

LLOYDS BANK LEASING LIMITED

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

**COMPANIES HOUSE
EDINBURGH**

30 SEP 2019

FRONT DESK



Member of Lloyds Banking Group plc

Registered Number: 01004792

LLOYDS BANK LEASING LIMITED

DIRECTORS

L F C Dorey
C G Dowsett
G A Fox

COMPANY SECRETARY

A E Mulholland

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

BANKERS

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

01004792

STRATEGIC REPORT

The directors present their strategic report of Lloyds Bank Leasing Limited ("the company") for the year ended 31 December 2018.

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 terminated one finance lease agreement which was in its secondary rental period. As at 31 December 2018, the company has one finance lease agreement remaining, which is in its secondary rental period and expected to continue for the foreseeable future.

Ten entities were dissolved in the year at cost realising no gain or loss on disposal.

During the year the company recapitalised one of its subsidiary entities, which was then impaired prior to transfer to another group company. This has resulted in a £12,800,000 impact on the income statement in the current year.

The company received dividend income of £96,000 during the year from a subsidiary investment.

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.

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 19 '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
Director

Date: 30th September 2019

DIRECTORS' REPORT

The directors present their report and audited financial statements of the company for the year ended 31 December 2018.

REVIEW OF BUSINESS

During the year, the principal activity of the company was the leasing of plant and equipment through finance 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 loss before taxation of £11,520,000 (2017: £11,502,000 profit) for the year as set out in the income statement on page 7.

The company has shareholder's equity of £21,323,000 (2017: £33,113,000).

The company is reliant on funding provided by Lloyds Banking Group plc. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2017: £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
L F C Dorey	28 June 2018	-
A J Kemp	-	28 June 2018

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

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: 30th September 2019

Independent auditors' report to the members of Lloyds Bank Leasing Limited

Report on the audit of the financial statements

Opinion

In our opinion, Lloyds Bank Leasing Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in shareholder's equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The 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 Strategic Report and 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.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and 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 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

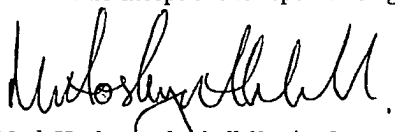
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
30 September 2019

INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Investment income	2	96	10,658
Finance income	3	1,837	901
Finance costs	4	<u>(780)</u>	<u>(472)</u>
		1,153	11,087
Other operating income	5	471	773
Other operating expenses	6	(19)	(149)
Impairment charge	7	(12,900)	(53)
Administration expenses	8	(222)	(163)
Foreign exchange (loss)/gain		<u>(3)</u>	<u>7</u>
(Loss)/profit before taxation	9	(11,520)	11,502
Taxation charge	10	<u>(270)</u>	<u>(222)</u>
(Loss)/profit after taxation for the year		<u>(11,790)</u>	<u>11,280</u>

The accompanying notes on pages 12 to 25 are an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Note	2018 £000	2017 £000
(Loss)/profit after taxation for the year		(11,790)	11,280
Other comprehensive (expense)/income			
Items that may subsequently be reclassified to profit or loss:			
Movements in cash flow hedges			
- changes in fair value taken to equity	18	-	(222)
Total comprehensive (expense)/income for the year attributable to owners of the parent		<u>(11,790)</u>	<u>11,058</u>

The accompanying notes on pages 12 to 25 are an integral part of the Financial Statements.

BALANCE SHEET
As at 31 December 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Property, plant and equipment	11	-	-
Investment in subsidiary undertakings	12	839	1,040
Deferred taxation	16	-	-
Total non-current assets		<u>839</u>	<u>1,040</u>
Current assets			
Amounts owed by group companies	14	274,429	282,084
Other debtors		-	15
Total current assets		<u>274,429</u>	<u>282,099</u>
Total assets		<u>275,268</u>	<u>283,139</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	15	253,648	249,656
Other creditors		297	370
Total current liabilities		<u>253,945</u>	<u>250,026</u>
Equity			
Share capital	17	2,000	2,000
Other reserves	18	-	-
Retained earnings		<u>19,323</u>	<u>31,113</u>
Total equity		<u>21,323</u>	<u>33,113</u>
Total liabilities and equity		<u>275,268</u>	<u>283,139</u>

The financial statements on pages 7 to 25 were approved by the Board of Directors on 30th September 2019 and signed on its behalf by:



C G Dowsett
Director

Registered Number: 01004792

The accompanying notes on pages 12 to 25 are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital	Other reserves	Retained earnings	Total equity
		£000	£000	£000	£000
Balance at 31 December 2016		2,000	222	19,833	22,055
Total comprehensive income for the year					
Profit for the year		-	-	11,280	11,280
Change in fair value of derivatives, net of tax	18	-	(222)	-	(222)
Balance at 31 December 2017		2,000	-	31,113	33,113
Total comprehensive income for the year					
Loss for the year		-	-	(11,790)	(11,790)
Change in fair value of derivatives, net of tax	18	-	-	-	-
Balance at 31 December 2018		<u>2,000</u>	<u>-</u>	<u>19,323</u>	<u>21,323</u>

The accompanying notes on pages 12 to 25 are an integral part of the Financial Statements.

CASH FLOW STATEMENT
For the year ended 31 December 2018

	Note	2018 £000	2017 £000
(Loss)/profit before taxation		(11,520)	11,502
Add/(less) non cash items:			
Impairment charge		12,900	53
Foreign exchange (loss)/gain		<u>3</u>	<u>(7)</u>
Operating cash flows before movements in working capital		1,383	11,548
Decrease in receivables		39,473	3,021
(Decrease)/Increase in payables		<u>(7,015)</u>	<u>7,733</u>
Cash generated by operations		33,841	22,302
Taxation paid		<u>(222)</u>	<u>(1,131)</u>
Net cash flow from operating activities		<u>33,619</u>	<u>(21,171)</u>
Investing activities			
Disposal of investments		100	(99)
Additions of investments		<u>(12,800)</u>	<u>-</u>
Net cash flow from investing activities		<u>(12,700)</u>	<u>(99)</u>
Financing activities			
Increase/(decrease) in bank borrowings		<u>6,387</u>	<u>(36,239)</u>
Net cash flow from financing activities		<u>6,387</u>	<u>(36,239)</u>
Exchange movements on cash and cash equivalents		-	-
Net increase/(decrease) in cash and cash equivalents		27,306	(15,167)
Cash and cash equivalents at beginning of the year		<u>119,722</u>	<u>134,889</u>
Cash and cash equivalents at end of the year		<u><u>147,028</u></u>	<u><u>119,722</u></u>
Cash and cash equivalents are comprised of:			
Cash at bank	14	2	2
Bank deposits	14	271,884	240,081
Bank overdraft	15	<u>(124,858)</u>	<u>(120,361)</u>
		<u><u>147,028</u></u>	<u><u>119,722</u></u>

The accompanying notes on pages 12 to 25 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.

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements:

- (i) IFRS 9 'Financial instruments': Annual improvement to IFRSs (issued December 2016) – Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principal based approach than IAS 39.
- (ii) IFRS 15 'Revenue from Contract with customers': Replaces IAS 18 Revenue and IAS 11 Construction contracts. Establishes principals for reporting useful information about the nature, amount and uncertainty of revenue cash flows arising from an entity's contracts with customers.

The application of these pronouncements has not had any impact for amounts recognised in these financial statements.

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.

In the course of preparing the financial statements, there are no critical judgements nor have any critical accounting estimates been made in the process of applying the company's accounting policies.

1(a) Financial assets and liabilities

Financial assets comprise, Amounts owed from group companies and Other debtors. Financial liabilities comprise Amounts owed to group companies and Other creditors.

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

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

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Group has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)**1(a) Financial assets and liabilities (continued)****Impairment of financial assets**

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

1(b) Taxation, including deferred income taxes

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

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

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

1(c) 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(d) 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(e) 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(f) Leases

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

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

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

1(g) 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(h) 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 amounts owed to group companies in current liabilities on the balance sheet.

1(i) 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(j) 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(k) 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

	2018 £000	2017 £000
Dividends received during the year	<u>96</u>	<u>10,658</u>
	<u>96</u>	<u>10,658</u>

A dividend was received from Lloyds Bank Maritime Leasing (No.15) Limited (£96,000).

In the prior year dividends were received from Lloyds Commercial Leasing Limited (£9,044,416), Lloyds Bank Equipment Leasing (No. 5) Limited (£1,140,210) and circa £50,000 each from another 10 subsidiaries.

3 Finance income

	2018 £000	2017 £000
Interest receivable from other group companies	1,837	812
Hire purchase income	<u>-</u>	<u>89</u>
	<u>1,837</u>	<u>901</u>

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

	2018 £000	2017 £000
Interest payable on bank loans and overdraft to other group companies	780	417
Interest rate swaps: cash flow hedges	<u>-</u>	<u>55</u>
	<u>780</u>	<u>472</u>

5 Other operating income

	2018 £000	2017 £000
Other income receivable	<u>471</u>	<u>773</u>
	<u>471</u>	<u>773</u>

6 Other operating expenses

	2018 £000	2017 £000
Other expenses	<u>19</u>	<u>149</u>
	<u>19</u>	<u>149</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Impairment charge

	2018 £000	2017 £000
Impairment of investment in subsidiary undertakings	<u>12,900</u>	<u>53</u>
	<u>12,900</u>	<u>53</u>

There was a £12,800,000 impairment in Lloyds Corporate Asset Finance (No 1) Limited on disposal to another group company. There was also a £100,000 impairment of Lloyds Industrial Leasing Limited following an impairment review (2017: £53,000 impairment in one of the subsidiary entities following their payment of dividends to the company to clear down their reserves).

8 Administration expenses

	2018 £000	2017 £000
Professional fees and other related expenses	<u>222</u>	<u>163</u>
	<u>222</u>	<u>163</u>

9 (Loss)/profit before taxation

Audit fees for the company are borne by the ultimate parent company, which makes no recharge to the company.

The company has no employees (2017: nil).

The 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

	2018 £000	2017 £000
The taxation charge for the year comprises:		
Current tax payable on (loss)/profit for the year	(270)	(212)
Adjustment in respect of prior year	<u>-</u>	<u>(10)</u>
Total current tax payable for the year	(270)	(222)
Deferred taxation (note 16)	<u>-</u>	<u>-</u>
Total taxation charge for the year	<u>(270)</u>	<u>(222)</u>

Corporation tax is calculated at a rate of 19.00% (2017: 19.25%) of the taxable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Taxation charge (continued)

Where taxation on the company's (loss)/profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 19% (2017: 19.25%), the differences are explained below:

	2018 £000	2017 £000
(Loss)/profit before taxation	<u>(11,520)</u>	<u>11,502</u>
Tax at standard rate of corporation tax	2,189	(2,214)
Non-taxable items	21	2,051
Disallowed items	(2,480)	(49)
Adjustment in respect of prior year	-	<u>(10)</u>
Total taxation charge	<u>(270)</u>	<u>(222)</u>

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

11 Property, plant and equipment

	2018 £000	2017 £000
Original cost:		
At beginning of the year	61	61
Disposals during the year	<u>-</u>	<u>-</u>
At end of the year	<u>61</u>	<u>61</u>
Depreciation:		
At beginning of the year	(61)	(61)
Charge for the year	-	-
Disposals during the year	<u>-</u>	<u>-</u>
At end of the year	<u>(61)</u>	<u>(61)</u>
Net book value at end of the year	<u>-</u>	<u>-</u>

12 Investment in subsidiary undertakings

	2018 £000	2017 £000
At beginning of year	1,040	1,278
Additions	12,800	-
Impairment	(12,900)	(53)
Disposals	<u>(101)</u>	<u>(185)</u>
At end of the year	<u>839</u>	<u>1,040</u>

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.

<u>Company name</u>	<u>Ownership & Voting (%)</u>	<u>Class of shares</u>	<u>Accounting reference date</u>
Birchcrown Finance Limited *	100	Ordinary	20 November 2018
Birchcrown Finance Limited *	100	Preference	20 November 2018
Conquest Securities Limited *	100	Ordinary	20 February 2018
Conquest Securities Limited *	100	Preference	20 February 2018
CTSB Leasing Limited **	100	Ordinary	20 November 2018
General Leasing (No. 12) Limited *	100	Ordinary	30 September 2018
General Leasing (No. 4) Limited *	100	Ordinary	31 December 2018
Hill Samuel Finance Limited *	100	Ordinary	31 December 2018
Hill Samuel Finance Limited *	100	Preference	31 December 2018
LBI Leasing Limited *	100	Ordinary	31 March 2018
Leasing (No. 2) Limited **	100	Ordinary	31 December 2018
Lloyds (Nimrod) Specialist Finance Limited *	100	Ordinary	31 March 2018
Lloyds Asset Leasing Limited *	100	Ordinary	31 December 2018
Lloyds Bank Corporate Asset Finance (HP) Limited *	100	Ordinary	31 December 2018
Lloyds Bank Corporate Asset Finance (No.2) Limited *	100	Ordinary	30 June 2018
Lloyds Bank Corporate Asset Finance (No.3) Limited *	100	Ordinary	30 September 2018
Lloyds Bank Corporate Asset Finance (No.4) Limited *	100	Ordinary	31 December 2018
Lloyds Bank Equipment Leasing (No.1) Limited *	100	Ordinary	30 September 2018
Lloyds Bank Equipment Leasing (No.10) Limited **	100	Ordinary	31 December 2018
Lloyds Bank Equipment Leasing (No.11) Limited **	100	Ordinary	31 December 2018
Lloyds Bank Equipment Leasing (No.7) Limited *	100	Ordinary	31 December 2018
Lloyds Bank Equipment Leasing (No.9) Limited *	100	Ordinary	30 November 2018
Lloyds Bank General Leasing (No. 11) Limited *	100	Ordinary	30 September 2018
Lloyds Bank General Leasing (No. 17) Limited *	100	Ordinary	31 December 2018
Lloyds Bank General Leasing (No. 20) Limited **	100	Ordinary	31 December 2018
Lloyds Bank General Leasing (No. 3) Limited *	100	Ordinary	31 December 2018
Lloyds Bank General Leasing (No. 5) Limited *	100	Ordinary	30 June 2018
Lloyds Bank Leasing (No. 4) Limited **	100	Ordinary	24 October 2018
Lloyds Bank Leasing (No. 6) Limited *	100	Ordinary	31 December 2018
Lloyds Bank Leasing (No. 8) Limited **	100	Ordinary	31 December 2018
Lloyds Bank Maritime Leasing (No.10) Limited *	100	Ordinary	31 December 2018
Lloyds Bank Maritime Leasing (No.12) Limited **	100	Ordinary	30 September 2018
Lloyds Bank Maritime Leasing (No.13) Limited **	100	Ordinary	31 December 2018
Lloyds Bank Maritime Leasing (No.15) Limited *	100	Ordinary	31 December 2018
Lloyds Bank Maritime Leasing (No.16) Limited **	100	Ordinary	31 December 2018
Lloyds Bank Maritime Leasing (No.17) Limited *	100	Ordinary	31 December 2018
Lloyds Bank Maritime Leasing (No.18) Limited **	100	Ordinary	31 December 2018
Lloyds Bank Maritime Leasing (No.8) Limited **	100	Ordinary	31 December 2018
Lloyds Bank Maritime Leasing Limited **	100	Ordinary	31 December 2018
Lloyds Bank Property Company Limited *	100	Ordinary	30 September 2018
Lloyds Commercial Leasing Limited *	100	Ordinary	In liquidation
Lloyds General Leasing Limited *	100	Ordinary	31 December 2018
Lloyds Industrial Leasing Limited *	100	Ordinary	30 June 2018
Lloyds Investment Bonds Limited *	100	Ordinary	In liquidation
Lloyds Investment Securities No.5 Limited *	100	Ordinary	31 December 2018
Lloyds Leasing (North Sea Transport) Limited *	100	Ordinary	31 December 2018
Lloyds Leasing Developments Limited *	100	Ordinary	31 December 2018
Lloyds Plant Leasing Limited *	100	Ordinary	31 March 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Investment in subsidiary undertakings (continued)

<u>Company name</u>	<u>Ownership & Voting (%)</u>	<u>Class of shares</u>	<u>Accounting reference date</u>
Lloyds Portfolio Leasing Limited *	100	Ordinary	31 December 2018
Lloyds Project Leasing Limited *	100	Ordinary	31 March 2018
Lloyds Property Investment Co No.5 Limited *	100	Ordinary	31 December 2018
Maritime Leasing (No.19) Limited *	100	Ordinary	31 December 2018
Savban Leasing Limited *	100	Ordinary	31 December 2018
Wood Street Leasing Limited *	100	Ordinary	30 September 2018

In 2018, ten of the company's subsidiary investments were dissolved, being Hill Samuel Leasing (No. 2), Lloyds (Nimrod) Leasing Industries Ltd, Lloyds Bank Leasing (No. 7), Lloyds Financial Leasing Ltd, Whitestar Securities Ltd, Lloyds Maritime Leasing (No. 2), Lloyds Bank Leasing (No. 3), Lloyds Bank General Leasing (No. 18), Lloyds Bank Equipment Leasing (No. 5) and Lloyds Bank General Leasing (No. 1). One of the company's subsidiary investments was sold, being Lloyds Corporate Asset Finance (No. 1) at cost realising no gain or loss on disposal.

In 2017 five of the company's subsidiary investments were dissolved. These were Lloyds Property Investment Company Limited, Lloyds Bank Equipment Leasing (No. 2) Limited, General Leasing (No. 2) Limited, Lloyds Bank Maritime Leasing (No. 3) Limited and Maritime Leasing (No. 11) 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 (for companies in liquidation)

13 Investment in associates

	2018 £000	2017 £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 Amounts owed by group companies

	2018 £000	2017 £000
Cash at bank	2	2
Bank deposits	271,884	240,081
Interest receivable	182	90
Amounts due from immediate parent company	1,979	1,618
Amounts due from fellow group subsidiaries	382	40,293
	<u>274,429</u>	<u>282,084</u>

For further details please refer to note 20.

15 Amounts owed to group companies

	2018 £000	2017 £000
Bank overdraft	124,858	120,361
Bank borrowings	10,250	3,863
Interest payable	289	255
Amounts due to fellow subsidiary undertakings	112,025	119,280
Amounts due to immediate subsidiary undertaking	-	87
Amounts due to parent undertakings	5,956	5,588
Taxation payable	270	222
	<u>253,648</u>	<u>249,656</u>

For further details please refer to note 20.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Deferred taxation

	2018 £000	2017 £000
At beginning of the year	-	11
Movement in other reserves (note 18)	-	(11)
Impact of tax rate change on cash flow hedges (note 18)	-	-
At end of the year	-	-

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

17 Share capital

	2018 £	2017 £
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.

18 Other reserves

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

	2018 £000	2017 £000
At beginning of the year	-	222
Change in fair value of cash flow hedges	-	(211)
Deferred taxation thereon (note 16)	-	(11)
At end of the year	-	-

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk management of financial instruments

The Company's operations expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate risk and exchange risk). Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by Lloyds Banking Group plc, and the ultimate parent, Lloyds Banking Group plc. Information on the management of these financial risks and further disclosures is given below.

A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

In accordance with IFRS 9 "Financial instruments", the following financial instruments, including derivatives, are classified as shown:

	Held at cost/amortised cost £000	Held at Fair Value £000	Loans or receivables £000	Total £000
At 31 December 2018				
Assets				
Amounts owed by group companies	274,429	-	-	274,429
Other debtors	-	-	-	-
Total financial assets	<u>274,429</u>	<u>-</u>	<u>-</u>	<u>274,429</u>
Liabilities				
Amounts owed to group companies	253,648	-	-	253,648
Other creditors	297	-	-	297
Total financial liabilities	<u>253,945</u>	<u>-</u>	<u>-</u>	<u>253,945</u>
At 31 December 2017				
Assets				
Amounts owed by group companies	282,084	-	-	282,084
Other debtors	15	-	-	15
Total financial assets	<u>282,099</u>	<u>-</u>	<u>-</u>	<u>282,099</u>
Liabilities				
Amounts owed to group companies	249,656	-	-	249,656
Other creditors	370	-	-	370
Total financial liabilities	<u>250,026</u>	<u>-</u>	<u>-</u>	<u>250,026</u>

Credit risk management:

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

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

	2018 £000	2017 £000
Financial assets which are neither past due nor impaired for credit risk:		
Amounts owed by group companies	274,429	282,084
Other debtors	-	15
Total credit risk exposure	<u>274,429</u>	<u>282,099</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk management of financial instruments (continued)

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:

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2018							
Amounts owed by group companies	-	-	274,429	-	-	-	274,429
Other debtors	-	-	-	-	-	-	-
Total	-	-	274,429	-	-	-	274,429

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2017							
Amounts owed by group companies	-	-	282,084	-	-	-	282,084
Other debtors	-	-	-	-	-	15	15
Total	-	-	282,084	-	-	15	282,099

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 2018 and 31 December 2017 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.

Liquidity risk management:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

The liquidity profile of financial liabilities at year end was as follows:

At 31 December 2018	Bank overdraft £000	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	124,858	-	6,823	-	131,681
Up to 1 month	-	122,185	79	-	122,264
1-3 months	-	-	-	-	-
3-12 months	-	-	-	-	-
1-5 years	-	-	-	-	-
Over 5 years	-	-	-	-	-
Total	124,858	122,185	6,902	-	253,945
At 31 December 2017	Bank overdraft £000	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	120,361	-	6,579	-	126,940
Up to 1 month	-	123,044	42	-	123,086
1-3 months	-	-	-	-	-
3-12 months	-	-	-	-	-
1-5 years	-	-	-	-	-
Over 5 years	-	-	-	-	-
Total	120,361	123,044	6,621	-	250,026

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk management of financial instruments (continued)

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.

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 (2017: insignificant) primarily due to assets/liabilities denominated in USD.

Foreign currency risk - carrying amount

	2018 \$000	2017 \$000
Financial assets		
Amounts owed by group companies	<u>3</u>	<u>3</u>
	<u>3</u>	<u>3</u>
Financial liabilities		
Amounts owed to group companies	<u>-</u>	<u>10</u>
	<u>-</u>	<u>10</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 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	2018	2017	Terms and conditions	
			£000	£000	Repayment	Interest
Cash at bank	Lloyds Bank plc	Immediate parent undertaking	2	2	N/A	N/A
Bank deposits	Lloyds Bank plc	Immediate parent undertaking	271,884	240,081	02/01/19	0.85%
Amounts due from parent company	Lloyds Bank plc	Immediate parent undertaking	1,979	1,618	No fixed date	N/A
Amounts due from subsidiary companies	Various	Fellow subsidiary undertakings	382	40,271	No fixed date	N/A
Interest receivable from parent undertaking	Lloyds Bank plc	Immediate parent undertaking	182	90	02/01/19	N/A
Amounts due from group companies	Various	Fellow subsidiary undertakings	-	22	No fixed date	N/A
Bank overdraft	Lloyds Bank plc	Immediate parent undertaking	(124,858)	(120,361)	No fixed date	N/A
Bank borrowings	Lloyds Bank plc	Immediate parent undertaking	(10,250)	(3,863)	02/01/19	0.85%
Interest payable to parent undertaking	Lloyds Bank plc	Immediate parent undertaking	(214)	(210)	Various	N/A
Interest payable to group companies	Various	Fellow subsidiary undertakings	(75)	(45)	Various	N/A
Amounts due to subsidiary companies	Lloyds Property Investment Company No.5 Limited	Immediate subsidiary undertaking	-	(87)	N/A	N/A
Amounts due to group companies	Various	Fellow subsidiary undertakings	(112,025)	(119,280)	Various	Various
Amounts due to parent company	Lloyds Bank plc	Immediate parent undertaking	(5,956)	(5,588)	No fixed date	N/A
Taxation payable	Bank of Scotland plc	Fellow subsidiary undertaking	(270)	(222)	N/A	N/A

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

Dividends of £96,000 (2017: £10,658,000) were received during the year from a subsidiary.

Bank borrowings are interest bearing and during the year rates of interest of between 0.29% and 0.85% (2017: 0.29% and 0.44%) were charged. Finance costs of £780,000 (2017: £472,000) were incurred during the year.

The company earned interest on bank deposits of £1,837,000 (2017: £812,000) on which rates of interest of between 0.29% and 0.85% (2017: between 0.29% and 0.44%) were received.

The company paid taxation of £222,000 (2017: £1,131,000) during the year to fellow subsidiary undertakings.

The registered offices of related parties are as noted below:

<u>Related party</u>	<u>Registered address</u>
Bank of Scotland plc	The Mound, Edinburgh, EH1 1YZ
Lloyds Bank plc	25 Gresham Street, London, EC2V 7HN
Lloyds Property Investment Company No.5 Limited	25 Gresham Street, London, EC2V 7HN

21 Implementation of IFRS9 Financial Instruments

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

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

Classification and measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost.

Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cashflows, and their contractual cashflows represent solely payments of principle and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by collecting contractual cashflows and selling financial assets and their contractual cashflows represent solely payments of principle and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit and loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Implementation of IFRS9 Financial Instruments (continued)

An entity may, at initial recognition, designate a financial asset as measures at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch.

Impairment

IFRS 9 replaces the existing "incurred loss" impairment approach with an expected credit loss ("ECL") model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit impaired, which is similar to the guidance on incurred losses in IAS 39.

Impact on the financial statements

The Company has adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not been restated and transitional adjustments have been accounted for through retained earnings as at 1 January 2018.

As at the balance dates 31 December 2017 and 31 December 2018 the financial liability held by the entity comprises of bank overdraft held by the parent company on behalf of the company. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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

22 Future developments

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

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
IFRS16; 'Leases'	IFRS 16 replaces IAS 17 'Leases' and 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. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. Lessor accounting requirements remain aligned to the current approach under IAS 17.	Annual periods beginning on or after 1 January 2019
	The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be impacted.	

23 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 £5,678,000 (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.

24 Post balance sheet event

Since the year end, three of the company's subsidiary investments have been dissolved. These are Lloyds Bank Equipment Leasing (No.11), Lloyds Bank Leasing (No.4) and Lloyds Bank Maritime Leasing (No.12).