

LLOYDS BANK PROPERTY COMPANY LIMITED

Annual report and financial statements for the year ended 30 September 2018

Member of Lloyds Banking Group

Registered Number: 00747129



COMPANIES HOUSE
EDINBURGH

01 MAY 2019

FRONT DESK

LLOYDS BANK PROPERTY COMPANY LIMITED

DIRECTORS

C G Dowsett
G A Fox

COMPANY SECRETARY

A E Mulholland

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

BANKERS

Lloyds Banking Group plc
25 Gresham Street
London
EC2V 7HN

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

00747129

DIRECTORS' REPORT

The directors present their report and audited financial statements of Lloyds Bank Property Company Limited (the "company") for the year ended 30 September 2018.

The company qualifies as a small company in accordance with Sections 381-382 of the Companies Act 2006 (the "Act") and the directors' report has therefore been prepared taking into consideration the provisions of Part 15 of the Act.

REVIEW OF BUSINESS

During the year, the principal activity of the company was the leasing of plant and equipment through finance lease transactions and this is likely to continue for the foreseeable future.

The results of the company show a loss before taxation of £1,000 (2017: £75,000) for the year as set out in the income statement on page 6.

The company has a net deficit of shareholder's equity of £392,000 (2017: £1,653,000).

The company is reliant on funding provided by Lloyds Banking Group plc. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2017: £nil).

DIRECTORS

The names of the directors of the company who were in office during the year and up to the date of the signing of financial statements are shown on page 1. There were no changes in directors during the year or since the year ended.

No director had any interest in any material contract or arrangement with the company during or at the end of the year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- 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.

DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the directors of the company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. 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, Lloyds Banking Group (the "Group") has in place appropriate directors' and officers' liability insurance cover which was in place throughout the financial year.

DIRECTORS' REPORT (CONTINUED)

INDEPENDENT AUDITORS' APPOINTMENT

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

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 further details please refer to note 15 'Risk management of financial instruments' in these financial statements.

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.

On behalf of the board



C G Dowsett
Director

Date: 30 April 2019

Independent auditors' report to the members of Lloyds Bank Property Company Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 30 September 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Balance Sheet as at 30 September 2018, Income Statement for the year ended 30 September 2018, Cash Flow Statement for the year ended 30 September 2018 and Statement of Changes in Shareholder's Equity for the year ended 30 September 2018; 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

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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

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

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 30 September 2018 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 Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 2, 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

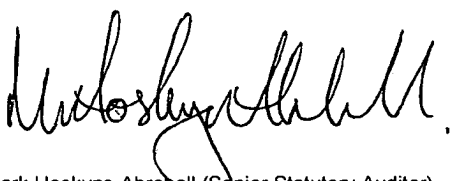
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Mark Hoskyns-Abramall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
30th April 2019

INCOME STATEMENT

For the year ended 30 September 2018

	Note	2018 £000	2017 £000
Finance income	2	1,382	1,404
Finance costs	3	<u>(1,391)</u>	<u>(1,472)</u>
		(9)	(68)
Other operating income	4	8	-
Administration expenses	5	<u>-</u>	<u>(7)</u>
Loss before taxation	6	(1)	(75)
Taxation charge	7	<u>(39)</u>	<u>(34)</u>
Loss after taxation and total comprehensive loss for the year attributable to owners of the parent		<u><u>(40)</u></u>	<u><u>(109)</u></u>

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

LLOYDS BANK PROPERTY COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2018

	Note	2018 £000	2017 £000
Loss after taxation for the year		(40)	(109)
Other Comprehensive Income			
Items that may subsequently be reclassified to profit or loss:			
Movement in cash flow hedges:			
- changes in fair value taken to equity, net of tax	14	<u>1,301</u>	<u>1,022</u>
Total comprehensive income for the year attributable to owners of the parent		<u><u>1,261</u></u>	<u><u>913</u></u>

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

LLOYDS BANK PROPERTY COMPANY LIMITED

BALANCE SHEET
As at 30 September 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Finance lease receivables	8	14,528	14,802
Deferred taxation	12	<u>672</u>	<u>1,007</u>
Total non-current assets		<u>15,200</u>	<u>15,809</u>
Current assets			
Finance lease receivables	8	275	251
Amounts owed by group companies	9	<u>2,868</u>	<u>2,774</u>
Total current assets		<u>3,143</u>	<u>3,025</u>
Total assets		<u>18,343</u>	<u>18,834</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	10	18,733	20,485
Other creditors		<u>2</u>	<u>2</u>
Total current liabilities		<u>18,735</u>	<u>20,487</u>
Equity			
Share capital	13	100	100
Other reserves	14	(2,642)	(3,943)
Retained earnings		<u>2,150</u>	<u>2,190</u>
Total equity		<u>(392)</u>	<u>(1,653)</u>
Total liabilities and equity		<u>18,343</u>	<u>18,834</u>

The financial statements on pages 6 to 21 were approved by the Board of Directors on 30 April 2019 and signed on its behalf by:



C G Dowsett
Director

Registered Number: 00747129

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 30 September 2016		100	(4,965)	2,299	(2,566)
Total comprehensive loss for the year					
Loss for the year		-	-	(109)	(109)
Change in fair value of derivatives, net of tax	14	-	1,022	-	1,022
Balance at 30 September 2017	13, 14	100	(3,943)	2,190	(1,653)
Total comprehensive loss for the year					
Loss for the year		-	-	(40)	(40)
Change in fair value of derivatives, net of tax	14	-	1,301	-	1,301
Balance at 30 September 2018	13, 14	<u>100</u>	<u>(2,642)</u>	<u>2,150</u>	<u>(392)</u>

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

CASH FLOW STATEMENT

For the year ended 30 September 2018

	Note	2018 £000	2017 £000
Loss before taxation		<u>(1)</u>	<u>(75)</u>
Operating cash flows before movements in working capital		(1)	(75)
Decrease in receivables		250	238
Increase in payables		<u>79</u>	<u>144</u>
Cash generated by operations		328	307
Tax received		<u>25</u>	<u>38</u>
Net cash flow from operating activities		<u>353</u>	<u>345</u>
Financing activities			
Decrease in bank borrowings		<u>(245)</u>	<u>(224)</u>
Net cash flow from financing activities		<u>(245)</u>	<u>(224)</u>
Net increase in cash and cash equivalents		108	121
Cash and cash equivalents at beginning of the year		<u>2,749</u>	<u>2,628</u>
Cash and cash equivalents at end of the year		<u><u>2,857</u></u>	<u><u>2,749</u></u>
Cash and cash equivalents are comprised of:			
Cash at bank	9	<u>2,857</u>	<u>2,749</u>
		<u><u>2,857</u></u>	<u><u>2,749</u></u>

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

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

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, under the historical cost convention.

The financial statements have been prepared in accordance with Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006.

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the continuing financial support provided by Lloyds Bank plc. After making appropriate enquiries, the directors believe that it is appropriate for the financial statements to be prepared on the going concern basis.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In the course of preparing the financial statements, no critical judgements have been made in the process of applying the company's accounting policies, other than those involving estimations which are disclosed separately below.

The following are critical accounting estimates 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:

- Deferred tax

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

- Impairment

The company regularly reviews the portfolio of financial assets for impairment. In determining whether an impairment has occurred at the balance sheet date the company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on repayments or values of underlying assets. Where this is the case, the impairment loss is measured in accordance with note 1(b) below.

1(a) Leases

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee; all other leases are classified as operating leases.

When assets are leased under a finance lease the amount due from a lessee is recorded as a receivable at the present value of the lease payments being the company's net investment in the lease. Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the company's net investment in the lease.

Initial direct costs attributed to negotiating and arranging a finance lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term. Fees and commissions received are deferred and recognised as an adjustment to the effective interest rate on the lease over the lease term.

A change in corporation tax can give rise to a reduction or increase in deferred tax. Due to tax rate variation clauses in some of the company's leases this may lead to a reduction or increase in lease rentals. This change in the lease rentals can give rise to a change in the interest rate implicit in the lease which when applied retrospectively, produces a one-off adjustment of the finance lease receivables carrying value. This one-off adjustment is reported as either an impairment or other income in the statement of comprehensive income.

1(b) Impairment

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal and/or interest;
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty;
- Restructuring of debt to reduce the burden on the borrower;
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)

1(b) Impairment (continued)

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of the estimated future cash flows discounted at the asset's implicit rate in the lease.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as a credit to the statement of comprehensive income.

1(c) Taxation, including deferred income taxes

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

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

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

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

1(d) Dividends

Dividends are recognised in equity only when the company has the obligation to pay the ordinary shareholder.

1(e) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months.

1(f) Fair value

The fair value of finance lease receivables is derived from a present value cash flow model of expected cash flows from the lease using current market interest rates and margin for the risks inherent in the lease.

1(g) 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 the fair value of any derivative instrument that is not part of a hedging relationship are recognised immediately in the income statement.

Derivatives embedded in financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)**1(g) Derivative financial instruments (continued)**

The method of recognising the movements in the fair value of the derivatives depends on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Hedge accounting allows one financial instrument, generally a derivative such as a swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of the same. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item and the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value or cash flow of the hedged risk. The effectiveness of the hedging relationship must be tested throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its objective the hedge relationship is terminated.

The company designates derivatives as hedges of highly probable future cash flows attributable to recognised assets or liabilities (cash flow hedges).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income, and in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The company documents at the inception of the transaction the relationship between hedging instrument and the hedged item. The company also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability, if the maturity of the hedged item is less than 12 months.

1(h) Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in pounds sterling, which is the company's functional and presentation currency.

2 Finance income

	2018 £000	2017 £000
Finance lease income	<u>1,382</u>	<u>1,404</u>
	<u>1,382</u>	<u>1,404</u>

Finance lease income represents the income component of finance lease receivables earned in the year, being finance lease rentals less capital repayment.

3 Finance costs

	2018 £000	2017 £000
Interest payable on bank loans and overdraft to other group companies	167	196
Interest rate swaps	<u>1,224</u>	<u>1,276</u>
	<u>1,391</u>	<u>1,472</u>

4 Other operating income

	2018 £000	2017 £000
Other operating income	<u>8</u>	<u>-</u>
	<u>8</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 Administration expenses

	2018 £000	2017 £000
Other expenses	-	7
	<u>-</u>	<u>7</u>

6 Loss before taxation

Audit fees for the company are borne by the ultimate parent company, which makes no recharge to the company.

The company has no employees (2017: nil).

The directors, who are considered to be key management, received no remuneration in respect of their services to the company. The emoluments of the directors are paid by a fellow group undertaking on behalf of the ultimate parent, Lloyds Banking Group plc, which makes no recharge to the company. The directors are also directors of a number of other subsidiaries of the Group and are also substantially engaged in managing their respective business areas within the Group. Given this, it is not possible to make an accurate apportionment of directors' emoluments in respect of their services to each of the subsidiaries. Accordingly, these financial statements include no emoluments in respect of the directors.

7 Taxation charge

	2018 £000	2017 £000
The taxation charge for the year comprises:		
Current tax receivable on loss for the year	11	25
Total current tax receivable for the year	11	25
Deferred taxation (note 12)	(53)	(53)
Impact of rate change (note 12)	3	(6)
Total taxation charge for the year	<u>(39)</u>	<u>(34)</u>

Where taxation on the company's loss for the year differs from the taxation credit that would arise using the standard rate of corporation tax of 19.0% (2017: 19.5%), the differences are explained below:

	2018 £000	2017 £000
Loss before taxation	(1)	(75)
Tax at standard rate of corporation tax	-	14
Impact of tax rate change	3	(6)
Other items	(43)	(41)
Disallowed items	1	(1)
Total taxation charge	<u>(39)</u>	<u>(34)</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2018 £000	2017 £000	2018 £000	2017 £000
Amounts receivable under finance leases				
Within 1 year	1,636	1,636	275	251
2 - 5 years inclusive	<u>17,172</u>	<u>18,807</u>	<u>14,528</u>	<u>14,802</u>
	18,808	20,443	14,803	15,053
Less: Unearned finance income	<u>(4,005)</u>	<u>(5,390)</u>		
Present value of minimum lease payments receivable	<u>14,803</u>	<u>15,053</u>		
Analysed as:				
Non-current finance lease receivable	14,528	14,802		
Current finance lease receivables	<u>275</u>	<u>251</u>		
	<u>14,803</u>	<u>15,053</u>		

The fair value of the company's finance lease receivables at 30 September 2018 is estimated at £17,877,000 (2017: £19,328,000).

9 Amounts owed by group companies

	2018 £000	2017 £000
Cash at bank	2,857	2,749
Tax receivable	<u>11</u>	<u>25</u>
	<u>2,868</u>	<u>2,774</u>

For further details please refer to note 16.

10 Amounts owed to group companies

	2018 £000	2017 £000
Bank borrowings	14,585	14,830
Interest payable	926	847
Derivative financial instruments (note 11)	<u>3,222</u>	<u>4,808</u>
	<u>18,733</u>	<u>20,485</u>

For further details please refer to note 16.

11 Derivative financial instruments

Derivative financial instruments include interest rate swaps. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts.

An interest rate swap option is an option to enter into an interest rate swap at a future date.

Derivative transactions are with group companies. See note 16 for further details of balances outstanding at the year end.

The derivatives used by the company are designated as cash flow hedges, these hedge against fluctuations in market interest rates and are detailed below.

The effective portion of changes in the fair value of cash flow hedges is recognised in other comprehensive income. The ineffective portion is recognised immediately in the income statement. The cash flow hedges were highly effective throughout the year and no ineffectiveness was recognised in profit or loss during the year.

There was no portion of the hedging reserve reclassified from equity to profit and loss during the year.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining hedged item is less than 12 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Derivative financial instruments (continued)

Interest payments arising on borrowings are settled on a quarterly basis.

	Contractual/ Notional amount £000	Fair Values Liabilities £000
30 September 2018		
Interest rate swaps	<u>14,585</u>	<u>3,222</u>
	<u>14,585</u>	<u>3,222</u>
30 September 2017		
Interest rate swaps	<u>14,830</u>	<u>4,808</u>
	<u>14,830</u>	<u>4,808</u>

12 Deferred taxation

	2018 £000	2017 £000
At beginning of the year	1,007	1,365
Deferred taxation charge for the year	(53)	(53)
Impact of tax rate change	3	(6)
Deferred tax on cashflow hedges	(301)	(258)
Impact of tax rate change thereon	<u>16</u>	<u>(41)</u>
At end of the year	<u>672</u>	<u>1,007</u>

The deferred taxation charge in the income statement comprises the following:

	2018 £000	2017 £000
Capital allowances on assets leased to customers	<u>(50)</u>	<u>(59)</u>
Total deferred taxation charge	<u>(50)</u>	<u>(59)</u>

Deferred taxation assets are comprised as follows:

	2018 £000	2017 £000
Deferred taxation assets		
Accelerated tax depreciation	92	141
Cash flow hedges	<u>580</u>	<u>866</u>
Total deferred taxation assets	<u>672</u>	<u>1,007</u>
Total deferred taxation	<u>672</u>	<u>1,007</u>

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

13 Share capital

	2018 £	2017 £
Allotted, issued and fully paid 100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
	<u>100,000</u>	<u>100,000</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Share capital (continued)

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

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

14 Other reserves

Other reserves relates to gains and losses recognised on cash flow hedges.

	2018 £000	2017 £000
At beginning of the year	(3,943)	(4,965)
Change in fair value of cash flow hedges	1,586	1,321
Deferred taxation thereon	(301)	(258)
Impact of tax rate change	16	(41)
	<u> </u>	<u> </u>
At end of the year	<u>(2,642)</u>	<u>(3,943)</u>

There was no ineffectiveness to be recorded in the income statement from cash flow hedges.

15 Risk management of financial instruments

The primary financial risks affecting the company are: credit risk, liquidity risk and market risk (which include interest rate and foreign currency risk). Information on the management of these financial risks and further disclosures is given below.

In accordance with IAS39 "Financial instruments: Recognition and measurement", the following financial instruments, including derivatives, are classified as shown:

	Held at cost/amortised cost £000	Held at Fair Value £000	Loans or receivables £000	Total £000
At 30 September 2018				
Assets				
Finance lease receivables	-	-	14,803	14,803
Amounts owed by group companies	<u>2,868</u>	<u>-</u>	<u>-</u>	<u>2,868</u>
Total financial assets	<u>2,868</u>	<u>-</u>	<u>14,803</u>	<u>17,671</u>
Liabilities				
Amounts owed to group companies	15,511	3,222	-	18,733
Other creditors	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
Total financial liabilities	<u>15,513</u>	<u>3,222</u>	<u>-</u>	<u>18,735</u>
At 30 September 2017				
Assets				
Finance lease receivables	-	-	15,053	15,053
Amounts owed by group companies	<u>2,774</u>	<u>-</u>	<u>-</u>	<u>2,774</u>
Total financial assets	<u>2,774</u>	<u>-</u>	<u>15,053</u>	<u>17,827</u>
Liabilities				
Amounts owed to group companies	15,677	4,808	-	20,485
Other creditors	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
Total financial liabilities	<u>15,679</u>	<u>4,808</u>	<u>-</u>	<u>20,487</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Risk management of financial instruments (continued)

Credit risk management:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum credit risk exposure of the company in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount as at 30 September.

	2018 £000	2017 £000
Financial assets which are neither past due nor impaired for credit risk:		
Finance lease receivables	14,803	15,053
Amounts owed by group companies	<u>2,868</u>	<u>2,774</u>
Total credit risk exposure	<u>17,671</u>	<u>17,827</u>

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each lease or loan is assessed for credit risk prior to approval and assigned a credit rating based on the credit risk rating methodology and management policy of the Lloyds Banking Group plc. Credit ratings of the lease counterparties are monitored, where necessary revised, over the life of the lease. The table below reflects the credit rating of the financial assets portfolio net of any financial guarantees received.

Financial assets by credit rating:

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
At 30 September 2018	£000	£000	£000	£000	£000	£000	£000
Finance lease receivables	-	-	14,803	-	-	-	14,803
Amounts owed by group companies	-	-	<u>2,868</u>	-	-	-	<u>2,868</u>
Total	-	-	<u>17,671</u>	-	-	-	<u>17,671</u>
	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
At 30 September 2017	£000	£000	£000	£000	£000	£000	£000
Finance lease receivables	-	-	15,053	-	-	-	15,053
Amounts owed by group companies	-	-	<u>2,774</u>	-	-	-	<u>2,774</u>
Total	-	-	<u>17,827</u>	-	-	-	<u>17,827</u>

At the balance sheet date the company assesses if there is objective evidence that the financial assets have become impaired. Evidence of impairment may include indications that the counterparty is experiencing financial difficulty, default or delinquency in settlements of amounts due or debt restructurings to reduce the financial burden on the counterparty.

At 30 September 2018 and 2017 there were no impairments relating to credit risk against any financial assets. The credit risk exposure under short-term debtors, deposits and other financial assets are represented by the book values in the above table.

For financial assets held at amortised cost the fair value approximates to their carrying values, except for leases whose fair value is disclosed in note 8.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Risk management of financial instruments (continued)

Fair Value Estimation:

The table below provides an analysis of the financial assets and liabilities of the company that are carried at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable as defined below:

- Quoted prices (unadjusted) in active markets of identical assets and liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly, or indirectly (level 2)
- Inputs for the asset or liability that are not based on observable market data (level 3)

Valuation hierarchy	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
30 September 2018				
Derivative financial instruments	-	3,222	-	3,222
Financial liabilities	-	3,222	-	3,222
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
30 September 2017				
Derivative financial instruments	-	4,808	-	4,808
Financial liabilities	-	4,808	-	4,808

Liquidity risk management:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

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

At 30 September 2018	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	-	925	-	925
Up to 1 month	-	-	-	-
1-3 months	14,585	1	-	14,586
3-12 months	-	-	-	-
1-5 years	-	2	3,222	3,224
Over 5 years	-	-	-	-
Total	14,585	928	3,222	18,735
At 30 September 2017				
	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	-	847	-	847
Up to 1 month	-	-	-	-
1-3 months	14,830	2	-	14,832
3-12 months	-	-	-	-
1-5 years	-	-	-	-
Over 5 years	-	-	4,808	4,808
Total	14,830	849	4,808	20,487

The fair value of current liabilities approximates their carrying values.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Risk management of financial instruments (continued)**Interest rate risk management:**

Interest rate risk is the risk that the future cash flows and fair values of a financial instrument may fluctuate because of changes in market interest rates.

The company takes into account the exposure on fluctuations in the prevailing levels of market interest rates on its cash flows when structuring its operations by ensuring the interest terms of its finance income is matched to the variable interest terms of the borrowing used to finance the leasing portfolio. As such the company has no material exposure to financial risk arising from changes in market interest rates. Interest rate risk is hedged using interest rate swaps.

Foreign currency risk:

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

The company's transactions are all denominated in pounds sterling as such the company has no exposure to foreign currency risk.

16 Related parties

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

The company's related parties include other companies in the Lloyds Banking Group and the company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company, which is determined to be the company's directors, who are listed on page 1 of these financial statements.

In respect of related party transactions, the outstanding balances receivable/(payable) at 30 September were as follows:

Nature of transaction	Related party	Related party relationship	2018	2017	Terms and conditions	
			£000	£000	Repayment	Interest
Cash at bank	Lloyds Bank plc	Intermediate parent undertaking	2,857	2,749	No fixed date	N/A
Tax receivable	Bank of Scotland plc	Fellow subsidiary undertaking	11	25	No fixed date	N/A
Bank borrowings	Lloyds Bank plc	Intermediate parent undertaking	(14,585)	(14,830)	27/12/2018	0.80%
Interest payable	Lloyds Bank plc	Intermediate parent undertaking	(926)	(847)	27/12/2018	N/A
Derivative financial instruments payable	Lloyds Bank plc	Intermediate parent undertaking	(3,222)	(4,808)	30/09/2021	8.87%

The registered offices of related parties and subsidiaries are as noted below:

<u>Related party</u>	<u>Registered address</u>
Bank of Scotland plc	The Mound, Edinburgh, EH1 1YZ
Lloyds Bank plc	25 Gresham Street, London, EC2V 7HN

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

Bank borrowings are interest bearing and during the year rates of interest of between 0.34% and 0.80% (2017: between 0.31% and 0.38%) were charged. Finance costs of £1,391,000 (2017: £1,472,000) were incurred during the year.

The company received tax of £25,000 (2017: £38,000) during the year from fellow subsidiary undertakings.

17 Adopted accounting standards

There were no new accounting standards adopted by the company during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Future developments

The following accounting standard changes will impact the company in the future financial years. Save as disclosed below, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the Financial Statements.

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
IFRS 9; 'Financial Instruments'	<p>IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. The company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods.</p> <p><i>Classification and measurement</i> IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.</p> <p><i>Impairment</i> IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.</p> <p>The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be materially impacted.</p>	Annual periods beginning on or after 1 January 2018
IFRS16; 'Leases'	<p>The IASB has issued IFRS 16 to replace IAS 17 Leases which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. This change will mainly impact the properties that the Group currently accounts for as operating leases. Lessor accounting requirements remain aligned to the current approach under IAS 17.</p> <p>The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be materially impacted.</p>	Annual periods beginning on or after 1 January 2019

19 Contingent liabilities

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 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 £57,000 (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.