

LLOYDS BANK CORPORATE ASSET FINANCE (HP) LIMITED

Annual report and financial statements for the year ended 31 December 2016



Member of Lloyds Banking Group

Registered Number: 04839408



DIRECTORS

C G Dowsett

COMPANY SECRETARY

M A A Johnson

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

04839408

DIRECTORS' REPORT

The directors present their report and audited financial statements of Lloyds Bank Corporate Asset Finance (HP) Limited ("the company") for the year ended 31 December 2016.

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

REVIEW OF BUSINESS

During the year, the principal activity of the company was the provision of hire purchase finance and this is likely to continue for the foreseeable future.

The results of the company show a profit before taxation of £627,000 (2015: £1,131,000) for the year as set out in the income statement on page 6.

The company has shareholder's equity of £11,669,000 (2015: £11,134,000).

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2015: £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 changes in directors have taken place during the year and since the year end:

	Appointed	Resigned/ceased to be a director
S Ball	-	19 June 2017
P J Sherrington	-	13 June 2016
R Sagrott	-	18 May 2017

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with Section 418 of the Act, in the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the directors of the company, 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. 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 a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors' and officers' liability insurance cover which was in place throughout the financial year.

DIRECTORS' REPORT (CONTINUED)

INDEPENDENT AUDITORS' APPOINTMENT

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

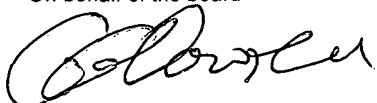
PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are managed within the framework established for the Lloyds Banking Group plc group of companies ("the Group") and are not managed separately. For further details please refer to note 16 'Risk management of financial instruments' in these financial statements.

KEY PERFORMANCE INDICATORS ('KPIs')

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

On behalf of the board



C G Dowsett
Director

Date: 29/09/2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK CORPORATE ASSET FINANCE (HP) LIMITED

Report on the Financial Statements

Our opinion

In our opinion, Lloyds Bank Corporate Asset Finance (HP) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Income Statement and Statement of Comprehensive Income for the year ended 31 December 2016;
- the Balance Sheet as at 31 December 2016;
- the Statement of Changes in Shareholder's Equity for the year then ended;
- Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK CORPORATE ASSET FINANCE (HP) LIMITED
(CONTINUED)**

What an audit of financial statements involves

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

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

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

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

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



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

29 September 2017

INCOME STATEMENT

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Finance income	2	1,303	2,118
Finance costs	3	<u>(704)</u>	<u>(1,008)</u>
		599	1,110
Other operating income	4	45	21
Other operating expenses	5	(6)	-
Foreign exchange loss		<u>(11)</u>	<u>-</u>
Profit before taxation	6	627	1,131
Taxation charge	7	<u>(125)</u>	<u>(229)</u>
Profit after taxation		<u><u>502</u></u>	<u><u>902</u></u>

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Profit after taxation for the year		502	902
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	15	<u>(33)</u>	<u>299</u>
Total comprehensive income for the year attributable to owners of the parent		<u><u>469</u></u>	<u><u>1,201</u></u>

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

BALANCE SHEET
As at 31 December 2016

	Note	2016 £000	2015 £000
Assets			
Non-current assets			
Hire purchase receivables	8	7,331	9,753
Deferred taxation	13	<u>156</u>	<u>174</u>
Total non-current assets		<u>7,487</u>	<u>9,927</u>
Current assets			
Hire purchase receivables	8	6,585	27,574
Amounts owed by group companies	9	11,847	10,397
Other debtors		50	-
Assets under construction	12	<u>2,536</u>	<u>1,431</u>
Total current assets		<u>21,018</u>	<u>39,402</u>
Total assets		<u>28,505</u>	<u>49,329</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	10	16,485	37,509
Other creditors		<u>351</u>	<u>686</u>
Total current liabilities		<u>16,836</u>	<u>38,195</u>
Equity			
Share capital	14	-	-
Other reserves	15	(710)	(743)
Retained earnings		<u>12,379</u>	<u>11,877</u>
Total equity		<u>11,669</u>	<u>11,134</u>
Total liabilities and equity		<u>28,505</u>	<u>49,329</u>

The financial statements on pages 6 to 21 were approved by the Board of Directors on 29/09/2017 and signed on its behalf by:



C G Dowsett
Director

Registered Number: 04839408

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

		Share capital	Other reserves	Retained earnings	Total equity
	Note	£000	£000	£000	£000
Balance at 31 December 2014		-	(1,042)	10,975	9,933
Total comprehensive income for the year					
Profit for the year		-	-	902	902
Change in fair value of derivatives, net of tax	15	-	299	-	299
Balance at 31 December 2015	15	-	(743)	11,877	11,134
Total comprehensive income for the year					
Profit for the year		-	-	502	502
Change in fair value of derivatives, net of tax	15	-	33	-	33
Balance at 31 December 2016	15	-	(710)	12,379	11,669

The accompanying notes on pages 11 to 21 are an integral part of the Financial Statements.

CASH FLOW STATEMENT

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Profit before taxation		627	1,131
Add/(less) non cash items:			
Foreign exchange loss		11	-
Gain on termination of hire purchase agreements		-	(5)
Operating cash flows before movements in working capital		638	1,126
Decrease in receivables		22,244	22,121
(Decrease)/increase in payables		(180)	157
Cash generated by operations		22,702	23,404
Group relief paid		(610)	-
Net cash flow from operating activities		22,092	23,404
Financing activities			
Decrease in bank borrowings		(20,640)	(20,113)
Net cash flow from financing activities		(20,640)	(20,113)
Net increase in cash and cash equivalents		1,452	3,291
Cash and cash equivalents at beginning of the year		10,395	7,104
Cash and cash equivalents at end of the year		11,847	10,395
Cash and cash equivalents are comprised of:			
Cash at bank	9	11,847	10,395
		<u>11,847</u>	<u>10,395</u>

The accompanying notes on pages 11 to 21 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, as modified by the revaluation of available-for-sale financial assets, and financial instruments (including derivatives) at fair value.

The financial statements have been prepared in accordance with Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006.

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the continuing financial support provided by Lloyds Bank plc. After making appropriate enquiries, the directors believe that it is appropriate for the financial statements to be prepared on the going concern basis.

Critical accounting estimates and judgements

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

Impairment

The company regularly reviews the portfolio of financial assets for impairment. In determining whether an impairment has occurred at the balance sheet date the company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on repayments or values of underlying assets. Where this is the case, the impairment loss is measured in accordance with note 1(b) below.

1(a) Hire purchase receivables

Assets hired to customers are classified as hire purchase debtors if the hire purchase agreements provide the customer with an option to acquire title to the asset upon the fulfilments of agreed conditions and which is expected to be exercised. When assets are financed under a hire purchase agreement the amount due from the hirer is recorded as a receivable at the present value of the future payments being the company's net investment in the asset. Hire purchase income is recognised over the hire term using the net investment method so as to reflect a constant periodic rate of return on the company's net investment in the asset over the hire term.

Initial direct costs attributed to negotiating and arranging the hire purchase are included in the initial measurement of the hire purchase debtor thus reducing the amount of income recognised over the hire term.

Hire purchase agreements for which the assets are under construction at the year end have been classified as loans and advances. As at 31 December 2016, the value of hire purchase agreements on assets under construction was £2,536,000 (2015: £1,431,000).

1(b) Impairment

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal and/or interest;
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty;
- Restructuring of debt to reduce the burden on the borrower;
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of the estimated future cash flows discounted at the asset's implicit rate in the lease.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as a credit to the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

1(d) Dividends

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

1(e) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months.

1(f) Fair value

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

1(g) Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

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 those of 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.

The method of recognising the movements in the fair value of the derivatives depends on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Hedge accounting allows one financial instrument, generally a derivative such as a swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of the same. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item and the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value or cash flow of the hedged risk. The effectiveness of the hedging relationship must be tested throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its objective the hedge relationship is terminated.

The company designates derivatives as hedges of highly probable future cash flows attributable to recognised assets or liabilities (cash flow hedges).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income, and in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The company documents at the inception of the transaction the relationship between hedging instrument and the hedged item. The company also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability, if the maturity of the hedged item is less than 12 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges.

2 Finance income

	2016 £000	2015 £000
Hire purchase income	<u>1,303</u>	<u>2,118</u>
	<u>1,303</u>	<u>2,118</u>

Hire purchase income represents the income component of hire purchase receivables earned in the year, being hire purchase instalments less capital repayment.

3 Finance costs

	2016 £000	2015 £000
Interest payable on bank loans with other group companies	334	491
Interest rate swaps: Cash flow hedges	<u>370</u>	<u>517</u>
	<u>704</u>	<u>1,008</u>

4 Other operating income

	2016 £000	2015 £000
Other fees receivable	45	16
Gain on termination of hire purchase agreements	<u>-</u>	<u>5</u>
	<u>45</u>	<u>21</u>

5 Other operating expenses

	2016 £000	2015 £000
Miscellaneous expenses	<u>6</u>	<u>-</u>
	<u>6</u>	<u>-</u>

6 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 (2015: 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Taxation charge

	2016 £000	2015 £000
The taxation charge for the year comprises:		
Current tax payable on profit for the year	(125)	(229)
Total current tax payable for the year	(125)	(229)

Where taxation on the company's profit for the year differs from the taxation result that would arise using the standard rate of corporation tax of 20.00% (2015: 20.25%), the differences are explained below:

	2016 £000	2015 £000
Profit before taxation	627	1,131
Tax at standard rate of corporation tax	(125)	(229)
Total taxation result	(125)	(229)

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the corporate tax rate to 17% with effect from 1 April 2020.

8 Hire purchase receivables

	Minimum lease payments		Present value of minimum lease payments	
	2016 £000	2015 £000	2016 £000	2015 £000
Amounts receivable under hire purchase				
Within 1 year	7,037	28,686	6,585	27,574
2 - 5 years inclusive	5,641	7,756	4,640	6,660
After 5 years	2,738	3,309	2,691	3,093
	15,416	39,751	13,916	37,327
Less: Unearned finance income	(1,500)	(2,424)		
Present value of minimum lease payments receivable	13,916	37,327		
Analysed as:				
Non-current hire lease receivable	7,331	9,753		
Current hire lease receivables	6,585	27,574		
	13,916	37,327		

The fair value of the company's hire purchase receivables at 31 December 2016 is estimated at £12,898,000 (2015: £21,203,000).

The cost of hire purchase transactions entered into during the year amounted to £1,878,000 (2015: £2,926,000) and the cost of hire purchase assets terminated during the year amounted to £55,559,000 (2015: £31,979,000). The termination of these agreements gave rise to a gain of £nil (2015: £5,000).

9 Amounts owed by group companies

	2016 £000	2015 £000
Cash at bank	11,847	10,395
Derivative financial instruments (note 11)	-	2
	11,847	10,397

For further details please refer to note 17.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Amounts owed to group companies

	2016 £000	2015 £000
Bank borrowings	14,688	35,328
Interest payable	795	640
Amounts due to group companies	12	12
Group relief payable	125	610
Derivative financial instruments (note 11)	<u>865</u>	<u>919</u>
	<u>16,485</u>	<u>37,509</u>

For further details please refer to note 17.

11 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.

The fair values of these derivative financial instruments are based on discounted cash flow models at 31 December 2016.

The derivatives used by the company are designated as cash flow hedges, these hedge 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.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining hedged item is less than 12 months.

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

	Contractual/ Notional amount £000	Fair Values Assets £000	Fair Values Liabilities £000
31 December 2016			
Interest rate swaps	<u>11,996</u>	<u>-</u>	<u>865</u>
	<u>11,996</u>	<u>-</u>	<u>865</u>
31 December 2015			
Interest rate swaps	<u>33,644</u>	<u>2</u>	<u>919</u>
	<u>33,644</u>	<u>2</u>	<u>919</u>

12 Assets under construction

	2016 £000	2015 £000
At beginning of year	1,431	-
Additions during year	2,536	1,431
Transfers to hire purchase receivables during year	<u>(1,431)</u>	<u>-</u>
At end of the year	<u>2,536</u>	<u>1,431</u>

At the year end, assets under construction represent amounts incurred on construction of smokeless fuel production plant. Construction was completed and this became a hire purchase agreement in 2017.

At the end of 2015, assets under construction represent amounts incurred on construction of biomass boilers. Construction completed and this became a hire purchase agreement in 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Deferred taxation

	2016 £000	2015 £000
At beginning of the year	174	261
Movement in other reserves	(10)	(79)
Impact of tax rate change on deferred tax on cash flow hedges	<u>(8)</u>	<u>(8)</u>
At end of the year	<u>156</u>	<u>174</u>

Deferred taxation assets are comprised as follows:

	2016 £000	2015 £000
Deferred taxation assets		
Cash flow hedges	<u>156</u>	<u>174</u>
Total deferred taxation assets	<u>156</u>	<u>174</u>

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the corporate tax rate to 17% with effect from 1 April 2020.

14 Share capital

	2016 £	2015 £
Allotted, issued and fully paid		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
	<u>100</u>	<u>100</u>

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

The company's parent manages the company's capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or enter into debt financing.

The company's capital comprises all components of equity, movements in which appear in the statement of changes in shareholder's equity.

15 Other reserves

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

	2016 £000	2015 £000
At beginning of the year	(743)	(1,042)
Change in fair value of cash flow hedges	51	386
Deferred taxation thereon	(10)	(79)
Impact of tax rate change	<u>(8)</u>	<u>(8)</u>
At end of the year	<u>(710)</u>	<u>(743)</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Risk management of financial instruments

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

In accordance with IAS39 "Financial instruments: Recognition and measurement", the following financial instruments, including derivatives, are classified as shown:

	Held at cost/amortised cost £000	Held at Fair Value £000	Loans or receivables £000	Total £000
At 31 December 2016				
Assets				
Hire purchase receivables	-	-	13,916	13,916
Amounts owed by group companies	11,847	-	-	11,847
Other debtors	50	-	-	50
Assets under construction	<u>2,536</u>	-	-	<u>2,536</u>
Total financial assets	<u>14,433</u>	-	<u>13,916</u>	<u>28,349</u>
Liabilities				
Amounts owed to group companies	15,620	865	-	16,485
Other creditors	<u>351</u>	-	-	<u>351</u>
Total financial liabilities	<u>15,971</u>	<u>865</u>	-	<u>16,836</u>
At 31 December 2015				
Assets				
Hire purchase receivables	-	-	37,327	37,327
Amounts owed by group companies	10,395	2	-	10,397
Other debtors	<u>1,431</u>	-	-	<u>1,431</u>
Total financial assets	<u>11,826</u>	<u>2</u>	<u>37,327</u>	<u>49,155</u>
Liabilities				
Amounts owed to group companies	36,590	919	-	37,509
Other creditors	<u>686</u>	-	-	<u>686</u>
Total financial liabilities	<u>37,276</u>	<u>919</u>	-	<u>38,195</u>

Credit risk management:

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

The maximum credit risk exposure of the company in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount as at 31 December.

	2016 £000	2015 £000
Financial assets which are neither past due nor impaired for credit risk:		
Hire purchase receivables	13,916	37,327
Amounts owed by group companies	11,847	10,397
Other debtors	50	-
Loans and advances	<u>2,536</u>	<u>1,431</u>
Total credit risk exposure	<u>28,349</u>	<u>49,155</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Risk management of financial instruments (continued)

Credit risk management (continued):

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each lease or loan is assessed for credit risk prior to approval and assigned a credit rating based on the credit risk rating methodology and management policy of the Lloyds Banking Group plc. Credit ratings of the lease counterparties are monitored, where necessary revised, over the life of the lease. The table below reflects the credit rating of the financial assets portfolio net of any financial guarantees received.

Financial assets by credit rating:

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2016							
Hire purchase receivables	-	-	4,237	5,451	4,183	45	13,916
Amounts owed by group companies	-	-	11,847	-	-	-	11,847
Other debtors	-	-	-	-	-	50	50
Loans and advances	-	-	-	2,536	-	-	2,536
Total	-	-	16,084	7,987	4,183	95	28,349

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2015							
Hire purchase receivables	-	-	8,657	22,313	6,334	23	37,327
Amounts owed by group companies	-	-	10,397	-	-	-	10,397
Other debtors	-	-	-	-	1,431	-	1,431
Total	-	-	19,054	22,313	7,765	23	49,155

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

At 31 December 2016 and 2015 there were no impairments relating to credit risk against any financial assets nor any lease receivables past due on scheduled lease payments. The credit risk exposure under short-term debtors, deposits and other financial assets are represented by the book values in the above table.

For financial assets held at amortised cost the fair value approximates to their carrying values, except for hire purchase receivables whose fair value is disclosed in note 8.

Fair Value Estimation:

The table below provides an analysis of the financial assets and liabilities of the company's that are carried at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable as defined below:

- Quoted prices (unadjusted) in active markets of identical assets and liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly, or indirectly (level 2)
- Inputs for the asset or liability that are not based on observable market data (level 3)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Risk management of financial instruments (continued)

Fair Value Estimation (continued):

Valuation hierarchy	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2016				
Derivative financial instruments	-	-	-	-
Financial assets	-	-	-	-
Derivative financial instruments	-	865	-	865
Financial liabilities	-	865	-	865
31 December 2015				
Derivative financial instruments	-	2	-	2
Financial assets	-	2	-	2
Derivative financial instruments	-	919	-	919
Financial liabilities	-	919	-	919

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 2016	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	-	1,263	-	1,263
Up to 1 month	10,741	1	-	10,742
1-3 months	2,196	9	-	2,205
3-12 months	1,751	1	15	1,767
1-5 years	-	3	88	91
Over 5 years	-	6	762	768
Total	14,688	1,283	865	16,836
At 31 December 2015				
On demand	-	1,913	-	1,913
Up to 1 month	13,400	4	-	13,404
1-3 months	18,378	8	-	18,386
3-12 months	3,550	12	103	3,665
1-5 years	-	3	36	39
Over 5 years	-	8	780	788
Total	35,328	1,948	919	38,195

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 £nil (2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 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 EURO and USD, with all other variables held constant, post tax profit would have changed by an insignificant amount (2015: insignificant) primarily due to assets/liabilities denominated in EURO and USD.

Foreign currency risk – carrying amount	EUR
At 31 December 2016	€000

Financial assets	
Assets under construction	2,958
Amounts owed by group companies	13
	<u>2,971</u>

Foreign currency risk – carrying amount	EUR
At 31 December 2015	€000

Financial assets	
Amounts owed by group companies	4
	<u>4</u>

17 Related parties

The company's immediate parent company is Lloyds Bank Leasing Limited. The company regarded by the directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member. Lloyds Bank plc is the parent company of the smallest such group of undertakings. Copies of the group financial statements may be downloaded via www.lloydsbankinggroup.com.

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

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

Nature of transaction	Related party	Related party relationship	2016	2015	Terms and conditions	
			£000	£000	Repayment	Interest
Cash at bank	Lloyds Bank plc	Intermediate parent undertaking	11,847	10,395	No fixed date	N/A
Group relief payable	Bank of Scotland plc	Fellow subsidiary undertaking	(125)	(610)	No fixed date	N/A
Amounts due to group companies	Lloyds Bank plc	Intermediate parent undertaking	(12)	(12)	No fixed date	N/A
Bank borrowings	Lloyds Bank plc	Intermediate parent undertaking	(14,688)	(35,328)	12/1/17-29/12/17	0.3-1.0%
Interest payable	Lloyds Bank plc	Intermediate parent undertaking	(795)	(640)	12/1/17 – 29/12/17	N/A
Derivative financial instruments payable	Lloyds Bank plc	Intermediate parent undertaking	(865)	(919)	1/2/17 – 30/6/22	0.3-1.7%
Derivative financial instruments receivable	Lloyds Bank plc	Intermediate parent undertaking	-	2	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 0.26% and 1.00% (2015: between 0.5% and 1.1%) were charged. Finance costs of £704,000 (2015: £1,008,000) were incurred during the year. Bank borrowings are not guaranteed and there are no inter-company guarantees in place.

The company paid group relief of £610,000 (2015: £nil) during the year to fellow subsidiary undertakings.

Related party

Lloyds Bank plc
Bank of Scotland plc

Registered address

25 Gresham Street, London EC2V 7HN
The Mound, Edinburgh, EH1 1YZ

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Future developments

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

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
IFRS 9; 'Financial Instruments'	<p>IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the company.</p> <p>IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. This change is likely to result in an increase in the company's balance sheet provisions for credit losses <i>although the extent of any increase will depend upon, amongst other things, the composition of the company's lending portfolios and forecast economic conditions at the date of implementation.</i> In February 2015, the Basel Committee on Banking Supervision published a consultative document outlining supervisory expectations regarding sound credit risk practices associated with implementing and applying an expected credit loss accounting framework. A final version is expected to be issued at the end of 2015.</p> <p>The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The revised requirements are not expected to have a significant impact on the company.</p>	Annual periods beginning on or after 1 January 2018
IFRS16; 'Leases'	<p>The IASB has issued IFRS 16 to replace IAS 17 Leases which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. This change will mainly impact the properties that the Group currently accounts for as operating leases. Lessor accounting requirements remain aligned to the current approach under IAS 17.</p>	Annual periods beginning on or after 1 January 2019