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LLOYDS INDUSTRIAL LEASING LIMITED

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

Member of Lloyds Banking Group

Registered Number: 01387402



LLOYDS INDUSTRIAL LEASING LIMITED

DIRECTORS

C G Dowsett
G A Fox
J R Turner

COMPANY SECRETARY

Lloyds Secretaries Limited

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

01387402

DIRECTORS' REPORT

The directors present their report and audited financial statements of Lloyds Industrial Leasing Limited (the "company") for the year ended 30 June 2018.

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

REVIEW OF BUSINESS

During the year, the principal activity of the company changed to the leasing of plant and equipment through an operating lease transaction when it purchased a shipping vessel. Prior to this purchase, the principal activity of the company was the management of financial assets and liabilities.

The results of the company show a loss before taxation of £1,937,000 (2017: £nil) for the year as set out in the statement of comprehensive income statement on page 6

The company has a deficit of shareholder's equity of £1,406,000 (2017: £150,000 surplus).

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

DIVIDENDS

The company declared a dividend of £50,000 during the year (2017: £nil). For further details please refer to note 12 'Dividends paid' in these financial statements

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 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, Lloyds Banking Group (the "Group") has in place appropriate directors' and officers' liability insurance cover which was in place throughout the financial year.

DIRECTORS' REPORT (CONTINUED)

INDEPENDENT AUDITORS' APPOINTMENT

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

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. For further details please refer to note 13 '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: 25 March 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF LLOYDS INDUSTRIAL LEASING LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Lloyds Industrial Leasing Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2018; the statement of comprehensive income, the cash flow statement, the statement of changes in shareholder's equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF LLOYDS INDUSTRIAL LEASING LIMITED (CONTINUED)

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 30 June 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

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



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

Edinburgh

Date: 25 March 2019

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2018

	Note	2018 £000	2017 £000
Operating lease income	2	2,998	-
Depreciation of property, plant and equipment	7	(354)	-
Finance costs	3	<u>(107)</u>	<u>-</u>
		2,537	-
Other operating expenses	4	(4,470)	-
Foreign exchange loss		<u>(4)</u>	<u>-</u>
(Loss)/result before taxation	5	(1,937)	-
Taxation credit	6	<u>431</u>	<u>-</u>
(Loss)/result after taxation for the year and total comprehensive (loss)/result for the year attributable to the owners of the parent		<u><u>(1,506)</u></u>	<u><u>-</u></u>

The accompanying notes on pages 10 to 18 are an integral part of the Financial Statements.

There is no Other Comprehensive Income for the current or prior year.

BALANCE SHEET
As at 30 June 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Property, plant and equipment	7	<u>30,219</u>	-
Total non-current assets		<u>30,219</u>	-
Current assets			
Amounts owed by group companies	8	2,056	150
Other debtors		<u>320</u>	-
Total current assets		<u>2,376</u>	150
Total assets		<u>32,595</u>	<u>150</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	9	<u>33,464</u>	-
Total current liabilities		<u>33,464</u>	-
Non-current liabilities			
Deferred taxation	10	<u>537</u>	-
Total non-current liabilities		<u>537</u>	-
Equity			
Share capital	11	100	100
(Accumulated losses)/Retained earnings		<u>(1,506)</u>	<u>50</u>
Total equity		<u>(1,406)</u>	150
Total liabilities and equity		<u>32,595</u>	<u>150</u>

The financial statements on pages 6 to 18 were approved by the Board of Directors on 25 March 2019 and signed on its behalf by:



C G Dowsett
Director

Registered Number: 01387402

The accompanying notes on pages 10 to 18 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

		Share capital	Retained earnings/ (Accumulated losses)	Total equity
	Note	£000	£000	£000
Balance at 30 June 2016		100	50	150
Total comprehensive result for the year				
Result for the year		-	-	-
Balance at 30 June 2017	11	100	50	150
Dividends paid	12		(50)	(50)
Total comprehensive loss for the year				
Loss for the year		-	(1,506)	(1,506)
Balance at 30 June 2018	11	<u>100</u>	<u>(1,506)</u>	<u>(1,406)</u>

The accompanying notes on pages 10 to 18 are an integral part of the Financial Statements.

CASH FLOW STATEMENT
For the year ended 30 June 2018

	Note	2018 £000	2017 £000
Loss before taxation		(1,937)	-
Add non cash items:			
Depreciation	7	<u>354</u>	-
Operating cash flows before movements in working capital		(1,583)	-
Increase in receivables		(320)	-
Increase in payables		<u>12</u>	-
Net cash flow used in operating activities		<u>(1,891)</u>	-
Investing activities			
Investment in property, plant and equipment		<u>(30,573)</u>	-
Net cash flow used in investing activities		<u>(30,573)</u>	-
Financing activities			
Increase in bank borrowings		32,393	-
Dividends paid		<u>(50)</u>	-
Net cash flow generated from financing activities		<u>32,343</u>	-
Net decrease in cash and cash equivalents		(121)	-
Cash and cash equivalents at beginning of the year		<u>150</u>	<u>150</u>
Cash and cash equivalents at end of the year		<u><u>29</u></u>	<u><u>150</u></u>
Cash and cash equivalents are comprised of:			
Cash at bank	8	<u>29</u>	<u>150</u>
		<u><u>29</u></u>	<u><u>150</u></u>

The accompanying notes on pages 10 to 18 are an integral part of 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, as modified by the revaluation of financial instruments (including derivatives) at fair value. The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the continuing financial support provided by Lloyds Bank plc. After making appropriate enquiries, the directors believe that it is appropriate for the financial statements to be prepared on the going concern basis.

Critical accounting estimates and judgements

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

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

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

Deferred tax

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

1(a) Property, plant and equipment

Property, plant and equipment is held at cost less accumulated depreciation. Depreciation is calculated on a straight line basis over the estimated useful life of the asset, less any residual value as follows:-

Ships	15 years
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The assets leased by the company include shipping vessels.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

1(b) 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 attributable 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.

When assets are leased under an operating lease the leased asset is included within property, plant and equipment at cost, including any initial direct costs, and depreciated over the life of the lease on a straight line basis after taking into account anticipated residual values. Operating lease rental income is recognised on a straight line basis over the life of the lease.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)**1(c) 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 statement.

1(d) Taxation, including deferred income taxes

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

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

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

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

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

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

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

1(e) Dividends

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

1(f) 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Operating lease income

	2018 £000	2017 £000
Operating lease income	<u>2,998</u>	-
	<u>2,998</u>	-

There were no lease rental receivables during the year that were contingent on events other than the terms of the lease, Libor rates and UK corporation tax rates (2017: £nil).

3 Finance costs

	2018 £000	2017 £000
Interest payable on bank loans and overdraft to other group companies	<u>107</u>	-
	<u>107</u>	-

4 Other operating expenses

	2018 £000	2017 £000
Management fees	2,313	-
Professional fees	59	-
Other operating expenses	<u>2,098</u>	-
	<u>4,470</u>	-

5 (Loss)/result before taxation

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

The company has no employees (2017: nil).

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

6 Taxation credit

	2018 £000	2017 £000
The taxation credit for the year comprises:		
Current tax receivable on (loss)/result for the year	<u>968</u>	-
Total current tax receivable for the year	968	-
Deferred taxation (note 10)	(600)	-
Impact of tax rate change (note 10)	<u>63</u>	-
Total taxation credit for the year	<u>431</u>	-

Where taxation on the company's loss for the year differs from the taxation credit that would arise using the standard rate of corporation tax of 19.00% (2017: 19.25%), the differences are explained below:

	2018 £000	2017 £000
(Loss)/result before taxation	<u>(1,937)</u>	-
Tax at standard rate of corporation tax	368	-
Impact of tax rate change	<u>63</u>	-
Total taxation credit	<u>431</u>	-

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Property, plant and equipment

Operating lease assets are represented by property, plant and equipment as follows:

	2018 £000	2017 £000
Original cost:		
At beginning of the year	-	-
Additions during the year	30,573	-
At end of the year	30,573	-
Depreciation:		
At beginning of the year	-	-
Charge for the year	(354)	-
At end of the year	(354)	-
Net book value at end of the year	30,219	-

Future minimum lease payments receivable under operating lease:

	2018 £000	2017 £000
Within 1 year	1,900	-
	1,900	-

8 Amounts owed by group companies

	2018 £000	2017 £000
Bank deposit	1,059	-
Cash at bank	29	150
Taxation receivable	968	-
	2,056	150

For further details please refer to note 14.

9 Amounts owed to group companies

	2018 £000	2017 £000
Bank borrowings	33,451	-
Interest payable	13	-
	33,464	-

For further details please refer to note 14.

10 Deferred taxation

	2018 £000	2017 £000
At beginning of the year	-	-
Deferred taxation charge for the year (see note 6)	600	-
Impact of tax rate change on deferred taxation charge for the year	(63)	-
At end of the year	537	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Deferred taxation (continued)

The deferred taxation charge/result in the statement of comprehensive income comprises the following:

	2018 £000	2017 £000
Accelerated tax depreciation	600	-
Impact of tax rate change	(63)	-
Total deferred taxation charge	<u>537</u>	<u>-</u>

Deferred taxation liabilities are comprised as follows:

	2018 £000	2017 £000
Deferred taxation liability		
Accelerated tax depreciation	<u>537</u>	<u>-</u>
Total deferred taxation liability	<u>537</u>	<u>-</u>

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

11 Share capital

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

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

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 Dividends paid

	2018 £000	2017 £000
Dividends paid	<u>50</u>	<u>-</u>
	<u>50</u>	<u>-</u>

On the 29th October 2017, the company declared and paid a dividend of £50,000 (2017: £nil) to its ordinary shareholders.

The dividend declared during the year resulted in a dividend per share of £0.50 (2017: £nil)

13 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", all financial assets are designated as held at cost/amortised cost. The accounting policies in note 1 describe how different classes of financial instruments are measured and how income and expenses are recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Risk management of financial instruments (continued)

	Held at cost /amortised cost £000	Total £000
At 30 June 2018		
Assets		
Amounts owed by group companies	2,056	2,056
Other debtors	320	320
Total financial assets	2,376	2,376
Liabilities		
Amounts owed to group companies	33,464	33,464
Total financial liabilities	33,464	33,464

	Held at cost /amortised cost £000	Total £000
At 30 June 2017		
Assets		
Amounts owed by group companies	150	150
Other debtors	-	-
Total financial assets	150	150
Liabilities		
Amounts owed to group companies	-	-
Total financial liabilities	-	-

Credit risk management:

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

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

	2018 £000	2017 £000
Financial assets which are neither past due nor impaired for credit risk:		
Amounts owed by group companies	2,056	150
Other debtors	320	-
Total credit risk exposure	2,376	150

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.

Financial assets by credit rating:

	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
At 30 June 2018							
Amounts owed by group companies	-	-	2,056	-	-	-	2,056
Other debtors	-	-	-	-	-	320	320
Total	-	-	2,056	-	-	320	2,376

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Risk management of financial instruments (continued)

Credit risk management (continued)

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
At 30 June 2017							
Amounts owed by group companies	-	-	150	-	-	-	150
Total	-	-	150	-	-	-	150

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

At 30 June 2018 and 2017 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.

For financial assets held at amortised cost the fair value approximates to their carrying values

Liquidity risk management:

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

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

At 30 June 2018	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	13	13
Up to 1 month	33,451	-	33,451
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	-	-	-
Total	33,451	13	33,464

At 30 June 2017	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	-	-
Up to 1 month	-	-	-
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	-	-	-
Total	-	-	-

The fair value of current liabilities approximates their carrying values.

Bank borrowings and the associated interest payable upon them are borrowed short term and all borrowings are advanced by a fellow subsidiary undertaking of Lloyds Banking Group plc.

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.

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce both finance income by £3,000 (2017: £nil) and finance costs by £84,000 (2017: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Risk management of financial instruments (continued)**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 should have no exposure to foreign currency risk, however where lease rentals are received in EUR there is a risk of exposure if the actual rate of exchange differs from the assumed rate.

At the year end, if the currency had fluctuated by +/- 25 basis points against the EUR, with all other variables held constant, post tax profit would have changed by £1,000 (2017: nil) primarily due to lease rentals received in EUR.

14 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 30 June were as follows:

Nature of transaction	Related party	Related party relationship	2018 £000	2017 £000	Terms and conditions	
					Repayment	Interest
Cash at bank	Lloyds Bank plc	Intermediate parent undertaking	29	150	No fixed date	0%
Bank deposit	Lloyds Bank plc	Intermediate parent undertaking	1,059	-	No fixed date	0.38%
Taxation payable	Bank of Scotland	Intermediate parent undertaking	968	-	No fixed date	N/A
Bank borrowings	Lloyds Bank plc	Intermediate parent undertaking	(33,451)	-	Various	0.49% - 0.50%
Interest payable	Lloyds Bank plc	Intermediate parent undertaking	(13)	-	Various	N/A

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 0.22% and 0.53% were charged. Finance costs of £13,000 (2017: £nil) were incurred during the year. Bank borrowings are not guaranteed and there are no intercompany guarantees in place.

The company paid taxation of £nil (2017: £nil) 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

15 Adopted accounting standards

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Future developments

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

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

17 Contingent liabilities

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where HMRC adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £245,000 (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.