



LBI LEASING LIMITED

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

Member of Lloyds Banking Group

Registered Number: 00747346



LBI LEASING LIMITED

DIRECTORS

C G Dowsett
G A Fox
K Turner

COMPANY SECRETARY

A E Mulholland

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

BANKERS

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

00747346

DIRECTORS' REPORT

The directors present their report and audited financial statements of LBI Leasing Limited ("the company") for the year ended 31 March 2017.

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, however following the termination of the company's finance leases in December 2017, the principal activity going forward will be the management of financial assets and liabilities.

The results of the company show a loss before taxation of £137,000 (2016: £684,000) for the year as set out in the statement of comprehensive income on page 6.

The company has shareholder's equity of £4,583,000 (2016: £4,359,000).

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2016: £nil).

DIRECTORS

The names of the directors of the company are shown on page 1. There were no changes in directors during the year.

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 (the "Act"). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with Section 418 of the Act, 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 Act. 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, 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 Act.

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are managed within the framework established for the Lloyds Banking Group plc group of companies ("the Group") and are not managed separately. For further details please refer to note 12 '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: 18 December 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LBI LEASING LIMITED

Report on the Financial Statements

Our opinion

In our opinion, LBI Leasing Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements comprise:

- the Balance Sheet as at 31 March 2017;
- the Statement of Comprehensive Income for the year ended 31 March 2017;
- Cash Flow Statement for the year then ended; and
- the Statement of Changes in Shareholder's Equity for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. 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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LBI LEASING LIMITED (CONTINUED)

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Directors' Report, we consider whether this report includes the disclosures required by applicable legal requirements.



Mark Hoskyns-Abraham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

19 December 2017

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2017

	Note	2017 £000	2016 £000
Finance income	2	537	720
Finance costs	3	<u>(654)</u>	<u>(813)</u>
		(117)	(93)
Impairment	4	<u>(20)</u>	<u>(591)</u>
Loss before taxation	5	(137)	(684)
Taxation credit	6	<u>361</u>	<u>808</u>
Profit after taxation for the year and total comprehensive income for the year attributable to owners of the parent		<u>224</u>	<u>124</u>

The accompanying notes on pages 10 to 17 are an integral part of the Financial Statements.

BALANCE SHEET
As at 31 March 2017

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Finance lease receivables	7	<u>42,278</u>	<u>63,419</u>
Total non-current assets		<u>42,278</u>	<u>63,419</u>
Current assets			
Finance lease receivables	7	20,581	18,720
Amounts owed by Group companies	8	<u>7,364</u>	<u>6,509</u>
Total current assets		<u>27,945</u>	<u>25,229</u>
Total assets		<u><u>70,223</u></u>	<u><u>88,648</u></u>
Liabilities			
Current liabilities			
Amounts owed to group companies	9	<u>56,596</u>	<u>71,545</u>
Total current liabilities		<u>56,596</u>	<u>71,545</u>
Non-current liabilities			
Deferred taxation	10	<u>9,044</u>	<u>12,744</u>
Total non-current liabilities		<u>9,044</u>	<u>12,744</u>
Equity			
Share capital	11	-	-
Retained earnings		<u>4,583</u>	<u>4,359</u>
Total equity		<u>4,583</u>	<u>4,359</u>
Total liabilities and equity		<u><u>70,223</u></u>	<u><u>88,648</u></u>

The financial statements on pages 6 to 17 were approved by the Board of Directors on 18/12/17 and signed on its behalf by:



C G Dowsett
Director

Registered Number: 00747346

The accompanying notes on pages 10 to 17 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

		Share capital	Retained earnings	Total equity
	Note	£000	£000	£000
Balance at 31 March 2015		-	4,235	4,235
Total comprehensive income for the year				
Profit for the year		-	124	124
Balance at 31 March 2016	11	-	4,359	4,359
Total comprehensive income for the year				
Profit for the year		-	224	224
Balance at 31 March 2017	11	-	<u>4,583</u>	<u>4,583</u>

The accompanying notes on pages 10 to 17 are an integral part of the Financial Statements.

CASH FLOW STATEMENT
For the year ended 31 March 2017

	Note	2017 £000	2016 £000
Loss before taxation		(137)	(684)
Add non cash items:			
Impairment	4	<u>20</u>	<u>591</u>
Operating cash flows before movements in working capital		(117)	(93)
Decrease in receivables		19,260	17,390
Increase in payables		<u>355</u>	<u>404</u>
Cash generated by operations		19,498	17,701
Group relief paid		<u>(2,902)</u>	<u>(4,958)</u>
Net cash flow from operating activities		<u>16,596</u>	<u>12,743</u>
Financing activities			
Decrease in bank borrowings		<u>(15,741)</u>	<u>(14,155)</u>
Net cash flow used in financing activities		<u>(15,741)</u>	<u>(14,155)</u>
Net increase/(decrease) in cash and cash equivalents		855	(1,412)
Cash and cash equivalents at beginning of the year		<u>6,509</u>	<u>7,921</u>
Cash and cash equivalents at end of the year		<u><u>7,364</u></u>	<u><u>6,509</u></u>
Cash and cash equivalents are comprised of:			
Cash at bank	8	<u>7,364</u>	<u>6,509</u>
		<u><u>7,364</u></u>	<u><u>6,509</u></u>

The accompanying notes on pages 10 to 17 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. The accounting policies deemed critical to the company's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

- 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.

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 statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)**1(c) Taxation**

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. Deferred tax related to fair value re-measurement of financial assets and liabilities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of comprehensive income together with the deferred gain or loss.

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

1(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) 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

	2017 £000	2016 £000
Finance lease income	<u>537</u>	<u>720</u>
	<u>537</u>	<u>720</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

	2017 £000	2016 £000
Interest payable on bank loans to other group companies	<u>654</u>	<u>813</u>
	<u>654</u>	<u>813</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Impairment charge

	2017 £000	2016 £000
Tax rate variation	<u>20</u>	<u>591</u>
	<u>20</u>	<u>591</u>

The reduction in the main rate of corporation tax from 20% to 17% is disclosed further in note 6.

The change in the rates of corporation tax has given rise to a reduction in deferred taxation and, because of tax rate variation clauses in the leases, a reduction in the lease rentals. This reduction in rentals has given rise to a reduction in the interest rate implicit within the lease which when applied retrospectively, has produced an impairment of the finance lease receivables.

5 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 (2016: 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.

6 Taxation credit

	2017 £000	2016 £000
The taxation credit for the year comprises:		
Current tax payable on loss for the year	<u>(3,339)</u>	<u>(2,902)</u>
Total current tax payable for the year	(3,339)	(2,902)
Deferred taxation (note 10)	3,366	3,039
Impact of tax rate change (note 10)	<u>334</u>	<u>671</u>
Total taxation credit for the year	<u>361</u>	<u>808</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 20% (2016: 20%), the differences are explained below:

	2017 £000	2016 £000
Loss before taxation	<u>(137)</u>	<u>(684)</u>
Tax at standard rate of corporation tax	27	137
Impact of tax rate change	<u>334</u>	<u>671</u>
Total taxation credit	<u>361</u>	<u>808</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts receivable under finance leases				
Within 1 year	22,811	21,933	20,581	18,720
2 - 5 years inclusive	43,268	62,126	41,139	57,898
After 5 years	<u>1,141</u>	<u>5,659</u>	<u>1,139</u>	<u>5,521</u>
	67,220	89,718	62,859	82,139
Less: Unearned finance income	<u>(4,361)</u>	<u>(7,579)</u>		
Present value of minimum lease payments receivable	<u>62,859</u>	<u>82,139</u>		
Analysed as:				
Non-current finance lease receivable	42,278	63,419		
Current finance lease receivables	<u>20,581</u>	<u>18,720</u>		
	<u>62,859</u>	<u>82,139</u>		

The fair value of the company's finance lease receivables at 31 March 2017 is estimated at £62,734,000 (2016: £81,779,000).

8 Amounts owed by group companies

	2017 £000	2016 £000
Cash at bank	<u>7,364</u>	<u>6,509</u>
	<u>7,364</u>	<u>6,509</u>

For further details please refer to note 13.

9 Amounts owed to group companies

	2017 £000	2016 £000
Bank borrowings	50,449	66,190
Interest payable	2,808	2,453
Group relief payable	<u>3,339</u>	<u>2,902</u>
	<u>56,596</u>	<u>71,545</u>

For further details please refer to note 13.

10 Deferred taxation

	2017 £000	2016 £000
At beginning of the year	12,744	16,454
Deferred taxation credit for the year (note 6)	(3,366)	(3,039)
Impact of tax rate change (note 6)	<u>(334)</u>	<u>(671)</u>
At end of the year	<u>9,044</u>	<u>12,744</u>

The deferred taxation credit in the statement of comprehensive income comprises the following:

	2017 £000	2016 £000
Capital allowances on assets leased to customers	<u>3,700</u>	<u>3,710</u>
Total deferred taxation credit	<u>3,700</u>	<u>3,710</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Deferred taxation (continued)

Deferred taxation liabilities are comprised as follows:

	2017 £000	2016 £000
Capital allowances on assets leased to customers	<u>9,044</u>	<u>12,744</u>
Total deferred taxation liabilities	<u>9,044</u>	<u>12,744</u>

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

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

11 Share capital

	2017 £	2016 £
Allotted, issued and fully paid 100 ordinary share of £1 each	<u>100</u>	<u>100</u>
	<u>100</u>	<u>100</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.

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.

12 Risk management of financial instruments

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

In accordance with IAS 39 "Financial instruments: Recognition and measurement", finance lease receivables are designated as loans and receivables and all other financial assets are designated as held at amortised cost. The accounting policies in note 1 describe how different classes of financial instruments are measured and how income and expenses are recognised.

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 31 March.

	2017 £000	2016 £000
Financial assets which are neither past due nor impaired for credit risk:		
Finance lease receivables	62,859	82,139
Amounts owed by group companies	<u>7,364</u>	<u>6,509</u>
Total credit risk exposure	<u>70,223</u>	<u>88,648</u>

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each exposure 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. The table below reflects the credit rating of the financial assets portfolio net of any financial guarantees received.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Risk management of financial instruments (continued)

Credit risk management (continued):

Financial assets by credit rating:

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
At 31 March 2017							
Finance lease receivables	-	-	-	62,859	-	-	62,859
Amounts owed by group companies	-	-	7,364	-	-	-	7,364
Total	-	-	7,364	62,859	-	-	70,223
At 31 March 2016							
Finance lease receivables	-	-	-	82,139	-	-	82,139
Amounts owed by group companies	-	-	6,509	-	-	-	6,509
Total	-	-	6,509	82,139	-	-	88,648

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 31 March 2017 and 2016 there were no impairments relating to credit risk against any financial assets nor any lease receivables past due on scheduled lease payments. The credit risk exposure under short-term debtors, deposits and other financial assets are represented by the book values in the above table.

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:

	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
At 31 March 2017			
On demand	-	37	37
Up to 1 month	50,449	6,110	56,559
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	-	-	-
Total	50,449	6,147	56,596
At 31 March 2016			
On demand	-	2,985	2,985
Up to 1 month	66,190	2,370	68,560
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	-	-	-
Total	66,190	5,355	71,545

The fair value of current liabilities approximates their carrying values.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 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.

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance costs by £126,000 (2016: £165,000).

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 and as such the company has no exposure to foreign currency risk.

13 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 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 31 March were as follows:

Nature of transaction	Related party	Related party relationship	2017	2016	Terms and conditions	
			£000	£000	Repayment	Interest
Cash at bank	Lloyds Bank plc	Intermediate parent undertaking	7,364	6,509	No fixed date	0%
Group relief payable	Bank of Scotland plc	Fellow subsidiary undertaking	(3,339)	(2,902)	No fixed date	0%
Interest payable	Lloyds Bank plc	Intermediate parent undertaking	(2,808)	(2,453)	No fixed date	0%
Bank borrowings	Lloyds Bank plc	Intermediate parent undertaking	(50,449)	(66,190)	18/04/2017	0.36%

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 0.36% and 0.59% (2016: between 0.56% and 0.59%) were charged. Finance costs of £654,000 (2016: £813,000) were incurred during the year.

The company paid group relief of £2,902,000 (2016: £4,958,000) during the year to fellow subsidiary undertakings.

The registered offices of related parties are as noted below:

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

14 Adopted accounting standards

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 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. 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 and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the company.</p> <p>IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. This change is likely to result in an increase in the company's balance sheet provisions for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the company's lending portfolios and forecast economic conditions at the date of implementation. In February 2015, the Basel Committee on Banking Supervision published a consultative document outlining supervisory expectations regarding sound credit risk practices associated with implementing and applying an expected credit loss accounting framework.</p> <p>The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The revised requirements are not expected to have a significant impact on the company.</p>	Annual periods beginning on or after 1 January 2018
IFRS16; 'Leases'	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.	Annual periods beginning on or after 1 January 2019

16 Contingent liability

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £994,000 (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.

17 Post balance sheet event

In December 2017, the company terminated all its remaining finance leases, receiving proceeds of £60,376,000.