Lloyds Bank Subsidiaries Limited

Report and Accounts

2019

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2019

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

Business overview

The Company's results for the year ended 31 December 2019 show a Profit before tax of £30m (2018: £335m). Net assets at 31 December 2019 were £3,312m (2018: £3,287m).

During the year one of the Company's subsidiaries, Lime Street Funding Limited, was placed into liquidation. The carrying value of the investment is supported by Lloyds Banking Group ("the Group") through intercompany transactions and will be repaid as a final distribution after the liquidation process is completed.

Future outlook

The directors consider that the Company will continue to act as a holding company for the foreseeable future.

In March 2020 the World Health Organisation declared the outbreak of Covid-19 a global pandemic. The outbreak and the action taken by government's across the world are causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event given the limited number of cases reported as at 31 December 2019.

The directors have considered the actual and potential impacts of COVID-19 and the UK government's responses to the pandemic on the activities of the Company and concluded that there will be no material impact for the Company.

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest itself in prolonged business uncertainty across the UK, including in the financial services sector. This continued lack of clarity over the UK's relationship with the EU and other foreign countries, and on-going challenges in the Eurozone, including weak growth, raise additional uncertainty for the UK's economic outlook. There also remains the possibility of a further referendum on Scottish independence. The Company is part of the wider Lloyds Banking Group, and, it is at that level that consideration of the many potential implications this may have has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications. No impact is expected for the Company.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 16 to the financial statements.

In the context of operational resilience, the Company has assessed the risks associated with the current global health issue Covid-19 and will continue to monitor the impacts. The directors assess this event as having no impact on the financial position of the Company.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Section 172(1) Statement

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

Statement of Engagement with Employees and Other Stakeholders

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

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

Section 172(1) Statement (continued)

Shareholders

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

How stakeholder interest has influenced decision making

The directors acknowledge that one of the primary responsibilities of the board is to ensure that the strategy of the Company, as aligned to that of Lloyds Banking Group plc, is to effectively manage the Company to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct.

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

J. Joyce

D J Joyce
Director

30 September 2020

Directors' report

For the year ended 31 December 2019

The directors present their report for the year ended 31 December 2019.

General information

The Company is a private company limited by shares, incorporated in the United Kingdom, registered in England and Wales and domiciled in England (registered number: 00117008).

The Company continues to act as a holding company for a number of companies within the Group. A full list of the Company's subsidiaries is shown in note 12.

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

Dividends

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

Going concern

The financial statements have been prepared on a going concern basis. The net asset position is £3,312m (2018: £3,287m). The Company does not have material external debt and is funded by other companies within the Lloyds Banking Group.

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

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

Registered office

25 Gresham Street
London
EC2V 7HN

Directors

The current directors of the Company are shown below:

P R Grant
D J Joyce

There have been no changes to directors between the beginning of the reporting period and the approval of the Annual report and accounts.

Company Secretary

The current Company Secretary is shown below:

P Gittins

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be made in the Directors' report can be found in the Strategic report on page 1.

Statement of Engagement with Employees and Other Stakeholders

A statement of Engagement with Employees and other Stakeholders is included in the Strategic report page 1.

Directors' report (continued)

For the year ended 31 December 2019

Directors' indemnities

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

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and Strategic 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 Company's 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; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are 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.

Auditors and disclosure of information to auditors

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

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

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

This report has been prepared in accordance with section 414 of the Companies Act 2006.

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

J. Joyce

D J Joyce
Director

30 September 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Interest income		**26**	18
Interest expense		**-**	-
Net interest income	3	**26**	18
Dividends received from subsidiary, associated and other undertakings	4	**4**	269
Profit on disposal of investment in subsidiary, associated and other undertakings	5	**-**	48
Profit before tax		**30**	335
Taxation	9	**(5)**	(3)
Profit for the year, being total comprehensive income		**25**	332

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

Balance sheet

As at 31 December 2019

	Note	2019 £m	2018 £m
ASSETS			
Trade and other receivables	11	**3,172**	3,217
Investment in subsidiary undertakings	12	**150**	150
Investment in associated and other undertakings	12	**1**	1
Total assets		**3,323**	3,368
LIABILITIES			
Trade and other payables	13	**6**	78
Current tax liability		**5**	3
Total liabilities		**11**	81
EQUITY			
Share capital	14	**2,614**	2,614
Retained earnings		**698**	673
Total equity		**3,312**	3,287
Total equity and liabilities		**3,323**	3,368

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

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

D J Joyce
Director

30 September 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital	Retained earnings	Total equity
	£m	£m	£m
At 1 January 2018	2,614	341	2,955
Profit for the year being total comprehensive income	-	332	332
At 31 December 2018	**2,614**	**673**	**3,287**
Profit for the year being total comprehensive income	-	25	25
At 31 December 2019	**2,614**	**698**	**3,312**

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

Cash flow statement

For the year ended 31 December 2019

	2019 £m	2018 £m
Cash flows used in operating activities		
Profit before tax	**30**	335
Adjustments for:		
- Income from shares in subsidiary, associated and other undertakings	**(4)**	(269)
- Profit on disposal of Investment in subsidiary, associated and other undertakings	**-**	(48)
- Interest income	**(26)**	(18)
Cash generated from operations	**-**	-
Tax paid	(3)	(1)
Net cash used in operating activities	**(3)**	(1)
Cash flows generated from investing activities		
Dividends received from subsidiary, associated and other undertakings	**4**	269
Disposal of shares in subsidiary, associated and other undertakings	**-**	866
Interest income	**26**	18
Net cash generated from investing activities	**30**	1,153
Cash flows used in financing activities		
Increase in net lending to group undertakings	**(27)**	(1,152)
Net cash used in financing activities	**(27)**	(1,152)
Change in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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

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

1. Accounting policies

1.1 Basis of preparation

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

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

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

(i) Amendments to IAS 12 'Income Taxes': requires tax relief on other equity instruments, previously taken directly to retained profits, to be reported within tax expense in the income statement.

The application of this pronouncement has not had any impact for amounts recognised in these financial statements

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

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 exemptions 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.

The financial statements have been prepared on a going concern basis. The net asset position is £3,312m (2018: £3,287m). The Company does not have material external debt and is funded by other companies within the Lloyds Banking Group.

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

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

1.2 Income recognition

Foreign currency

The financial statements are presented in Sterling which is the Company's functional and presentation currency. Foreign currency transactions are translated into Sterling at the exchange rate prevailing at the date of the transaction. Exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of comprehensive income.

Exchange gains and losses arising from the translation of monetary assets and liabilities at the exchange rate prevailing at the Balance sheet date are recognised in the Statement of comprehensive income.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Income and expense from financial instruments

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

1. Accounting policies (continued)

1.3 Financial assets and liabilities

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 when the rights to receive cash flows, or obligations to pay cash flows, have expired.

Financial assets comprise Amounts due from group undertakings. Financial liabilities comprise Amounts due to group undertakings. The contractual cashflows represent solely payments of principal and interest and so these balances are stated at amortised cost.

1.4 Impairment of Amounts due from group undertakings

On initial recognition, a provision is made for expected credit losses resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk since origination, the provision is increased to reflect expected credit losses from all possible default events over the expected life of the balance.

1.5 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents comprise balances with less than three months' maturity.

1.6 Taxation, including deferred income taxes

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

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

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

1.7 Impairment of Investment in subsidiary, associated and other undertakings

Investment in subsidiary undertakings and Investment in associated and other undertakings are stated in the Balance sheet at cost less any provision for impairment.

Investment in subsidiary undertakings is reviewed for impairment losses at the end of each period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of comprehensive income for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and value in use. For the purposes of assessing impairment, investments are grouped at the lowest level at which cash flows are separately monitored by management.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

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

Impairment of Investment in subsidiary undertakings

Where the recoverable amount of the Company's investments in subsidiary undertakings is considered to be less than the carrying value an impairment charge is recognised equal to the difference between the carrying value and the recoverable amount. Impairment provisions of £4m (2018: £4m) were held at 31 December 2019.

3. Net interest income

	2019 £m	2018 £m
Interest income		
Group interest income (see notes 11 and 15)	26	18

4. Dividends received from subsidiary, associated and other undertakings

	2019 £m	2018 £m
Lloyds Merchant Bank Asia Limited	-	2
Lloyds Holdings (Jersey) Limited	-	267
Lime Street (Funding) Limited	4	-
	4	269

5. Profit on disposal of investment in subsidiary, associated and other undertakings

	2019 £m	2018 £m
Profit on sale of Lloyds Holdings (Jersey) Limited	-	45
Profit on sale of Lloyds Bank (Gibraltar) Limited	-	6
Loss on sale of LBG Brasil Administração LTDA	-	(4)
Profit on sale of Lloyds Merchant Bank Asia Limited	-	1
	-	48

During 2018 the Company transferred a number of its subsidiaries to other Group companies, to satisfy ringfencing requirements. The profits and losses represented the difference between the consideration received (based upon the net assets of the subsidiary at the time of the transaction) and the carrying value of that investment.

6. Other operating expenses

Fees payable to the Company's auditors for the audit of the financial statements of £15,000 (2018: £15,000) have been borne by a fellow group undertaking and are not recharged to the Company.

7. Staff costs

The Company did not have any employees during the year (2018: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2018: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 15).

9. Taxation

	2019 £m	2018 £m
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	5	3

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

b) Factors affecting the tax charge for the year

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

	2019 £m	2018 £m
Profit before tax	**30**	335
Tax charge thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**6**	64
Factors affecting charge:		
- Non-taxable dividend income, including preference dividends	(1)	(51)
- Disallowed and non-taxable items	-	(10)
Tax charge on profit on ordinary activities	**5**	3
Effective rate	**16.66%**	0.90%

10. Dividends

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

11. Trade and other receivables

	2019 £m	2018 £m
Amounts due from group undertakings (see note 15)	**3,172**	3,217

Amounts due from group undertakings are due from Lloyds Bank plc, repayable on demand, and interest is earned at the 3 month LIBOR rate.

12. Investment in subsidiary, associated and other undertakings

	Investment in subsidiary undertakings	Investment in associated and other undertakings	Total
	£m	£m	£m
Cost			
Cost at 1 January 2018	1,004	11	1,015
Disposals during 2018	(850)	(10)	(860)
Cost at 31 December 2018 and 31 December 2019	154	1	155
Provision for impairment			
Provision at 1 January 2018	46	-	46
Disposals during 2018	(42)	-	(42)
Provision at 31 December 2018 and 31 December 2019	4	-	4
Carrying value of investments at 31 December 2019	**150**	**1**	**151**
Carrying value of investments at 31 December 2018	150	1	151

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

The subsidiary, associated and other undertakings which were held throughout 2018 and 2019 were:

	Company interest	Principal activities	Registered Address
Direct subsidiary undertakings			
Lloyds Offshore Global Services Private Limited	100.00%	Business support	6/12, Primrose Road, Bangalore, 560025, India
Lloyds TSB Pacific Limited	100.00%	Financial services	18th Floor, United Centre, 95 Queensway, Hong Kong
Indirect subsidiary undertakings			
Lloyds Far East Sarl	100.00%	Nominee services	48 Boulevard Grande-Duchesse Charlotte, 1330, Luxembourg
Other undertakings			
Cardnet Merchant Services Limited	1.08%	Transaction services	25 Gresham Street, London, EC2V 7HN

The subsidiary undertakings that were in Members' voluntary liquidation at 31 December 2019 were:

	Company interest	Principal activities	Registered Address
Subsidiary undertakings in liquidation			
Lime Street (Funding) Limited	100.00%	Investment holding company	1 More London Place, London, SE1 2AF

The liquidation process for Lime Street (Funding) Limited is still ongoing as at the date of these financial statements. Our current expectation is that the carrying value of the investment will be realised.

The country of incorporation is also the area of operation for each of the above subsidiary, associated and other undertakings.

13. Trade and other payables

	2019 £m	2018 £m
Amounts due to group undertakings (see note 15)	**6**	78

Amounts due to group undertakings are unsecured, non-interest bearing and repayable on demand, although there is no expectation that such a demand would be made.

14. Share capital

	2019 £m	2018 £m
Allotted, issued and fully paid		
2,613,861,429 ordinary shares of £1 each	**2,614**	2,614

15. Related party transactions

The Company is controlled by Lloyds Bank plc. A number of transactions are entered into with related parties in the normal course of business. A summary of the outstanding balances at the year end and the related income for the year is set out below.

	2019 £m	2018 £m
Amounts due from group undertakings		
Lloyds Bank plc (see note 11)	**3,172**	3,217
Amounts due to group undertakings		
Lloyds Bank plc (see note 13)	**6**	78
Group interest income		
Lloyds Bank plc (see note 3)	**26**	18
Income from shares in subsidiary, associated and other undertakings		
Lloyds Merchant Bank Asia Limited	**-**	2
Lloyds Holdings (Jersey) Limited	**-**	267
Lime Street (Funding) Limited	**4**	-
Total dividend income (see note 4)	**4**	**269**

The above balances are unsecured in nature. Transactions in the year are those reflected through the Statement of comprehensive income.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management is comprised of the directors of the Company, the directors of Lloyds Bank plc and the members of the Lloyds Banking Group plc board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

16. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, interest rate risk, foreign exchange risk and business risk; it is not exposed to any significant market risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by Lloyds Bank plc, and the ultimate parent, Lloyds Banking Group plc. The interest rate and liquidity risk faced by the Company is in substance managed and borne by other Group undertakings which fund the Company. Business risk is managed through regular reporting and oversight.

A description of the Company's financial assets/liabilities is provided in note 1.

16.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company's financial assets include no amounts past due or credit impaired and the balances are considered to be of high credit quality, therefore the directors do not consider that the Company has any significant exposure to credit risk.

The maximum credit risk exposure of the Company in the event of other parties failing to fulfil their obligations is considered to be the carrying amount of Amounts due from group undertakings, totalling £3,172m (2018: £3,217m).

The current long-term rating of Lloyds Bank plc is Aa3 as per Moody's (2018:Aa3). Given this credit rating, management does not expect this counterparty to fail to meet its obligations.

16.2 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 the Group.

Liquidity risks are managed as part of the Group by the parent company, Lloyds Bank plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

The Company is funded entirely by companies within the Group. The table below analyses the liabilities of the Company on an undiscounted future cash flows basis into relevant maturity groupings based upon their expected maturity at the balance sheet date.

As at 31 December 2019

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Total £m
Amounts due to group undertakings	6	-	-	-	6
Current tax liability	5	-	-	-	5
	11	-	-	-	11

As at 31 December 2018

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Total £m
Amounts due to group undertakings	78	-	-	-	78
Current tax liability	3	-	-	-	3
	81	-	-	-	81

16.3 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 repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside of the Company's control, and as a result a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's amounts due from Lloyds Bank plc and takes account of movement in the 3 month LIBOR which is the basis for the interest rate on intercompany balances. A 0.15% (2018: 0.34%) increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as this is the amount by which the average 3 month LIBOR has changed in the year.

Notes to the financial statements (continued)

For the year ended 31 December 2019

16. Financial risk management (continued)

16.3 Interest rate risk (continued)

Interest rate risk - sensitivity analysis (continued)

If increased by 0.15% (2018: 0.34%) and all other variables remain constant this would increase Interest income by £5,000,000 (2018: £11,000,000) and accordingly decrease Interest income by £5,000,000 (2018: £11,000,000) if the 3 month LIBOR rate decreased by the same amount.

16.4 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy. In assessing business risk consideration is given to internal and external factors such as products, funding, resource capability and economic, political and regulatory factors.

Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary.

16.5 Foreign currency risk

Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The Company's exposure to foreign exchange risk is considered to be insignificant in the year ended 31 December 2019. The Company is exposed to some residual foreign exchange rate fluctuations, however, as at 31 December 2019, the exposure was £nil.

16.6 Financial strategy

The Company does not trade in financial instruments, nor does it use derivatives.

16.7 Fair values of financial assets and 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.

The directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

17. Capital disclosures

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

The Company's parent manages the Company's capital structure and advises the board of directors 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 board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, 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. The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally.

18. Contingent liabilities and capital commitments

There were no contracted capital commitments at the Balance sheet date (2018: £nil).

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 £26,578,000 (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.

19. Post balance sheet events

Since the balance sheet date there has been a global pandemic from the outbreak of Covid-19 which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. As at the date of signing, the Directors consider the impact on the Company to be uncertain.

With regards the investment held in Cardnet Merchant Services Limited, as a result of Covid-19 increased credit risk is expected, however no significant impact is expected to the carrying value of the investment held by the Company.

20. Ultimate parent undertaking and controlling party

The immediate parent company is Lloyds Bank plc (incorporated and domiciled in England and Wales). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated 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 financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

Independent Auditors' report to the members of Lloyds Bank Subsidiaries Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial 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 accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Statement of comprehensive income, the Cash flow statement and 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 where:

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

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

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

Independent Auditors' report to the members of Lloyds Bank Subsidiaries Limited (continued)

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 4, 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.

Christopher J. Dalton

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

1 October 2020