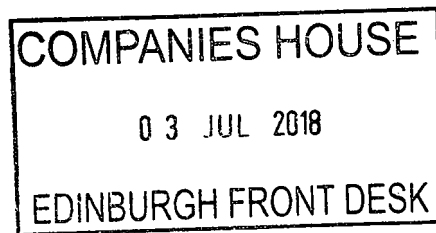


CARDIFF

LLOYDS BANK CORPORATE ASSET FINANCE (HP) LIMITED

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



Member of Lloyds Banking Group plc

Registered Number: 04839408



DIRECTORS

C G Dowsett

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

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 2017.

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

## REVIEW OF BUSINESS

During the year, the principal activity of the company was the 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 £967,000 (2016: £627,000) for the year as set out in the income statement on page 6.

The company has shareholder's equity of £12,654,000 (2016: £11,669,000).

## DIVIDENDS

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

## DIRECTORS

The names of the directors of the company 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:

	Appointed	Resigned/ceased to be a director
S Ball	-	19 June 2017
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: 28 June 2018

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

### Report on the Financial Statements

#### Opinion

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

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2017; the Income Statement, the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Shareholders' 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

We have nothing to report in respect of the following matters in relation to which 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.

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.

#### 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 December 2017 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.

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

*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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

*Use of this report*

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

**Other required reporting**

**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

**Entitlement to exemptions**

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



Mark Hoskyns-Abraham (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
Date 28 June 2018

## INCOME STATEMENT

For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Finance income	2	565	1,303
Finance costs	3	<u>(386)</u>	<u>(704)</u>
		179	599
Other operating income	4	788	45
Other operating expenses	5	(1)	(6)
Foreign exchange gain/(loss)		<u>1</u>	<u>(11)</u>
<b>Profit before taxation</b>	6	967	627
Taxation charge	7	<u>(186)</u>	<u>(125)</u>
<b>Profit after taxation for the year</b>		<u><u>781</u></u>	<u><u>502</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 2017

	Note	2017 £000	2016 £000
<b>Profit after taxation for the year</b>		781	502
<b>Other Comprehensive Income</b>			
Items that may subsequently be reclassified to profit or loss:			
Movement in cash flow hedges:			
- changes in fair value taken to equity	15	<u>204</u>	<u>33</u>
<b>Total comprehensive income for the year attributable to owners of the parent</b>		<u><u>985</u></u>	<u><u>535</u></u>

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

BALANCE SHEET  
As at 31 December 2017

	Note	2017 £000	2016 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Hire purchase receivables	8	9,967	7,331
Loans and advances		25,721	-
Deferred taxation	13	<u>111</u>	<u>156</u>
<b>Total non-current assets</b>		<u>35,799</u>	<u>7,487</u>
<b>Current assets</b>			
Hire purchase receivables	8	3,888	6,585
Loans and advances		7,548	-
Amounts owed by group companies	9	10,673	11,847
Other debtors		386	50
Assets under construction	12	<u>-</u>	<u>2,536</u>
<b>Total current assets</b>		<u>22,495</u>	<u>21,018</u>
<b>Total assets</b>		<u>58,294</u>	<u>28,505</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Amounts owed to group companies	10	45,640	16,485
Other creditors		<u>-</u>	<u>351</u>
<b>Total current liabilities</b>		<u>45,640</u>	<u>16,836</u>
<b>Equity</b>			
Share capital	14	-	-
Other reserves	15	(506)	(710)
Retained earnings		<u>13,160</u>	<u>12,379</u>
<b>Total equity</b>		<u>12,654</u>	<u>11,669</u>
<b>Total liabilities and equity</b>		<u>58,294</u>	<u>28,505</u>

The financial statements on pages 6 to 21 were approved by the Board of Directors on 28 June 2018 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 SHAREHOLDERS' EQUITY

		Share capital	Other reserves	Retained earnings	Total equity
	Note	£000	£000	£000	£000
<b>Balance at 31 December 2015</b>		-	(743)	11,877	11,134
<b>Total comprehensive income for the year</b>					
Profit for the year		-	-	502	502
Change in fair value of derivatives, net of tax	15	-	33	-	33
<b>Balance at 31 December 2016</b>	15	-	(710)	12,379	11,669
<b>Total comprehensive income for the year</b>					
Profit for the year		-	-	781	781
Change in fair value of derivatives, net of tax	15	-	204	-	204
<b>Balance at 31 December 2017</b>	15	-	(506)	13,160	12,654

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 2017

	Note	2017 £000	2016 £000
<b>Profit before taxation</b>		967	627
Add/(less) non cash items:			
Foreign exchange (gain)/loss		(1)	11
Gain on termination of hire purchase agreements		(1)	-
Operating cash flows before movements in working capital		965	638
(Increase)/decrease in receivables		(31,040)	22,244
Decrease in payables		(262)	(180)
<b>Cash (used in)/generated by operations</b>		(30,337)	22,702
Tax paid		(125)	(610)
<b>Net cash flow (used in)/generated from operating activities</b>		(30,462)	22,092
<b>Financing activities</b>			
Increase/(decrease) in bank borrowings		29,249	(20,640)
<b>Net cash flow generated from/(used in) financing activities</b>		29,249	(20,640)
Net (decrease)/increase in cash and cash equivalents		(1,213)	1,452
Cash and cash equivalents at beginning of the year		11,847	10,395
<b>Cash and cash equivalents at end of the year</b>		<u>10,634</u>	<u>11,847</u>
Cash and cash equivalents are comprised of:			
Cash at bank	9	<u>10,634</u>	<u>11,847</u>
		<u>10,634</u>	<u>11,847</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 fulfilment 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 assets under construction. As at 31 December 2017, the value of hire purchase agreements on assets under construction was £nil (2016: £2,536,000).

#### 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, including deferred income taxes**

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

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

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

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

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

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

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

**1(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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**1 Accounting policies (continued)****1(g) Derivative financial instruments (continued)**

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.

**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**

	2017 £000	2016 £000
Hire purchase income	<u>565</u>	<u>1,303</u>
	<u>565</u>	<u>1,303</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**

	2017 £000	2016 £000
Interest payable on bank loans with other group companies	134	334
Interest rate swaps: Cash flow hedges	<u>252</u>	<u>370</u>
	<u>386</u>	<u>704</u>

**4 Other operating income**

	2017 £000	2016 £000
Other fees receivable	787	45
Gain on termination of hire purchase agreements	<u>1</u>	<u>-</u>
	<u>788</u>	<u>45</u>

**5 Other operating expenses**

	2017 £000	2016 £000
Miscellaneous expenses	<u>1</u>	<u>6</u>
	<u>1</u>	<u>6</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**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 (2016: nil).

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

**7 Taxation charge**

	2017 £000	2016 £000
The taxation charge for the year comprises:		
Current tax payable on profit for the year	(186)	(125)
Total current tax payable for the year	(186)	(125)

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 19.25% (2016: 20.00%), the differences are explained below:

	2017 £000	2016 £000
Profit before taxation	967	627
Tax at standard rate of corporation tax	(186)	(125)
Total taxation charge	(186)	(125)

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

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

**8 Hire purchase receivables**

	Minimum lease payments		Present value of minimum lease payments	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts receivable under hire purchase				
Within 1 year	4,243	7,037	3,888	6,585
2 - 5 years inclusive	9,794	5,641	8,859	4,640
After 5 years	1,124	2,738	1,108	2,691
	15,161	15,416	13,855	13,916
Less: Unearned finance income	(1,306)	(1,500)		
Present value of minimum lease payments receivable	13,855	13,916		
Analysed as:				
Non-current hire lease receivable	9,967	7,331		
Current hire lease receivables	3,888	6,585		
	13,855	13,916		

The fair value of the company's hire purchase receivables at 31 December 2017 is estimated at £12,052,000 (2016: £12,898,000).

The cost of hire purchase transactions entered into during the year amounted to £5,322,000 (2016: £1,878,000) and the cost of hire purchase assets terminated during the year amounted to £229,000 (2016: £55,559,000). The termination of these agreements gave rise to a gain of £1,000 (2016: £nil).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**9 Amounts owed by group companies**

	2017 £000	2016 £000
Cash at bank	10,634	11,847
Amounts due from group companies	32	-
Derivative financial instruments (note 11)	7	-
	<u>10,673</u>	<u>11,847</u>

For further details please refer to note 17.

**10 Amounts owed to group companies**

	2017 £000	2016 £000
Bank borrowings	43,937	14,688
Interest payable	883	795
Amounts due to group companies	12	12
Tax payable	186	125
Derivative financial instruments (note 11)	<u>622</u>	<u>865</u>
	<u>45,640</u>	<u>16,485</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 2017.

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 2017			
Interest rate swaps	<u>42,969</u>	<u>7</u>	<u>622</u>
	<u>42,969</u>	<u>7</u>	<u>622</u>
31 December 2016			
Interest rate swaps	<u>11,996</u>	<u>-</u>	<u>865</u>
	<u>11,996</u>	<u>-</u>	<u>865</u>

**12 Assets under construction**

	2017 £000	2016 £000
At beginning of year	2,536	1,431
Additions during year	2,786	2,536
Transfers to hire purchase receivables during year	<u>(5,322)</u>	<u>(1,431)</u>
At end of the year	<u>-</u>	<u>2,536</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**12 Assets under construction (continued)**

At the beginning of the year, assets under construction represented amounts incurred on construction of smokeless fuel production plant. Construction was completed during the year and this became a hire purchase agreement.

**13 Deferred taxation**

	2017 £000	2016 £000
At beginning of the year	156	174
Movement in other reserves	(48)	(10)
Impact of tax rate change on deferred tax on cash flow hedges	3	(8)
At end of the year	111	156

Deferred taxation assets are comprised as follows:

	2017 £000	2016 £000
Deferred taxation assets		
Cash flow hedges	111	156
Total deferred taxation assets	111	156

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

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

**14 Share capital**

	2017 £	2016 £
Allotted, issued and fully paid		
100 ordinary shares of £1 each	100	100
	100	100

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

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

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

**15 Other reserves**

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

	2017 £000	2016 £000
At beginning of the year	(710)	(743)
Change in fair value of cash flow hedges	249	51
Deferred taxation thereon	(48)	(10)
Impact of tax rate change	3	(8)
At end of the year	(506)	(710)

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
<b>At 31 December 2017</b>				
<b>Assets</b>				
Hire purchase receivables	-	-	13,855	13,855
Loans and advances	-	-	33,269	33,269
Amounts owed by group companies	10,666	7	-	10,673
Other debtors	386	-	-	386
Assets under construction	-	-	-	-
<b>Total financial assets</b>	<b>11,052</b>	<b>7</b>	<b>47,124</b>	<b>58,183</b>
<b>Liabilities</b>				
Amounts owed to group companies	45,018	622	-	45,640
Other creditors	-	-	-	-
<b>Total financial liabilities</b>	<b>45,018</b>	<b>622</b>	<b>-</b>	<b>45,640</b>
<b>At 31 December 2016</b>				
<b>Assets</b>				
Hire purchase receivables	-	-	13,916	13,916
Amounts owed by group companies	11,847	-	-	11,847
Other debtors	50	-	-	50
Assets under construction	2,536	-	-	2,536
<b>Total financial assets</b>	<b>14,433</b>	<b>-</b>	<b>13,916</b>	<b>28,349</b>
<b>Liabilities</b>				
Amounts owed to group companies	15,620	865	-	16,485
Other creditors	351	-	-	351
<b>Total financial liabilities</b>	<b>15,971</b>	<b>865</b>	<b>-</b>	<b>16,836</b>

**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.

	2017 £000	2016 £000
<b>Financial assets which are neither past due nor impaired for credit risk</b>		
Hire purchase receivables	13,855	13,916
Loans and advances	33,269	-
Amounts owed by group companies	10,673	11,847
Other debtors	386	50
Assets under construction	-	2,536
<b>Total credit risk exposure</b>	<b>58,183</b>	<b>28,349</b>

## 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 2017							
Hire purchase receivables	-	-	1,731	8,263	3,861	-	13,855
Loans and advances	-	-	33,269	-	-	-	33,269
Amounts owed by group companies	-	-	10,673	-	-	-	10,673
Other debtors	-	-	-	-	-	386	386
Assets under construction	-	-	-	-	-	-	-
Total	-	-	45,673	8,263	3,861	386	58,183
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
Assets under construction	-	-	-	2,536	-	-	2,536
Total	-	-	16,084	7,987	4,183	95	28,349

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

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 2017				
Derivative financial instruments	-	7	-	7
Financial assets	-	7	-	7
Derivative financial instruments	-	622	-	622
Financial liabilities	-	622	-	622
31 December 2016				
Derivative financial instruments	-	-	-	-
Financial assets	-	-	-	-
Derivative financial instruments	-	865	-	865
Financial liabilities	-	865	-	865

## 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 2017	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	-	1,061	-	1,061
Up to 1 month	39,736	7	-	39,743
1-3 months	4,201	1	-	4,202
3-12 months	-	-	-	-
1-5 years	-	12	622	634
Over 5 years	-	-	-	-
Total	43,937	1,081	622	45,640
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

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 (2016: £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 (2016: insignificant) primarily due to assets/liabilities denominated in EURO and USD.

Foreign currency risk – carrying amount  
At 31 December 2017

EUR  
€000

**Financial assets**

Hire purchase receivables	5,534
Amounts owed by group companies	9
	<u>5,543</u>

**Financial liabilities**

Amounts owed by group companies	5,529
	<u>5,529</u>

Foreign currency risk – carrying amount  
At 31 December 2016

EUR  
€000

**Financial assets**

Assets under construction	2,958
Amounts owed by group companies	13
	<u>2,971</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](http://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	2017	2016	Terms and conditions	
			£000	£000	Repayment	Interest
Cash at bank	Lloyds Bank plc	Intermediate parent undertaking	10,634	11,847	No fixed date	N/A
Amounts due from group companies	Lloyds Bank Corporate Asset Finance (No. 4) Ltd	Fellow subsidiary undertaking	32	-	No fixed date	N/A
Tax payable	Bank of Scotland plc	Fellow subsidiary undertaking	(186)	(125)	No fixed date	N/A
Amounts due to group cos	Lloyds Bank plc	Intermediate parent undertaking	(12)	(12)	No fixed date	N/A
Bank borrowings	Lloyds Bank plc	Intermediate parent undertaking	(43,937)	(14,688)	12/1/18 - 15/3/18	0.49-0.52%
Interest payable	Lloyds Bank plc	Intermediate parent undertaking	(883)	(795)	12/1/18 - 15/3/18	N/A
Derivative financial instruments payable	Lloyds Bank plc	Intermediate parent undertaking	(622)	(865)	12/4/18 - 20/4/22	0.49-0.52%
Derivative financial instruments receivable	Lloyds Bank plc	Intermediate parent undertaking	7	-	30/6/22	0.00%

There were no doubtful debts or bad debt expenses relating to the above balances incurred during the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**17 Related parties (continued)**

Bank borrowings are interest bearing and during the year rates of interest of between 0.23% and 0.52% (2016: between 0.26% and 1.00%) were charged. Finance costs of £386,000 (2016: £704,000) were incurred during the year. Bank borrowings are not guaranteed and there are no inter-company guarantees in place.

The company paid tax of £125,000 (2016: £610,000) during the year to fellow subsidiary undertakings.

The registered offices of related parties are noted below:

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

**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' and is effective for annual periods beginning on or after 1 January 2018. The company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods.</p> <p><i>Classification and measurement</i></p> <p>IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.</p> <p><i>Impairment</i></p> <p>IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.</p> <p>The full impact of this pronouncement is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.</p>	Annual periods beginning on or after 1 January 2018
IFRS 16; '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