Lloyds Bank (Gibraltar) Limited

Annual Report 2018

LLOYDS
BANKING
GROUP

Lloyds Bank (Gibraltar) Limited

Annual Report 2018

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Lloyds Bank (Gibraltar) Limited

Annual Report 2018

Corporate information

Directors	Ross Davey Willcox (**Chairman)**
	Adrian David Lane
	Richard John Musty
	Joanna Claire Buckross
	Peter Hemingway Reid
	Stephen Paul Jones
Secretary	Tracy Barnes
Registered office	Royal Ocean Plaza Ocean Village Gibraltar GX11 1AA
Independent auditors	PricewaterhouseCoopers Limited 327 Main Street Gibraltar
Incorporation number	99982

Chairman's statement

2018 has been a year of considerable change for Lloyds Bank (Gibraltar) Limited as we faced into the prospect of the UK's, and by extension Gibraltar's, exit from the European Union. This resulted in the Directors deciding to redomicle the company to Jersey where it will be renamed Lloyds Bank (International Services) Limited. Regrettably, this has meant that we will no longer have a presence in Gibraltar although we will continue to monitor developments, and how we best meet the needs of our customers. Due to the significant costs associated with this exercise and the release of deferred taxation in respect of tax allowable losses in Gibraltar being reversed, the company is loss making in 2018.

I would like, on behalf of the Directors, to thank our customers and colleagues for their support and understanding whilst we progress through this transformation. In particular this transition could not be implemented without the dedication and commitment of our colleagues in Gibraltar, past and present, who are a credit to the company and themselves. We wish them well for the future.

Ross Willcox
27 March 2019

Directors' report

The Directors submit their report and the audited financial statements for the year ended 31 December 2018.

Activities

Lloyds Bank (Gibraltar) Limited (the "Company") is a limited company incorporated and domiciled in Gibraltar, and is licensed under the Gibraltar Financial Services (Banking) Act.

The Company's revenue is earned through interest and fees on a wide range of financial services products, including current and savings accounts within the retail market as well as fee income relating to asset management.

Profit and dividend

The Company made a loss for the year ended 31 December 2018 of £126,000 (2017 Profit: £1,982,000). There were no dividends declared or paid during the year ended 31 December 2018 or 31 December 2017.

Business review

The environment within which the Company operates remains competitive. The Directors are supporting a strategy designed to ensure that the Company's interest and other charges fully reflect the risks associated with its core products whilst maintaining competitiveness.

As a result of the requirements of Ring-Fencing the Company became part of the Non Ring-Fenced bank within Lloyds Banking Group (the "Group") on 1 July 2018, the Ring-Fencing requirements are set out in the Financial Services and Markets Act 2000 (as amended by Financial Services (Banking Reform) Act 2013), statutory instruments and associated rules and guidance set by the Prudential Regulatory Authority ("PRA") and Financial Conduct Authority ("FCA"), together, the "UK Ring-Fencing Regime".

As a consequence of the potential impact of Britain leaving the European Union ('BREXIT'), the Directors' have made the decision that on 29 March 2019 the Company will cease to be incorporated and regulated in Gibraltar and on the same date become incorporated and regulated in Jersey. The Company will be renamed Lloyds Bank (International Services) Limited and an application for a banking licence is in progress with the Jersey Financial Services Commission. This has resulted in the following changes in these financial statements; fixed assets being written off and provisions for legal and professional fees, staff costs and an onerous lease provision. In addition there has been a reduction to the amount of deferred tax recognised in respect of tax allowable losses to the amount expected to be utilised up to 29 March 2019. See notes 2.2 and 7. This has reduced the reported profits for 2018 by £2,203,000.

Re-domiciling the Company to Jersey has no impact on the Company's ability to continue as a going concern as it will continue to trade servicing the same customers.

Ownership

The ultimate holding company is Lloyds Banking Group plc (the "Group"), which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Lloyds Bank Corporate Markets plc is the parent undertaking of the smallest such group of undertakings. Lloyds Banking Group plc is registered in Scotland and Lloyds Bank Corporate Markets plc is registered in England and Wales. The immediate holding company is Lloyds Bank Corporate Markets plc, registered in England and Wales, which acquired the Company on 1 July 2018 from Lloyds Bank Subsidiaries Limited so the Company could form part of the Non Ring-Fenced bank.

Directors

The present members of the board are shown on page 1. The Directors have no interest in the shares of the Company.

Directors' report (continued)

Statement of Directors' responsibilities

The Directors are required to prepare financial statements for each financial year in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("E.U."), which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Gibraltar Companies Act. 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.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditor

As a consequence of the re-domiciliation of the company the independent auditor PricewaterhouseCoopers Limited will resign and PricewaterhouseCoopers CI LLP has indicated their willingness to be appointed.

By order of the board

Joanna Claire Buckross
Director
27 March 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK (GIBRALTAR) LIMITED

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements of Lloyds Bank (Gibraltar) Limited (the "company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014 and the Banking (Accounts Directive) Regulations 1997.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

We have audited the financial statements of the company, which comprise:

- the balance sheet as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's 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 are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Gibraltar and that we have not provided non-audit services that are prohibited under the Financial Services (Auditors) Act 2009.

The non-audit services that we have provided to the company, in the period from 1 January 2018 to 31 December 2018, are disclosed in note 5 to the financial statements.

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

Report on the audit of the financial statements (continued)

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We designed audit procedures that focused on the risk of non-compliance related to the Companies Act 2014 and Banking (Accounts Directive) Regulations 1997. Our tests included key tests, such as inspecting correspondence with regulators, reviewing legal expenses and correspondence with legal counsel, and testing particular classes of transactions. We performed other procedures including testing entity level controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

We have determined that there are no key audit matters to communicate in our audit report.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Chairman's statement for the year ended 31 December 2018 (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

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

Report on the audit of the financial statements (continued)

Other information - continued

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2014 requires us also to report on certain opinions and matters as described below:

Directors' Report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the year ended 31 December 2018 is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with the requirements of the Companies Act 2014.

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with applicable law in Gibraltar and International Financial Reporting Standards as adopted for use in the European Union, and for such internal control as the directors 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.

The directors are responsible for overseeing the company's financial reporting process.

Auditor's 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 auditor's 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern; and
evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This report, including the opinion on the financial statements and the opinions on other matters prescribed by the Companies Act 2014, has been prepared for and only for the company's members as a body in accordance with Section 257 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

In our opinion, based on the work undertaken in the course of the audit, we have received all the information and explanations we require for our audit.

Appointment

We were first appointed as auditors of the company for the year ended 31 December 2008. Our appointment has been renewed annually by board resolution representing a total period of uninterrupted engagement appointment of 10 years covering the years ended 31 December 2008 to 31 December 2017. In accordance with mandatory audit firm rotation requirements of the EU Regulation, the audit of the company for the financial year ended 31 December 2018 needed to be re-tendered given our uninterrupted 10 year tenure as auditors of the company. After due consideration, management submitted a successful request to the competent authority in Gibraltar allowing management to postpone the tendering process of auditor rotation by two years, allowing PwC to continue as the auditor up to 12 consecutive years. However, as a consequence of the redomiciliation of the company, PricewaterhouseCoopers Limited will resign and PricewaterhouseCoopers CI LLP has indicated their willingness to be appointed.

Barry Pillans
Statutory auditor
For and on behalf of
PricewaterhouseCoopers Limited
Gibraltar
29 March 2019

Lloyds Bank (Gibraltar) Limited

Statement of comprehensive income

For the year ended 31 December

	Note	**2018**	2017
		£000	£000
Interest and similar income	3	**4,553**	4,312
Interest and similar expense	3	**(1,691)**	(1,222)
Net interest income		**2,862**	3,090
Fee and commission income	4	**859**	990
Gains on foreign exchange trading transactions	4	**1,684**	1,772
Total other income		**2,543**	2,762
Total income		**5,405**	5,852
Operating expenses	5	**(4,144)**	(3,638)
Impairment	6	**5**	-
Profit before income tax		**1,266**	2,214
Income tax expense	7	**(1,392)**	(232)
(Loss)/profit for the year		**(126)**	1,982
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		**(126)**	1,982

All items dealt with in arriving at the total comprehensive (loss)/income for the years ended 31 December 2018 and 31 December 2017 relate to continuing operations.

The accompanying notes on pages 14 to 37 are an integral part of the financial statements.

Balance Sheet
As at 31 December

	Note	2018 £000	2017 £000
Assets			
Loans and advances to banks	8	**608,903**	627,802
Items in the course of collection from banks		**38**	72
Loans and advances to customers	9	**5**	5
Property and equipment	11	**-**	225
Derivative financial instruments	12	**523**	823
Deferred tax asset	13	**48**	1,440
Other assets	14	**160**	1,270
Total assets		**609,677**	631,637
Liabilities			
Deposits from banks	15	**687**	2,453
Items in the course of transmission to banks	16	**75**	1,120
Customer deposits	17	**573,127**	592,292
Derivative financial instruments	12	**523**	823
Provisions	18	**834**	101
Other liabilities	19	**267**	407
Total liabilities		**575,513**	597,196
Equity			
Share capital	20	**49,000**	49,000
Accumulated losses		**(14,836)**	(14,559)
Total shareholders' equity		**34,164**	34,441
Total equity and liabilities		**609,677**	631,637

The accompanying notes on pages 14 to 37 are an integral part of the financial statements.

The financial statements on pages 10 to 37 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf by:

Joanna Claire Buckross
Director

Stephen Paul Jones
Director

Statement of changes in equity

For the year ended 31 December

	Note	Share capital (Note 20) £000	Accumulated losses £000	Total £000
		Attributable to equity shareholders		
Balance at 1 January 2017		49,000	(16,541)	32,459
Profit for the year		-	1,982	1,982
Balance at 31 December 2017		49,000	(14,559)	34,441
Balance at 1 January 2018		**49,000**	**(14,559)**	**34,441**
Change in accounting policies	29	-	(151)	(151)
Restated balance as at 1 January 2018		**49,000**	**(14,710)**	**34,290**
Loss for the year		-	(126)	(126)
Balance at 31 December 2018		**49,000**	**(14,836)**	**(34,164)**

The accompanying notes on pages 14 to 37 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December

	Note	2018 £000	2017 £000
Net cash generated by/(used in) operating activities	26	**153,203**	(108,763)
Net increase/(decrease) in cash and cash equivalents		**153,203**	(108,763)
Cash and cash equivalents at beginning of year		**393,400**	502,163
Cash and cash equivalents at end of year		**546,603**	393,400

The accompanying notes on pages 14 to 37 are an integral part of the financial statements.

1. Summary of significant accounting policies

1.1. Basis of preparation

The financial information for the Company has been prepared under the historical cost convention, as modified by the revaluation of derivative contracts. The financial statements have been prepared under International Financial Reporting Standards ("IFRS") as adopted in the European Union. IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. The accounting policies have been consistently applied.

Gibraltar legislation applied in the preparation of these financial statements includes the Gibraltar Companies Act, the Gibraltar Banking (Accounts Directive) Regulations 1997.

The financial statements have been prepared on a going concern basis and under the historical cost convention, modified for the fair value of derivative contracts. The re-domcilation of the company to Jersey, see Director's Report, has no impact on the going concern basis.

The Company has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018.

IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 and addresses classification, measurement and derecognition of financial assets and liabilities, the impairment of financial assets measured at amortised cost or fair value through other comprehensive income and general hedge accounting.

Impairment: IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. The revised approach applies to financial assets including finance lease receivables, recorded at amortised cost or fair value through other comprehensive income; loan commitments and financial guarantees that are not measured at fair value through profit or loss are also in scope. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to, amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

Classification and measurement: IFRS 9 requires financial assets to be classified into one of the following measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortised cost. Classification is made on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. This requirement has had no impact on these financial statements.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts. The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled. The recognition of such revenue is in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied.

Details of the impact of adoption of IFRS 9 are provided in Note 29. IFRS 15 had no impact on the Company.

Details of those IFRS pronouncements which will be relevant to the Company but which were not effective at 31 December 2018 and which have not been applied in preparing these financial statements are given in Note 30.

1. Summary of significant accounting policies (continued)

1.2. Revenue recognition

Interest income and expense are recognised in the statement of comprehensive income for all interest bearing financial instruments, except for those classified at fair value through profit or loss, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument 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 related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

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

1.3. Financial assets and liabilities

On initial recognition, financial assets and financial liabilities are classified into fair value through profit or loss, or at amortised cost.

1.3.1. Financial instruments designated at fair value through profit or loss

Financial instruments are classified at fair value through profit or loss where they are designated at fair value through profit or loss by management upon initial recognition or if they are derivatives.

The Company has no financial instruments at fair value through profit or loss where they are designated at fair value through profit or loss by management.

1.3.2 Financial instruments measured at amortised cost

Financial instruments measured at amortised cost include loans and advances to banks and customers, debt securities and eligible assets. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Financial assets classified as loans and receivables are accounted for at amortised cost using the effective interest rate method (see 1.3 above) less provision for impairment (see 1.6 below). Regular way purchases and sales of financial assets are recognised at trade date, being the date that the Company is committed to purchase or sell an asset

1.3.3. Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in fair value of derivatives are included in net trading income. Derivatives embedded in other financial instruments are treated as separate derivatives recorded at fair value if they meet the definition of a derivative (as defined above), their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit and loss.

1.3.4. Advances to banks and customers

Advances to banks and customers are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Financial assets classified as loans and receivables are accounted for at amortised cost using the effective interest method (see 1.2 above) less provision for impairment (see 1.5 below). Regular way purchases and sales of financial assets are recognised at trade date, being the date that the Company is committed to purchase or sell an asset.

1. Summary of significant accounting policies (continued)

1.3. Financial assets and liabilities (continued)

1.3.5. Borrowings
Borrowings (which include deposits from banks, and customer deposits), are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest method. Interest accrued but not yet payable is included within liability balance.

1.3.6. Derecognition of financial assets and liabilities
Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either:

- substantially all of the risks and rewards of ownership have been transferred; or
- the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation is discharged), cancelled or expired.

1.3.7. Sale and repurchase agreements
Securities sold subject to repurchase agreements (repos) continue to be recognised on the balance sheet where substantially all of the risks and rewards are retained. Funds received under these arrangements are included in deposits from banks and customer deposits. Conversely, securities purchased under agreements to resell (reverse repos), where the Company does not acquire substantially all of the risks and rewards of ownership, are recorded as loans and advances. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. The Company has chosen to present non-trading reverse repos and repos within Advances to banks. These items are classified for accounting purposes as loans and advances or financial liabilities measured at amortised cost.

1.4. Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of set-off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.5. Impairment
The impairment charge in the income statement includes the change in expected credit losses. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income and certain loan commitments and financial guarantees. Expected credit losses are calculated by using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigation of loss and including the impact of discounting using the effective interest rate.

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

1. Summary of significant accounting policies (continued)

1.5. Impairment (continued)

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses qualitative tests based on relative and absolute probability of default ('PD') movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when

more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

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

1.6. Property and equipment

Property and equipment are included at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows:

- Property and equipment: 3 - 8 years.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down in the statement of comprehensive income immediately, the recoverable amount being the higher of value in use or fair value less cost to sell.

1.7. Leases

The leases entered into by the Company are operating leases. Operating lease rentals are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the period of termination.

1.8 Employee benefits

1.8.1. Pensions and other post-retirement benefits

The Company contributes to a number of post-retirement benefit schemes for its employees including both defined benefit and defined contribution pension plans which are held by the Parent company. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a pension plan into which the Company pays fixed contributions; there are no legal or constructive obligations to pay future contributions.

The Company has no liability to any defined benefit schemes, therefore, these schemes are accounted for wholly as a defined contribution plan.

The costs of the Company's post-retirement benefit schemes for its employees are charged to the statement of comprehensive income in the period in which they arise/accrue.

1. Summary of significant accounting policies (continued)

1.9. Income taxes, including deferred income taxes

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise. The tax is calculated based on applicable law and agreements with the tax authorities in the jurisdiction in which the profit was earned.

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. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability. Deferred tax is determined using tax rates that have been enacted or

substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

1.10. Foreign currency translation

1.10.1. Functional and presentation currency

Items included in the financial statements are measured in Pound Sterling being the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are also presented in Pound Sterling.

1.10.2. 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. Non-monetary items that are measured at fair value are translated using the exchange rate at the date that the fair value was determined.

1.11. Provisions and contingent liabilities

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes unless they are remote.

1.12. Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.13. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with original maturities of three months or less, including cash, advances to banks and items in the course of collection from other banks.

2. Critical accounting estimates and judgments
The Company makes assumptions and estimates that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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 accounting policies deemed critical to the Company's results and financial position, based upon materiality and significant judgments and estimates, are discussed below.

2.1. Fair value of financial instruments
In accordance with IFRS 13, the Company categorises financial instruments, including derivatives, carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices unadjusted in active markets and, therefore, there is minimal judgment applied in determining fair value. However, for the fair value of financial instruments categorised as level 2, the inputs are observable and level 3 inputs are unobservable and determined using valuation techniques including discounted cash flow analysis and valuation models. These require management judgment and contain significant estimation uncertainty. In particular, significant judgment is required by management in determining appropriate assumptions to be used for level 3 financial instruments.

Refer to note 25.2 for details of valuation categorisation.

2.2. Recoverability of deferred tax assets
At 31 December 2018, the Company recognised a deferred tax asset of £48,000 (2017: £1,440,000) on its balance sheet. The recoverability of the Company's deferred tax asset in respect of carry forward losses is based on an assessment of future levels of taxable profit expected to arise that can be offset against these losses. Following the Directors' descision that on 29 March 2019 the Company will cease to be incorporated and regulated in Gibraltar and on the same date become incorporated and regulated in Jersey, deferred tax is recognised to the extent it can be utilised to 29 March 2019.

3. Net interest income

	2018	2017
	£000	£000
Interest and similar income		
Advances to fellow group banks	**4,553**	4,312
Interest and similar expense		
Customer accounts	**(1,691)**	(1,222)
	2,862	3,090

4. Total other income

	2018	2017
	£000	£000
Fee and commission income	**859**	990
Gains on foreign exchange trading transactions	**1,684**	1,772
	2,543	2,762

Notes to the financial statements (continued)

For the year ended 31 December 2018

5. Operating expenses

	2018	2017
	£000	£000
Salaries	**(1,317)**	(1,444)
Pensions	**(146)**	(152)
Other staff costs	**(173)**	(295)
Total staff costs	**(1,636)**	(1,891)
Travel	**(41)**	(75)
Communications and data processing	**(85)**	(92)
Legal and professional fees	**(539)**	(1,110)
Premises and equipment costs	**(410)**	(350)
Provision	**(747)**	-
Other	**(581)**	(33)
Audit fees	**(71)**	(50)
Depreciation	**(34)**	(37)
	(4,144)	(3,638)

Provision costs in 2018 represent costs associated with re-domiciling to Jersey on 29 March 2019. Certain costs associated with re-domciling will be met by a fellow group company without recourse.

Services provided by the statutory auditors to the Company:
Audit fees included £45,165 for the statutory audit. The statutory audit firm also provided audit-related assurance services amounting to £11,505 and other non-audit services amounting to £21,000 to the company during the course of the 2018 audit.

	2018	2017
The average number of employees, including Directors directly employed by the Company, during the year was:	**20**	26

6. Impairment

	Stage 1	Stage 2	Stage 3	**Total**
	£000	£000	£000	**£000**
For the year ended 31 December 2018				
Repayments	5	-	-	5
Total impairment reversal	**5**	**-**	**-**	**5**
In respect of:				
Loans and advances to banks	5	-	-	5
Total impairment reversal	**5**	**-**	**-**	**5**

Notes to the financial statements (continued)

For the year ended 31 December 2018

7. Income tax expense

	2018	2017
	£000	£000
The Company is subject to Gibraltar income tax at 10% (2017: 10%).		
Analysis of movement in the year:		
Gibraltar income tax charge	**-**	-
Deferred taxation	**(1,392)**	(232)
Total current taxation	**(1,392)**	(232)
Factors affecting the tax (charge)/credit for the year		
Profit on ordinary activities before tax	**1,266**	2,214
Tax charge at standard rate of income tax applicable to the Company		
Tax charge at the applicable tax rate of 10%	**(127)**	(221)
Capital allowances in excess of depreciation	**-**	1
Adjustments in respect of prior years	**-**	(12)
Adjustment in respect of deferred tax	**(1,265)**	
	(1,392)	(232)

On 29 March 2019 the company will cease to be incorporated and regulated in Gibraltar. Deferred tax is only recognised to the extent that it is expected to be utilised up to 29 March 2019. This has resulted in a reduction in deferred tax of £1,265,000 in the year.

8. Loans and advances to banks

	Stage 1	Stage 2	Stage 3	**Total**
	£000	£000	£000	**£000**
Balance at 31 December 2017				**627,802**
Adjustment on adoption of IFRS 9				**-**
Balance at 1 January 2018	**627,802**	**-**	**-**	**627,802**
Exchange and other movements	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
	-	-	-	-
Net decrease in advances to banks	(18,753)	-	-	(18,753)
Balance at 31 December 2018	**609,049**	**-**	**-**	**609,049**
Allowance for impairment losses	**(146)**	**-**	**-**	**(146)**
Total loans and advances to banks	**608,903**	**-**	**-**	**608,903**

Advances to fellow group banks include non-trading securities subject to repurchase agreements of £17,000,000 (2017: £17,026,585).

Notes to the financial statements (continued)
For the year ended 31 December 2018

9. Loans and advances to customers

	Stage 1 £000	Stage 2 £000	Stage 3 £000	**Total £000**
Balance at 31 December 2017				**5**
Adjustment on adoption of IFRS 9				**-**
Balance at 1 January 2018	**5**	**-**	**-**	**5**
Exchange and other movements	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
	-	-	-	-
Net increase/(decrease) in advances to customers	-	-	-	-
Balance at 31 December 2018	**5**	**-**	**-**	**5**
Allowance for impairment losses	**-**	**-**	**-**	**-**
Total loans and advances to customers	**5**	**-**	**-**	**5**

10. Analysis of movement in the allowance for impairment losses by stage

	Stage 1 £000	Stage 2 £000	Stage 3 £000	**Total £000**
In respect of drawn balances				
Balance at 31 December 2017				**-**
Adjustment on adoption of IFRS 9				**(151)**
Balance at 1 January 2018	**(151)**	**-**	**-**	**(151)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
	-	-	-	-
Release to the income statement	5	-	-	5
Balance at 31 December 2018	**(146)**	**-**	**-**	**(146)**

11. Property and equipment

	Equipment £000
Cost:	
At 1 January 2017	526
Additions	-
At 31 December 2017	526
At 1 January 2018	**526**
Write-off	**(526)**
At 31 December 2018	**-**
Accumulated depreciation and impairment:	
At 1 January 2017	264
Charge for the year	37
At 31 December 2017	301
At 1 January 2018	**301**
Charge for the year	**34**
Write-offs	**(335)**
At 31 December 2018	**-**
Net book value at 31 December 2018	**-**
Net book value at 31 December 2017	225

The Directors' decision on 29 March 2019 that the Company will cease to be incorporated and regulated in Gibraltar has resulted in a write-off of fixed assets as they have no future economic value.

12. Derivative financial instruments

The principal derivatives used by the Company are exchange rate related contracts and index-linked equity options which are embedded as part of particular customer deposits with an equity linked return. Particular attention is paid to the liquidity of the markets and products in which the Company trades to ensure that there are no undue concentrations of activity and risk.

Exchange rate related contracts include forward foreign exchange contracts only. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate.

Index-linked equity options are purchased which give the Company the right, but not the obligation, to buy or sell a specified amount of equities, or basket of equities in the form of published indices on or before a specified future date. They include interest rate swaps and purchases of options (including equity contracts).

The Company does not take market risk in derivatives and therefore offsets their customer requirements for derivatives with Lloyds Bank plc. As a result the market risk is borne by Lloyds Bank plc.

During 2017, the Company allowed certain customers to cancel products with embedded derivatives in advance of the contractual maturity as part of a customer remediation settlement. As a result of these cancellations the Company had a long equity option position at 31 December 2017 which was carried at a nil value at 31 December 2017 and matured in November 2018.

Notes to the financial statements (continued)
For the year ended 31 December 2018

12. Derivative financial instruments (continued)

	Contract/notional amount	Fair value Assets	Fair value Liabilities
	£000	**£000**	**£000**
31 December 2018			
Equity linked options	**4,693**	**463**	**(463)**
Interest rate options	**611**	**60**	**(60)**
Total derivative assets/(liabilities) held for trading	**5,304**	**523**	**(523)**
31 December 2017	£000	£000	£000
Equity linked options	6,846	641	(641)
Interest rate options	1,938	182	(182)
Total derivative assets/(liabilities) held for trading	8,784	823	(823)

Included in the amounts reported above are amounts due to fellow group companies of £523,377 (2017: £822,893) and due from fellow group companies of £463,082 (2017: £641,128).

The notional value of derivatives is reducing as a result of reduced demand for the specific products utilising derivatives.

13. Deferred tax asset

	2018	2017
	£000	£000
Opening balance	**1,440**	1,672
Current year tax charge	**(127)**	(232)
Deferred tax reversal	**(1,265)**	-
Tax allowable losses carried forward	**48**	1,440

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. On 29 March 2019 the Company will cease to be incorporated and regulated in Gibraltar. Deferred tax is only recognised to the extent it is expected to be utilised up to 29 March 2019.

14. Other assets

	2018	2017
	£000	£000
Prepayments	**-**	1,140
Other assets	**160**	130
	160	1,270

15. Deposits from banks

	2018	2017
	£000	£000
Fellow group banks	**687**	2,453

16. Items in the course of transmission to banks

	2018	2017
	£000	£000
Items in the course of transmission to banks	**75**	1,120

Notes to the financial statements (continued)
For the year ended 31 December 2018

17. Customer deposits

	2018	2017
	£000	£000
Non-interest bearing current accounts	**26,898**	21,555
Interest bearing current accounts	**167,638**	170,919
Savings and investment accounts	**373,287**	392,245
Other customer deposits	**5,304**	7,573
Total customer deposits	**573,127**	592,292

18. Provision

	2018	2017
	£000	£000
Opening balance	**101**	530
Provision made	**747**	-
Provision applied	**(14)**	(429)
Unused provision reversed	**-**	-
Closing balance	**834**	101

Included within provisions are amounts in respect of customer redress claims and cost associated with redomiciling the Company to Jersey of £747,000.

19. Other liabilities

	2018	2017
	£000	£000
Accruals	**-**	406
Other liabilities	**267**	1
	267	407

20. Share capital

	2018	2017
	£000	£000
Authorised		
49,000,000 ordinary shares of £1 each	**49,000**	49,000
Issued and fully paid		
Ordinary shares of £1 each	**49,000**	49,000

21. Share based payments

During the year ended 31 December 2018, the Company's ultimate parent company operated a number of share based payments schemes in which employees of the Company participated. The Company's contribution to these schemes is based on a percentage of salary paid to employees.

Employees of the Company participated in the following schemes:

Save-As-You-Earn: Eligible employees may enter into contracts 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 the Group at a discounted price.

21. Share based payments (continued)

The Long-Term Incentive Plan ("LTIP"): Awards are made within the rules of the LTIP with 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. Participants may be entitled to any dividends paid during the vesting period if the performance conditions are met. An amount equal in value to any dividend paid between the award date, being, the date the Remunerations Committee determine if any dividends are to be paid in cash or in shares.

Full details of the schemes operated can be found in the 2018 annual report and accounts of the Company's ultimate parent company, as set out in note 45.

22. Related party transactions

Related party transactions not disclosed elsewhere in the notes to the financial statements are set out below. Transactions with fellow group companies, are disclosed in note 3. Balances with fellow group companies are disclosed in notes 8 and 15.

Key management compensation

The key management personnel of the Company are deemed to be the Directors.

	2018	2017
	£000	£000
Salaries and other short term benefits	**357**	266
Post-employment benefits	**8**	14
	365	280

Key management compensation includes the compensation of all directors paid directly by the Company and an imputed management recharge to the Company for the services of certain directors in relation to the Company even though there is no intention to recharge those costs.

During the current or preceeding year key management had no deposits with or loans from the Company.

23. Ultimate parent undertaking

The immediate parent undertaking is Lloyds Bank Corporate Markets plc.

Until the 30 June 2018, the Company was a wholly owned of subsidiary of Lloyds Bank Subsidiaries Limited. From the 1 July 2018, the Company was a wholly owned subsidiary of Lloyds Bank Corporate Markets plc.

The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements is Lloyds Bank plc for the period to 30 June 2018 and Lloyds Bank Corporate Markets plc for the period from 1 July 2018. Copies of the consolidated annual report and accounts of both Lloyds Bank plc and Lloyds Bank Corporate Markets plc may be obtained from Lloyds Bank Corporate Markets plc head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

24. Contingent liabilities and commitments

24.1 Legal proceedings

The Company is periodically subject to potential and actual litigation, the outcome of which is frequently uncertain as to timing and whether any liability or asset exists. Management reviews the relevant cases and consults with in-house and external legal counsel, as appropriate.

As at 31 December 2018 there are no claims against the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2018

24. Contingent liabilities and commitments (continued)

24.2 Operating lease commitments

The future minimum lease payments under non-cancellable premises and equipment operating leases are as follows:

	2018 £000	2017 £000
Not later than 1 year	**109**	79
Later than 1 year and not later than 5 years	**-**	398
Later than 5 years	**-**	159
	109	636

As a result of the Company re-domiciling to Jersey on 29 March 2019, all operating leases are being cancelled. A provision has been made for onerous leases, based on a management assessment, however the cancellation of the lease is still to be negotiated.

24.3 Guarantee Schemes

The Company is a member of both the Gibraltar Deposit Guarantee Scheme (“GDGS”) and the Gibraltar Investor Compensation Scheme (”GICS”). Should either scheme be activated, it would create a liability to the Company to participate. It is not possible to quantify the liability until the scheme is activated. This liability will cease on 29 March 2019 when the Company ceases to be incorporated and regulated in Gibraltar. On the same date, it will have a liability to the Jersey Depositors Compensation Scheme.

25. Financial risk management

The Company uses financial instruments (including derivatives) to meet the financial needs of its customers, and to reduce its own exposure to risk. The Company accepts deposits from retail customers at both fixed and floating rates and for various periods. Exposures to customers represent lending incidental to other services provided by the Company and short term in nature. The Company does not enter into the trading of financial instruments.

The primary risks affecting the Company through its use of financial instruments are: credit risk, interest rate risk, foreign exchange risk, liquidity risk, capital risk, and equity price risk.

The Board of Directors is responsible for identifying measuring, monitoring and controlling the risks. The Directors and management of the Company, as the primary risk managers, are responsible for establishing proper control frameworks to ensure that the Company’s business is conducted effectively but prudently. They are responsible for ensuring that the risks within their business are identified, assessed, monitored and controlled.

Lloyds Bank (Gibraltar) Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

25. Financial risk management (continued)

25.1. Classification of financial assets and liabilities

The following table analyses the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

	Financial assets at amortised cost	**Fair value through profit or loss**	**Financial liabilities at amortised cost**	**Total**
	£000	**£000**	**£000**	**£000**
As at 31 December 2018				
Financial assets				
Loans and advances to banks	**608,903**	**-**	**-**	**608,903**
Items in the course of collection from banks	**38**	**-**	**-**	**38**
Loans and advances to customers	**5**	**-**	**-**	**5**
Derivative financial instruments	**-**	**523**	**-**	**523**
	608,946	**523**	**-**	**609,469**
Financial liabilities				
Deposits from banks	**-**	**-**	**687**	**687**
Items in the course of transmission to banks	**-**	**-**	**75**	**75**
Customer deposits	**-**	**-**	**573,127**	**573,127**
Derivative financial instruments	**-**	**523**	**-**	**523**
	-	**523**	**573,889**	**574,412**

	Loans and receivables at amortised cost	Fair value through profit or loss	Financial liabilities at amortised cost	Total
	£000	£000	£000	£000
As at 31 December 2017				
Loans and advances to banks	627,802	-	-	627,802
Items in the course of collection from banks	72	-	-	72
Loans and advances to customers	5	-	-	5
Derivative financial instruments	-	823	-	823
	627,879	823	-	628,702
Financial liabilities				
Deposits from banks	-	-	2,453	2,453
Items in the course of transition to banks		-	1,120	1,120
Customer deposits	-	-	592,292	592,292
Derivative financial instruments	-	823	-	823
	-	823	595,865	596,688

Notes to the financial statements (continued)
For the year ended 31 December 2018

25. Financial risk management (continued)

25.2. Fair values of financial assets and liabilities

As at 31 December	**Carrying value 2018 £000**	Carrying value 2017 £000	**Fair value 2018 £000**	Fair value 2017 £000
Financial assets				
Items in the course of collection from banks	**38**	72	**38**	72
Loans and advances to banks	**608,903**	627,802	**608,903**	627,802
Loans and advances to customers	**5**	5	**5**	5
Derivative financial instruments	**523**	823	**523**	823
	609,469	628,702	**609,469**	628,702
Financial liabilities				
Deposits from banks	**687**	2,453	**687**	2,453
Customer deposits	**573,127**	592,292	**573,155**	592,339
Items in the course of transmission to banks	**75**	1,120	**75**	1,120
Derivative financial instruments	**523**	823	**523**	823
	574,412	596,688	**574,440**	596,735

Valuation hierarchy

The table below analyses the assets and liabilities of the Company which are carried at fair value. They are categorised into levels 1 to 3 based on the degree to which their fair value is observable. The fair value measurement approach is recurring in nature.

As at 31 December 2018	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Loans and advances to banks	**-**	**-**	**-**	**-**
Items in the course of collection from banks	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**523**	**-**	**523**
	-	**523**	**-**	**523**
Financial liabilities				
Derivative financial instruments	**-**	**523**	**-**	**523**
	-	**523**	**-**	**523**

As at 31 December 2017	£000	£000	£000	£000
Financial assets				
Loans and advances to banks	17,026	-	-	17,026
Items in the course of collection from banks	-	-	-	-
Derivative financial instruments	-	823	-	823
	17,026	823	-	17,849
Financial liabilities				
Derivative financial instruments	-	823	-	823
	-	823	-	823

25. Financial risk management (continued)

25.2. Fair values of financial assets and liabilities (continued)

Valuations classifications
The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1
Level 1 valuations are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

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.

Level 3
Level 3 valuations are those where at least one input which could have a significant effect on the instruments valuation is not based on observable market data and are valued using valuation techniques that require significant management judgement in determining appropriate assumptions. The Company has no assets classified as level 3.

The carrying values are the approximation of the fair values of the financial assets and liabilities presented in the balance sheet.

Derivative financial instruments
Derivative financial instruments comprise forward foreign exchange contracts and index-linked equity options disclosed in note 12. The fair values have been obtained from quoted market prices in active markets, including recent market transactions using valuation techniques including discounted cash flows and option pricing models. These are classified as level 2 investments.

There have been no transfers between valuation classification levels in the year.

Loans and advances to banks and customers
The Company's lending is at variable rates and is incidental to other services. The fair value approximates to their carrying value due to their short term nature and variable rates.

Other assets
The fair value approximates to their carrying value due to their short term nature.

Deposits from banks and customers
The fair value of deposits repayable on demand or with no stated maturity is considered to be equal to their carrying value. The fair value of all other deposits is estimated using discounted cash flows applying either market rates, where applicable, or current rates of deposits of similar remaining maturities. The fair value of all other deposits is considered to be equal to their carrying value. These are classified as level 2 investments.

Other liabilities
The fair value approximates to their carrying value due to their short term nature.

Notes to the financial statements (continued)
For the year ended 31 December 2018

25. Financial risk management (continued)

25.3. Credit risk

Definition
Credit risk is the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the failure of the party with whom has been contracted to meet its obligations (both on and off balance sheet).

Exposures
The principal sources of credit risk within the Company arise from advances to fellow group banks and advances to customers.

Credit risk can also arise from derivatives and foreign exchange activities through the Company's exposure from its loans to fellow group banks. Note 12 to the financial statements shows the total notional principal amount of interest rate, exchange rate, credit derivative and equity and other contracts outstanding at 31 December 2018. The notional principal amount does not, however, represent the Company's credit risk exposure, which is limited to the current cost of replacing contracts with a positive value to the Company.

Measurement
In measuring the credit risk on advances to banks and customers at a counterparty level, the Company reflects two key components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and their likely future development, from which the Company derives the 'exposure at default'.

Mitigation
The Company does not undertake lending as part of its business activities, lending represents short term overdrafts as a result of customer transactions only. The Company's banking permissions in Gibraltar do not allow it to offer lending.
Concentration risk: Loans and advances to banks are placed with fellow group companies. The Company's large exposures are managed in accordance with regulatory reporting requirements.

Monitoring
Monitoring is undertaken on an individual counterparty basis and reported to senior management. Lloyds Bank Corporate Markets plc credit rating at 31 December 2018 with Moody's was A1.

25.4. Market risk

Definition
Market risk is defined as the risk to earnings, value and/or reserves through financial or reputation loss, arising from unexpected changes in financial prices including interest rates, and exchange rates.

Notes to the financial statements (continued)
For the year ended 31 December 2018

25. Financial risk management (continued)

25.4. Market risk (continued)

25.4.1. Interest rate risk
Interest rate risk arises primarily from the Company's exposure to interest rate fluctuations whilst offering customer products which are at a fixed interest rate. The Company manages its interest rate risk within strict limits and over the short-term to limit the adverse effect of defined rate movements on the consistency of the Company's net interest income.

Interest rate risk is managed by the Treasury Department, but monitored on a daily basis by the Middle Office Function within the Finance Department using One-Year Equivalent ("OYE"). Both the Treasury Department and Finance Department are shared with a fellow group company.

	2018	2017
	£000	£000
OYE	**197**	112
OYE limit	**3,000**	3,000

OYE is a measure of interest rate risk. The principle is to express the portfolio in terms of a one year equivalent position between the assets and liabilities. If the interest rate increases by 1%, the impact on profit and loss will equate to 1% of the OYE. This is used to estimate the sensitivity of a portfolio to movements in interest rates. The limit is set by the Directors and aligned with the Company's risk appetite.

The following table summarises the interest rate re-pricing mismatches of the Company's assets and liabilities:

As at 31 December 2018	**Less than 3 months**	**3-12 months**	**1- 4 years**	**Over 4 years**	**Non-interest bearing**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Assets						
Loans and advances to banks	**546,565**	**58,242**	**4,096**	**-**	**-**	**608,903**
Items in the course of collection from banks	**38**	**-**	**-**	**-**	**-**	**38**
Loans and advances to customers	**5**	**-**	**-**	**-**	**-**	**5**
Derivative financial Instruments	**-**	**-**	**523**	**-**	**-**	**523**
Other assets	**-**	**-**	**-**	**-**	**208**	**208**
Total assets	**546,608**	**58,242**	**4,619**	**-**	**208**	**609,677**
Liabilities						
Deposits from banks	**687**	**-**	**-**	**-**	**-**	**687**
Items in the course of collection to banks	**75**	**-**	**-**	**-**	**-**	**75**
Customer deposits	**510,675**	**58,560**	**3,892**	**-**	**-**	**573,127**
Derivative financial instruments	**-**	**15**	**508**	**-**	**-**	**523**
Other liabilities	**-**	**-**	**-**	**-**	**1,101**	**1,101**
Total liabilities	**511,437**	**58,575**	**4,400**	**-**	**1,101**	**575,513**
Interest rate re-pricing gap	**35,171**	**(333)**	**219**	**-**	**(893)**	**34,164**

Notes to the financial statements (continued)
For the year ended 31 December 2018

25. Financial risk management (continued)

25.4. Market risk (continued)

25.4.1. Interest rate risk (continued)

As at 31 December 2017	Less than 3 months	3-12 months	1- 4 years	Over 4 years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000
Assets						
Loans and advances to banks	393,328	205,629	28,154	691	-	627,802
Items in the course of collection from banks	72	-	-	-	-	72
Loans and advances to customers	5	-	-	-	-	5
Derivative financial instruments	-	-	823	-	-	823
Other assets	-	-	-	-	1,270	1,270
Total assets	393,405	205,629	28,977	691	1,270	629,972
Liabilities						
Deposits from banks	2,453	-	-	-	-	2,453
Items in the course of transmission to banks	1,120					1,120
Customer deposits	536,605	25,528	29,391	768	-	592,292
Derivative financial instruments	-	18	805	-	-	823
Other liabilities	-	-	-	-	508	508
Total liabilities	540,178	25,546	30,196	768	508	597,196
Interest rate re-pricing gap	(146,773)	180,083	(1,219)	(77)	762	32,776

25.4.2. Foreign Exchange Risk

Foreign exchange risk is managed by the Treasury Department, but monitored on a daily basis by the Middle Office function within the Finance Department using Open Exchange Positions (“OEP”). Both the Treasury Department and Finance Department are shared with a fellow group company.

The table below indicates maximum net limits, either long or short, for individual currencies.

	2018	2017
	£000 Long/(short)	£000 Long/(short)
OEP expressed in GBP equivalent		
USD	**109**	68
EUR	**(95)**	(18)
Other Currencies	**6**	(31)
Total	**20**	19

The OEP limits are per currency and the aggregate limit across all currencies is £250,000 (2017: £250,000).

25. Financial risk management (continued)

25.4. Market risk (continued)

25.4.3. Equity Price Risk

The Company is exposed to equity price risk through index-linked deposits offered to customers, which have returns linked to stock-market performance and a guaranteed minimum return. The Company's policy is to minimise the risk by fully matching the liabilities with equity options held with Lloyds Bank plc. The Company does not retain any significant exposure to equity price risk, and accordingly no quantitative analysis of such exposures is presented.

25.5. Liquidity risk

Geographical analysis of deposits from banks and customers:

	2018	2017
	£000	£000
France	**55,065**	59,519
Spain	**68,774**	77,569
Ireland	**59,370**	61,404
Greece	**82,957**	87,327
Cyprus	**64,122**	61,881
Germany	**35,364**	31,270
United Kingdom	**39,664**	42,976
Gibraltar	**21,856**	23,780
Other	**146,642**	149,019
	573,814	594,745

Definition
Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments when they fall due.

Exposure
Liquidity exposure represents the amount of potential outflows in any future period less committed inflows in that period such that the Company is unable to meet its financial obligations as they fall due, or can secure them only at excessive cost. These obligations include the repayment of deposits on demand or at their contractual maturity, the payment of operating expenses, taxation and the ability to take advantage of new business opportunities.

Measurement
The Company manages the liquidity profile of the balance sheet through both short term liquidity management and long term strategic funding. Short term liquidity management is considered from two perspectives; business as usual and crisis liquidity, both of which relate to funding in the less than one year time horizon. Longer term funding is used to manage the Company's strategic liquidity profile which is determined by the Company's balance sheet structure, and decided by the Company. Longer term is defined as an original maturity of more than one year.

The table below analyses liabilities of the Company, on an undiscounted future cash flows basis according to contractual maturity into relevant maturity groupings based on the remaining period at the balance sheet date.

25. Financial Risk Management (continued)

25.5. Liquidity risk (continued)

As at 31 December 2018	**On demand £000**	**Up to 1 month £000**	**1-3 months £000**	**3-12 months £000**	**Over 1 year £000**	**Total £000**
Liabilities						
Deposits from banks and customers	**129,587**	**4,025**	**377,750**	**58,560**	**3,892**	**573,814**
Other liabilities	**1,176**	**-**	**-**	**-**	**-**	**1,176**
Derivative financial instruments	**-**	**-**	**-**	**15**	**508**	**523**
Total liabilities	**130,763**	**4,025**	**377,750**	**58,575**	**4,400**	**575,513**

As at 31 December 2017	On demand £000	Up to 1 month £000	1-3 months £000	3-12 months £000	Over 1 year £000	Total £000
Liabilities						
Deposits from banks and customers	537,216	451	1,407	24,431	31,240	594,745
Other liabilities	1,628	-	-	-	-	1,628
Derivative financial instruments	-	-	-	18	805	823
Total liabilities	538,844	451	1,407	24,449	32,045	597,196

25.6. Capital risk

Definition
Capital risk is defined as the risk that the Company has insufficient capital to provide a stable resource to absorb any losses or that the capital structure is inefficient.

Exposure
Capital exposure arises should the Company have insufficient capital resources to support its strategic objectives and plans, and meet external stakeholder requirements and expectations. Capital is considered from an internal and regulatory perspective.

Measurement
For the banking businesses the international standard for measuring capital adequacy is the risk asset ratio, which relates regulatory capital to balance sheet assets and off-balance sheet exposures weighted according to broad categories of risk as defined by the Basel III framework.

The Company's capital comprises equity, movements in which appear in the statement of changes in equity on page 9. The Company receives its funding requirements from its parent and does not raise funding externally.

The Company is in compliance with the minimum total capital ratio as required by CRDIV ("Capital Requirements Directive IV"). The total capital ratio at 31 December 2018 was 23.62% (2017: 15.48%). The total Capital at 31 December 2018 was £34,242,100 (minimum £8,697,000) (2017: £31,018,000 (minimum £12,026,000)).

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.

Notes to the financial statements (continued)
For the year ended 31 December 2018

25. Financial Risk Management (continued)

25.7. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities.

All areas of the business are responsible for identifying risks, reporting to a dedicated Compliance and Risk department. Its role is to define, promote, and implement a policy for operational risk management which is consistent with the approach, aims and strategic goals of the Company, and is designed to safeguard the Company's assets while allowing sufficient operational freedom to earn a satisfactory return to shareholders. This is monitored by the group audit department of Lloyds Banking Group, within group wide standards of control.

26. Notes to the statement of cash flows

Reconciliation of operating profit to net cash flow from operating activities

	2018	2017
	£000	£000
Profit before tax	**1,266**	2,214
Adjustments for non-cash items included in profit		
Depreciation of fixed assets	**-**	37
Loss on disposal of fixed assets	**225**	-
Adjustments for net cash movements in balance sheet		
Movement in loans and advances to banks	**172,137**	(65,905)
Movement in loans and advances to customers	**-**	(1)
Movement in deposits from banks	**(1,766)**	(584)
Movement in customer deposits	**(19,165)**	(44,042)
Movement in derivative assets	**300**	411
Movement in other assets	**1,109**	(1,154)
Movement in derivative liabilities	**(300)**	(411)
Movement in other liabilities	**(452)**	672
Other non cash movements	**(151)**	-
Total adjustments	**151,937**	(111,014)
Net cash generated by/(used in) operating activities	**153,203**	(108,763)

Note to the cash flow

	2018	2017
	£000	£000
Advances to Banks	**546,565**	393,328
Items in the course of collection from banks	**38**	72
Total cash and cash equivalents	**546,603**	393,400

27. Pensions

The Company makes annual contributions of 12.2% of the employee's gross salaries to the defined contribution pension scheme for colleagues on local contract which is administered by Zurich International. The Company also makes pension payments (both defined benefit and defined contribution) for overseas assignees whose pension schemes are administered in the jurisdiction that they have been assigned from. During the year the Company made total contributions for colleagues of £146,455 (2017: £151,514).

The Company has no liability to the defined benefit obligation of the schemes, therefore these schemes are accounted for wholly as defined contributions schemes and no further disclosure made.

28. Post balance sheet events

As set out in the Director's Report and Notes 2.2 and 7, on 29 March 2019 the Company will cease to be incorporated and regulated in Gibraltar and on the same date become incorporated and regulated in Jersey. The Company will be renamed Lloyds Bank (International Services) Limited.

29. Transition to IFRS 9

The Company adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not been restated and transitional adjustments have been accounted through retained earnings as at 1 January 2018, the date of the initial application; and as a result shareholders' equity reduced by £151,000, driven by the effects of the additional impairment provisions following the implementation of the expected credit loss methodology. It is not practical to quantify the impact of adoption of IFRS 9 on the results for the current period.

30. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2018 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.

Pronouncement	Nature of change	IASB effective date
IFRS 16 'Leases' [1/2]	Replaces IAS 17 Leases and 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.	Annual periods beginning on or after 1 January 2019
Amendments to other accounting standards [1/2] standards	The IASB has issued amendments to IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments.	Annual periods beginning on or after 1 January 2019

[1] At the date of this report, these pronouncements were awaiting EU endorsement.
[2] The full impact of these pronouncements is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.