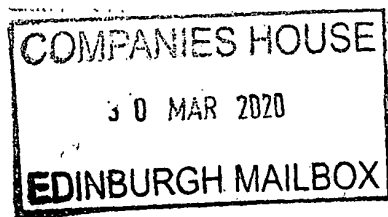


BARENTS LEASING LIMITED

Annual report and financial statements for the year ended 31 March 2019



Member of Lloyds Banking Group plc

Registered Number: 04440327

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COMPANIES HOUSE

BARENTS LEASING LIMITED

DIRECTORS

C G Dowsett
L F C Dorey
G A Fox

COMPANY SECRETARY

A E Mulholland

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

BANKERS

Lloyds Banking Group plc
25 Gresham Street
London
EC2V 7HN

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

04440327

DIRECTORS' REPORT

The directors present their report and audited financial statements of the Barents Leasing Limited ("the company") for the year ended 31 March 2019.

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 assets through finance 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 profit before taxation of £1,940,000 (2018: £159,000 loss) for the year as set out in the Statement of comprehensive income on page 6.

The company has a total deficit of £16,535,000 (2018: £18,081,000).

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2018: £nil).

DIRECTORS

The names of the directors of the company who were in office during the year and up to the date of the signing of financial statements are shown on page 1. The following change in directors has taken place during the year:

	Appointed	Resigned/ceased to be a director
A J Kemp		28 June 2018
L F C Dorey	28 June 2018	

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

GOING CONCERN

The financial statements have been prepared on a going concern basis. There is a net liability position of £16,535,000 (2018: £18,081,000) and a net current liability position of £95,410,000 (2018: £18,081,000). The Company does not have material external debt and is funded by other companies within the Lloyds Banking Group ("the Group").

It was further noted that a letter of support had been issued by Lloyds Banking Group plc, dated 19 February 2020, confirming that it was its current intention to provide financial support to Lloyds Bank plc and its subsidiaries (of which the Company is one) to meet their respective financial liabilities as they fall due.

As a result, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

DIRECTORS' REPORT (continued)

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

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 ("LBG") has granted to the directors of the Company, including former directors who resigned during the year, 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 (or from the date of appointment in respect of the LBG Director who joined the Board of the Company during the financial year). Directors no longer in office but who served on the board of the company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of an LBG Director's period of office. The deed indemnifies the LBG Directors to the maximum extent permitted by law. The deed for existing LBG Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, Lloyds Banking Group plc (the "Group") has in place appropriate LBG Directors and Officers Liability insurance cover which was in place throughout the financial year.

INDEPENDENT AUDITORS' APPOINTMENT

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

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are managed within the framework established for the Lloyds Banking Group plc group of companies ("the Group") and are not managed separately. For further details please refer to note 12 'Risk management of financial instruments' in these financial statements.

In the context of operational resilience, the Company is assessing the risks associated with the current global health issue Covid-19 and continues to analyse the impacts. However, it is difficult at this stage to quantify risks and the degree to which they might crystallise.

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: 26 March 2020

Independent auditors' report to the members of Barents Leasing Limited

Report on the audit of the financial statements

Opinion

In our opinion, Barents Leasing Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 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 March 2019; 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 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.

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 members of Barents 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 31 March 2019 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

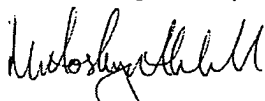
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 Hoskins - Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
26 March 2020

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2019

	Note	2019 £000	2018 £000
Finance income	3	3,407	-
Finance costs	4	<u>(1,245)</u>	<u>(159)</u>
		2,162	(159)
Foreign exchange gain		27	-
Impairment charge	7	<u>(249)</u>	<u>-</u>
Profit/(loss) before taxation		1,940	(159)
Taxation (charge)/credit	6	<u>(394)</u>	<u>30</u>
Profit/(loss) after taxation and total comprehensive income/(loss) for the year attributable to owners of the parent		<u><u>1,546</u></u>	<u><u>(129)</u></u>

The accompanying notes on pages 10 to 20 are an integral part of the Financial Statements.

BARENTS LEASING LIMITED

BALANCE SHEET
As at 31 March 2019

	Note	2019 £000	2018 £000
Assets			
Finance lease receivables	7	78,654	-
Deferred tax	11	<u>221</u>	<u>-</u>
Total non-current assets		<u>78,875</u>	<u>-</u>
Current assets			
Finance lease receivables	7	3,647	-
Amounts owed by group companies	8	<u>470</u>	<u>128</u>
Total current assets		<u>4,117</u>	<u>128</u>
Total assets		<u>82,992</u>	<u>128</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	9	91,689	10,548
Other creditors	10	<u>7,838</u>	<u>7,661</u>
Total liabilities		<u>99,527</u>	<u>18,209</u>
Equity			
Share capital	12	-	-
Accumulated losses		<u>(16,535)</u>	<u>(18,081)</u>
Total equity		<u>(16,535)</u>	<u>(18,081)</u>
Total liabilities and equity		<u>82,992</u>	<u>128</u>

The financial statements on pages 6 to 20 were approved by the Board of Directors on 26 March 2020 and signed on its behalf by:



C G Dowsett
Director

Registered Number: 04440327

The accompanying notes on pages 10 to 20 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 April 2017		-	(17,952)	(17,952)
Total comprehensive loss for the year				
Loss for the year		-	(129)	(129)
Balance at 31 March 2018		-	(18,081)	(18,081)
Total comprehensive profit for the year				
Profit for the year		-	1,546	1,546
Balance at 31 March 2019		-	(16,535)	(16,535)

The accompanying notes on pages 10 to 20 are an integral part of the Financial Statements.

CASH FLOW STATEMENT
For the year ended 31 March 2019

	Note	2019 £000	2018 £000
Profit/(Loss) before taxation		1,940	(159)
Adjust for non-cash transactions:			
- Impairment		249	-
Changes in operating assets/liabilities:			
- Increase in trade and other receivables		(82,551)	-
- Increase in trade and other payables		<u>388</u>	<u>161</u>
Cash generated by operations		(79,974)	2
Tax received		<u>30</u>	<u>33</u>
Net cash flow from operating activities		<u>(79,944)</u>	<u>35</u>
Financing activities			
Increase in bank borrowings		<u>80,286</u>	<u>6</u>
Net cash flow generated from financing activities		<u>80,286</u>	<u>6</u>
Change in cash and cash equivalents		342	41
Cash and cash equivalents at beginning of the year		<u>128</u>	<u>87</u>
Cash and cash equivalents at end of the year		<u><u>470</u></u>	<u><u>128</u></u>

The accompanying notes on pages 10 to 20 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 principal based approach than IAS 39.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 March 2019 and which have not been applied in preparing these financial statements are given in note 16. No standards have been adopted early.

GOING CONCERN

The financial statements have been prepared on a going concern basis. There is a net liability position of £16,535,000 (2018: £ 18,081,000) and a net current liability position of £95,410,000 (2018: £18,081,000). The Company does not have material external debt and is funded by other companies within the Lloyds Banking Group ("the Group").

It was further noted that a letter of support had been issued by Lloyds Banking Group plc, dated 19 February 2020, confirming that it was its current intention to provide financial support to Lloyds Bank plc and its subsidiaries (of which the Company is one) to meet their respective financial liabilities as they fall due.

As a result, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

1(a) Income and expense from financial instruments

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment.

Lease classification

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of 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 net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable within Loans and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income.

Finance lease income

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 incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the agreement but not future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return such as acceptance and, where relevant, early settlement fees as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)**1(b) Financial assets and liabilities**

Financial assets comprise of Finance lease receivables and amounts owed by group companies.

On initial recognition, financial assets and liabilities are 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 of ownership have been transferred; or the Group has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

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

1(c) Impairment

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

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.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

1(g) Fair value

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

1(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:

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

3 Finance income

	2019 £000	2018 £000
Finance lease income	3,384	-
Interest receivable from other group companies	<u>23</u>	<u>-</u>
	<u>3,407</u>	<u>-</u>

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

	2019 £000	2018 £000
Interest payable to other group companies	1,068	8
Interest payable on overdue tax	<u>177</u>	<u>151</u>
	<u>1,245</u>	<u>159</u>

5 Profit before taxation

Fees payable to the Company's auditors for the audit of the financial statements of £4,500 (2018: £4,500) have been borne by the ultimate parent company and are not recharged to the Company.

The company has no employees (2018: 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 (charge)/credit

	2019 £000	2018 £000
The taxation (charge)/credit for the year comprises:		
Current tax (payable)/ receivable on loss for the year	(615)	30
Current tax adjustment in respect of prior year	<u>-</u>	<u>-</u>
Total current tax (payable)/receivable for the year	(615)	30
Origination and reversal of timing differences (note 11)	247	-
Impact of deferred tax rate change (note 11)	<u>(26)</u>	<u>-</u>
Total taxation (charge)/credit for the year	<u>(394)</u>	<u>30</u>

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% (2018: 19.00%), the differences are explained below:

	2019 £000	2018 £000
Profit/(loss) before taxation	<u>1,940</u>	<u>(159)</u>
Tax at standard rate of corporation tax	(368)	30
Impact of tax rate change	<u>(26)</u>	<u>-</u>
Total taxation (charge)/credit	<u>(394)</u>	<u>30</u>

NOTES TO THE FINANCIAL STATEMENTS

7 Finance lease receivables

	2018 £000
Finance lease receivables	-
Adjustment on adoption of IFRS 9	-
	-

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross finance lease receivables at 31 March 2018	-	-	-	-
Balance as at 1 April 2018	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net increase in finance lease receivables	82,550	-	-	82,550
Gross finance lease receivables at 31 March 2019	82,550	-	-	82,550
Less: allowances for losses on finance lease receivables	(249)	-	-	(249)
Net finance lease receivables	82,301	-	-	82,301

	2019 £000	2018 £000
Finance lease receivables	82,550	-
Gross finance lease receivables	82,550	-
Less: allowance for losses on finance lease receivables	(249)	-
Net finance lease receivables	82,301	-
Of which		
Due within one year	3,647	-
Due after one year	78,654	-
	82,301	-

	Minimum lease payments		Present value of minimum lease payments	
	2019 £000	2018 £000	2019 £000	2018 £000
Amounts receivable under finance leases				
Within 1 year	11,475	-	3,647	-
2 - 5 years inclusive	45,846	-	18,756	-
After 5 years	83,036	-	59,898	-
	140,357	-	82,301	-
Less: Unearned finance income	(58,056)	-		
Present value of minimum lease payments receivable	82,301	-		
Analysed as:				
Non-current finance lease receivable	78,654	-		
Current finance lease receivables	3,647	-		
	82,301	-		

The fair value of the company's finance lease receivables at 31 March 2019 is estimated at £79,500,000 (2018: n/a).

NOTES TO THE FINANCIAL STATEMENTS

8 Amounts owed by group companies

	2019 £000	2018 £000
Cash at bank	<u>470</u>	<u>128</u>
	<u>470</u>	<u>128</u>

For further details please refer to note 14.

9 Amounts owed to group companies

	2019 £000	2018 £000
Bank borrowings	82,041	2,209
Interest payable	676	4
Amounts due to parent undertakings	572	579
Taxation payable	<u>8,400</u>	<u>7,756</u>
	<u>91,689</u>	<u>10,548</u>

For further details please refer to note 14.

10 Other creditors

	2019 £000	2018 £000
Other creditors	<u>7,838</u>	<u>7,661</u>
	<u>7,838</u>	<u>7,661</u>

11 Deferred taxation

	2019 £000	2018 £000
At beginning of the year	-	-
Transition to IFRS 9	-	-
As at 1 April 2018 under IFRS 9	-	-
Deferred taxation credit for the year	247	-
Impact of tax rate change	<u>(26)</u>	<u>-</u>
At end of the year	<u>221</u>	<u>-</u>

The deferred taxation credit in the period comprises the following temporary differences:

	2019 £000	2018 £000
Capital allowances on assets leased to customers	512	-
Other temporary differences	<u>(291)</u>	<u>-</u>
Total deferred taxation result	<u>221</u>	<u>-</u>

Deferred taxation asset is comprised as follows:

	2019 £000	2018 £000
Accelerated capital allowances	512	-
Other temporary differences	<u>(291)</u>	<u>-</u>
Total deferred taxation asset	<u>221</u>	<u>-</u>

Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent on 1 April 2020. Had this rate change been substantively enacted at 31 December 2019, the effect would have been to increase net deferred tax asset by £26,000.

NOTES TO THE FINANCIAL STATEMENTS

12 Share capital

	2019 £	2018 £
Allotted, issued and fully paid		
1 ordinary share of £1 each	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</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 total equity.

13 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.

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 owed 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.

	2019 £000	2018 £000
Finance lease receivables	82,550	-
Amounts owed by group companies	<u>470</u>	<u>128</u>
	<u>83,020</u>	<u>128</u>

NOTES TO THE FINANCIAL STATEMENTS

13 Risk management of financial instruments (continued)

Financial assets subject to credit risk (continued)

Finance lease receivables – maximum exposure

	2018 £000
Neither past due nor impaired	-
Past due but not impaired	-
Impaired	-
	<u>-</u>

Finance lease receivables which are neither past due nor impaired

	2018 £000
Good quality	-
Satisfactory quality	-
Lower quality	-
Below standard, but not impaired	-
	<u>-</u>

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 – gross carrying amount

	2019 £000
Neither past due nor impaired	82,550
Past due but not impaired	-
Impaired	-
	<u>82,550</u>

Finance lease receivables which are neither past due nor impaired

	2019 £000
Good quality	-
Satisfactory quality	82,550
Lower quality	-
Below standard, but not impaired	-
	<u>82,550</u>

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.

Credit Risk (continued)

Analysis of movement in the allowance for impairment losses by stage

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
In respect of drawn balances				
At 31 March 2018				-
Adjustment on adoption of IFRS 9				-
Balance as at 1 April 2018	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact of transfers between stages	-	-	-	-
Charge for year	(249)	-	-	(249)
At 31 March 2019	(249)	-	-	(249)

NOTES TO THE FINANCIAL STATEMENTS

13 Risk management of financial instruments (continued)**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 March 2019	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	17,069	17,069
Up to 1 month	82,041	458	82,499
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	-	-	-
Total	82,041	17,527	99,568

At 31 March 2018	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	15,996	15,996
Up to 1 month	2,209	4	2,213
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	-	-	-
Total	2,209	16,000	18,209

The fair value of current liabilities approximates their carrying values.

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.

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 the derivative financial instrument if applicable.

At the year end, if the currency had fluctuated by +/- 25 basis points against the USD, with all other variables held constant, post tax profit would have changed by an insignificant amount primarily due to assets/liabilities denominated in USD being offsetting.

NOTES TO THE FINANCIAL STATEMENTS

14 Related parties

The company's immediate parent company is Bank of Scotland Structured Asset Finance 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. Bank of Scotland plc is the parent company of the smallest such group of undertakings. Copies of the group financial statements may be downloaded via www.lloydsbankinggroup.com.

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

In respect of related party transactions, the outstanding balances receivable/(payable) at 31 March were as follows:

Nature of transaction	Related party	Related party relationship	2019	2018	Terms and conditions	
			£000	£000	Repayment	Interest
Cash at bank	Bank of Scotland plc	Intermediate parent undertaking	470	128	N/A	N/A
Bank borrowings	Bank of Scotland plc	Intermediate parent undertaking	(82,041)	(2,209)	Various	Various
Interest payable	Bank of Scotland plc	Intermediate parent undertaking	(676)	(4)	N/A	N/A
Taxation payable	Bank of Scotland plc	Intermediate parent undertaking	(8,400)	(7,756)	N/A	N/A
Amounts due to parent undertakings	Bank of Scotland Structured Asset Finance Limited	Immediate parent undertaking	(572)	(579)	N/A	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 0.52% and 2.76% (2018: between 0.30% and 0.52%) were charged. Finance costs of £850,000 (2018: £8,000) were incurred during the year. Bank borrowings are not guaranteed and there are no inter-company guarantees in place.

The company received taxation of £30,000 (2018: £33,000) during the year from fellow subsidiary undertakings.

The registered offices of related parties are as noted below:

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

15 Implementation of IFRS9 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

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 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

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.

Impact on the financial statements

The Company has adopted IFRS 9 from 1 April 2018. In accordance with the transition requirements of IFRS 9, comparative information for the previous year has not been restated and transitional adjustments have been accounted for through retained earnings as at 1 April 2018.

As at the balance date 31 March 2018 the financial assets held by the entity comprises of cash at bank. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The company has conducted an analysis of these changes and does not consider there to be any significant impact of applying IFRS 9 to the financial statements on transition.

NOTES TO THE FINANCIAL STATEMENTS

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>
IFRS16; 'Leases'	The IASB has issued IFRS 16 to replace IAS 17 Leases which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. This change will mainly impact the properties that the Group currently accounts for as operating leases. Lessor accounting requirements remain aligned to the current approach under IAS 17.	Annual periods beginning on or after 1 January 2019
	The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be materially impacted.	

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 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 £1,019,000 (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.

18 Post balance sheet events

There are risks arising from the outbreak of Coronavirus which has occurred since the balance sheet date. In view of its evolving nature, the Directors are unable to estimate its financial effect.