LLOYDS BANK LEASING LIMITED

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

Member of Lloyds Banking Group

Registered Number: 01004792

DIRECTORS

C G Dowsett
G A Fox
A J Kemp

COMPANY SECRETARY

M A A Johnson

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

BANKERS

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

01004792

STRATEGIC REPORT

The directors present their strategic report of Lloyds Bank Leasing Limited ("the company") for the year ended 31 December 2016.

REVIEW OF THE BUSINESS

The company is part of the Commercial Banking division of the Lloyds Banking Group plc group of companies ("the Group"), principally focused on meeting the needs of commercial clients through the provision of asset finance. Strategic direction is set by the board, to ensure that the company's interests and other charges fully reflect the risks associated with its principal activities, while remaining profitable.

The company's business has remained consistent during the year and there have been no material changes to its operations. The financial performance of the company is detailed in the income statement on page 7.

The position of the company at the year end is detailed in the directors' report on pages 3 and 4.

The company's finance lease assets and hire purchase assets are expected to continue for the foreseeable future.

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. For further details please refer to note 22 '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.

By order of the board

C G Dowsett

C G Dowsett
Director

Date: 15/09/2017

DIRECTORS' REPORT

The directors present their report and audited financial statements of the company for the year ended 31 December 2016.

REVIEW OF BUSINESS

During the year, the principal activity of the company was the leasing of plant and equipment through finance and operating lease transactions and the holding of investments in subsidiary undertakings and this is likely to continue for the foreseeable future.

The results of the company show a profit before taxation of £2,933,000 (2015: £94,329,000) for the year as set out in the income statement on page 7.

The company has shareholder's equity of £22,055,000 (2015: £19,602,000).

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2015: £247,000,000).

DIRECTORS

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

	Appointed	Resigned/ceased to be a director
P J Sherrington	-	13 June 2016
R O Williams	-	19 September 2016
A J Kemp	9 January 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 Companies Act 2006 (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 (or from the date of appointment in respect of directors who joined the board of the company during the financial year). Directors no longer in office but who served on the board of the company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of 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.

On behalf of the board

C G Dowsett
Director

Date: 15/09/2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK LEASING LIMITED

Report on the Financial Statements

Our opinion

In our opinion, Lloyds Bank Leasing 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 comprise:

- the Balance Sheet as at 31 December 2016;
- the Income Statement and statement of comprehensive income for the year ended 31 December 2016;
- the statement of cash flows for the year then ended; and
- the Statement of Changes in Shareholder's Equity for the year then ended;
- 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 applicable law and IFRSs as adopted by the European Union.

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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report 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 Strategic Report and 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.

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 3 and 4, 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 LEASING 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 Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
15 September 2017

INCOME STATEMENT
For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Investment income	2	5,128	103,079
Finance income	3	2,212	3,444
Finance costs	4	(912)	(1,438)
		6,428	105,085
Other operating income	5	981	6,977
Other operating expenses	6	-	(180)
Impairment charge	7	(4,243)	(17,373)
Administration expenses	8	(205)	(165)
Foreign exchange loss		(28)	(15)
Profit before taxation	9	2,933	94,329
Taxation (charge)/credit	10	(601)	1,033
Profit after taxation for the year		2,332	95,362

The accompanying notes on pages 12 to 27 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		2,332	95,362
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Movements in cash flow hedges			
- changes in fair value taken to equity	21	121	204
Total comprehensive income for the year attributable to owners of the parent		2,453	95,566

The accompanying notes on pages 12 to 27 are an integral part of the Financial Statements.

BALANCE SHEET
As at 31 December 2016

	Note	2016 £000	2015 £000
Assets			
Non-current assets			
Property, plant and equipment	11	-	-
Investment in subsidiary undertakings	12	1,278	5,521
Hire purchase receivables	14	1	2,713
Deferred taxation	18	11	39
Total non-current assets		1,290	8,273
Current assets			
Finance lease receivables		-	-
Hire purchase receivables	14	3,559	3,132
Amounts owed by group companies	15	281,544	425,599
Other debtors		11	2
Total current assets		285,114	428,733
Total assets		286,404	437,006
Liabilities			
Current liabilities			
Amounts owed to group companies	16	263,529	414,908
Other creditors		820	2,496
Total current liabilities		264,349	417,404
Equity			
Share capital	19	2,000	2,000
Other reserves	21	222	101
Retained earnings		19,833	17,501
Total equity		22,055	19,602
Total liabilities and equity		286,404	437,006

The financial statements on pages 7 to 27 were approved by the Board of Directors on 13/09/2017 and signed on its behalf by:

C G Dowsett
Director

Registered Number: 01004792

The accompanying notes on pages 12 to 27 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 31 December 2014		2,000	(103)	169,139	171,036
Dividend paid during the year	20	-	-	(247,000)	(247,000)
Total comprehensive income for the year					
Profit for the year		-	-	95,362	95,362
Change in fair value of derivatives, net of tax	21	-	204	-	204
Balance at 31 December 2015		2,000	101	17,501	19,602
Total comprehensive income for the year					
Profit for the year		-	-	2,332	2,332
Change in fair value of derivatives, net of tax	21	-	121	-	121
Balance at 31 December 2016		2,000	222	19,833	22,055

The accompanying notes on pages 12 to 27 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		2,933	94,329
Add/(less) non cash items:			
Depreciation		-	14
Impairment charge		4,243	17,373
Gain on disposal of property, plant and equipment		-	99
Loss on sale of investment		-	(6,900)
Foreign exchange loss		28	15
Operating cash flows before movements in working capital		7,204	104,930
Decrease in receivables		3,103	11,154
(Decrease)/Increase in payables		(56,951)	49,112
Cash generated by operations		(46,644)	165,196
Group relief paid		(359)	(91)
Net cash flow from operating activities		(47,003)	165,105
Investing activities			
Disposal of investments		-	6,900
Net cash flow from investing activities		-	6,900
Financing activities			
Dividends paid	20	-	(247,000)
Decrease/(Increase) in bank borrowings		18,336	(45,215)
Net cash flow from financing activities		18,336	(292,215)
Exchange movements on cash and cash equivalents		-	-
Net decrease in cash and cash equivalents		(28,667)	(120,210)
Cash and cash equivalents at beginning of the year		163,556	283,766
Cash and cash equivalents at end of the year		134,889	163,556

Cash and cash equivalents are comprised of:

	Note	2016 £000	2015 £000
Cash at bank	15	36	94
Bank deposits	15	239,732	384,131
Bank overdraft	16	(104,879)	(220,669)
		134,889	163,556

The accompanying notes on pages 12 to 27 are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, under the historical cost convention.

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

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

The 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.

Immediate parent undertaking

These separate financial statements contain information about Lloyds Bank Leasing Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken advantage of the exemption under IAS 27 (revised), 'Consolidated and separate financial statements', from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its parent, Lloyds Bank plc.

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(f) below.

1(a) Property, plant and equipment

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

Fixtures and fittings	10 - 20 years
Other equipment	2 – 8 years

Plant and machinery includes IT equipment.

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

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

1(b) Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at historical cost, less any provision for impairment or fair value.

Dividend income is recognised when the right to receive payment is established.

1(c) Investments in associates

Investments in associates represents entities over which the company has significant influence and that is neither a subsidiary or a joint venture. The group's share of results from associated entities, generally based on audited accounts, are included in the groups consolidated financial statements using the equity method of accounting. The share of any losses is restricted to a level that reflects an obligation to fund such losses.

1(d) Leases

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee; all other leases are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)

1(d) Leases (continued)

When assets are leased under a finance lease the amount due from a lessee is recorded as a receivable at the present value of the lease payments being the company's net investment in the lease. Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the company's net investment in the lease.

Initial direct costs attributed to negotiating and arranging a finance lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term. Fees and commissions received are deferred and recognised as an adjustment to the effective interest rate on the lease over the lease term.

1(e) 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.

1(f) 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.

1(g) 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(h) Dividends

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)

1(i) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1(j) Fair value

The fair value of finance lease and hire purchase 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(k) 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.

1(l) 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 statement of comprehensive income except when deferred in equity as qualifying cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Investment income

	2016 £000	2015 £000
Dividends received during the year	5,128	103,079
	5,128	103,079

Dividends were received from Lloyds Bank Leasing (No. 7) Limited (£3,524,825), Lloyds Bank General Leasing (No. 1) Limited (£987,151), Lloyds Bank General Leasing (No. 5) Limited (£144,523) and circa £50,000 each from another 10 subsidiaries.

3 Finance income

	2016 £000	2015 £000
Finance lease income	-	27
Rental rebate	-	(40)
Interest receivable from other group companies	1,934	3,050
Hire purchase income	278	407
	2,212	3,444

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

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

4 Finance costs

	2016 £000	2015 £000
Interest payable on bank loans and overdraft to other group companies	722	1,065
Interest rate swaps: cash flow hedges	190	317
Interest payable on rental rebate	-	56
	912	1,438

5 Other operating income

	2016 £000	2015 £000
Gain on sale of subsidiary investment	-	6,900
Other income receivable	981	77
	981	6,977

6 Other operating expenses

	2016 £000	2015 £000
Loss on disposal of property, plant and equipment	-	99
Other expenses	-	81
	-	180

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Impairment charge

	2016 £000	2015 £000
Impairment of investment in subsidiary undertakings	4,243	17,373
	4,243	17,373

There was a £4,243,000 impairment in five of the Allco subsidiary entities following their payment of dividends to the company to clear down their reserves (2015: £17,373,000 impairment in five of the subsidiary entities). Moreover, there was impairment on another ten entities which were dissolved in the year, namely: Equipment Leasing (No.3) Ltd, Equipment Leasing (No.6) Ltd, General Leasing (No. 10) Ltd, General Leasing (No. 15) Ltd, General Leasing (No. 19) Ltd, Lloyds, Maritime Leasing (No.1) Ltd, Maritime Leasing (No.14) Ltd, Maritime Leasing (No.4) Ltd, Maritime Leasing (No.7) Ltd and Maritime Leasing (No.9) Ltd.

8 Administration expenses

	2016 £000	2015 £000
Professional fees and other related expenses	205	151
Depreciation of property, plant and equipment (note 11)	-	14
	205	165

9 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.

10 Taxation (charge)/credit

	2016 £000	2015 £000
The taxation credit/(charge) for the year comprises:		
Current tax payable on profit for the year	(420)	(410)
Adjustment in respect of prior year	(181)	1,420
Total current tax receivable/(payable) for the year	(601)	(1,010)
Deferred taxation (note 18)	-	23
Total taxation (charge)/credit for the year	(601)	1,033

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Taxation (charge)/credit (continued)

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

	2016 £000	2015 £000
Profit before taxation	2,933	94,329
Tax at standard rate of corporation tax	(587)	(19,102)
Non-taxable items	1,026	20,842
Disallowed items	(859)	1,397
Adjustment in respect of prior year	(181)	1,420
Impairment of investment in subsidiary undertakings	-	(3,518)
Partnership income	-	(6)
Total taxation (charge)/credit	(601)	1,033

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.

11 Property, plant and equipment

	2016 £000	2015 £000
Original cost:		
At beginning of the year	61	566
Disposals during the year	-	(505)
At end of the year	61	61
Depreciation:		
At beginning of the year	(61)	(453)
Charge for the year	-	(14)
Disposals during the year	-	406
At end of the year	(61)	(61)
Net book value at end of the year	-	-

12 Investment in subsidiary undertakings

	2016 £000	2015 £000
At beginning of year	5,521	22,894
Impairment of investment	(4,243)	(17,373)
At end of the year	1,278	5,521

Investments in subsidiaries are carried at cost less provision for impairment, or fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Investment in subsidiary undertakings (continued)

The principal subsidiary undertakings of the company, all of which are registered in England and Wales, are listed below. The principal activity of these subsidiaries is the leasing of plant and equipment.

Company name	Ownership & Voting (%)	Class of shares	Accounting reference date
Birchcrown Finance Limited *	100	Ordinary	20 November 2016
Birchcrown Finance Limited *	100	Preference	20 November 2016
Conquest Securities Limited *	100	Ordinary	20 February 2016
Conquest Securities Limited *	100	Preference	20 February 2016
CTSB Leasing Limited **	100	Ordinary	20 November 2016
General Leasing (No. 12) Limited *	100	Ordinary	30 September 2016
General Leasing (No. 2) Limited **	100	Ordinary	31 March 2016
General Leasing (No. 4) Limited *	100	Ordinary	31 December 2016
Hill Samuel Finance Limited *	100	Ordinary	31 December 2016
Hill Samuel Finance Limited *	100	Preference	31 December 2016
Hill Samuel Leasing (No.2) Limited **	100	Ordinary	30 June 2016
LBI Leasing Limited *	100	Ordinary	31 March 2016
Leasing (No. 2) Limited **	100	Ordinary	31 December 2016
Lloyds (Nimrod) Leasing Industries Limited **	100	Ordinary	31 December 2016
Lloyds (Nimrod) Specialist Finance Limited *	100	Ordinary	31 March 2016
Lloyds Asset Leasing Limited *	100	Ordinary	31 December 2016
Lloyds Bank Corporate Asset Finance (HP) Limited *	100	Ordinary	31 December 2016
Lloyds Bank Corporate Asset Finance (No.1) Limited *	100	Ordinary	31 March 2016
Lloyds Bank Corporate Asset Finance (No.2) Limited *	100	Ordinary	30 June 2016
Lloyds Bank Corporate Asset Finance (No.3) Limited *	100	Ordinary	30 September 2016
Lloyds Bank Corporate Asset Finance (No.4) Limited *	100	Ordinary	31 December 2016
Lloyds Bank Equipment Leasing (No.1) Limited *	100	Ordinary	30 September 2016
Lloyds Bank Equipment Leasing (No.10) Limited **	100	Ordinary	31 December 2016
Lloyds Bank Equipment Leasing (No.11) Limited **	100	Ordinary	31 December 2016
Lloyds Bank Equipment Leasing (No.2) Limited **	100	Ordinary	2 July 2016
Lloyds Bank Equipment Leasing (No.5) Limited **	100	Ordinary	31 December 2016
Lloyds Bank Equipment Leasing (No.7) Limited *	100	Ordinary	31 December 2016
Lloyds Bank Equipment Leasing (No.9) Limited *	100	Ordinary	30 November 2016
Lloyds Bank General Leasing (No. 1) Limited **	100	Ordinary	24 October 2016
Lloyds Bank General Leasing (No. 11) Limited *	100	Ordinary	30 September 2016
Lloyds Bank General Leasing (No. 17) Limited *	100	Ordinary	31 December 2016
Lloyds Bank General Leasing (No. 18) Limited **	100	Ordinary	31 December 2016
Lloyds Bank General Leasing (No. 20) Limited **	100	Ordinary	31 December 2016
Lloyds Bank General Leasing (No. 3) Limited *	100	Ordinary	31 December 2016
Lloyds Bank General Leasing (No. 5) Limited *	100	Ordinary	30 June 2016
Lloyds Bank Leasing (No. 3) Limited **	100	Ordinary	31 December 2016
Lloyds Bank Leasing (No. 4) Limited *	100	Ordinary	24 October 2016
Lloyds Bank Leasing (No. 6) Limited *	100	Ordinary	31 December 2016
Lloyds Bank Leasing (No. 7) Limited **	100	Ordinary	24 October 2016
Lloyds Bank Leasing (No. 8) Limited *	100	Ordinary	31 December 2016
Lloyds Bank Maritime Leasing (No.10) Limited *	100	Ordinary	31 December 2016
Lloyds Bank Maritime Leasing (No.12) Limited *	100	Ordinary	30 September 2016
Lloyds Bank Maritime Leasing (No.13) Limited **	100	Ordinary	31 December 2016
Lloyds Bank Maritime Leasing (No.15) Limited *	100	Ordinary	31 December 2016
Lloyds Bank Maritime Leasing (No.16) Limited *	100	Ordinary	31 December 2016
Lloyds Bank Maritime Leasing (No.17) Limited *	100	Ordinary	31 December 2016
Lloyds Bank Maritime Leasing (No.18) Limited **	100	Ordinary	31 December 2016
Lloyds Bank Maritime Leasing (No.2) Limited **	100	Ordinary	30 September 2016
Lloyds Bank Maritime Leasing (No.3) Limited **	100	Ordinary	30 September 2016
Lloyds Bank Maritime Leasing (No.8) Limited **	100	Ordinary	31 December 2016
Lloyds Bank Maritime Leasing Limited **	100	Ordinary	31 December 2016
Lloyds Bank Property Company Limited *	100	Ordinary	30 September 2016
Lloyds Commercial Leasing Limited *	100	Ordinary	30 September 2016
Lloyds Financial Leasing Limited **	100	Ordinary	30 June 2016
Lloyds General Leasing Limited *	100	Ordinary	31 December 2016
Lloyds Industrial Leasing Limited *	100	Ordinary	30 June 2016
Lloyds Investment Bonds Limited *	100	Ordinary	31 December 2016
Lloyds Investment Securities No.5 Limited *	100	Ordinary	31 December 2016
Lloyds Leasing (North Sea Transport) Limited *	100	Ordinary	31 December 2016
Lloyds Leasing Developments Limited *	100	Ordinary	31 December 2016
Lloyds Plant Leasing Limited *	100	Ordinary	31 March 2016

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Investment in subsidiary undertakings (continued)

Company name	Ownership & Voting (%)	Class of shares	Accounting reference date
Lloyds Portfolio Leasing Limited *	100	Ordinary	31 December 2016
Lloyds Project Leasing Limited *	100	Ordinary	31 March 2016
Lloyds Property Investment Co Limited **	100	Ordinary	30 June 2016
Lloyds Property Investment Co No.3 Limited *	100	Ordinary	31 December 2016
Lloyds Property Investment Co No.5 Limited *	100	Ordinary	31 December 2016
Maritime Leasing (No.11) Limited **	100	Ordinary	31 May 2016
Maritime Leasing (No.19) Limited *	100	Ordinary	31 December 2016
Savban Leasing Limited *	100	Ordinary	31 December 2016
Whitestar Securities Limited **	100	Ordinary	6 July 2016
Wood Street Leasing Limited *	100	Ordinary	30 September 2016

During the year, ten of the company's subsidiary investments were dissolved. These were Equipment Leasing (No.3) Ltd, Equipment Leasing (No.6) Ltd, General Leasing (No. 10) Ltd, General Leasing (No. 15) Ltd, General Leasing (No. 19) Ltd, Lloyds, Maritime Leasing (No.1) Ltd, Maritime Leasing (No.14) Ltd, Maritime Leasing (No.4) Ltd, Maritime Leasing (No.7) Ltd and Maritime Leasing (No.9) Ltd.

In 2015, two of the company's subsidiary investments were dissolved being Old Park Limited and Lloyds Bank General Leasing (No. 21) Limited.

The registered offices of subsidiaries are as noted below:

Registered addresses of subsidiaries

* 25 Gresham Street, London, EC2V 7HN
** 1 More London Place, London, SE1 2AF

13 Investment in associates

	2016 £000	2015 £000
At beginning of the year	-	-
At end of the year	-	-

Investments in associates represent the company's 24% interest in Omnium Leasing Company.

14 Hire purchase receivables

	Minimum lease payments		Present value of minimum lease payments	
Amounts receivable under hire purchase	2016 £000	2015 £000	2016 £000	2015 £000
Within 1 year	3,655	3,387	3,559	3,132
2 - 5 years inclusive	1	2,792	1	2,713
After 5 years	-	-	-	-
	3,656	6,179	3,560	5,845
Less: Unearned finance income	(96)	(334)		
Present value of minimum lease payments receivable	3,560	5,845		
Analysed as:				
Non-current hire purchase receivable	1	2,713		
Current finance hire purchase receivables	3,559	3,132		
	3,560	5,845		

The fair value of the company's hire purchase receivables at 31 December 2016 is estimated at £3,606,000 (2015: £5,981,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Amounts owed by group companies

	2016 £000	2015 £000
Cash at bank	37	94
Bank deposits	239,732	384,131
Interest receivable	95	195
Amounts due from immediate parent company	1,342	1,027
Amounts due from fellow group subsidiaries	40,338	40,152
	281,544	425,599

For further details please refer to note 23.

16 Amounts owed to group companies

	2016 £000	2015 £000
Bank overdraft	104,879	220,669
Bank borrowings	40,102	21,767
Interest payable	247	246
Amounts due to fellow subsidiary undertakings	111,720	166,164
Amounts due to immediate subsidiary undertaking	92	5
Amounts due to parent undertakings	5,300	4,960
Group relief payable	1,131	890
Derivative financial instruments (note 17)	58	207
	263,529	414,908

For further details please refer to note 23.

17 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.

Derivative transactions are with group companies. See note 16 for further details of balances outstanding at the year end.

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 through out the year and no ineffectiveness was recognised in profit or loss during the year.

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

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

	Contractual/Notional amount £000	Fair Values Liabilities £000
31 December 2016		
Interest rate swaps	4,355	58
	4,355	58

	Contractual/Notional amount £000	Fair Values Liabilities £000
31 December 2015		
Interest rate swaps	8,618	207
	8,618	207

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Deferred taxation

	2016 £000	2015 £000
At beginning of the year	39	70
Deferred taxation credit for the year (note 10)	-	23
Movement in other reserves (note 21)	(29)	(53)
Impact of tax rate change on cash flow hedges (note 21)	1	(1)
At end of the year	11	39

The deferred taxation credit in the income statement comprises the following:

	2016 £000	2015 £000
Accelerated tax depreciations	-	23
Total deferred taxation credit	-	23

Deferred taxation assets and liabilities are comprised as follows:

	2016 £000	2015 £000
Deferred taxation assets		
Cash flow hedges	11	39
Total deferred taxation	11	39

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

19 Share capital

	2016 £	2015 £
Allotted, issued and fully paid		
2,000,000 ordinary share of £1 each	2,000,000	2,000,000
	2,000,000	2,000,000

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.

20 Dividends paid

	2016 £000	2015 £000
Dividends paid	-	247,000
	-	247,000

The company did not pay any dividends during the year (2015: £247,000,000).

21 Other reserves

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

	2016 £000	2015 £000
At beginning of the year	101	(103)
Change in fair value of cash flow hedges	121	258
Deferred taxation thereon (note 18)	-	(53)
Impact of tax rate change (note 18)	-	(1)
At end of the year	222	101

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

22 Risk management of financial instruments

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

In accordance with IAS 39 "Financial instruments: Recognition and measurement", the following financial instruments, including derivatives, are classified as shown:

At 31 December 2016	Held at cost/amortised cost £000	Held at Fair Value £000	Loans or receivables £000	Total £000
Assets				
Hire purchase receivables	-	-	3,560	3,560
Amounts owed by group companies	281,544	-	-	281,544
Other debtors	11	-	-	11
Total financial assets	281,555	-	3,560	285,115
Liabilities				
Amounts owed to group companies	263,471	58	-	263,529
Other creditors	820	-	-	820
Total financial liabilities	264,291	58	-	264,349

At 31 December 2015	Held at cost/amortised cost £000	Held at Fair Value £000	Loans or receivables £000	Total £000
Assets				
Hire purchase receivables	-	-	5,845	5,845
Amounts owed by group companies	425,599	-	-	425,599
Total financial assets	2	-	-	2
	425,601	-	5,845	431,446
Liabilities				
Amounts owed to group companies	414,701	207	-	414,908
Other creditors	2,496	-	-	2,496
Total financial liabilities	417,197	207	-	417,404

22 Risk management of financial instruments (continued)

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.

Financial assets which are neither past due nor impaired for credit risk:	2016 £000	2015 £000
Finance lease receivables	-	-
Hire purchase receivables	3,560	5,845
Amounts owed by group companies	281,544	425,599
Other debtors	11	2
Total credit risk exposure	285,115	431,446

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

Financial assets by credit rating:

At 31 December 2016	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
Hire purchase receivables	-	-	-	-	3,560	-	3,560
Amounts owed by group companies	-	-	281,544	-	-	-	281,544
Other debtors	-	-	11	-	-	-	11
Total	-	-	281,555	-	3,560	-	285,115

At 31 December 2015	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
Hire purchase receivables	-	-	-	-	5,845	-	5,845
Amounts owed by group companies	-	-	425,599	-	-	-	425,599
Other debtors	-	-	-	-	-	2	2
Total	-	-	425,599	-	5,845	2	431,446

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Risk management of financial instruments (continued)

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 31 December 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 whose fair value is disclosed in notes 14.

Fair Value Estimation:

The table below provides an analysis of the financial assets and liabilities of the company 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)

Valuation hierarchy	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2016				
Derivative financial instruments	-	58	-	58
Financial liabilities	-	58	-	58

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2015				
Derivative financial instruments	-	207	-	207
Financial liabilities	-	207	-	207

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 overdraft £000	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	104,879	-	7,687	-	112,566
Up to 1 month	-	151,673	52	-	151,725
1-3 months	-	-	-	-	-
3-12 months	-	-	-	-	-
1-5 years	-	-	-	58	58
Over 5 years	-	-	-	-	-
Total	104,879	151,673	7,739	58	264,349

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Risk management of financial instruments (continued)

Liquidity risk management (continued):

At 31 December 2015	Bank overdraft £000	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	220,669	-	7,241	-	227,910
Up to 1 month	-	179,216	1,531	-	180,747
1-3 months	-	8,534	6	-	8,540
3-12 months	-	-	-	-	-
1-5 years	-	-	-	207	207
Over 5 years	-	-	-	-	-
Total	220,669	187,750	8,778	207	417,404

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.

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 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 USD.

Foreign currency risk - carrying amount	2016 $000	2015 $000
Financial assets		
Hire purchase receivables	4,375	8,659
Amounts owed by group companies	8	7
	4,383	8,666

	2016 $000	2015 $000
Financial liabilities		
Amounts owed to group companies	4,401	8,649
	4,401	8,649

23 Related parties

The company's immediate parent company is Lloyds Bank plc. 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 £000	2015 £000	Terms and conditions Repayment	Interest
Cash at bank	Lloyds Bank plc	Immediate parent undertaking	37	94	N/A	N/A
Bank deposits	Lloyds Bank plc	Immediate parent undertaking	239,732	384,131	03/01/17 and 26/05/17	0.39% to 0.59%
Amounts due from parent company	Lloyds Bank plc	Immediate parent undertaking	1,342	1,027	No fixed date	N/A
Amounts due from subsidiary companies	Various	Fellow subsidiary undertakings	40,205	39,980	Various	Various
Interest receivable from parent undertaking	Lloyds Bank plc	Immediate parent undertaking	80	160	03/01/17	N/A
Interest receivable from subsidiary undertaking	Lloyds Investment Bonds Limited	Immediate subsidiary undertaking	15	35	26/05/17	
Amounts due from group companies	Various	Fellow subsidiary undertakings	133	172	No fixed date	N/A
Bank overdraft	Lloyds Bank plc	Immediate parent undertaking	(104,879)	(220,669)	No fixed date	N/A
Bank borrowings	Lloyds Bank plc	Immediate parent undertaking	(40,102)	(21,767)	03/01/17	0.39% to 0.74%
Interest payable to parent undertaking	Lloyds Bank plc	Immediate parent undertaking	(210)	(163)	Various	N/A
Interest payable to group companies	Various	Fellow subsidiary undertakings	(37)	(83)	Various	N/A
Derivative financial instruments payable	Lloyds Bank plc	Immediate parent undertaking	(58)	(207)	Various	Various
Amounts due to subsidiary companies	Lloyds Bank General Leasing (No. 18) Limited	Immediate subsidiary undertaking	(5)	(5)	No Fixed date	N/A
Amounts due to subsidiary companies	Lloyds Property Investment Company No.5 Limited	Immediate subsidiary undertaking	(87)	-	No Fixed date	N/A
Amounts due to group companies	Various	Fellow subsidiary undertakings	(111,720)	(166,164)	Various	Various
Amounts due to parent company	Lloyds Bank plc	Immediate parent undertaking	(5,300)	(4,960)	No fixed date	N/A
Group relief payable	Bank of Scotland plc	Fellow subsidiary undertaking	(1,131)	(890)	No fixed date	N/A

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

Dividends of £5,128,000 (2015: £103,079,000) were received during the year from subsidiaries and an associate.

Bank borrowings are interest bearing and during the year rates of interest of between 0.39% and 0.74% (2015: 0.48% and 0.73%) were charged. Finance costs of £912,000 (2015: £1,382,000) were incurred during the year.

The company earned interest on bank deposits of £1,934,000 (2015: £3,050,000) on which rates of interest of between 0.39% and 0.59% (2015: between 0.43% and 0.59%) were received.

The company paid group relief of £359,000 (2015: £91,000) during the year to fellow subsidiary undertakings.

The registered offices of related parties are as noted below:

Related party	Registered address
Bank of Scotland plc	The Mound, Edinburgh, EH1 1YZ
Lloyds Bank plc	25 Gresham Street, London, EC2V 7HN
Lloyds Investment Bonds Limited	25 Gresham Street, London, EC2V 7HN
Lloyds Bank General Leasing (No.18) Limited	1 More London Place, London, SE1 2AF
Lloyds Property Investment Company No.5 Limited	25 Gresham Street, London, EC2V 7HN

24 Adopted accounting standards

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 Future developments

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

Pronouncement	Nature of change	IASB effective date
IFRS 9; 'Financial Instruments'	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. 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 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. 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. 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.	Annual periods beginning on or after 1 January 2018
IFRS16; 'Leases'	The IASB has issued IFRS 16 to replace IAS 17 Leases which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. This change will mainly impact the properties that the Group currently accounts for as operating leases. Lessor accounting requirements remain aligned to the current approach under IAS 17.	Annual periods beginning on or after 1 January 2019

26 Contingent liabilities

The Lloyds Banking Group (the Group) provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £5,401,000 (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.