Lloyds Bank Leasing (No.6) Limited

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

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

05148211

Current directors

C G Dowsett
K Softly

Company Secretary

A E Mulholland

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2019

The Directors present their Strategic report and audited financial statements of Lloyds Bank Leasing (No.6) Limited (the "Company") for the year ended 31 December 2019.

Business overview

The Company is part of the Commercial Banking division of the Lloyds Banking Group plc group of companies (“the Group”), principally focussed 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 commenced six operating lease agreements during the year acquiring plant, property and equipment which at the year end had a carrying value of £7,081,000, four operating leases were also extended into five new operating leases at a cost of £3,508,000. Six operating lease agreements with a net book value of £1,935,000 were fully disposed of in the year and three operating leases with a net book value of £232,000 were part disposed. Furthermore, there were seven operating leases which were converted to finance leases on extension at a net book value of £2,087,000 and one addition to finance leases of £17,000. The cost value of the remaining leases at the end of the year stands at £137,874,000.

The financial performance of the Company is detailed in the Income statement on page 5.

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

Future outlook

The Company is part of the wider Lloyds Banking Group, and, at that level, consideration of many of the potential implications following the UK’s vote to leave the European Union ("EU") has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Section 172(1) statement and statement of engagement with other stakeholders

In accordance with the Companies Act 2006 (the 'Act'), for the year ended 31 December 2019, the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172. Further details on key actions in this regard are also contained within the Directors’ Report on pages 3 and 4.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the Directors have engaged with, and had regard to, the interest of key stakeholders only as the Company has no direct employees. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

- Customers

The Directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions and focussing on treating customers fairly. The Directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made. Lloyds Banking Group plc regularly benchmarks amongst its customers the performance of itself and its subsidiaries, and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience.

- Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's Commercial Banking division. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

The Board receives regular updates on regulatory interaction, providing a view of key areas of focus, alongside progress made addressing regulatory actions and current enforcement activity. During 2019 the Group and LBG colleagues had regular meetings with the regulators, representing the interests of the Company as required. Engagement continues with the regulators through proactive meetings to discuss various key themes such as achieving a customer centric culture, transformation and change, operational and financial resilience and credit risk. The status of regulatory relationships continue to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of LBG, including that of the Company, to managing regulatory change is discussed further on page 11 of the LBG Annual Report and Accounts for 2019 available on the LBG website.

Strategic report (continued)

For the year ended 31 December 2019

Section 172(1) statement and statement of engagement with other stakeholders (continued)

- Communities and the Environment

Due to its limited physical presence, the Company has a minimal direct impact on the community and the environment, it does however continue to support Lloyds Banking Group plc's related initiatives, including Helping Britain Prosper by actively managing its current leasing book. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2019, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Prosper Plan is available on the Lloyds Banking Group plc website.

- Suppliers

The Company's approach to external supplier management makes use of that of LBG, which works with around 3,100 active suppliers of varying sizes, most in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communication. The supply chain is crucial to the way the Company and LBG serves its customers, and through it the reach is considerable.

The Company and LBG seek to improve the experience of suppliers, with feedback regularly sought on related assurance processes to ensure continued improvement in the process. Suppliers are also encouraged to express their satisfaction or otherwise, and have access to LBG and the Company's whistleblowing service.

In 2019 LBG's supplier expenditure was £5.9 billion, with 95.5 per cent of third party suppliers being located in the UK. Importance is placed on having the right supplier framework to operate responsibly. LBG's Sourcing & Supply Chain Management Policy applies to all businesses, divisions, and subsidiaries of LBG, including the Company, with the directors assuming ultimate responsibility for its application as relevant to the Company. This Policy has been designed to assist in managing the inherent risk in outsourcing services, and in dealing with third party suppliers. Suppliers are required to adhere to relevant LBG policies and comply with LBG's Code of Supplier Responsibility which can be found on the LBG website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and LBG to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

Principle risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 24 to the financial statements.

In the context of operational resilience, the Company has assessed the risks associated with the current global health issue Covid-19 and will continue to monitor the impacts. However, it is difficult at this stage to quantify risks and the degree to which they might crystallise. In addition, Covid-19 could have an adverse impact across risks including our credit portfolio, operational risk, capital, funding and liquidity.

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.

Approved by the board of directors and signed on its behalf by:

C G Dowsett
Director
14 August 2020

Directors' report

For the year ended 31 December 2019

The directors present their Annual report and the audited financial statements of Lloyds Bank Leasing (No.6) Limited ("the Company") for the year ended 31 December 2019.

Review of Business

The Company is a private company limited by shares, incorporated and domiciled in England and Wales, United Kingdom (registered number: 05148211).

During the year, the principal activity of the Company was the leasing of assets through finance and operating lease transactions, and this is likely to continue for the foreseeable future.

The results of the Company show a profit before taxation of £1,452,000 (2018: £206,000 loss) for the year as set out in the Income statement on page 5.

The Company has shareholder's equity of £12,404,000 (2018: £11,501,000).

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

Employees

The Company has no direct employees (2018: nil). All staff are employed by other group undertakings and no staff costs are recharged to the Company.

Dividends

No dividends were paid or proposed during the year ended 31 December 2019 (2018: £nil).

Directors

The current directors of the Company are shown on the front cover.

The following changes have taken place between the beginning of the reporting year and the approval of the Annual report and financial statements:

K Softly (appointed 27 November 2019)

Going Concern

The financial statements have been prepared on a going concern basis. There is a net asset position of £12,404,000 (2018: £11,501,000).

The Company is covered by the letter of support from the Group dated 19 February 2020 that covers Lloyds Bank plc, and all its subsidiaries, which confirms that any additional liabilities will be borne by the ultimate parent company if required.

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

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company, a deed of indemnity through deed poll which constituted ‘qualifying third party indemnity provisions’ for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the director who joined the Board of the Company during the financial year. The indemnity remains in force for the duration of a Directors' 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)

For the year ended 31 December 2019

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulation.

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

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

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, 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

- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006.

Approved by the board of directors and signed on its behalf by:

C G Dowsett

C G Dowsett
Director
14 August 2020

Income statement

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Operating lease income	4	**13,423**	15,606
Depreciation and other costs of property, plant and equipment	17	**(12,323)**	(14,972)
Finance income	5	**348**	317
Finance costs	6	**(873)**	(891)
		575	60
Other operating income/(expense)	7	**1,117**	(261)
Administration expenses	8	**(12)**	(6)
Foreign exchange loss		**(225)**	(2)
Impairment (charge)/credit	9	**(3)**	3
Profit/(loss) before tax	10	**1,452**	(206)
Taxation	11	**(276)**	39
Profit/(loss) after tax		**1,176**	**(167)**

The accompanying notes are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2019

	Note	**2019** **£'000**	2018 £'000
Profit/(loss) after tax		**1,176**	**(167)**
Other comprehensive (expense)/income			
Items that may subsequently be reclassified to profit or loss:			
Movement in cash flow hedges			
- effective portion of changes in fair value taken to other comprehensive income	22	**(319)**	302
- tax	18	**56**	(54)
Other comprehensive (expense)/income for the year, net of tax		**(263)**	248
Total comprehensive income for the year		**913**	81

The accompanying notes are an integral part of these financial statements.

Balance sheet

As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Amounts due from group undertakings	12	**19,409**	18,246
Finance lease receivables	13	**7,175**	7,269
Trade and other receivables	15	**669**	46
Assets under construction	16	**-**	930
Property, plant and equipment	17	**42,384**	50,811
Deferred tax asset	18	**47**	-
Total assets		**69,684**	77,302
LIABILITIES			
Amounts due to group undertakings	19	**55,321**	62,509
Trade and other payables	20	**1,959**	3,283
Deferred tax liability	18	**-**	9
Total liabilities		**57,280**	65,801
EQUITY			
Share capital	21	**-**	-
Other reserves	22	**(222)**	51
Retained earnings		**12,626**	11,450
Total equity		**12,404**	11,501
Total equity and liabilities		**69,684**	77,302

The accompanying notes are an integral part of these financial statements.

The financial statements were approved by the Board of directors and were signed on its behalf by:

C G Dowsett

C G Dowsett
Director
14 August 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital	Other reserves	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
Balance at 31 December 2017	-	(197)	11,624	11,427
Adjustment on adoption of IFRS 9	-	-	(7)	(7)
Balance at 1 January 2018	-	(197)	11,617	11,420
Comprehensive income				
Loss for the year	-	-	(167)	(167)
Other comprehensive income				
Movements in cash flow hedging reserve, net of tax	-	248	-	248
Total comprehensive income	**-**	51	11,450	11,501
At 31 December 2018	**-**	51	11,450	11,501
Balance at 1 January 2019	**-**	**51**	**11,450**	**11,501**
Comprehensive income				
Profit for the year	**-**	**-**	**1,176**	**1,176**
Other comprehensive income				
Movements in cash flow hedging reserve, net of tax	**-**	**(263)**	**-**	**(263)**
Adjustments in respect of prior year	**-**	**(10)**	**-**	**(10)**
Total comprehensive income	**-**	**(222)**	**12,626**	**12,404**
At 31 December 2019	**-**	**(222)**	**12,626**	**12,404**

The accompanying notes are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Profit/(loss) before tax	**1,452**	(206)
Adjustments for:		
- Depreciation and other costs of property, plant and equipment	**12,323**	14,972
- Movement in impairment allowance	**3**	(3)
- Transfer of operating leases to finance leases	**2,088**	3,649
- (Gain)/loss on disposal of operating lease assets	**(866)**	158
- Foreign exchange	**225**	2
Operating cash flows before movements in working capital	**15,225**	18,572
Increase in trade and other receivables	**(528)**	(1,127)
Decrease in trade and other payables	**(985)**	(1,391)
Movement in work in progress	**930**	(930)
Cash generated from operations	**14,642**	15,124
Tax paid	**-**	(826)
Net cash generated from operating activities	**14,642**	14,298
Cash flows used in investing activities		
Purchase of property, plant & equipment	**(7,701)**	(2,072)
Proceeds received from sale of property, plant & equipment	**2,415**	1,530
Net cash used in investing activities	**(5,286)**	(542)
Cash flows used in financing activities		
Decrease in bank borrowings	**(7,960)**	(11,081)
Net cash used in financing activities	**(7,960)**	(11,081)
Exchange movements on cash and cash equivalents	**-**	(90)
Change in cash and cash equivalents	**1,396**	2,585
Cash and cash equivalents at beginning of year	**17,999**	15,414
Cash and cash equivalents at end of year	**19,395**	17,999
Cash and cash equivalents comprise		
Cash at bank	**19,395**	17,999
Total cash and cash equivalents	**19,395**	17,999

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2019

1. Basis of preparation

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

On adoption of IFRS 9 in 2018, the Company elected to continue applying hedge accounting under IAS 39. The EU endorsed version of IAS 39 Financial Instruments: Recognition and Measurement relaxes some of the hedge accounting requirements; the Company has not taken advantage of this relaxation, and therefore there is no difference in application to the Company between IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial information has been prepared under the historical cost convention, as modified for derivative contracts held at fair value through other comprehensive income. As stated below, the directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

In preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

The following new IFRS pronouncement relevant to the Company has been adopted in these financial statements:

(i) IFRS 16 'Leases' replaces IAS 17 'Leases' and addresses the classification and measurement of all leases. The Company's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17; however for lessee accounting there is no longer a distinction between finance and operating leases.

For all assets the lessee recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with leases with a lease term of 12 months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 26. No standards have been early adopted.

The financial statements have been prepared on a going concern basis. There is a net asset position of £12,404,000 (2018: £11,501,000).

The Company is covered by the letter of support from the Group dated 19 February 2020 that covers Lloyds Bank plc, and all its subsidiaries, which confirms that any additional liabilities will be borne by the ultimate parent company if required.

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

2. Accounting policies

The Company's accounting policies are set out below. These accounting policies have been applied consistently.

2.1 Income recognition

Income and expense from financial instruments

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

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

Lease classification

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

When assets are leased under a finance lease, the net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable within finance lease receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income.

Finance lease income

Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the lease. Initial direct incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term.

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

Operating lease income

Operating lease income is recognised on a straight line basis over the life of a lease.

Finance costs

Interest expense for all interest bearing financial instruments is recognised in the Income statement as it accrues, within finance costs.

2.2 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:-

Plant and machinery	4 - 10 years

The assets leased by the Company include construction equipment, buses, tractors and haulage trucks. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings and Trade and other receivables. Financial liabilities comprise Amounts due to group undertakings and Trade and other payables.

On initial recognition, financial assets are measured at fair value. These are subsequently classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company 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 Company 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 Company'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 Company 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 Company 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.

2.4 Impairment of financial assets and lease receivables

The impairment charge in the Income statement includes the change in expected credit losses. Expected credit losses are recognised for financial assets and finance lease receivables. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance 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 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.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watch lists and other indicators of historical delinquency, credit weakness or financial difficulty. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Company uses this 90 day backstop for all its products.

The Company has not adopted the simplified expected credit loss model for its lease receivables, as allowed by IFRS 9, paragraph 5.5.15. Instead, the general expected credit loss model has been applied to financial assets and lease receivables.

Assets held under operating leases

Impairment of property, plant and equipment leased to customers under operating leases is assessed by comparing the net present value of the expected future cash flows with the asset's carrying value. Any impairment identified in this way is charged immediately to the Income statement.

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, the residual value of the related asset is adjusted and the amount of the reversal is recognised in the Income statement.

2. Accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting

IFRS 9 requires all derivative financial instruments to be recognised initially at fair value on the Balance sheet and to be re measured to fair value at subsequent reporting dates. 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.

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.

Changes in the fair value of all derivative instruments, other than those in effective cash flow, are recognised immediately in the income statement. As noted in (1) below, the change in fair value of a derivative in an effective cash flow is allocated between the income statement and other comprehensive income.

(1) 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 in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement. Amounts accumulated in equity are reclassified 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 in the Income statement 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.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure than an economic relationship exists between the hedged item and hedging instrument.

2.6 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.

2.7 Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency.

2.8 Taxation, including deferred income taxes

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

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

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2019

2. Accounting policies (continued)

2.8 Taxation, including deferred income taxes (continued)

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

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

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

2.9 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Dividends on ordinary shares are recognised as a reduction in equity in the period in which they are paid.

2.10 Other reserves

Other reserves comprise a cash flow hedging reserve representing the cumulative after tax gains and losses on effective cash flow hedging instruments that will be reclassified to the Income statement in the periods in which the hedged item affects profit or loss.

3. Critical accounting estimates and judgements

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies 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.

In the course of preparing the financial statements, no critical judgements have been made in the process of applying the Company's accounting policies, other than those involving estimations which are disclosed separately below.

The following are critical accounting estimates that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

Fair value of financial instruments

At 31 December 2019, the carrying value of the Company's financial instrument assets held at fair value was £14,000 (2018: £208,000), and its financial instrument liabilities held at fair value was £281,000 (2018: £156,000) .

In accordance with IFRS 13 Fair Value Measurement, the Company categorises financial instruments carried on the Balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore minimal estimates are made in determining fair value. The fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models.

The valuation techniques for level 2 and level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information.

See note 24.5 for further information.

3. Critical accounting estimates and judgements (continued)

Allowance for impairment losses

The Company recognises an allowance for expected credit losses for finance lease receivables. At 31 December 2019 the Company's expected credit loss allowance was £9,000 (31 December 2018: £6,000), of which £9,000 (31 December 2018: £6,000) was in respect of drawn balances.

The calculation of the Company's expected credit loss (ECL) allowances under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

- Definition of default

The probability of default ("PD") of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

- Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and lease extensions. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.

- Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. Financial assets and lease receivables are assumed to have suffered a SICR if they are more than 30 days past due.

4. Operating lease income

	2019	2018
	£'000	£'000
Operating lease income	**13,423**	15,606
	13,423	15,606

There were no lease rentals receivable during the year that were contingent on events other than the terms of the lease, Libor rates and UK corporation tax rates (2018: £nil).

5. Finance income

	2019	2018
	£'000	£'000
Finance lease income	**347**	317
Interest receivable on bank deposits from other group companies	**1**	-
Finance income	**348**	317

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

Notes to the financial statements (continued)
For the year ended 31 December 2019

6. Finance costs

	2019 £'000	2018 £'000
Interest payable on bank loans to other group companies	**744**	631
Interest payable on derivatives	**129**	260
Finance costs	**873**	891

7. Other operating income/(expense)

	2019 £'000	2018 £'000
Gain/(loss) on sale of operating lease assets	**866**	(158)
Other operating income/(expense)	**251**	(103)
Other operating income/(expense)	**1,117**	(261)

8. Administration expenses

	2019 £'000	2018 £'000
Professional fees and other related expenses	**12**	6
Administration expenses	**12**	6

9. Impairment (charge)/credit

	2019 £'000	2018 £'000
Impairment (charge)/recovery of finance lease receivables	**(3)**	3
Impairment (charge)/credit	**(3)**	3

10. Profit/(loss) before tax

Fees payable to the Company's auditors for the audit of the financial statements of £10,000 (2018: £10,000) have been borne by the ultimate parent Company and are not recharged to the Company.

The Company has no employees (2018: nil).

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

11. Taxation

	2019 £'000	2018 £'000
a) Analysis of (charge)/credit for the year		
UK corporation tax:		
- Current tax (payable)/receivable on taxable profit for the year	**(276)**	39
Current tax (charge)/credit	**(276)**	39

Corporation tax is calculated at a rate of 19.00% (2018:19.00%) of the taxable profit for the year.

b) Factors affecting the tax (charge)/credit for the year

A reconciliation of the (charge)/credit that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax (charge)/credit for the year is given below:

	2019 £'000	2018 £'000
Profit/(loss) before tax	**1,452**	(206)
Tax (charge)/credit thereon at UK corporation tax rate of 19.00% (2018:19.00%)	**(276)**	39
Tax (charge)/credit on profit on ordinary activities	**(276)**	39
Effective rate	**19.01%**	18.93%

12. Amounts due from group undertakings

	2019 £'000	2018 £'000
Cash at bank	**19,395**	17,999
Derivative financial instruments (see note 24.6)	**14**	208
Taxation receivable	**-**	39
At 31 December	**19,409**	18,246

Derivative financial instruments of £14,000 (2018: £208,000) are unsecured, interest bearing and payable on maturity. For further details please refer to note 23.

Taxation receivable of £nil (2018: £39,000) is unsecured, non interest bearing and payable on demand. For further details please refer to note 23.

13. Finance lease receivables

	2019 £'000	2018 £'000
Gross investment in finance leases	**7,184**	7,275
Allowance for losses	**(9)**	(6)
Net investment in finance leases	**7,175**	7,269

Notes to the financial statements (continued)
For the year ended 31 December 2019

13. Finance lease receivables (continued)

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance at 1 January 2019	**7,275**	**-**	**-**	**7,275**
Exchange and other adjustments	**-**	**-**	**-**	**-**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**-**	**-**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Net decrease in finance lease receivables	**(91)**	**-**	**-**	**(91)**
Gross investment in finance leases at 31 December 2019	**7,184**	**-**	**-**	**7,184**
Allowance for impairment losses	**(9)**	**-**	**-**	**(9)**
Net investment in finance leases at 31 December 2019	**7,175**	**-**	**-**	**7,175**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2018	5,275	-	-	5,275
Exchange and other adjustments	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net increase in finance lease receivables	2,000	-	-	2,000
Gross investment in finance leases at 31 December 2018	7,275	-	-	7,275
Allowance for impairment losses	(6)	-	-	(6)
Net investment in finance leases at 31 December 2018	7,269	-	-	7,269

The gross investment in finance leases represents amounts recoverable as follows:

	2019 £'000	2018 £'000
Gross investment in finance leases, receivable:		
Not later than 1 year	**2,739**	2,229
Later than 1 year and not later than 2 years	**2,545**	2,236
Later than 2 years and not later than 3 years	**1,639**	2,076
Later than 3 years and not later than 4 years	**677**	1,382
Later than 4 years and not later than 5 years	**107**	8
Later than 5 years	**-**	-
	7,707	7,931
Unearned future finance income on finance leases	**(532)**	(662)
Net investment in finance leases	**7,175**	7,269

The net investment in finance leases represents amounts recoverable as follows:

	2019 £'000	2018 £'000
Net investment in finance leases, receivable:		
Not later than 1 year	**2,456**	1,924
Later than 1 year and not later than 2 years	**2,383**	2,026
Later than 2 years and not later than 3 years	**1,571**	1,966
Later than 3 years and not later than 4 years	**658**	1,136
Later than 4 years and not later than 5 years	**107**	209
Later than 5 years	**-**	8
Net investment in finance leases	**7,175**	7,269

Notes to the financial statements (continued)
For the year ended 31 December 2019

14. Allowance for impairment losses

Analysis of movement in the allowance for impairment losses by stage:

Year ended 31 December 2019	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
In respect of drawn balances				
At 1 January 2019	**(6)**	**-**	**-**	**(6)**
Exchange and other adjustments	**-**	**-**	**-**	**-**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**-**	**-**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Charge for year	**(3)**	**-**	**-**	**(3)**
At 31 December 2019	**(9)**	**-**	**-**	**(9)**

Year ended 31 December 2018	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of drawn balances				
At 1 January 2018	(9)	-	-	(9)
Exchange and other adjustments	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Recovery for year	3	-	-	3
At 31 December 2018	(6)	-	-	(6)

15. Trade and other receivables

	2019 £'000	2018 £'000
Other receivables	**669**	46
Trade and other receivables	**669**	46

16. Assets under construction

	2019 £'000	2018 £'000
At the beginning of the year	**930**	-
Work in progress during the year	**70**	930
Work completed during the year	**(1,000)**	-
At the end of the year	**-**	930

Assets under construction amounts represented the supply and installation of a Muller Martini Stitching Line. The construction was completed and an operating lease commenced in April 2019.

Notes to the financial statements (continued)
For the year ended 31 December 2019

17. Property, plant and equipment

Operating lease assets are represented by property, plant and equipment as follows:

	2019 £'000	2018 £'000
Cost:		
At 1 January	**116,680**	136,093
Transfers to finance leases	**(8,585)**	(14,102)
Additions	**11,210**	2,072
Disposals	**(21,043)**	(7,383)
At 31 December	**98,262**	116,680
Accumulated depreciation and impairment:		
At 1 January	**(65,947)**	(67,221)
Charge for the year	**(12,299)**	(14,942)
Foreign exchange difference on depreciation	**39**	68
Transfers to finance leases	**6,497**	10,452
Disposals	**15,778**	5,696
At 31 December	**(55,932)**	(65,947)
Direct costs:		
At 1 January	**78**	110
Additions	**-**	-
Charge for the year	**(24)**	(30)
Foreign exchange difference on direct costs	**-**	1
Transfers to finance leases	**-**	(3)
At 31 December	**54**	78
Balance sheet amount at 31 December	**42,384**	50,811

Future minimum lease payments receivable under operating lease:	2019 £'000	2018 £'000
Receivable within 1 year	**11,275**	11,421
1 to 2 years	**8,446**	10,706
2 to 3 years	**5,283**	5,017
3 to 4 years	**2,746**	3,805
4 to 5 years	**653**	287
Over 5 years	**312**	19
	28,715	31,255

18. Deferred taxation

The movement in the Deferred taxation is as follows:

	2019	2018
At 1 January	**(9)**	47
Adjustment in respect of prior year	**-**	(2)
Impact of tax rate change	**(6)**	4
Movement in other reserves (note 22)	**62**	(58)
At 31 December	**47**	(9)

18. Deferred taxation (continued)

Deferred taxation assets/(liabilities) are comprised as follows:	**2019 £'000**	2018 £'000
Other temporary differences	**-**	2
Cash flow hedges	**47**	(11)
Total deferred taxation assets/(liabilities)	**47**	(9)

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent with effect from 1 April 2020. This intention to maintain the corporation tax rate was enacted under the Provisional Collection of Taxes Act 1968 on 17 March 2020. The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

19. Amounts due to group undertakings

	2019 £'000	2018 £'000
Bank borrowings	**51,638**	59,598
Interest payable	**3,078**	2,755
Amounts due to fellow group undertakings	**88**	-
Derivative financial instruments (note 24.6)	**281**	156
Taxation payable	**236**	-
At 31 December	**55,321**	62,509

Bank borrowing of £51,638,000 (2018: £59,598,000) and derivative financial instruments of £281,000 (2018: £156,000) are unsecured, interest bearing and payable on maturity (see note 23).

All other balances within amounts due to group undertakings of £3,402,000 (2018: £2,755,000) are unsecured, non interest bearing and payable on demand. See note 23.

20. Trade and other payables

	2019 £'000	2018 £'000
Other payables	**1,959**	3,283
Trade and other payables	**1,959**	3,283

21. Share capital

	2019 £	2018 £
Allotted, issued and fully paid		
100 ordinary shares of £1 each	**100**	100

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

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

The Company’s capital comprises all components of equity, movements in which appear in the Statement of changes in shareholder's equity.

Notes to the financial statements (continued)

For the year ended 31 December 2019

22. Other reserves

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

	2019 £'000	2018 £'000
At 1 January	**51**	(197)
Change in fair value of cash flow hedges	**(319)**	302
Deferred taxation thereon (note 18)	**62**	(58)
Impact of tax rate change (note 18)	**(6)**	4
Adjustment in respect of prior year	**(10)**	-
At 31 December	**(222)**	51

There was no ineffectiveness to be recorded in the Income Statement from cash flow hedges.

23. Related party transactions

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

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

A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

Amounts due from group undertakings				2019 £'000	2018 £'000
Nature of transaction	**Related party**	**Repayment**	**Interest**		
Cash at bank	Lloyds Bank plc	No fixed date	N/A	**19,395**	17,999
Taxation receivable	Bank of Scotland plc	No fixed date	N/A	**-**	39
Derivative financial instruments	Lloyds Bank plc	Various	Various	**14**	208
Total amounts due from group undertakings (note 12)				**19,409**	18,246

Amounts due to group undertakings				2019 £'000	2018 £'000
Nature of transaction	**Related party**	**Repayment**	**Interest**		
Bank borrowings	Lloyds Bank plc	Various	Various	**51,638**	59,598
Interest payable	Lloyds Bank plc	Various	N/A	**3,078**	2,755
Amounts due to fellow ground undertaking	Lloyds Bank Maritime Leasing (No.10) Limited	N/A	N/A	**88**	-
Derivative financial instruments (note 24.6)	Lloyds Bank plc	Various	Various	**281**	156
Taxation payable	Bank of Scotland plc	No fixed date	N/A	**236**	-
Total amounts due to group undertakings (note 19)				**55,321**	62,509

Finance income	**Related party**	2019	2018
Interest receivable	Lloyds Bank plc	**1**	-

Finance costs	**Related party**	2019	2018
Interest payable	Lloyds Bank plc	**873**	891

23. Related party transactions (continued)

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

Bank borrowings are interest bearing and during the year rates of interest of between 0.66% and 0.96% (2018: 0.39% and 0.91%) were charged.

The Company earned interest on bank deposits on which interest rates of between 2.25% and 2.27% (2018: N/A) were received.

The Company paid taxation of £nil (2018: £826,000) during the year to fellow subsidiary undertakings.

The registered offices of related parties are noted below:

Related party	Related party relationship	Registered address
Lloyds Bank plc	Ultimate parent company	25 Gresham Street, London EC2V 7HN
Bank of Scotland plc	Fellow group company	The Mound, Edinburgh, EH1 1YZ
Lloyds Bank Maritime Leasing (No.10) Limited	Fellow group company	25 Gresham Street, London EC2V 7HN

24. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, market risk, interest rate risk and foreign exchange risk. Responsibility for the control of overall risk lies with the Board of directors, operating within a management framework established by Lloyds Banking Group, and the ultimate parent, Lloyds Banking Group plc.

24.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with finance leases and trade receivables is managed through the application of strict underwriting criteria, determined by the Group's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in note 1 and 2.4.

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focussed benchmark for credit decisions.

- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.

- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

Maximum credit exposure

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	2019 **£'000**	2018 £'000
Amounts due from group undertakings	**19,409**	18,246
Finance lease receivables	**7,184**	7,275
Trade and other receivables	**669**	46
	27,262	25,567

The credit risk associated with Amounts due from group undertakings are held with other companies within the Group. The credit risk associated with these financial assets and Trade and other receivables is not considered to be significant.

Notes to the financial statements (continued)
For the year ended 31 December 2019

24. Financial risk management (continued)

Credit quality of assets

The analysis of lending has been prepared based on the division in which the asset is held; with the business segment in which the exposure is recorded reflected in the ratings system applied. All probabilities of default (PDs) include forward-looking information and are based on 12 month values, with the exception of credit impaired.

	Grade	IFRS 9 PD%
Good quality	**1 - 10**	0.00 - 0.50
Satisfactory quality	**11 - 14**	0.51 - 3.00
Lower quality	**15 - 18**	3.01 - 20.00
Below standard, but not impaired	**19**	20.01 - 99.99
Credit impaired	**20 - 23**	100

	2019 £'000	2018 £'000
Stage 1		
Good quality	**7,184**	5,211
Satisfactory quality	**-**	2,064
Lower quality	**-**	-
Below standard, but not impaired	**-**	-
	7,184	7,275
Stage 2		
Good quality	**-**	-
Satisfactory quality	**-**	-
Lower quality	**-**	-
Below standard, but not impaired	**-**	-
	-	**-**
Stage 3		
Credit-impaired	**-**	**-**
Total	**7,184**	7,275

24.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. The Company is funded entirely by companies within the Group. Such funding is repayable on demand, although there is no expectation that such a demand would be made.

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

As at 31 December 2019

	On demand £'000	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5+ years £'000	Total £'000
Bank overdraft	**-**	**-**	**-**	**-**	**-**	**-**
Bank borrowings	**-**	**48,183**	**3,455**	**-**	**-**	**51,638**
Other payables	**3,376**	**1,303**	**2**	**675**	**5**	**5,361**
Derivative financial instruments	**-**	**-**	**-**	**8**	**273**	**281**
	3,376	**49,486**	**3,457**	**683**	**278**	**57,280**

24. Financial risk management (continued)

24.2 Liquidity risk (continued)

As at 31 December 2018

	On demand £'000	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5+ years £'000	Total £'000
Bank overdraft	-	-	-	-	-	-
Bank borrowings	-	53,960	5,638	-	-	59,598
Other payables	2,729	3,301	3	-	5	6,038
Derivative financial instruments	-	-	1	36	119	156
	2,729	57,261	5,642	36	124	65,792

24.3 Interest rate risk

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.

24.4 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.

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 and immaterial amount (2018: £4,000) primarily due to assets/liabilities denominated in USD.

Foreign currency risk - carrying amount

	2019 $000	2018 $000
Amounts owed by group undertakings	**5**	20
Financial assets	**5**	20

Foreign currency risk - carrying amount

	2019 $000	2018 $000
Amounts owed to group undertakings	**1**	1,498
Financial liabilities	**1**	1,498

24. Financial risk management (continued)

24.5 Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

Valuation of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise equity shares, treasury bills and government securities.

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

The tables below provide an analysis of the financial assets and liabilities of the Company that are carried at fair value in the Company's Balance sheet, grouped into Levels 1 to 3 based on the degree to which the inputs to fair value are observable.

At 31 December 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Derivative financial instrument assets (note 24.6)	**-**	**14**	**-**	**14**
Derivative financial instrument liabilities (note 24.6)	**-**	**(281)**	**-**	**(281)**
Total derivative financial instruments	**-**	**(267)**	**-**	**(267)**

At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Derivative financial instrument assets (note 24.6)	-	208	-	208
Derivative financial instrument liabilities (note 24.6)	-	(156)	-	(156)
Total derivative financial instruments	-	52	-	52

The fair value of current liabilities approximates their carrying values.

24.6 Derivative financial instruments

The principal derivatives used by the Company are interest rate swaps to hedge against fluctuations in interest rates. An interest rate swap is an agreement between two parties to exchange fixed and floating rate payments, based upon interest rates defined in the contract.

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and variable rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the borrowings utilised to fund existing finance lease agreements.

24. Financial risk management (continued)

24.6 Derivative financial instruments (continued)

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

Hedge ineffectiveness for interest rate swaps may occur due to the credit/debit value adjustment on the interest rate swaps which is not matched and differences in critical terms between the interest rate swaps and loans.

There was no recognised ineffectiveness during 2019 or 2018 in relation to interest rate swaps.

The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using interest rate yield curves which are developed from publicly quoted rates.

	Contractual/ Notional amount	Fair values Assets	Fair values Liabilities
	£'000	**£'000**	**£'000**
31 December 2019			
Interest rate swaps	**43,141**	**14**	**(281)**
	43,141	**14**	**(281)**
31 December 2018			
Interest rate swaps	57,495	208	(156)
	57,495	208	(156)

25. Events since the Balance sheet date

Since the Balance sheet date there has been a global pandemic from the outbreak of Covid-19 which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. During May and June 2020, a small number of customers have requested a moratorium for either capital and interest or capital repayments for 3 months. We have not seen a significant deterioration of the credit risk within these customers and any significant impacts to the financial position of the Company.

26. Future developments

The following pronouncement is not applicable for the year ending 31 December 2019 and has not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.

With the exception of certain minor amendments, as at the date of signing these financial statements these pronouncements have been endorsed by the EU.

Minor amendments to other accounting standards
The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IAS 1 Presentation of Financial Statements). These amendments are not expected to have a significant impact on the Company.

27. IFRS 16

IFRS 16 replaces the provisions of IAS 17 that relate to leases. IFRS 16 eliminates the distinction between leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17.

The Company has adopted IFRS 16 Leases from 1 January 2019 and elected to apply the standard retrospectively with the cumulative effect of initial application being recognised at that date; comparative information has therefore not been restated. Comparative information was prepared in accordance with IAS 17.

As at the Balance sheet dates 31 December 2018 and 31 December 2019 the Company is the lessor and as such there has been no impact on the presentation or disclosure of its leases.

The Company has conducted an analysis of the changes and does not consider there to be any significant impact of applying IFRS 16 to the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK LEASING (NO.6) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Lloyds Bank Leasing (No.6) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Director's Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK LEASING (NO.6) LIMITED (CONTINUED)

Strategic Report and Director's 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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the director's for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, 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
14 August 2020