LLOYDS BANK MARITIME LEASING (NO. 10) LIMITED

Annual report and financial statements for the year ended 31 December 2018

Member of Lloyds Banking Group

Registered Number: 04440166

DIRECTOR

C G Dowsett

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

04440166

DIRECTOR'S REPORT

The director presents his report and audited financial statements of Lloyds Bank Maritime Leasing (No. 10) Limited ("the company") for the year ended 31 December 2018.

The company qualifies as a small company in accordance with Sections 381-382 of the Companies Act 2006 (the "Act") and the director's 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 assets through finance lease transactions and this is likely to continue for the foreseeable future.

The results of the company show a profit before taxation of £628,000 (2017: £546,000) for the year as set out in the income statement on page 6.

The company has shareholder's equity of £4,112,000 (2017: £3,603,000).

DIVIDENDS

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

DIRECTOR

The name of the director of the company who was in office during the year and up to the date of the signing of financial statements is shown on page 1.

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

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The director is responsible for preparing the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the director 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 director is 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 director is 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 director's 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.

DIRECTOR'S INDEMNITIES

Lloyds Banking Group plc has granted to the director 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.

DIRECTOR'S 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 17 'Risk management of financial instruments' in these financial statements.

KEY PERFORMANCE INDICATORS ('KPIs')

Given the straightforward nature of the business, the company's director is 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: 26th November 2019

Independent auditors' report to the members of Lloyds Bank Maritime Leasing (No. 10) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Lloyds Bank Maritime Leasing (No. 10) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in 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 director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has 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 director is 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 Director's 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.

Director's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Director's Report for the year ended 31 December 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 Director's Report.

Responsibilities for the financial statements and the audit

Responsibilities of the director for the financial statements

As explained more fully in the Statement of Director's Responsibilities set out on page 2, the director is 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 director is 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 director is 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 director 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 director's 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-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
26 November 2019

INCOME STATEMENT
For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Finance income	3	840	937
Finance costs	4	(189)	(348)
		651	589
Other operating income/(expense)	5	(2)	(1)
Impairment charge	6	(3)	-
Foreign exchange loss		(17)	(42)
Profit before taxation	7	629	546
Taxation charge	8	(119)	(105)
Profit after taxation for the year attributable to owners of the parent		510	441

The accompanying notes on pages 11 to 23 are an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Profit after taxation for the year		510	441
Other Comprehensive Income			
Items that may subsequently be reclassified to profit or loss:			
Movement in cash flow hedges:			
- changes in fair value taken to equity	16	20	59
Total comprehensive income for the year attributable to owners of the parent		530	500

The accompanying notes on pages 11 to 23 are an integral part of the Financial Statements.

BALANCE SHEET
As at 31 December 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Finance lease receivables	9	28,413	33,913
Deferred taxation	14	5	6
Total non-current assets		28,418	33,919
Current assets			
Finance lease receivables	9	8,906	9,595
Amounts owed by group companies	10	4,025	5,380
Other debtors		1,077	1,140
Total current assets		14,008	16,115
Total assets		42,426	50,034
Liabilities			
Current liabilities			
Amounts owed to group companies	11	31,104	38,647
Other creditors	12	7,210	7,784
Total current liabilities		38,314	46,431
Equity			
Share capital	15	-	-
Other reserves	16	(6)	(25)
Retained earnings		4,118	3,628
Total equity		4,112	3,603
Total liabilities and equity		42,426	50,034

The financial statements on pages 6 to 23 were approved by the Board of Directors on 26th November 2019 and signed on its behalf by:

C G Dowsett
Director

Registered Number: 04440166

The accompanying notes on pages 11 to 23 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 31 December 2016	15, 16	-	(84)	3,187	3,103
Total comprehensive income for the year					
Profit for the year		-	-	441	441
Change in fair value of derivatives, net of tax	16	-	59	-	59
Balance at 31 December 2017	15, 16	-	(25)	3,628	3,603
Transition to IFRS 9 (note 19)		-	-	(20)	(20)
At 1 January 2018			(25)	3,608	3,583
Total comprehensive income for the year					
Profit for the year		-	-	510	509
Change in fair value of derivatives, net of tax	16	-	19	-	20
Balance at 31 December 2018	15, 16	-	(6)	4,118	4,112

The accompanying notes on pages 11 to 23 are an integral part of the Financial Statements.

CASH FLOW STATEMENT
For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Profit before taxation		629	546
Adjustment for:			
Impairment charge		3	-
Operating cash flows before movements in working capital		632	546
Decrease/(increase) in receivables		6,226	13,512
(Decrease)/increase in payables		(520)	(477)
Cash generated by / (used in) operations		6,338	13,581
Tax paid		(105)	(122)
Net cash flow generated by / (used in) by operating activities		6,233	13,459
Financing activities			
(Decrease)/increase in bank borrowings		(7,840)	(11,612)
Net cash flow (used in)/generated by financing activities		(7,840)	(11,612)
Net increase in cash and cash equivalents		(1,607	1,847
Cash and cash equivalents at beginning of the year		5,380	3,533
Cash and cash equivalents at end of the year		3,773	5,380
Cash and cash equivalents are comprised of:			
Cash at bank	10	4,025	
Bank overdraft	11	(252)	5,380
		3,773	5,380

The accompanying notes on pages 11 to 23 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 following new IFRS pronouncements relevant to the Company have been adopted in these financial statements:

i. IFRS 9 'Financial Instruments': Annual improvement to IFRSs (issued December 2016) - 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. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. 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.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2018 and which have not been applied in preparing these financial statements are given in note 21. No standards have been adopted early.

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 director believes that it is appropriate for the financial statements to be prepared on the going concern basis.

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 income statement.

1(b) Financial assets and liabilities

Financial assets comprise, Amounts due from group undertakings. Financial liabilities comprise, Amounts due to group undertakings and Other creditors.

On initial recognition, financial assets and liabilities are measured at fair value. These are subsequently classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Group reclassifies financial assets and liabilities when and only when its business model for managing those assets changes.

A reclassification will only take place when the change is significant to the Group's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

1(c) Impairment of financial assets and lease receivables

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

The company has not adopted the simplified expected credit loss model for its lease receivables, as allowed by IFRS 9, paragraph 5.5.15. Instead, the general expected credit loss model has been applied to both, financial assets and lease receivables.

1(d) Taxation, including deferred income taxes

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

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

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

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

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

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

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

1(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.

1(g) Derivative financial instruments

IFRS 9 requires all derivative financial instruments to be recognised initially at fair value on the Balance Sheet and to be re measured to fair value at subsequent reporting date. Where the value of the derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability. The gain or loss on measurement to fair value is recognised immediately in the Statement of Comprehensive Income.

Changes in the fair value of any derivative instrument that is not part of a hedging relationship are recognised immediately in the Income Statement.

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

1(h) Foreign currency translation

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

2 Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

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

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

Deferred Tax

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

Allowance for impairment losses

In the year under IFRS 9, the Company's accounting policy for impairment on the lease receivables is described in note 1.

The calculation of the Company's expected credit loss (ECL) allowances and provisions against financial assets and lease receivable balance under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

- Definition of default

The probability of default ("PD") of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

- Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and lease extensions. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company

- Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. Financial assets and lease receivables are assumed to have suffered a SICR if they are more than 30 days past due.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

- Origination PDs

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not, generally, available and consequently management's judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. Where applicable, the use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

NOTES TO THE FINANCIAL STATEMENTS

3 Finance income

	2018 £000	2017 £000
Finance lease income	840	937
	840	937

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

4 Finance costs

	2018 £000	2017 £000
Interest payable to other group companies	27	86
Interest payable to third parties	139	148
Interest rate swaps: Cash flow hedges	23	114
	189	348

5 Other operating (expense)/income

	2018 £000	2017 £000
Bank charges	-	(1)
Legal costs	(7)	(6)
Gain on disposal	15	3
Other operating expense	(10)	3
	(2)	(1)

6 Impairment charge

	2018 £000	2017 £000
Impairment charge on finance lease receivables	3	-
	3	-

7 Profit 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 director, who is considered to be key management, received no remuneration in respect of his services to the company. The emoluments of the director 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 director is also director of a number of other subsidiaries of the Group and is also substantially engaged in managing their respective business areas within the Group. Given this, it is not possible to make an accurate apportionment of director's emoluments in respect of their services to each of the subsidiaries. Accordingly, these financial statements include no emoluments in respect of the directors.

8 Taxation charge

	2018 £000	2017 £000
The taxation charge for the year comprises:		
Current tax payable on profit for the year	(119)	(105)
Total taxation charge for the year	(119)	(105)

Where taxation on the company's profit for the year differs from the taxation charge 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
Profit before taxation	628	546
Tax at standard rate of corporation tax	(119)	(105)
Total taxation charge	(119)	(105)

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

9 Finance lease receivables

	2017 £000
Finance lease receivables	43,508
Adjustment on adoption of IFRS 9 (note 19)	(24)
Net finance lease receivables	43,484

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross finance lease receivables at 31 December 2017	43,508	-	-	43,508
Balance at 1 January 2018	43,508	-	-	43,508
Exchange and other adjustments		-	-	
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(623)	623	-	-
Transfers to Stage 3	-	-	-	-
Net decrease in finance lease receivables	(6,161)	-	-	(6,161)
Gross finance lease receivables at 31 December 2018	36,724	623	-	37,347
Less: allowances for losses finance lease receivables	(18)	(10)	-	(28)
Net finance lease receivables	36,706	613	-	37,319

	2018 £000	2017 £000
Finance lease receivables	37,347	43,508
Analysed as:		
Gross finance lease receivables	37,347	43,508
Less: allowances for losses finance lease receivables	(28)	-
Net finance lease receivables	37,319	43,508
Due within one year	8,907	9,595
Due after one year	28,412	33,913
	37,319	43,508

	Minimum lease payments		Present value of minimum lease payments	
Amounts receivable under finance leases	2018 £000	2017 £000	2018 £000	2017 £000
Within 1 year	9,605	10,382	8,907	9,595
2 - 5 years inclusive	27,338	34,923	26,325	33,809
After 5 years	2,223	106	2,087	104
	39,166	45,411	37,319	43,508
Less: Unearned finance income	(1,847)	(1,903)		
Present value of minimum lease payments receivable	37,319	43,508		
Analysed as:				
Non-current finance lease receivable	28,412	33,913		
Current finance lease receivables	8,907	9,595		
	37,319	43,508		

The fair value of the company's finance lease receivables at 31 December 2018 is estimated at £39,008,000 (2017: £44,152,000).

NOTES TO THE FINANCIAL STATEMENTS

10 Amounts owed by group companies

	2018 £000	2017 £000
Cash at bank	4,025	5,380
	4,025	5,380

For further details please refer to note 18.

11 Amounts owed to group companies

	2018 £000	2017 £000
Bank overdraft	252	-
Bank borrowings	29,861	37,700
Interest payable	860	805
Tax payable	119	105
Amounts due to fellow subsidiary undertakings	5	6
Derivative financial instruments (note 13)	7	31
	31,104	38,647

For further details please refer to note 18.

12 Other creditors

	2018 £000	2017 £000
Cash at bank	7,210	7,784
	7,210	7,784

Other creditors consist of a loan to a third party with a maturity within 1-5 years.

13 Derivative financial instruments

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

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

Derivative transactions are with Group companies. See note 18 for further details of balances outstanding at the year end.

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

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

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

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

	Contractual/ Notional amount £000	Fair Values Liabilities £000
31 December 2018		
Interest rate swaps	11,727	7
	11,727	7
31 December 2017		
Interest rate swaps	9,131	31
	9,131	31

14 Deferred taxation

	2018 £000	2017 £000
At 1 January	6	18
Transition to IFRS 9 (note 19)	4	-
At 1 January under IFRS 9	10	18
Movement in other reserves (note 16)	(5)	(12)
At end of the year	5	6

Deferred taxation assets are comprised as follows:

	2018 £000	2017 £000
Deferred taxation assets		
Other temporary differences	4	-
Cash flow hedges	1	6
Total deferred taxation assets	5	6

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

15 Share capital

	2018 £	2017 £
Allotted, issued and fully paid		
100 ordinary shares of £1 each	100	100
	100	100

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.

16 Other reserves

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

	2018 £000	2017 £000
At beginning of the year	(25)	(84)
Change in fair value of cash flow hedges	24	71
Deferred taxation thereon (note 14)	(5)	(12)
At end of the year	(6)	(25)

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

17 Risk management of financial instruments

The Company's operations expose it to credit risk, liquidity risk, market risk and interest rate risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by Lloyds Banking Group, and the ultimate parent, Lloyds Banking Group plc.

NOTES TO THE FINANCIAL STATEMENTS

17 Risk management of financial instruments (continued)

Credit Risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with credit sale agreements, finance leases and trade receivables is managed through the application of strict underwriting criteria, determined by the Groups credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in note 1(c) and 2.

The credit risk associated with amounts due from group undertakings is not considered to be significant.

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.

- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.

- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

Financial assets which are neither past due nor impaired for credit risk:	2018 £000	2017 £000
Finance lease receivables	37,347	43,508
Amounts owed by group companies	4,025	5,380
Other debtors	1,076	1,140
Total credit risk exposure	42,448	50,028

Finance lease receivables – maximum exposure

	2017 £000
Neither past due nor impaired	43,508
Past due but not impaired	-
Impaired	-
	43,508

Finance lease receivables which are neither past due nor impaired

	2017 £000
Good quality	43,508
Satisfactory quality	-
Lower quality	-
Below standard, but not impaired	-
	43,508

In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default.

Finance lease receivables – maximum exposure

	2018 £000
Neither past due nor impaired	37,347
Past due but not impaired	-
Impaired	-
	37,347

NOTES TO THE FINANCIAL STATEMENTS

17 Risk management of financial instruments (continued)

Financial assets subject to credit risk (continued)

Finance lease receivables which are neither past due nor impaired

	2018 £000
Good quality	35,812
Satisfactory quality	1,535
Lower quality	-
Below standard, but not impaired	-
	37,347

Definitions of good quality, satisfactory quality, lower quality and below standard, but not impaired, are not the same across each segment, reflecting different characteristics of these exposures and the way they are managed internally, therefore no totals are provided. In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default.

In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default.

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances:

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 31 December 2017	-	-	-	-
Adjustment on adoption of IFRS 9	(24)	-	-	(24)
Balance at 1 January 2018	(24)	-	-	(24)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	1	(1)	-	-
Transfers to Stage 3	-	-	-	-
Impact of transfers between stages		(8)		(8)
Charge for the year	4		-	4
At 31 December 2018	(19)	(9)	-	(28)
In respect of:				
Finance lease receivables	(19)	(9)	-	(28)
	(19)	(9)	-	(28)

Fair value of financial assets carried at fair value

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

Fair value hierarchy

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise listed equity shares, treasury bills and other government securities.

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable data.

Level 3 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include the Company's venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

The tables below provide an analysis of the financial assets of the Company that are carried at fair value in the Company's Balance sheet, grouped into Levels 1 to 3 based on the degree to which the inputs to fair value are observable.

NOTES TO THE FINANCIAL STATEMENTS

17 Risk management of financial instruments (continued)

Fair value of financial assets carried at fair value (continued)

Valuation hierarchy	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
31 December 2018				
Derivative financial instruments	-	7	-	7
Financial liabilities	-	7	-	7

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
31 December 2017				
Derivative financial instruments	-	31	-	31
Financial liabilities	-	31	-	31

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 31 December 2018	Bank borrowings	Other liabilities	Derivatives	Total Liabilities
	£000	£000	£000	£000
On demand	252	984	-	8,444
Up to 1 month	8,212	-	-	8,212
1-3 months	21,649	179	7	21,656
3-12 months	-	537	-	-
1-5 years	-	6,494	-	-
Over 5 years	-	-	-	-
Total	30,113	8,194	7	38,312

At 31 December 2017	Bank borrowings	Other liabilities	Derivatives	Total Liabilities
	£000	£000	£000	£000
On demand	-	8,695	-	8,695
Up to 1 month	-	-	-	-
1-3 months	37,700	5	31	37,736
3-12 months	-	-	-	-
1-5 years	-	-	-	-
Over 5 years	-	-	-	-
Total	37,700	8,700	31	46,431

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.

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

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance income and finance costs by £75,000 (2017: £94,000).

NOTES TO THE FINANCIAL STATEMENTS

17 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.

Exposure to foreign currency fluctuations arises due to its financial assets and liabilities being denominated in foreign currencies. The company hedges the majority of its foreign currency exposure by taking out foreign currency swaps where necessary. The fair value of any currency swap is included within derivative financial instruments if applicable.

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: £2,000) primarily due to assets/liabilities denominated in EUR.

18 Related parties

The company's immediate parent company is Lloyds Bank Leasing Limited. The company regarded by the director 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 director, who are listed on page 1 of these financial statements.

In respect of related party transactions, the outstanding balances receivable/(payable) at 31 December 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	4,025	5,380	No fixed date	N/A
Tax payable	Bank of Scotland plc	Fellow subsidiary undertaking	(119)	(105)	No fixed date	N/A
Bank borrowings	Lloyds Bank plc	Intermediate parent undertaking	(29,861)	(37,700)	Various	Various
Bank overdraft	Lloyds Bank plc	Intermediate parent undertaking	(252)	-	No fixed date	N/A
Interest payable	Lloyds Bank plc	Intermediate parent undertaking	(860)	(805)	No fixed date	N/A
Amount due to fellow group undertaking	Lloyds Bank Corporate Asset Finance (No. 4) Ltd	Fellow subsidiary undertaking	-	(6)	No fixed date	N/A
Amount due to fellow group undertaking	Lloyds Bank Corporate Asset Finance (No. 3) Ltd	Fellow subsidiary undertaking	(5)	-	No fixed date	N/A
Derivative financial instruments payable	Lloyds Bank plc	Intermediate parent undertaking	(7)	(31)	Various	Various

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 0.73% and 0.91% (2017: 0.28% and 0.48%) were charged. Finance costs of £189,000 (2017: £348,000) were incurred during the year.

The company paid tax of £105,000 (2017: £122,000) during the year to fellow subsidiary undertakings.

The registered offices of related parties are noted below:

Related party	Registered address
Lloyds Bank plc	25 Gresham Street, London EC2V 7HN
Bank of Scotland plc	The Mound, Edinburgh, EH1 1YZ
Lloyds Bank Corporate Asset Finance (No 4) Ltd	25 Gresham Street, London EC2V 7HN

NOTES TO THE FINANCIAL STATEMENTS

19 Transition to IFRS 9

Impact of transition

The following table summarises the adjustments arising on the adoption of IFRS 9 to the Company's Balance Sheet as at 1 January 2018.

	As at 31 December 2017	IFRS 9: Classification and measurement	IFRS 9: Impairment	Total IFRS 9: Impact on transition	Adjusted as at 1 Janaury 2018
	£000	£000	£000	£000	£000
Assets					
Finance lease receivables	43,508	-	(24)	(24)	43,484
Deferred taxation	6	-	5	5	11
Amounts owed by group companies	5,380	-	-	-	5,380
Other debtors	1,140	-	-	-	1,140
TOTAL ASSETS	50,034	-	(19)	(19)	50,015
Liabilities					
Amounts owed to group companies	38,647	-	-	-	38,647
Other creditors	7,784	-	-	-	7,784
Equity					
Share capital	-	-	-	-	-
Other reserves	(25)	-	-	-	(25)
Retained earnings	3,628	-	(19)	(19)	3,609
TOTAL LIABILITIES AND EQUITY	50,034	-	(19)	(19)	50,015

Impairment

The Company adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not being restated and transitional adjustments have been accounted for through accumulated losses as at 1 January 2018 and as a result Accumulated losses increased by £122,000, driven on the effects of additional impairment provisions following the implementation of the ECL methodology.

The following table summarises the impact of the transitional adjustment on the Company's loss allowances at 1 January 2018.

	IAS 39 allowance as at 31 December 2017	Transitional adjustments to loss allowance	IFRS 9 loss allowance at 1 January 2018
	£000	£000	£000
Finance lease receivables	-	(24)	(24)
	-	(24)	(24)

20 Implementation of IFRS 9 Financial Instruments

This note explains the impact of the adaptation of IFRS 9 Financial Instruments on the Company's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of the financial assets and financial liabilities derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS9 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 cashflows,and their contractual cashflows represent solely payments of principle 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 collecting contractual cashflows and selling financial assets and their contractual cashflows represent solely payments of principle 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 and loss. An entity may, at initial recognition, designate a financial asset as measures at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch.

Impairment

IFRS9 replaces the existing "incurred loss" impairment approach with an expected credit loss ("ECL") model resulting in earlier recognition of credit losses compared with IAS39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage1) and a life time expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage2). Stage 3 requires objective evidence that an asset is credit impaired, which is similar to the guidance on incurred losses in IAS 39.

NOTES TO THE FINANCIAL STATEMENTS

20 Implementation of IFRS 9 Financial Instruments (continued)

Impact on the financial statements

The Company has adopted IFRS9 from 1January 2018. In accordance with the transition requirements of IFRS9, comparative information for 2017 has not been restated and transitional adjustments have been accounted for through retained eamings as at1 January 2018.

21 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.

Pronouncement	Nature of change	IASB effective date
IFRS16; 'Leases'	Replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. Accounting as a lessor will remain aligned to the current approach under IAS 17; however for lessee accounting there will no longer be a distinction between finance and operating leases. The transition will result in the recognition of right of use assets and lease liabilities in respect of leased properties previously accounted for as operating leases; there will be no impact on shareholders' equity. The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be materially impacted.	Annual periods beginning on or after 1 January 2019

22 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 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 £306k (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.