SMBC

SMBC Group

FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 MARCH 2020

SMBC LEASING & FINANCE UK NO.1 LIMITED

COMPANY NUMBER 5775540

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OFFICERS AND CORPORATE INFORMATION

REGISTERED OFFICE

SMBC Leasing & Finance UK No.1 Limited
99 Queen Victoria Street
London
EC4V 4EH

REGISTERED COMPANY NUMBER

England and Wales 5775540

AUDITOR

KPMG LLP
Statutory Auditors and Chartered Accountants
15 Canada Square
London
E14 5GL

BOARD OF DIRECTORS

Lee Lawrence Barnsley
Lawrence James Butcher
Antony Edward Mitton
Mark Jeremy Rutherford

STRATEGIC REPORT

The directors present their strategic report for the year ending 31 March 2020.

TRADING UPDATE

As at the prior year-end, the company had no live transactions within its portfolio. The prior year financial statements were prepared on a going concern basis since a new transaction had already been booked in early December 2019, prior to the signing of the 31 March 2019 financial statements which took place on 10 December 2019.

In the final three months of the financial year, the company booked a further 6 new transactions. The company experienced no bad debt write-offs in the year (prior year: nil).

The company's profit before tax was £698,036 (2019: profit of £952,333) and profit after tax was £603,130 (2019: profit of £681,332). This was in line with the directors' expectations.

SIGNIFICANT RISKS

GLOBAL CORONAVIRUS PANDEMIC (COVID-19)

In late December 2019, Chinese officials in the city of Wuhan reported an outbreak of a new infectious disease (COVID-19).

The unprecedented global response to the COVID-19 outbreak has had an enormous impact on both the UK and the global economy. The negative impact on both UK and global GDP is expected to surpass any output reduction witnessed in recent times. Unemployment rates have soared around the globe as companies struggle to survive in an environment where non-essential businesses have been forced to temporarily shut down or dramatically reduce output.

SMBC Leasing & Finance UK No.1 Limited has performed a portfolio-wide review of its lending portfolio in order to review exposures by obligor industry and sector. This work has resulted in an increased focus on Expected Credit Losses (ECLs). The directors confirm that the calculated ECLs as at the year-end reflect the increased risk of default associated with the COVID-19 outbreak. They are also content that suitable assumptions and weightings have been applied in the calculation of ECLs.

The directors believe that, whilst the risk of default across the portfolio has increased in response to COVID-19, the nature of the company's portfolio and obligors means that the impact on bad debt levels is expected to be minimal. The company's obligors are mainly blue-chip corporates or government bodies which operate in industries that are largely unaffected by the economic downturn caused by COVID-19. In some instances, government-backed guarantees also exist, which provide an additional level of comfort.

In light of the risks presented by COVID-19, the directors have stress-tested the company's loss reserves and cashflow forecasts. The directors have modelled what they believe to be the most severe plausible scenarios that the company might face. In all cases, the directors have concluded that company will be able to continue trading as normal.

Notwithstanding the above, the directors acknowledge that the current situation is both fast-moving and without precedent. They continue to closely monitor the impact of COVID-19 on company's financial performance.

INTEREST RATES

In response to the COVID-19 outbreak, the governor of the Bank of England reduced the base rate from 0.75% to a historic low of 0.1% in early March 2020. This was the first movement in the base rate since August 2018 (when it was increased from 0.5% to 0.75%).

Given the economic impact of COVID-19 on the UK economy and on the personal finances of the UK population, the directors believe it is likely that the base rate will remain at a very low level for a prolonged period of time.

The company has a policy of ensuring that all floating rate interest rate risk is hedged via the use of interest rate swaps. As such, any changes to the base rate should not impact the performance of the company. The company also uses fixed rate funding in relation to its fixed rate lending portfolio. Any changes to interest rates have no impact on such arrangements since both the asset and matching liability are at a fixed rate.

At a macro level, lower interest rates would normally be expected to encourage investment across the economy. Against a backdrop of COVID-19, it is the directors' view that few customers will be making long-term investment decisions in the near future, despite the existence of historically low interest rates.

The directors have concluded that any reduction in base rate will do little to encourage investment in an environment where there is so much uncertainty and risk.

BREXIT

On 23rd June 2016, the United Kingdom voted to leave the European Union. Three and a half years later, on 31 January 2020, the United Kingdom formally left the European Union and entered into a transition period of negotiation during which the exact details and mechanism of the UK's departure are to be agreed. The transition period is expected to last until December 2020.

Much of the company's business is transacted within the United Kingdom with UK-based customers. As such, the directors do not anticipate that Brexit will have a significant impact on the company's existing activities and customer base.

Notwithstanding the points above, the possibility of an economic slowdown and recession now appears to be more likely as a result of Brexit. This would undoubtedly have an impact on the company. The directors have ensured that the business is well-placed to withstand any slowdown as it has a very good baseline revenue stream derived from its existing lending portfolio.

EXCHANGE RATES

The company's transactions are denominated in a combination of euros and sterling. The general outlook for sterling suggests that the currency is likely to weaken over the next 12 months, as the continued impact of both COVID-19 and the Brexit negotiations are felt. This will result in exchange rate revaluation gains on any non-sterling transactions booked within the company.

FUTURE PROSPECTS

The directors continue to pursue new business opportunities with both existing and new clients. The company is also actively looking at acquisition opportunities. The directors do not expect to make any changes to the type of business written over the next 12 months.

The directors foresee significant headwinds over the next 12 months as a result of both COVID-19 and Brexit. The company has an excellent baseline revenue stream from its existing lending portfolio and this will enable it to continue trading as normal, even in such unprecedented times.

By order of the board on 25 September 2020.

Lawrence Butcher
Director

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Lawrence James Butcher, Director
SMBC Leasing & Finance UK No.1 Limited
Company Number 5775540

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ending 31 March 2020.

PRINCIPAL ACTIVITY

The principal activity of the company is the trade of asset-backed lending and related services. The company does not hold investments in other entities.

BUSINESS REVIEW

The company's results for the year were in line with the directors' expectations. The company generated a profit before tax of £698,036 (2019: profit of £952,333) and a profit after tax of £603,130 (2019: profit of £681,332).

FINANCIAL RESULTS

The profit after tax for the year was £603,130 (2019: profit of £681,332).

As at 31 March 2020 the company held total assets valued at £107,963,030 (2019: £5,005,491) and had overall net assets of £5,405,406 (2019: net assets of £4,802,276). Total borrowings were £92,025,279 as at the year-end (2019: £0).

GOING CONCERN

The company had net current assets of £101,307 as at the year-end (2019: net current assets of £4,793,187). The directors believe it is appropriate to prepare the accounts on a going concern basis since the company is profitable, has net current assets and has access to a working capital facility, should short-term funding be required.

In response to the specific risks presented by the COVID-19 pandemic, the following points are noted:

- The directors have performed severe but plausible scenario stress-tests in response to the risks of customer default and cash flow distress resulting from the COVID-19 pandemic. Even in these scenarios, the directors are satisfied that the company has sufficient access to working capital which would allow it to continue trading as normal.
- The directors' assessment was informed by their baseline gross profit forecast for the 12 month period following the signing of these financial statements and the stress-tests referred to above. The baseline gross profit forecast only considers the profit generated by the existing lending portfolio; it assumes no new / incremental business. As at the signing date of these financial statements, the directors have confirmed that the company has already written a number of new transactions in the year commencing 1 April 2020.

FINANCIAL INSTRUMENTS

The company's financial risk management objectives and policies, together with the company's exposure to different industries and asset classes, are summarised in the notes of these financial statements.

CURRENCY RISK

The company's transactions are denominated in a mix of euros and sterling. Sterling is the company's functional currency. Any euro transactions are matched by euro borrowings in order to minimise exchange rate gains / losses resulting from balance revaluations. The company does not use cross-currency swaps to hedge exchange rate risk.

INTEREST RATE RISK

The company uses interest rate swaps to hedge any floating rate interest rate risk within its portfolio. The company also uses fixed rate funding in relation to its fixed rate lending portfolio. Any changes to interest rates have no impact on such arrangements since both the asset and matching liability are at a fixed rate.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Since 2015, the company has applied hedge accounting testing to all new interest swap contracts. All new swaps are evaluated for hedge effectiveness at inception. This results in the calculation of an effective and ineffective portion for each swap contract. To the extent that the hedge is effective, this helps minimise the mark to market fluctuations recorded in the income statement. Further details can be found in **Note 1 – Accounting Policies**.

CREDIT RISK

Credit risk is managed by a thorough credit review process prior to entering into any transaction. Loans are priced with reference to the credit risk of the exposure customer. Late payments are monitored constantly. On a periodic basis, credit reviews are performed to ensure the continuing creditworthiness of customers.

DIVIDENDS

Dividends of £ Nil were paid during the year and no final dividend was proposed (2019: £ Nil).

DIRECTORS

The following directors served on the board during the year:

Lee Lawrence Barnsley
Lawrence James Butcher
Antony Edward Mitton
Mark Jeremy Rutherford
David Allen Ward (resigned 1 June 2019)

SMBC Leasing and Finance, Inc. has granted indemnities to all the directors listed above (apart from David Allen Ward), against civil liabilities to third parties in respect of their roles as directors.

CREDITOR PAYMENT POLICY

The company's standard practice is to agree the terms of payment with suppliers at the time of contract and to make payments within the agreed credit term, subject to satisfactory performance.

ENVIRONMENT

The company is committed to pursuing sound environmental policies in all aspects of its business and seeks to encourage and promote good environmental practice within the community.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who held office as at the signing date below confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware. Each director has taken appropriate steps (as they are required to do by law) to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

AUDITOR

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will continue in office.

By order of the board on 25 September 2020.

Lawrence Butcher
Director

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Lawrence James Butcher, Director
SMBC Leasing & Finance UK No.1 Limited
Company Number 5775540

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMBC LEASING & FINANCE UK NO.1 LIMITED

OPINION

We have audited the financial statements of SMBC Leasing & Finance UK No.1 Limited ("the company") for the year ended 31 March 2020 which comprise the Income statement, Statement of changes in equity, Statement of financial position, Statement of cashflow and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

GOING CONCERN

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

STRATEGIC REPORT AND DIRECTORS' REPORT

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in these respects.

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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Peter Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

25 September 2020

INCOME STATEMENT FOR THE YEAR ENDING 31 MARCH 2020

	Notes	2020	2019
		£	£
Revenue	2	1,194,574	5,066,513
Cost of sales	2	(442,336)	(4,053,742)
Gross profit (loss)		**752,238**	**1,012,771**
Administrative expenses		(57,894)	(66,048)
Operating profit (loss)		**694,344**	**946,723**
Income on cash and time deposits	4	3,692	5,610
Profit (loss) before tax		**698,036**	**952,333**
Tax	6	(94,906)	(271,001)
Profit (loss) after tax		**603,130**	**681,332**

The notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDING 31 MARCH 2020

	Notes	Share capital £	Retained earnings £	Total equity £
At 31 March 2018		**10,000**	**4,159,497**	**4,169,497**
Establishment of loss reserve [1]	16	-	(48,553)	(48,553)
At 1 April 2018		**10,000**	**4,110,944**	**4,120,944**
Profit (loss) in year		-	681,332	681,332
At 31 March 2019		**10,000**	**4,792,276**	**4,802,276**
Profit (loss) in year		-	603,130	603,130
At 31 March 2020		**10,000**	**5,395,406**	**5,405,406**

[1] On 1 April 2018 a loss reserve was established and accounted for as a brought forward adjustment to retained earnings.

The notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Notes	2020	2019
		£	£
Non-current assets			
Loans receivable	7	96,214,555	-
Deferred tax asset	11	-	9,089
		96,214,555	9,089
Current assets			
Loans receivable	7	1,135,881	-
Trade and other receivables	12	442,370	1,375
Cash collateral posted	9	4,989,722	-
Cash and cash equivalents	8	5,180,502	4,995,027
		11,748,475	4,996,402
Total assets		**107,963,030**	**5,005,491**
Non-current liabilities			
Loans payable	14	90,889,320	-
Deferred tax liability	11	21,136	-
		90,910,456	-
Current liabilities			
Loans payable	14	1,135,959	-
Trade and other payables	13	5,251,457	203,215
Derivative liabilities	10	5,259,752	-
		11,647,168	203,215
Total liabilities		**102,557,624**	**203,215**
Total assets less total liabilities		**5,405,406**	**4,802,276**
Share capital	15	10,000	10,000
Retained earnings brought forward		4,792,276	4,110,944
Profit (loss) in the year		603,130	681,332
Total equity		**5,405,406**	**4,802,276**

The notes form an integral part of these financial statements.

The financial statements were approved by the board of directors on 25 September 2020 and signed on its behalf by Mark Jeremy Rutherford.

M. J. Rutherford

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Mark Jeremy Rutherford, Director
SMBC Leasing & Finance UK No.1 Limited
Company Number 5775540

STATEMENT OF CASHFLOW FOR THE YEAR ENDING 31 MARCH 2020

	Notes	2020	2019
		£	£
Operating activities			
Profit after tax		603,130	681,332
Loan interest income	2	(1,027,001)	(4,961,736)
Loan interest expense	2	349,669	4,109,325
Swap interest expense	2	43,216	-
		(30,986)	(171,079)
Tax charge for the year	6	94,906	271,001
Decrease (increase) in loans receivable	7	(97,350,436)	96,653,225
of which relates to contract novation (**)		*56,290,232*	-
Decrease (increase) in trade receivables (*)	12	(41,385)	5,666
Decrease (increase) in cash collateral posted	9	(4,989,722)	-
Increase (decrease) in derivative liabilities (*)	10	5,216,536	-
Increase (decrease) in trade payables (*)	13	5,013,205	(11,464)
		(35,797,650)	96,747,349
Interest income received		627,391	8,009,713
Interest expense paid		(233,815)	(6,613,732)
Swap interest paid		-	-
Taxation paid		(145,498)	(464,137)
Net cashflow from operating activities (1)		**(35,549,572)**	**97,679,193**
Investing activities			
None		-	-
Net cashflow from investing activities (2)		**-**	**-**
Financing activities			
Increase (decrease) in borrowings	14	92,025,279	(94,610,838)
of which relates to contract novation (**)		*(56,290,232)*	-
Net cashflow from financing activities (3)		**35,735,047**	**(94,610,838)**
Increase (decrease) in cash and cash equivalents (1) + (2) + (3)		**185,475**	**3,068,355**
Opening cash balance as at start of financial year	8	4,995,027	1,926,672
Closing cash balance as at year end		**5,180,502**	**4,995,027**

(*) Payable / receivable balances relating to corporation tax and interest have been excluded from these movements since they have been split out separately within the cash flow statement.

(**) In December 2019, a single loan receivable (with associated borrowing) was novated into the company. The value of the novated contract and associated borrowing was £56,290,232. There was no physical cash movement associated with the novation; the cashflow statement has been updated to reflect this event.

The notes form an integral part of these financial statements.

NOTE 1 – ACCOUNTING POLICIES

SMBC Leasing & Finance UK No.1 Limited is incorporated in the United Kingdom under the Companies Act 1985. The company's registered address is:

99 Queen Victoria Street
London
EC4V 4EH

The nature of the company's operations and its principal activities are explained in the directors' report. These financial statements were authorised for issue by the board of directors on 25 September 2020.

BASIS OF PREPARATION

The company's financial statements have been prepared and approved by the board of directors in accordance with International Financial Reporting Standards, as adopted by the European Union.

The accounting policies set out in the following paragraphs, unless otherwise stated, have been applied consistently across all periods presented within these financial statements.

GOING CONCERN

The financial statements have been prepared on a going concern basis.

As at the year-end, the company had net current assets of £101,307. The directors believe it is appropriate to prepare the accounts on a going concern basis since the company is profitable, has net current assets and has access to a working capital facility, should short-term funding be required.

In response to the specific risks presented by the COVID-19 pandemic, the following points are noted:

- The directors have performed severe but plausible scenario stress-tests in response to the risks of customer default and cash flow distress resulting from the COVID-19 pandemic. Even in these scenarios, the directors are satisfied that the company has sufficient access to working capital which would allow it to continue trading as normal.
- The directors' assessment was informed by their baseline gross profit forecast for the 12 month period following the signing of these financial statements and the stress-tests referred to above. The baseline gross profit forecast only considers the profit generated by the existing lending portfolio; it assumes no new / incremental business. As at the signing date of these financial statements, the directors have confirmed that the company has already written a number of new transactions in the year commencing 1 April 2020.

USE OF JUDGEMENTS AND ESTIMATES

From time to time, judgements or estimates are used in the preparation of financial statements. The directors have confirmed that no material judgements of estimates were used in the preparation of these financial statements. Accordingly, no additional disclosures have been made.

FUNCTIONAL AND PRESENTATION CURRENCIES

The company presents its financial statements in sterling. This is also the functional currency of the company. All non-sterling balances are revalued at each month end, using the spot conversion rate applicable on the last day of each month. Any currency revaluation amounts are posted to the income statement in the month of revaluation.

REVENUE AND EXPENSE RECOGNITION

Loan interest income and expense

The company applies IFRS 9 in relation to its financial assets and liabilities. In accordance with IFRS 9, the effective interest rate of a financial asset or liability is calculated at the point of initial recognition. In order to calculate loan interest income, the effective interest rate is applied to the gross carrying amount of the loan receivable (when the asset is not credit impaired) or to the amortised cost of the loan receivable (when the asset is credit impaired). For loans payable, the effective interest rate is applied to the amortised cost of the liability.

Where interest is calculated on a floating rate basis, the effective interest rate is revised at each rollover date to reflect movements in the associated market interest rate.

Swap interest income and expense

Swap interest is calculated by applying the effective interest rate to the swap notional balance on a periodic basis. On the floating rate leg of an interest rate swap, the effective interest rate is revised at each rollover date to reflect the associated market interest rate. On the fixed leg on an interest rate swap, the effective interest rate is established on day one and applied at the same rate over the whole term of the swap.

Termination gains and losses

Termination gains and losses arise when a transaction is terminated before its maturity date and the settlement amount received differs to the carrying value. Any gains or losses generated on termination are recognised through the income statement in the month of termination.

Termination break costs

Termination break costs are expenses that the company incurs when a swap or loan is terminated early (before maturity). Break costs are accounted for in full during the month in which they are incurred.

Administrative expenses

In general, all administrative expenses are accounted for in full during the month in which they are incurred. Where administrative expenses relate to costs incurred over a period of time, the company accrues the expense over the appropriate period.

Any administrative expenses which are directly attributable to a lease or loan transaction are spread against the associated transaction. This has the effect of reducing the effective interest rate earned on the associated lease or loan transaction.

Swap mark to market movements

The company has a portfolio of derivative financial instruments which are used to manage interest rate risk. Movements in the fair value of derivatives are recorded as swap mark to market movements.

The cumulative swap mark to market position across the portfolio is recorded on the statement of financial position as an overall asset or liability. The fair value of derivatives is updated monthly upon receipt of a mark to market report from the swap counterparty. All the company's interest rate swaps are designated as fair value hedges. For swaps designated as fair value hedges, monthly effectiveness tests are performed (see next section). To the extent that a swap is deemed to be effective, the effective portion of the mark to market movement is posted as a fair value adjustment to the associated hedged item (a loan).

HEDGE ACCOUNTING

As indicated above, the company has designated all of its interest rate swaps as fair value hedges. Hedge accounting is permitted only if certain specific requirements are met, as follows:

- A highly effective relationship must exist between the derivative instrument (the interest rate swap) and the hedged item (always a lease or loan). This relationship must be designated and evaluated at inception of the swap.
- At inception, and on an ongoing (monthly) basis, the swap must be deemed to be an effective hedge. An effective hedge is deemed to exist if the hedge effectiveness test, as defined under IAS 39, results in hedge effectiveness within the range 80% – 125%.

Hedge effectiveness is determined by reference to the use of an approved hedge evaluation modelling tool.

A fair value hedge is deemed to exist where the interest rate swap is hedging an exposure related to a recognised asset or liability (or a firm commitment).

DERIVATIVE FINANCIAL INSTRUMENTS

The company uses derivative financial instruments as a component of its market risk management in relation to interest rate risk. All derivatives are recognised as either assets or liabilities in the statement of financial position, reported at fair value and presented on a net basis. Until a derivative is settled, a favourable change in fair value results in an unrealised gain that is recognised as an asset. Conversely, an unfavourable change in fair value results in an unrealised loss that is recognised as a liability.

CASH AND CASH EQUIVALENTS

Cash and equivalents comprise cash at bank and cash on short term time deposit. The company has no overdraft facilities on its bank accounts.

CASH COLLATERAL

Cash collateral represents the balance of cash that has been deposited with swap counterparties in the form of collateralisation in relation of the company's derivative (interest rate swaps) portfolio.

LOANS RECEIVABLE

Loans receivable are non-derivative financial assets with fixed or determinable payments. They are not quoted in an active market.

Loans receivable are initially recorded at fair value, including any transaction costs. They are subsequently measured at amortised cost, using the "effective interest rate" method. This follows the guidance of IFRS 9.

LOANS PAYABLE

Loans payable are non-derivative financial liabilities with fixed or determinable payments. They are not quoted in an active market. As permitted by IFRS 9, loans payable are measured at amortised cost using the "effective interest rate" method.

CURRENT TAX

Current tax represents the expected tax payable or receivable on the company's taxable income or loss for the year. It also includes any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received and reflects any uncertainty related to income taxes, if any. It is measured using the tax rates enacted or substantively enacted as at the year-end date.

GROUP RELIEF ARRANGEMENTS

SMBC Leasing & Finance UK No.1 Limited forms part of a group of companies between which taxation group relief arrangements are in place. Loss-making companies within the group are permitted to surrender their taxable losses to other companies within the group which make taxable profits.

The company follows a policy of settling group relief transfers as and when the all group companies have filed their tax returns with HM Revenue and Customs. UK tax law requires tax returns to be filed within 12 months of the financial year-end. As at the year-end, the tax payable / receivable on the company's statement of financial position represents group relief transfers yet to be made / received.

DEFERRED TAX

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recogniSe the deferred tax asset in full, then future taxable profits – adjusted for reversals of existing temporary differences – are considered. Deferred tax assets are reviewed at each year-end and are reduced to the extent that it is no longer probable that the tax benefit will be realised. Such reductions are reversed when conditions improve.

Unrecognised deferred tax assets are reassessed at each year-end and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rate which is most likely to be applied to a temporary difference when it reverses. When considering the most appropriate tax rate to use, the company considers rates which have been enacted or substantively enacted. The company applies a policy of offsetting individual deferred tax assets against deferred tax liabilities and presents a net cumulative balance in its statement of financial position.

DIVIDENDS

Any dividends which are unpaid at the year-end are recognised as a liability in the statement of financial position, to the extent that they have been both declared and authorised for payment.

IMPAIRMENT OF FINANCIAL ASSETS

On 1 April 2018 the company adopted IFRS 9 and from that date has followed a policy of calculating expected credit losses (ECLs) in relation to its loan portfolio.

ECLs are calculated by reference to the following calculation:

Net exposure x Probability of Default % x Loss Given Default %

For loans receivable, the company uses either:

- A **lifetime losses** probability of default % or;
- A **12 month** probability of default %.

On a quarterly basis, senior management staff review the loan receivable portfolio and decide whether to apply a **lifetime losses** or **12 month losses** probability of default %, depending on their view as to the credit worthiness of the counterparty.

Typically, this analysis requires a review of credit grade performance since commencement of the transaction. If the credit grade has remained stable since the start date of the transaction, a **12 month** probability of default % will be used. When the credit grade has deteriorated, senior management staff will consider the suitability of applying a **lifetime losses** probability of default %. The decision to remain on a **12 month** losses probability of default % is taken when senior management are satisfied that any downward movement in credit grade does not represent a significant credit deterioration and the counterparty's risk profile remains unchanged despite the downgrade.

The directors acknowledge that the decision to switch from **12 month** to **lifetime losses** as the result of a credit grade deterioration is subject to a degree of management subjectivity. Contracts are flagged up for consideration whenever the credit grade drops by more than two credit grades, but senior management staff have the ability to veto the use of lifetime losses if they feel that there are sound business reasons to remain on a 12 month calculation basis. Such decisions are documented as part of the company's quarterly impairment review.

The probability of default % is obtained by reference to annually-published tables provided by the company's ultimate parent (Sumitomo Mitsui Financial Group). The directors believe that the use of these tables in relation to this company is acceptable.

DEFINITION OF DEFAULT

The company defines **default** as any customer who is in severe financial difficulty and who is expected to enter into bankruptcy, or undergo some form of reorganisation, in the near future. The company monitors both the credit grade and the arrears position of customers. a default is expected should the credit grade drop to G7 (equivalent to Moody's CCC+ grading), or if the arrears balance exceeds 90 days past due.

The company monitors arrears on a daily basis and differentiates between **technical arrears**, where non-payment is due to a processing error (e.g. invoice in dispute, incorrect bank details) and **true arrears**, where non-payment is due to financial difficulties.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Assets and liabilities are classified by following the three classification categories described by IFRS 9. The classification is based on the business model for the asset or liability under consideration.

The company classifies its financial instruments as follows:

Financial assets	
Trade and other receivables	Amortised cost
Cash and cash equivalents	Amortised cost
Cash collateral	Amortised cost
Loans receivable [1]	Amortised cost
Financial liabilities	
Loans payable	Amortised cost
Derivative liabilities (designated fair value hedges)	Fair value through Profit and Loss
Derivative liabilities (no designation)	Fair value through Profit and Loss
Trade and other payables	Amortised cost

[1] As at the year-end, the directors have confirmed that all loans receivable are designated as "hold to collect" and all payments are solely payments of principal and interest (SPPI). This designation means that loans receivable are held at amortised cost.

CONSOLIDATION OF SUBSIDIARIES

The company presents its financial statements as a standalone entity. It has no subsidiaries or investments in other entities.

NEW AND AMENDED STANDARDS

IFRS 9, IAS 39 and IFRS 7 – amendments relating to Interest Rate Benchmark Reform

IFRS 9, IAS 39 and IFRS 7 were amended in September 2019. The amendments are effective for periods beginning on or after 1 January 2020 with earlier adoption permitted. The company has elected to early adopt the amendments with effect from 1 April 2019. The amendments have been endorsed by the EU.

IFRS 9 allows companies, when they first apply IFRS 9, to choose as an accounting policy to continue to apply the hedge accounting requirements of IAS 39. The company has elected to continue to apply the IAS 39 hedge accounting requirements, and consequently, the amendments to IAS 39 have been adopted.

The amendments confirm that entities applying hedge accounting can continue to assume that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of the uncertainties of the Interest Rate Benchmark Reform. These amendments replace the need for specific judgements to determine whether certain hedge accounting relationships that hedge the variability of cash flows or interest risk exposures continue to qualify for hedge accounting as at 31 March 2020. Further details may be found in **Note 10 - Derivative Liabilities**.

NOTE 2 – REVENUE AND COST OF SALES

	2020 £	2019 £
Revenue		
Loan interest income from third parties	1,027,001	4,956,126
Termination gains	-	110,387
Mark to market gains on interest rate swaps	158,153	-
Currency revaluation gains	9,420	-
Total revenue	**1,194,574**	**5,066,513**
Cost of Sales		
Interest on borrowings	349,669	4,109,325
Interest on swaps	43,216	-
Currency revaluation losses	-	3,056
Movements in expected credit losses	49,451	(58,639)
Total cost of sales	**442,336**	**4,053,742**

Non-sterling revenue and expense is converted to sterling using the currency conversion rate applicable on the date of the accounting entry.

NOTE 3 – STAFF COSTS

The company has no employees. The directors have little input in the daily administration of the company and there is no appropriate basis on which they can apportion part of their remuneration for their services to the company. The directors are remunerated by other group companies and their emoluments are disclosed in those companies' financial statements.

NOTE 4 – FINANCE INCOME

The company invests surplus cash funds on time deposit with a fellow subsidiary company. This generates finance income in the form of time deposit interest.

	2020	2019
	£	£
Time deposit interest earned from a fellow subsidiary	**3,692**	**5,610**

NOTE 5 – AUDIT FEES

The company's financial statements are audited by KPMG LLP. The audit fees in relation to these financial statements are shown below.

	2020	2019
	£	£
Audit fees payable	**22,010**	**18,120**

NOTE 6 – TAXATION

The company's current and deferred tax charges are shown below, together with a reconciliation of the effective tax charge.

	2020	2019
	£	£
Current tax		
Current year	64,681	270,004
Deferred tax		
Origination and reversal of temporary differences	30,225	997
Tax charge on the income statement	**94,906**	**271,001**

Reconciliation of effective tax charge shown on the income statement

	2020	2019
Profit (loss) as shown on the income statement (1)	*698,036*	*952,333*
Tax at 19% (prior year: 19%)	132,627	180,943
Disallowed interest (thin capitalisation)	-	40,313
Adjustment in respect of prior years	(36,782)	49,861
Adjustment in respect of rate change	(939)	(116)
Tax charge on the income statement (2)	**94,906**	**271,001**
Effective tax rate (ETR) (2) / (1)	**13.6%**	**28.4%**

The company's effective tax rate has moved from 28.4% (prior year) to 13.6% (current year). The key drivers behind the change in effective tax rate were:

- *Adjustments in relation to the prior year;*
- The removal of the thin capitalisation adjustment in relation to the current year.

The directors believe that the current effective tax rate will be maintained at its current rate since the value of the adjustments made for tax purposes are very small in comparison to the company's profit (loss) before tax.

GROUP RELIEF ARRANGEMENTS

SMBC Leasing & Finance UK No.1 Limited forms part of a group of companies between which group relief transfers are permitted in relation to corporation tax. Further information may be found in **Note 1 – Accounting Policies** of these financial statements.

NOTE 7 – LOANS RECEIVABLE

The company provides loans receivable to third party borrowers. It does not provide any funding to other SMBC group entities.

	2020	2019
	£	£
Non-current loans receivable [1]		
Due from third party borrowers	96,264,006	-
less expected credit losses	*(49,451)*	-
Total non-current loans receivable	**96,214,555**	**-**
Current loans receivable [2]		
Due from third party borrowers	1,135,881	-
Total current loans receivable	**1,135,881**	**-**
Total loans receivable	**97,350,436**	**-**

[1] Non-Current Loans Receivable represents the sum of all principal payments due after 12 months from the year-end date.
[2] Current Loans Receivable represents the sum of all principal payments due within 12 months of the year-end date.

NOTE 8 – CASH AND EQUIVALENTS

Cash and equivalents comprise cash at bank. The company had no cash on time deposit at the year-end.

	2020	2019
	£	£
Cash at bank	**5,180,502**	**4,995,027**

NOTE 9 – CASH COLLATERAL

The company holds a portfolio of interest rate swaps with SMBC Capital Markets, Inc.

Under the terms of a Credit Support Annex signed with SMBC Capital Markets, Inc. the company is required to post cash collateral. Cash collateral calls are made daily and closely reflect the daily movement in the swap portfolio mark to market position. The collateral is required to mitigate the risk of the company not being able to meet its liability obligations arising from the unfavourable mark to market position across the swap portfolio.

In return for posting collateral, the company receives interest income on the amount of collateral that has been posted. The income is recognised in the income statement as a component of loan finance income.

	2020	2019
	£	£
Cash collateral opening balance	-	-
Increase in the year	4,989,722	-
Closing balance	**4,989,722**	**-**

NOTE 10 – DERIVATIVE LIABILITIES

The company's derivative portfolio consists entirely of interest rate swaps. The company does not have any cross-currency swaps. All interest rate swaps are designated as fair value hedges. For swaps designated as fair value hedges, the effective portion of the swap mark to market movement is posted as a fair value adjustment to the hedged item on the statement of financial position (a loan). The ineffective portion of the swap mark to market movement is posted to the income statement.

The company has elected to early adopt the "Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform" issued in September 2019. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR (Interbank Offered Rates) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. Under these amendments, for the purposes of:

- determining whether a forecast transaction is highly probable;
- determining whether the hedged future cash flows are expected to occur;
- determining whether a hedge is expected to be highly effective; and
- determining whether an accounting hedging relationship should be discontinued due to a failure of the retrospective effectiveness test

the company has assumed that the interest rate benchmark on which the hedged risk or the cash flows of the hedged item or hedging instrument are based on is not altered by uncertainties arising from the proposed interest rate benchmark reform.

INTEREST RATE SWAP NOTIONAL BALANCES

The swap notional balance is held in an off-balance sheet account and is not displayed on the statement of financial position. It is the notional balance off which the swap interest calculations and mark to market calculations are based.

	2020	2019
	£	£
Designated as fair value hedges	68,302,762	-
Total notional balance	**68,302,762**	

OFFSETTING OF INTEREST RATE SWAP DERIVATIVE ASSETS AND LIABILITIES

The summary below shows the derivative assets and liabilities which have been netted off to arrive at the net liability displayed on the statement of financial position.

	2020	2019
	£	£
Derivative liabilities	5,259,752	-
less derivative assets	-	-
Net derivative liability	**5,259,752**	

As at the year-end, all swaps were in a liability position; no netting was applied as there were no derivative assets within the portfolio.

MOVEMENT IN INTEREST RATE SWAP NET DERIVATIVE LIABILITIES

The movement in the derivative liabilities balance is analysed below.

	Fair value hedge 2019	Fair value hedge 2020	Total movement YOY
	£	£	£
Mark to Market	-	5,216,536	**5,216,536**
Accrued Interest	-	43,216	**43,216**
Total		**5,259,752**	**5,259,752**

The derivative liabilities balance comprises swap mark to market and swap interest accrued.

MOVEMENT IN INTEREST RATE SWAP MARK TO MARKET

The major contributor to the movement in the net derivative liabilities balance is the movement in swap mark to market. Based on the accounting associated with each of the three swap classifications, the movement in swap mark to market has been analysed below.

	Fair value hedge

	2020
	£
Through income statement (ineffective portion)	(158,153)
FV adjustment to loans (effective portion)	5,374,689
Total mark to market	**5,216,536**

The application of hedge accounting demonstrates that the majority of the swap mark to market movements are accounted for as fair value adjustments. Only a small portion is accounted for through the core income statement. This is in line with the directors' expectations.

ANALYSIS OF HEDGED ITEMS

Where fair value adjustments are made to leases and loans, these are applied to the carrying value of the hedged item and the net asset is displayed on the statement of financial position as illustrated below.

	Movement	2020	2019
	£	£	£
Loans receivable			
Loan principal (before FV adjustments)	91,975,747	91,975,747	-
Cumulative FV adjustment	5,374,689	5,374,689	-
Total loans receivable book value	**97,350,436**	**97,350,436**	

The total book value displayed above is reflected in the company's statement of financial position.

Each interest rate swap transaction has been executed to hedge an associated loan receivable transaction. The maturity profile of the swap portfolio is aligned with the maturity profile of each associated hedged item, as indicated in note 7. The swap portfolio matures in October 2035.

NOTE 11 – DEFERRED TAX

	2020	2019
	£	£
Opening deferred tax asset (liability)	9,089	-
Reversal of timing differences	(31,163)	9,089
Impact of tax rate change	938	-
Closing deferred tax asset (liability)	**(21,136)**	**9,089**

The deferred tax balance mainly originates from the movements in swap mark to market which are accounted for through the income statement.

In March 2020, the UK government cancelled the previously scheduled reduction of corporation tax from 19% to 17%, which was due to take effect on 1 April 2020. In response to this announcement, the deferred tax balance was revalued in March 2020. As at the year-end, the company used a rate of 19% to value its deferred tax balances.

NOTE 12 – TRADE AND OTHER RECEIVABLES

	2020	2019
	£	£
Debtors	-	1,375
VAT receivable	315	-
Prepaid expenses	42,445	-
Loan receivable interest accrued	399,610	-
Total trade and other receivables	**442,370**	**1,375**

The directors consider that the carrying amount of trade and other receivables is equal to their fair value due to the short-term nature of their expected repayments.

NOTE 13 – TRADE AND OTHER PAYABLES

	2020	2019
	£	
Creditors	4,994,972	-
Expense reimbursements not paid	3,208	-
Expenses accrued (external counterparties)	30,710	20,935
Expenses accrued (related counterparties)	5,250	-
Loan payable interest accrued	115,854	-
Corporation tax payable (group relief)	101,463	182,280
Total trade and other payables	**5,251,457**	**203,215**

The directors consider that the carrying amount of trade and other payables is equal to their fair value due to the short-term nature of their expected repayments.

NOTE 14 – LOANS PAYABLE

The company funds itself entirely through borrowing from fellow SMBC subsidiary companies. The company does not borrow from external (third party) lenders.

	2020	2019
	£	£
Principal amounts falling due within one year	1,135,959	-
Principal amounts falling due after one year	90,889,320	-
Total loans payable	**92,025,279**	

The directors periodically review all borrowing agreements and, in the case of working capital borrowings, ensure that the facility end dates and limits are such that the company will be able to meet its current obligations.

NOTE 15 – SHARE CAPITAL

	2020	2019
Number of ordinary shares	10,000	10,000
Value per share (£)	1	1
Total share capital (£)	**10,000**	**10,000**

All shares are allotted, called up and fully paid. No new shares were issued during the year (prior year: none).

No dividends were paid during the year and none were planned as at the year-end (prior year: none).

NOTE 16 – FINANCIAL RISK MANAGEMENT

FINANCIAL INSTRUMENT STRATEGY

The company has a policy of ensuring that all risks are minimised to the greatest extent possible. Where possible, the company makes use of derivative financial instruments to hedge market risk.

Market risk is the risk that changes in market prices such as interest rates, exchange rates and equity prices will affect the company's income or the value of its holdings in financial investments. The company manages market risk via the use of derivative instruments and natural hedging arrangements. These are explained in the following sections of this note.

INTEREST RATE RISK

The company provides a range of lending products to clients and it funds these activities by various funding arrangements. Interest rate risk arises where a company lends on a fixed rate basis, but funds itself on a floating rate basis (or vice versa). The company has a policy to hedge all interest rate risk via the use of derivative instruments in the form of interest rate swaps. The company's prime objective when entering into an interest rate swap is the economic conversion of fixed rate assets into floating rate assets.

The use of interest rate swap derivative instruments leads to significant mark to market movements. Where possible, the company applies hedge accounting to its swaps in order to minimise income statement fluctuations arising from movements in mark to market. This policy is explained fully in **Note 1 – Accounting Policies**.

The company's statement of financial position has been summarised below by classifying each item based on the associated rate type (floating rate, fixed rate or non-interest bearing).

	2020 Floating rate £000	2020 Fixed rate £000	2020 Non-interest bearing £000	2020 Total £000
Assets				
Loans receivable	24,492	72,858	-	97,350
Trade and other receivables	-	-	442	442
Cash collateral posted	4,990	-	-	4,990
Cash and equivalents	5,180	-	-	5,180
Total	**34,662**	**72,858**	**442**	**107,962**
Liabilities and equity				
Borrowings	92,025	-	-	92,025
Trade and other payables	-	-	5,251	5,251
Deferred tax liability	-	-	21	21
Derivative liabilities	-	5,260	-	5,260
Shareholder equity	-	-	5,405	5,405
Total	**92,025**	**5,260**	**10,677**	**107,962**

	2019 Floating rate £000	2019 Fixed rate £000	2019 Non-interest bearing £000	2019 Total £000
Assets				
Trade and other receivables	-	-	1	1
Deferred tax asset	-	-	9	9
Cash and equivalents	4,995	-	-	4,995
Total	**4,995**		**10**	**5,005**
Liabilities and equity				
Trade and other payables	-	-	202	202
Shareholder equity	-	-	4,803	4,803
Total			**5,005**	**5,005**

No classification changes were made in the year.

EXCHANGE RATE RISK

The company has transactions denominated in euros and sterling. Where foreign current exposures exist, the company ensures that any foreign currency assets are materially matched against equal and opposite foreign currency liabilities. This ensures that exchange gains / losses arising from revaluations are very small, as a natural currency hedge exists. The company does not use cross currency swaps to hedge exchange rate risk.

A summary of the company's non-sterling assets and liabilities is shown below.

	2020 EUR 000	2020 Equiv £000	2019 EUR 000	2019 Equiv £000
EUR assets and liabilities				
Assets	28,148	24,893	186	160
Liabilities	(27,765)	(24,554)	-	-
Net assets	**383**	**339**	**186**	**160**

All non-sterling amounts in the table above were converted to sterling at the year-end currency conversion spot rate. Given the small overall net asset position in each currency, the directors have concluded that the company's policy of matching non-sterling assets to non-sterling liabilities has been adhered to.

LIQUIDITY RISK

Liquidity risk is the risk that the company is unable to meet its financial obligations as they fall due in the future. The company's main liquidity risk is in respect of the requirement to maintain sufficient levels of borrowing to fund the leasing and lending portfolio over the term of each lease / loan transaction.

All funding is provided by SMBC group companies and the directors regularly review funding arrangements to ensure that adequate head room and working capital is available to ensure that the company can meet its financial obligations.

A summary showing when the company expects to settle its liabilities is shown below. The major component of the derivatives liabilities balance is swap mark to market which has no actual due date since it fluctuates throughout the life of the associated derivative contracts. Swap mark to market represents the theoretical cost to the company of terminating the swap portfolio at a point in time and is calculated monthly by the company's swap counterparties. Swap mark to market is volatile in nature as it moves in line with interest rates. The company is unable to accurately classify the movement in swap mark to market into time bands since it changes substantially from month to month. Therefore, for the purposes of this analysis, swap mark to market has been classified as falling due in 0-3 months.

	2020 Repayable on demand £000	2020 Repayable 0-3 months £000	2020 Repayable 3-12 months £000	2020 Repayable > 12 months £000	2020 Total £000
Borrowings	-	-	1,137	90,889	**92,026**
Derivative liabilities	-	5,260	-	-	**5,260**
Trade and other payables	-	5,251	-	-	**5,251**
Total		**10,511**	**1,137**	**90,889**	**102,537**

	2019 Repayable on demand £000	2019 Repayable 0-3 months £000	2019 Repayable 3-12 months £000	2019 Repayable > 12 months £000	2019 Total £000
Trade and other payables	-	203	-	-	**203**
Total		**203**			**203**

The undiscounted contractual cashflow movements associated with the company's liabilities have been summarised below. Interest payments have been estimated using the prevailing rate that was in place one each loan and swap contract as at the year-end. Derivative liabilities are **not included** in the analysis below since this balance mainly comprises swap mark to market. There is no cash movement associated with swap mark to market. However, the interest element associated with swaps has been forecast and classified as swap interest payments in the table below.

	2020 Cash flows 0-3 months £000	2020 Cash flows 3-12 months £000	2020 Cash flows > 12 months £000	2020 Total £000
Loan principal payments	-	1,137	90,889	**92,026**
Loan interest payments	250	748	6,023	**7,021**
Swap interest payments	134	402	4,105	**4,641**
Payables exc. interest payments	5,251	-	-	**5,251**
Total	**5,635**	**2,287**	**101,017**	**108,939**

	2019 Cash flows 0-3 months £000	2019 Cash flows 3-12 months £000	2019 Cash flows > 12 months £000	2019 Total £000
Payables exc. interest payments	203	-	-	**203**
Total	**203**			**203**

CREDIT RISK

The company's primary risk is credit risk, since it cannot be hedged in the same way as market risk. Credit risk arises from the risk that a customer may be unable to meet their contractual obligations with the company. Where this situation arises, the company may be forced to write down the value of assets and incur losses as a result. The company's board seeks to minimise credit risk by adhering to strict underwriting limits and ensuring that there is no over-reliance or exposure to a particular asset, industry or customer. The company's loan exposure is shown below, split out by industry sector.

	2020 £000	2019 £000
Loans receivable analysed by obligor industry sector		
Rail Transportation	86,107	-
IT services to utilities sector	11,243	-
Total loans receivable	**97,350**	**-**

All customers are based within Europe.

EXPECTED CREDIT LOSSES

Since 1 April 2018 (the date on which the company adopted IFRS 9), expected credit losses (ECLs) have been calculated against each lending contract within the portfolio. ECLs are calculated by reference to the guidelines set out under IFRS 9. The calculation methodology is explained in more detail in **Note 1 – Accounting Policy**.

The assets of the company are summarised below, showing the gross value before any ECL calculation, the value of any ECL and the resultant carrying value (as shown on the statement of financial position).

Classification of expected credit losses

ECLs are categorised as falling into one of three stages:

- Stage 1 – 12 months ECL (no significant credit deterioration observed or expected)
- Stage 2 – Lifetime ECL (significant increase in credit risk observed or expected)
- Stage 3 – Default (as defined in **Note 1 - Accounting Policy)**

	2020 Gross value before ECL stage 1 £000	2020 Expected credit loss stage 1 £000	2020 Net carrying value £000
Loans receivable	97,399	(49)	97,350
Cash and cash equivalents	5,180	-	5,180
Cash collateral posted	4,990	-	4,990
Other receivables	442	-	442
Total	**108,011**	**(49)**	**107,962**

As at the year-end the company had no contracts classified as stage 2 or stage 3. There were no live transactions booked in the company as at the prior year-end. Accordingly, no prior year comparatives have been provided, as all balances were nil.

Movement in expected credit loss balance

The company established an ECL reserve for the first time upon the adoption of IFRS 9 on 1 April 2018.

	Loans receivable stage 1 £000	Total £000
ECL balance on 1 April 2018	**48**	**48**
New transactions	-	-
Movements between stages	-	-
Movements on existing transactions	(48)	(48)
ECL balance on 31 March 2019	**-**	**-**
New transactions	49	49
Movements between stages	-	-
Movements on existing transactions	-	-
ECL balance on 31 March 2020	**49**	**49**

There were no defaults during the year (prior year: none).

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the fair value of all financial assets and liabilities on the statement of financial position.

	2020 Carrying value £000	2020 Fair value £000	2019 Carrying value £000	2019 Fair value £000
Financial assets				
Loans receivable	97,350	97,350	-	-
Trade and other receivables	442	442	1	1
Cash collateral	4,990	4,990	-	-
Cash and equivalents	5,180	5,180	4,995	4,995
Total	**107,962**	**107,962**	**4,996**	**4,996**

	2020 Carrying value £000	2020 Fair value £000	2019 Carrying value £000	2019 Fair value £000
Financial liabilities				
Loans payable	92,025	92,025	-	-
Trade and other payables	5,251	5,251	202	202
Derivative Liabilities	5,260	5,260	-	-
Total	**102,536**	**102,536**	**202**	**202**

As at the year-end, the company's directors concluded that the fair value of all financial assets and liabilities were materially similar to the carrying value. For this reason, the fair value is deemed to be equivalent to the carrying value in the table above.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists (such as a recognised exchange). This is deemed to be the best evidence of the fair value of a financial instrument.

Market prices are not, however, available for certain financial assets and liabilities. In such instances, fair values are estimated using present value or other valuation techniques in combination with inputs based on market conditions existing at the year-end date.

The company categorises fair value into a hierarchy, based on the valuation technique used to calculate the fair value. There are three hierarchy levels as explained below.

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Valuation based on observable prices, either directly or indirectly. This category includes instruments which have been valued using:

- Quoted market prices in activate markets for similar instruments;
- Quoted prices for identical or similar instruments in markets considered less active;
- Valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation based on significant unobservable inputs.

The company's financial assets and liabilities have been categorised into each of these hierarchy levels in the table below.

	2020 Level 1 £000	2020 Level 2 £000	2020 Level 3 £000	2020 Total £000
Financial assets				
Loans receivable	-	-	97,350	97,350
Trade and other receivables	-	-	442	442
Cash collateral	-	4,990	-	4,990
Cash and equivalents	-	5,180	-	5,180
Total	**-**	**10,170**	**97,792**	**107,962**
Financial liabilities				
Loans payable	-	-	92,025	92,025
Trade and other payables	-	-	5,251	5,251
Derivative liabilities	-	5,260	-	5,260
Total	**-**	**5,260**	**97,276**	**102,536**

	2019 Level 1 £000	2019 Level 2 £000	2019 Level 3 £000	2019 Total £000
Financial assets				
Trade and other receivables	-	-	1	1
Cash and equivalents	-	4,995	-	4,995
Total	**-**	**4,995**	**1**	**4,996**
Financial liabilities				
Trade and other payables	-	-	202	202
Total	**-**	**-**	**202**	**202**

NOTE 17 – RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH KEY PERSONNEL

During the year, the company reported no transactions with key personnel other than salary-related payments. Key personnel are defined as the directors of the company, who have significant influence over the day-to-day affairs of the business.

RELATED PARTIES

The company has entered into transactions with fellow subsidiaries. Fellow subsidiaries are companies which are owned by the same ultimate parent as SMBC Leasing & Finance UK No.1 Limited, but which are not subsidiaries of it. For the purposes of this disclosure note, fellow subsidiaries comprise:

- SMBC Europe Limited
- SMBC Leasing and Finance, Inc.
- SMBC Leasing (UK) Limited
- SMBC Capital Markets, Inc.

STATEMENT OF FINANCIAL POSITION: RELATED PARTY DISCLOSURES

A summary of the company's assets and liabilities is shown below, summarised by related party type.

	2020 Fellow subsidiaries £000	2019 Fellow subsidiaries £000
Cash and equivalents	5,180	4,995
Cash collateral	4,990	-
Loan payable	(92,025)	-
Trade and other payables	(5,116)	-
Derivative liabilities	(5,260)	-
Total assets (liabilities)	**(92,231)**	**4,995**

Assets have been shown as positive values and liabilities shown as negative values.

INCOME STATEMENT: RELATED PARTY DISCLOSURES

A summary of the company's income and expenses is shown below, summarised by related party type.

	2020 Fellow subsidiaries £000	2019 Fellow subsidiaries £000
Income earned on time deposits	4	6
Mark to market gain on interest rate swaps	158	-
Swap and loan interest expense	(393)	(4,109)
General administrative expenses	(11)	(25)
Total income (expense)	**(242)**	**(4,128)**

Income lines have been shown as positive values and expense lines have been shown as negative values.

NOTE 18 – IMMEDIATE AND ULTIMATE PARENT

As at 31 March 2020, the company's immediate parent and ultimate parent are shown below.

IMMEDIATE PARENT AND REGISTERED OFFICE

SMBC Leasing and Finance, Inc.
277 Park Avenue
New York
NY 10172
United States of America

SMBC Leasing and Finance, Inc. is the smallest group into which the company consolidates. Copies of its consolidated financial statements are available on request from the registered office shown above.

ULTIMATE PARENT AND REGISTERED OFFICE

Sumitomo Mitsui Financial Group
1-2 Marunouchi 1-chome
Chiyoda-ku
Tokyo
Japan

Sumitomo Mitsui Financial Group is the largest group into which the company consolidates. Copies of its consolidated financial statements are available on request from the registered office shown above.