,011k) were transferred from the Company to Lloyds Bank Plc (the "Bank") in support of the Group's simplification of business project. These financial assets include receivables finance, Asset Based Lending loans and advances to customers. The Company's involvement in these loans going forward is to service them as an agent of the Bank, no longer as principal.

Repossessed collateral

Repossessed collateral relates to the Company's legal right to repossess assets whereby customers have defaulted on the terms of agreements. The Company's right to repossess assets is established through signed agreements and by law.

At 31 December 2017 agents held, on the Company's behalf, repossessed collateral of £nil (2016: £nil) in respect of defaulted debt. This represents the realisable value of plant and equipment financed by the Company on hire purchase and asset based lending and subsequently repossessed. The Company does not take physical possession of any collateral; instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness. Any surplus funds are then returned to the customer or are otherwise dealt with in accordance with appropriate insolvency regulations.

26.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within Lloyds Banking Group plc.

Liquidity risk is managed by the board of directors in consultation with the immediate parent company, Lloyds Bank Plc.

The Company is funded on an ongoing basis by Lloyds Bank plc and although amounts are repayable on demand, there is no expectation that such a demand would be made.

The table below analyses financial instrument liabilities of the Company, on an undiscounted future cash flow basis according to contractual maturity, into relevant maturity groupings based on the remaining period at the balance sheet date; balances with no fixed maturity are included in the up to 1 month category.

26.2 Liquidity risk (continued)

At 31 December 2017	Up to 1 month £'000	1 – 3 months £'000	3 – 12 months £'000	1 – 5 years £'000	Over 5 years £'000	Total £'000
Financial liabilities						
Amounts due to clients on collections	27,343	-	-	-	-	**27,343**
Trading and other payables	555	-	-	-	-	**555**
Amounts owed to group undertakings	81,674	902	988	1,204	-	**83,564**
Bank overdrafts	342,837	-	-	-	-	**342,837**

At 31 December 2016	Up to 1 month £'000	1 – 3 months £'000	3 – 12 months £'000	1 – 5 years £'000	Over 5 years £'000	Total £'000
Financial liabilities						
Amounts due to clients on collections	14,368	-	-	-	-	**14,368**
Trading and other payables	46	-	-	-	-	**46**
Amounts owed to group undertakings	268,002	2,840	7,837	3,405	-	**282,084**
Bank overdrafts	258,287	-	-	-	-	**258,287**

26.3 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.

26.4 Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk of financial loss as a result of adverse movements in foreign exchange rates when translating financial assets and liabilities denominated in foreign currencies into sterling. 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.

27. Financial instruments

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments in this context are loans and advances to customers and borrowed funds from group undertakings. The accounting policy for such financial instruments is explained in note 1. These are accounted for on an amortised cost basis and no financial instruments use fair value accounting.

27. Financial instruments (continued)

Fair value of financial assets and liabilities

The following table summarises the carrying values of financial assets and liabilities presented on the Company's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Cash and cash equivalents	**161,476**	**161,476**	178,387	178,387
Loans and advances				
Loans and advances to customers: unimpaired	**290,145**	**288,025**	359,898	353,642
Loans and advances to customers: impaired	**3,936**	**3,936**	7,908	7,908

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.

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Financial liabilities				
Amounts due to clients on collections	**27,343**	**27,343**	14,368	14,368
Trading and other payables	**555**	**555**	46	46
Amounts owed to group undertakings	**83,564**	**83,564**	282,084	282,084
Bank overdrafts	**342,837**	**342,837**	258,287	258,287

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

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 other government securities.

Level 2

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Examples of such financial instruments include most over-the-counter derivatives, financial institution issued securities, certificates of deposit and certain asset backed securities.

Level 3

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 would include venture capital, unlisted equity investments, asset backed securities and derivatives.

27. Financial instruments (continued)

Financial assets and liabilities carried at amortised cost

Valuation hierarchy
The table below analyses the fair values of the financial assets and liabilities of the Company which are carried at amortised cost by valuation methodology (level 1, 2 or 3).

		Valuation hierarchy		
At 31 December 2017	**Fair value £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial assets				
Cash and cash equivalents	**161,476**	**161,476**	-	-
Loans and advances				
Loans and advances to customers: unimpaired	**288,025**	-	288,025	-
Loans and advances to customers: impaired	**3,936**	-	3,936	-
Financial liabilities				
Amounts due to clients on collections	**27,343**	-	27,343	-
Trading and other payables	**555**	-	555	-
Amounts owed to group undertakings	**83,564**	-	83,564	-
Bank overdrafts	**342,837**	-	342,837	-
At 31 December 2016				
Financial assets				
Cash and cash equivalents	178,387	178,387	-	-
Loans and advances				
Loans and advances to customers: unimpaired	353,642	-	353,642	-
Loans and advances to customers: impaired	7,908	-	7,908	-
Financial liabilities				
Amounts due to clients on collections	14,368	-	14,368	-
Trading and other payables	46	-	46	-
Amounts owed to group undertakings	282,084	-	282,084	-
Bank overdrafts	258,287	-	258,287	-

28. Capital management

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

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

The Company's capital comprises all components of equity, movements in which appear in the Statement of Changes in Equity on page 12. The Company receives its funding requirements from its parent and does not raise funding externally.

29. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2017 and have not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.
With the exception of IFRS 17 'Insurance Contracts' and certain other minor amendments, as at 26 September 2018 these pronouncements have been endorsed by the EU.

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments:	IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. The Company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods. *Classification and measurement* IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch. *Impairment* IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39. The new impairment methodology results in estimated higher impairment provisions of £733,500, predominantly for Loans and Advances to Customers, recognised on the Company's balance sheet.	Annual periods beginning on or after 1 January 2018.

29. Future accounting developments (continued)

Pronouncement	Nature of change	Effective date
IFRS 15 Revenue from Contracts with Customers:	The Company's current accounting policy is materially consistent with the requirements of IFRS 15 and, accordingly, no transition adjustments are required.	Annual periods beginning on or after 1 January 2018
IFRS 16 Leases:	IFRS 16 replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. Lessor accounting requirements remain aligned to the current approach under IAS 17. The impact of this accounting development is still being assessed by the Company.	Annual periods beginning on or after 1 January 2019.
Minor amendments to other accounting standards:	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2018 (including IFRS 2 Share-based Payment and IAS 40 Investment Property) and effective 1 January 2019 (including IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments). These revised requirements are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018