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SMBC

SMBC LEASING & FINANCE UK NO.1 LIMITED

An SMBC Group Company

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

Registered Company Number 5775540

CONTENTS

OFFICERS AND CORPORATE INFORMATION

REGISTERED OFFICE

SMBC Leasing & Finance UK No.1 Limited
99 Queen Victoria Street
London EC4V 4EH

REGISTERED COMPANY NUMBER

5775540 England and Wales

AUDITOR

KPMG LLP
Registered Auditor
15 Canada Square
London E14 5GL

COMPANY SECRETARY

Company Secretary Services are provided by Prism Communications & Management Limited

BOARD OF DIRECTORS

Lee Barnsley
Lawrence Butcher
Antony Mitton
Mark Rutherford
David Ward (resigned 1 June 2019)

STRATEGIC REPORT

The Directors present their strategic report for the year ending 31 March 2019.

TRADING UPDATE

The company traded as expected during the year. Profit Before Tax was £ 952,333 (prior year: £ 1,119,098) and Profit After Tax was £ 681,332 (prior year £ 893,082).

SIGNIFICANT RISKS

In recent years, the company has been used as a vehicle for a specific loan financing transaction. During the year, that loan financing was terminated. As at the year end, there were no transactions booked within the company. The Directors have determined that since the company has no material assets, other than GBP-denominated cash, there are no significant risks to consider.

On 2nd November 2019 (after the financial year end but prior to the signing of these financial statements), a new £57m lending agreement was booked into the company which is expected to generate significant margin income *for the business overthe next 16 years. The booking of this new transaction has removed any uncertainty as to* whether the financial statements should be prepared on a going concern basis. The new transaction was fully hedged and denominated in GBP. Further details may be found in Note 16.

In addition, the company continues to benefit from a working capital facility to cover any cash shortfalls in the next 12 months and it also benefits from large cash reserves.

FUTURE PROSPECTS

The company continues to look at acquisition and new business opportunities.

By order of the board on 10 December 2019:

Lawrence Butcher, Director
SMBC Leasing & Finance UK No.1 Limited
Registered Company Number 5775540

DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 March 2019.

PRINCIPAL ACTIVITY

The principal activity of the company is the trade of leasing, including the provision of financial facilities (leases and loans) and related services.

BUSINESS REVIEW

The company's performance for the period ended 31 March 2019 showed a Profit Before Tax of £ 952,333 (prior year: £ 1,119,098 Profit Before Tax).

FINANCIAL RESULTS

The Profit After Tax for the year was £ 681,332 (prior year: £ 893,082 Profit). As at 31 March 2019 the company held total assets valued at £ 5,005,491 (prior year: £ 101,693,555).

As at 31 March 2019 the company had overall net assets of £ 4,802,276 . This compared to net assets of £ 4,169,497 as at the prior year end.

Total borrowings were £nil as at the year end (prior year: £ 94,610,839).

GOING CONCERN

The company had net current assets of £ 4,793,187 as at the year end (prior year: £ 2,068,472).

Most of the net current asset balance comprises cash reserves which are more than sufficient to cover any liabilities arising in the next 12 months. Whilst the company currently has no live transactions within its portfolio, the Directors have reported that a new lending transaction was booked into the company on 2nd November 2019 and this transaction is expected to generate substantial margin income and cash returns over the full term. This new transaction is long-term in nature, maturing in 2035. Further details may be found in Note 16. As a result, the Directors believe that the preparation of the financial statements on a going concern basis is appropriate.

FINANCIAL INSTRUMENTS

The company's financial risk management objectives and policies are summarised in Note 14 of these financial statements.

INTEREST RATE RISK

The company is not exposed to interest rate risk.

CURRENCY RISK

All transactions are in Sterling thus there is no currency risk.

DIRECTORS' REPORT (Continued)

CREDIT RISK

Credit risk is managed by a thorough credit review process prior to entering into any transaction.

Leases and loans are priced with reference to the credit risk of the exposure customer and late payments are monitored constantly. On a periodic basis, credit reviews are performed to ensure the continuing creditworthiness of customers.

DIVIDENDS

No dividends were paid during the year and no final dividend is proposed (prior year: nil).

DIRECTORS

The following Directors served on the board during the year:

Lee Barnsley
Lawrence Butcher
Antony Mitton
Mark Rutherford
David Ward (resigned 1 June 2019)

SMBC Leasing and Finance, Inc. has granted indemnities to all the Directors listed above (apart from David Ward), against civil liabilities to third parties in respect their roles as Directors.

CREDITOR PAYMENT POLICY

The company's standard practice is to agree the terms of payment with suppliers at the time of contract and to make payments within the agreed credit term subject to satisfactory performance.

ENVIRONMENT

The company is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice within the community.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office as at the signing date below confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware. Each Director has taken appropriate steps (as they are required to do by law) to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

AUDITOR

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will continue in office.

DIRECTORS' REPORT (Continued)

By order of the board on 10 December 2019:

Lawrence Butcher, Director
SMBC Leasing & Finance UK No.1 Limited
Registered Company Number 5775540

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AUDITOR'S REPORT ON SMBC LEASING & FINANCE UK NO.1 LIMITED

OPINION

We have audited the financial statements of SMBC Leasing & Finance UK No.1 Limited ("the company") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cashflow, and related notes, including the accounting policies in note 1. In our opinion the financial statements:

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

THE IMPACT OF UNCERTAINTIES DUE TO THE UK EXITING THE EUROPEAN UNION ON OUR AUDIT

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

GOING CONCERN

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

AUDITOR'S REPORT ON SMBC LEASING & FINANCE UK NO.1 LIMITED (Continued)

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

STRATEGIC REPORT AND DIRECTORS' REPORT

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

• we have not identified material misstatements in the strategic report and the directors' report;
• in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
• in our opinion those reports have been prepared in accordance with the Companies Act 2006.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in these respects.

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S REPORT ON SMBC LEASING & FINANCE UK NO.1 LIMITED (Continued)

AUDITOR'S RESPONSIBILITIES

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at:

www.frc.org.uk/auditorsresponsibilities.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Lomax

Peter Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Statutory Auditors and Chartered Accountants
15 Canada Square
London E14 5GL

Dated: 10|12|19

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019	2018
		£	£
Revenue	2	5,066,513	6,567,728
Cost of Sales	2	(4,053,742)	(5,384,153)
Gross Profit (Loss)		**1,012,771**	**1,183,575**
Administrative Expenses		(66,048)	(64,477)
Operating Profit (Loss)		**946,723**	**1,119,098**
Interest Income on Bank Deposits	4	5,610	-
Profit (Loss) Before Tax		**952,333**	**1,119,098**
Tax	6	(271,001)	(226,016)
Profit (Loss) After Tax		**681,332**	**893,082**

All profits (losses) have arisen from continuing operations.

The notes on pages 16 to 34 form an integral part of these accounts.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	Notes	Share Capital £	Retained Earnings £	Total Equity £
At 31 March 2017		**10,000**	**3,266,415**	**3,276,415**
Profit (Loss) for Year		-	893,082	893,082
At 31 March 2018		**10,000**	**4,159,497**	**4,169,497**
Establishment of IFRS 9 Loss Reserve*		-	(48,553)	(48,553)
At 1 April 2018		**10,000**	**4,110,944**	**4,120,944**
Profit (Loss) for Year		-	681,332	681,332
At 31 March 2019		**10,000**	**4,792,276**	**4,802,276**

*On 1st April 2018 a loss reserve was established and accounted for as a bfwd adjustment to retained earnings.

The notes on pages 16 to 34 form an integral part of these accounts.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Notes	2019	2018
		£	£
Non-Current Assets			
Loans Receivable	10	-	96,711,864
Deferred Tax Asset	12	9,089	
		9,089	**96,711,864**
Current Assets			
Trade and Other Receivables	8	1,375	3,055,019
Cash and Equivalents	7	4,995,027	1,926,672
		4,996,402	**4,981,691**
TOTAL ASSETS		**5,005,491**	**101,693,555**
Current Liabilities			
Trade and Other Payables	9	203,215	2,913,219
		203,215	**2,913,219**
Total Assets Less Current Liabilities		**4,802,276**	**98,780,336**
Non-Current Liabilities			
Interest Bearing Loans and Borrowings	11	-	94,610,839
		-	**94,610,839**
TOTAL LIABILITIES		**203,215**	**97,524,058**
Capital and Reserves			
Share Capital	13	10,000	10,000
Retained Earnings bfwd		4,110,944	3,266,415
Profit (Loss) in the y/e 31 March 2019		681,332	893,082
		4,802,276	**4,169,497**
Total Equity and Non-Current Liabilities		**4,802,276**	**98,780,336**

The notes on pages 16 to 34 form an integral part of these accounts.

The financial statements were approved by the Board of Directors on 10 December 2019 and signed on its behalf by:

Antony Milton, Director
SMBC Leasing & Finance UK No.1 Limited
Registered Company Number 5775540

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019	2018
		£	£
OPERATING ACTIVITIES			
Profit (Loss) After Tax from Income Statement		681,332	893,082
Finance Income	2 & 4	(4,961,736)	(6,564,432)
Interest Expense	2	4,109,325	5,384,153
		(171,079)	**(287,197)**
Tax Charge for Year (from Income Statement)	6	271,001	226,016
Decrease (Increase): Loans Receivable	10	96,653,225	(927,869)
Decrease (Increase): Trade Receivables exc. Interest	8	5,666	25,558
Increase (Decrease): Trade Payables exc. Interest and Tax	9	(11,464)	(825,536)
		96,747,349	**(1,789,028)**
Group Relief Taxation Received (Tax Paid)	6	(464,137)	-
Interest Paid		(6,613,732)	(3,486,812)
Interest Received		8,009,713	6,328,277
Net Cashflow from Operating Activities		**97,679,193**	**1,052,437**
INVESTING ACTIVITIES			
Net Cashflow from Investing Activities		-	-
FINANCING ACTIVITIES			
Increase (Decrease) in Borrowings	11	(94,610,838)	(1,166,759)
Net Cashflow from Financing Activities		**(94,610,838)**	**(1,166,759)**
Net Increase (Decrease) in Cash and Equivalents		**3,068,355**	**(114,322)**
Opening Balance as at 1st April 2018	7	1,926,672	2,040,994
Closing Balance as at 31 March 2019		**4,995,027**	**1,926,672**

The notes on pages 16 to 34 form an integral part of these accounts.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

[NOTE 1] ACCOUNTING POLICIES

SMBC Leasing & Finance UK No.1 Limited is a company incorporated in the United Kingdom under the Companies Act 1985.

The company's registered address is: 99 Queen Victoria Street, London EC4V 4EH.
The nature of the company's operations and its principal activities are detailed in the Directors' Report.

These financial statements were authorised for issue by the Directors on 10 December 2019.

BASIS OF PREPARATION

The company's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently across all periods presented in these financial statements.

GOING CONCERN

The company had net current assets of £ 4,793,187 as at the year end (prior year: £ 2,068,472).

Most of the net current asset balance comprises cash reserves which are more than sufficient to cover any liabilities arising in the next 12 months. Whilst the company currently has no live transactions within its portfolio, the Directors have reported that a new lending transaction was booked into the company on 2nd November 2019 and this transaction is expected to generate substantial margin income and cash returns over the full term. This new transaction is long-term in nature, maturing in 2035.

As a result, the Directors believe that the preparation of the financial statements on a going concern basis is appropriate.

JUDGEMENTS AND ESTIMATES

The Directors confirm that there are no judgements or estimates made within these financial statements which are material enough in nature to warrant and additional disclosures.

FUNCTIONAL AND PRESENTATION CURRENCY

The company has no non-GBP currency leases or loans. Its only non-GBP asset is a EUR-denominated cash balance.

GBP is the company's base and functional currency.

REVENUE AND EXPENSE RECOGNITION

Interest Income and Expense

Effective from 1st April 2018, the company adopted IFRS 9 in relation to its financial assets and liabilities. Under IFRS 9, the effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Fee and Commission Income / Expense

Effective from 1st April 2018, the company adopted IFRS 15 (Revenue Contracts with Customers) with regards to the recognition of fee and commission income / expense. The company follows a five-stage classification process when deciding on the recognition method to be applied to fees and commissions:

(1) Identify the contract with the counterparty
(2) Identify the performance obligations within the contract
(3) Determine the transaction price
(4) Allocate the transaction price to the performance obligations
(5) Recognise revenue when the performance obligations are met

Fees are divided into two categories. Firstly, fees which relate to services performed over a period of time are spread over the time to which they relate. Secondly, fees which relate to the completion of a transaction are recognised fully in the month of closure.

Any fees which are directly attributable to a lease or loan are spread over the term of the underlying transaction. This has the effect of adjusting the effective interest rate on the transaction.

INTEREST BEARING LOANS AND OTHER BORROWINGS

Borrowings are recognised initially at their fair value less attributable transaction costs. Subsequent to the initial recognition, all borrowings are stated at their amortised cost with any differences between cost and the redemption value being recognised in the Income Statement over the period of the borrowing at an effective interest rate.

TAXATION

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date (currently 19%).

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for the company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when it improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans which are intended to be sold in the short term are recorded at fair value through the Income Statement.

Loans and receivables are initially recorded at fair value, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.
This follows the provisions of IFRS 9 (for loans).

CONSOLIDATION

The company's accounts are prepared on a standalone basis; the company does not hold investments in any other entity.

CASH AND EQUIVALENTS

Cash and equivalents comprise cash balances and cash on time deposit. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash for the purposes of the cash flow statement.

DIVIDENDS ON SHARES PRESENTED WITHIN SHAREHOLDERS' FUNDS

Dividends which are unpaid at the Statement of Financial Position date are recognised as a liability to the extent that they have been declared and authorised and are no longer payable at the discretion of the company.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

IMPAIRMENT OF FINANCIAL ASSETS

Prior to adoption of IFRS 9

Assets carried at amortised cost are assessed at the end of each financial year to determine whether there is objective evidence that a financial asset or group of financial assets should be impaired.

Impairment losses are incurred if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the assets (a 'loss event') and if that loss event has an impact on the estimated future cash flows of the financial asset or group which can be reliably estimated.
Objective evidence includes observable evidence about the following loss events:

- deterioration in the value of the underlying asset or collateral security;
- significant financial difficulty of the customer;
- a breach of contract, such as a default.

Following adoption of IFRS 9 (effective 1st April 2018)

From 1st April 2018 the company adopted IFRS 9 and follows a policy of calculating expected credit losses which involves performing a periodic review of all lending transactions and calculating an expected loss reserve.

Calculation of Expected Credit Losses (ECLs) for Loans Receivable

For Loans Receivable, ECLs are calculated by reference to the following calculation:

Net Exposure x Probability of Default % x Loss Given Default %

For Loans Receivable the credit grade of the customer is closely monitored for changes and deterioration. If the credit grade deteriorates significantly, the Probability of Default will switch from a 12 month calculation to a Lifetime Losses calculation. The Probability of Default is determined by reference to both the customer's credit grade and the remaining term on the transaction.

The Loss Given Default is determined by the financial product associated with the transaction.
The company's ultimate parent (Sumitomo Mitsui Financial Group) publishes Probability of Default and Loss Given Default tables each year which are used by all group companies.

The Directors have confirmed that the use of these tables in equally applicable to this company.

Management Subjectivity

Where a Loan Receivable is associated with a customer whose credit grade has deteriorated, management judgement is applied when deciding whether to switch from a 12 month to Lifetime Losses Probability of Default. The decision is based on whether the revised credit grade is sufficiently low to warrant a switch to Lifetime Losses. Contracts are reviewed for lifetime losses whenever the credit grade has deteriorated by more than two grades.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

Definition of Default

The company defines "default" as any customer who is in severe financial difficulty and who will enter bankruptcy, or undergo some form of reorganisation, in the near future. The company monitors both the credit grade and the arrears position of customers and a default is expected should the credit grade drop to G7 (equivalent to Moody's CCC+ grading) or the arrears balance exceed 90 days past due.

The company monitors arrears constantly and is able to differentiate between "technical arrears", where non-payment is due to a processing error (e.g. invoice in dispute, incorrect bank details) and "true arrears" (where the customer is unable to pay due to financial difficulties).

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Assets	Held at	Liabilities	Held at
Loans Receivable	Amort. Cost	Borrowings	Amort. Cost
Trade and Other Receivables	Amort. Cost	Trade and Other Payables	Amort. Cost
Cash and Cash Collateral	Amort. Cost		

IFRS 9 contains three classification categories for financial assets: amortised cost, FVPL and FVOCI. The classification is based on the business model for the asset under consideration. The company's business model for loans receivable states that all loans are classified as "hold to collect" and all payments are solely payments of principle and interest. This classification determines that loans receivable should be held at amortised cost.

NEW / AMENDED STANDARDS

During the accounting period covered by these financial statements, the following accounting standards became effective or were amended:

- IFRS 9 (Financial Instruments)
- IFRS 15 (Revenue Contracts with Customers)

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

[NOTE 2] REVENUE AND COST OF SALES

	2019	2018
Revenue	£	£
Interest Income on Loans Receivable	4,956,126	6,564,432
Exchange Rate Gains	-	3,296
Gain on Early Termination	110,387	-
	5,066,513	6,567,728

Cost of Sales		
Interest on Borrowings	4,109,325	5,384,153
Movement in Expected Credit Losses	(58,639)	-
Exchange Rate Loss	3,056	-
	4,053,742	5,384,153

[NOTE 3] STAFF COSTS

The company has no employees. The Directors have little input in the day to day administration of the company and therefore there is no appropriate basis on which they can apportion part of their remuneration for their services to the company. The Directors are remunerated by other group companies and their emoluments are disclosed in those companies' financial statements.

[NOTE 4] FINANCE INCOME

	2019	2018
	£	£
Time Deposit Interest Income from a Fellow Subsidiary	5,610	-
	5,610	-

[NOTE 5] AUDIT FEES

The following fees have been agreed with the auditor in relation to the provision of audit services relating to these financial statements.

	2019	2018
	£	£
Audit Fees Payable	18,120	13,470

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

[NOTE 6] TAXATION

	2019	2018
	£	£
Current Tax Expense		
Current Year	270,004	226,016
Deferred Tax Expense		
Origination and Reversal of Temporary Differences	997	-
Total Tax Charged to Income Statement	**271,001**	**226,016**

Reconciliation of Effective Tax Charge

	2019	2018
Profit (Loss) Before Tax (per Income Statement)	*952,333*	*1,119,098*
Tax at 19% (prior year: 19%)	180,943	212,629
Prior Year Adjustment	49,861	13,387
Impact of Rate Change	(116)	-
Thin Capitalisation Adjustment (re: disallowed interest expense)	40,313	-
Total Tax Charged to Income Statement	**271,001**	**226,016**

Effective Tax Rate

The company's effective tax rate (ETR) for the year ending 31 March 2019 was 28.4% (prior year: 20.2%)
The directors believe that the current ETR will be more or less maintained at its current rate in the future.

[NOTE 7] CASH AND EQUIVALENTS

Cash and equivalents comprise cash at bank and short term deposits maturing within three months and held with a related company.

[NOTE 8] TRADE AND OTHER RECEIVABLES

Trade and Other Receivables are all analysed as current (due within one year).

	2019	2018
	£	£
Trade Receivables		
Interest Income accrued but not yet received	-	3,047,978
VAT due from HMRC	1,375	1,865
	1,375	3,049,843
Other Receivables		
Prepaid Expense	-	5,176
	1,375	**3,055,019**

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value due to the short term nature of their repayments.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

[NOTE 9] TRADE AND OTHER PAYABLES

Trade and Other Payables are all analysed as current (due within one year).

	2019	2018
	£	£
Trade Payables		
Creditors	-	4,440
Interest Expense accrued, but not yet paid	-	2,504,407
Other Expenses accrued but, not yet paid	20,935	18,870
	20,935	**2,527,717**
Other Payables		
Current Tax payable (settled via Taxation Group Relief)	182,280	385,502
	182,280	**385,502**
	203,215	**2,913,219**

The Directors consider that the carrying amount of trade and other payables approximates to their fair value due to the short term nature of their repayments.

[NOTE 10] LOANS RECEIVABLE

Cash and equivalents comprise cash at bank and short term deposits maturing within three months and held with a related company.

	2019	2018
	£	£
Due After One Year	-	96,711,864
	-	96,711,864

All loans receivable were repaid in full during the year.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

[NOTE 11] INTEREST-BEARING LOANS AND OTHER BORROWINGS

	2019	2018
	£	£
Amounts Falling Due After One Year		
Due to Fellow Subsidiary Lenders	-	94,610,839
	-	94,610,839

Fellow Subsidiary Lenders comprise:

SMBC Europe Limited
SMBC Leasing (UK) Limited
SMBC Leasing and Finance, Inc. London Branch

All borrowings were repaid in full during the year.

[NOTE 12] DEFERRED TAX

	2019	2018
	£	£
Deferred Tax Asset	9,089	-

Reconciliation of Deferred Tax Movement in the Year

Opening Balance at Start of Year	-	-
Reversal of Timing Differences	9,089	-
Closing Balance at End of Year	9,089	-

The UK Finance (No.2) Act 2015 introduced the 19% rate of corporate tax effective from 1 April 2017. This is scheduled, per Finance Act 2016 to reduce to 17% from 1 April 2020. The balances above have been calculated using a rate of 17%.

[NOTE 13] SHARE CAPITAL

	2019	2018
	£	£
10,000 Ordinary Shares at £1 per Share	10,000	10,000

All shares are allotted, called up and fully paid. No new shares were issued during the year.

Dividends paid during the year were nil (prior year: nil).

Capital is defined as Share Capital plus Retained Earnings. Capital is managed to ensure that expected risks on all transactions are adequately covered.

[NOTE 14] FINANCIAL RISK MANAGEMENT

FINANCIAL INSTRUMENT STRATEGY

The company provides a range of loan products to its clients and funds these activities by means of inter-company and external borrowings. The interest rate risk is calculated and reviewed at the company level and borrowing is structured to minimise interest rate risk.

As required, the company considers the use of derivative instruments to manage exposures to interest rate risks. The company's objectives for holding derivatives are to minimise these risks using the most effective methods to eliminate or reduce the impact of these exposures. The company's primary objectives include the economic conversion of fixed-rate assets to variable rate assets.

Lending tends to be bespoke for individual clients and transactions. As such, each transaction is wholly or substantially funded separately and has specifically tailored hedging instruments. The nature and extent of the financial instruments outstanding at the end of the financial year and the risk management policies employed by the company are discussed below.

MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the company's income or the value of its holdings of financial investments. The company manages market risk and its components on a transaction-by-transaction basis. The Directors of the company ensure that when it enters into a transaction all fixed interest rate lending is substantially managed with interest rate swap contracts. The Directors of the company review and document each transaction, prior to completion, to ensure it is not taking currency or interest rate risk. The company's principal risk is thus credit risk, and this is managed via an appropriate credit review process and the margins charged. AS at the reporting date, there was no requirement for the use of derivatives within the portfolio.

CREDIT RISK

Credit risk arises from all exposures to clients on the company's lending activities. The company's Board establishes underwriting limits, reviews concentrations and establishes procedures on credit decisions. Transactions that exceed the company's own limits are then passed to a parent company for a decision. Major exposures and levels of default together with other credit issues are reviewed regularly. Concentration limits are set for exposure by asset type and industrial sector.

The company monitors concentration of credit risk by industry sector and exposure to asset type. The table below shows an analysis of loans to customers by sector and asset type.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

	2019	2018
	£	£
Loan Receivable Credit Risk Analysed by Industry Sector		
Rail Transportation	-	96,711,864
	-	96,711,864
Loan Receivable Credit Risk Analysed by Asset Type		
Rolling Stock	-	96,711,864
	-	96,711,864

All exposures were repaid in full during the year..

IMPAIRMENT PROVISIONS

Expected Credit Losses (ECLs) have been calculated against each lending contract within the portfolio. ECLs have been calculated following the guidelines set out under IFRS 9 and which are explained more fully in the Accounting Policy section of these financial statements (Note 1).

The assets of the company are summarised below, showing the gross value before the application of any Expected Credit Losses, the calculated Expected Credit Loss and the resultant Book Value:

ECLs are categorised as falling into one of three stages:

Stage 1: 12 Months ECL (no significant credit deterioration)
Stage 2: Lifetime ECL (significant increase in credit risk)
Stage 3: Default (as defined in Accounting Policy Note 1)

As at 31 March 2019 the company has no contracts classified as Stage 3. A summary of Stage 1 and Stage 2 contracts is shown below.

	2019 Gross Value Before ECL Stage 1 £000	2019 Expected Credit Loss Stage 1 £000	2019 Gross Value Before ECL Stage 2 £000	2019 Expected Credit Loss Stage 2 £000	2019 Carrying Value £000
Cash	4,995	-	-	-	4,995
Other Receivables	1	-	-	-	1
	4,996	-	-	-	4,996

2018 comparatives have not been stated as IFRS 9 became effective 1st April 2018. It should also be noted that no loss provisions were booked under the old IAS 39 "incurred losses" model. Loss provisions were booked for the first time upon application of the revised IFRS 9 model.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

MOVEMENT IN EXPECTED CREDIT LOSSES

	Loans Receivable Stage 1 £000	Loans Receivable Stage 2 £000	Total £000
ECL on 1st April 2018	59	-	59
Movement attributed to:			
Terminated transactions	(59)		(59)
ECL on 31st March 2019	-	-	-

There were no defaults during the financial year (prior year: nil).

INTEREST RATE RISK

The following table summarises the company's exposure to interest rate risk. Included in the table are the company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity date:

	2019 Floating Rate £000	2019 Fixed Rate £000	2019 Non-Interest Bearing £000	2019 Total £000
Assets				
Cash and Equivalents	4,995	-	-	4,995
Trade and Other Receivables	-	-	1	1
Deferred Tax Asset	-	-	9	9
	4,995	-	10	5,005
Liabilities				
Trade and Other Payables	-	-	202	202
Shareholder Equity	-	-	4,803	4,803
	-	-	5,005	5,005

	2018 Floating Rate £000	2018 Fixed Rate £000	2018 Non-Interest Bearing £000	2018 Total £000
Assets				
Cash and Equivalents	1,927	-	-	1,927
Trade and Other Receivables	-	-	3,054	3,054
Loans Receivable	-	96,712	-	96,712
	1,927	96,712	3,054	101,693
Liabilities				
Borrowings	-	94,611	-	94,611
Trade and Other Payables	-	-	2,913	2,913
Shareholder Equity	-	-	4,169	4,169
	-	94,611	7,082	101,693

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

CURRENCY RISK

The company had negligible foreign currency exposure as at the reporting date of these financial statements.

LIQUIDITY RISK

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's principal liquidity risk is in respect of the requirement to maintain sufficient levels of borrowing to fund the leasing and lending portfolio over the period that the leases remain outstanding. The company borrows from fellow subsidiaries and the company's Directors maintain a regular review and contact with these fellow subsidiaries to ensure sufficient funds remain available.

	2019 Repayable on Demand £000	2019 0 - 3 Months £000	2019 3 - 12 Months £000	2019 > 12 Months £000	2019 Total £000
Liabilities					
Trade and Other Payables	-	203	-	-	203
	-	203	-	-	203

	2018 Repayable on Demand £000	2018 0 - 3 Months £000	2018 3 - 12 Months £000	2018 > 12 Months £000	2018 Total £000
Liabilities					
Borrowings	-	-	-	94,611	94,611
Trade and Other Payables	-	2,913	-	-	2,913
	-	2,913	-	94,611	97,524

The table below presents the liabilities of the company and shows how they will be repaid per the contracted cashflows associated with each liability:

	Contractual Cashflow				
	2019 Repayable on Demand £000	2019 0 - 3 Months £000	2019 3 - 12 Months £000	2019 > 12 Months £000	2019 Total £000
Liabilities					
Payables exc. Interest	-	203	-	-	203
	-	203	-	-	203

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

CURRENCY RISK

The majority of the company's assets and liabilities are held in base currency (GBP). To the extent that the company enters into non-GBP transactions, it has a policy of ensuring that a natural economic hedge exists. This is achieved by ensuring that the value of non-GBP assets is materially offset by the value of non-GBP liabilities. This minimises the impact of revaluations through the income statement.

As at the reporting date, the company held foreign currency exposures in EUR only. The total assets and liabilities in EUR have been analysed below. The exposure has been presented in both EUR and the GBP equivalent, converted at the appropriate year end conversion rate.

EUR Denominated Exposure

	2019 €000	FX Rate *	2019 Equiv. £000	2018 €000	FX Rate **	2018 Equiv. £000
Assets	186	1.16317	160	186	1.14120	163
Liabilities	-	1.16317	-	-	1.14120	-
Net Assets	186		160	186		163

* The FX Rate used is the GBP conversion rate as at the 31 March 2019
** The FX Rate used is the GBP conversion rate as at the 31 March 2018

The EUR balance comprised a EUR-denominated cash balance which remained unchanged from the prior year.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

CLASSIFICATION OF FINANCIAL INSTRUMENTS (TRANSITION TO IFRS 9)

Assets	**Old Classification**	**New Classification**	**31 March 2018**	**** IFRS 9 Transition**	**01 April 2018**
Loans Receivable	Amort. Cost	Amort. Cost	96,711,864	(58,639)	96,653,225
Trade and Other Receivables	Amort. Cost	Amort. Cost	3,055,019	-	3,055,019
Cash and Cash Collateral	Amort. Cost	Amort. Cost	1,926,672	-	1,926,672
Liabilities					
Borrowings	Amort. Cost	Amort. Cost	94,610,839	-	94,610,839
Trade and Other Payables	Amort. Cost	Amort. Cost	2,913,219	-	2,913,219

IFRS 9 Statement of Financial Position Transition on 1st April 2018

	31 March 2018	**** IFRS 9 Transition**	**01 April 2018**
Assets			
Loans Receivable	96,711,864	(58,639)	96,653,225
Deferred Tax Asset	-	10,086	10,086
Trade and Other Receivables	3,055,019		3,055,019
Cash and Equivalents	1,926,672		1,926,672
	101,693,555	**(48,553)**	**101,645,002**
Liabilities			
Interest Bearing Loans and Borrowings	94,610,839		94,610,839
Trade and Other Payables	2,913,219		2,913,219
	97,524,058	-	**97,524,058**
	4,169,497	**(48,553)**	**4,120,944**
Capital and Reserves			
Share Capital	10,000	-	10,000
Retained Earnings bfwd	3,266,415	(48,553)	3,217,862
Profit in the Year	893,082	-	893,082
	4,169,497	**(48,553)**	**4,120,944**

** The impact of the transition to IFRS 9 was limited to the calculation of Expected Credit Losses on Leases and Loans Receivable (accompanied by a movement in deferred tax as a result of the new reserves)

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the fair value of all financial assets and liabilities, including those not recognised in the financial statements at fair value.

	2019 Carry Value £000	2019 Fair Value £000	2018 Carry Value £000	2018 Fair Value £000
Financial Assets				
Loans Receivable	-	-	96,712	96,712
Trade and Other Receivables	1	1	3,055	3,055
Cash and Equivalents	4,995	4,995	1,927	1,927
	4,996	4,996	101,694	101,694
Financial Liabilities				
Borrowings	-	-	94,611	94,611
Trade and Other Payables	202	202	2,913	2,913
	202	202	97,524	97,524

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists (such as a recognised exchange), as it is the best evidence of the fair value of a financial Instrument. Market prices are not, however, available for certain financial assets and liabilities held or issued by the company. At the moment there is no financial instrument where no active market exists but if in future the company had financial instrument, where no active market price or rate available, fair values would be estimated using present value or other valuation techniques, using inputs based on market conditions existing at the financial year end date.

Bank balances and cash comprise cash held by the company and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximates to their fair value. The Directors consider that the carrying amount of trade and other receivables, loans receivable and company borrowings due within one year approximates to their fair value due, due to the short term nature of their repayments, which is due on demand.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

The Company measures fair values into a fair value hierarchy based on the following valuation technique used to determine fair value:

Level 1
Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Valuation techniques based on observable prices, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3
Valuation techniques using significant unobservable inputs.

Financial instruments that are measured at fair value comprise only interest rate swaps which are designated at fair value through the profit and loss and classified as level 2 due to the method of valuation. The tables below analyse financial instruments measured at fair value into the above fair value hierarchy.

	2019 Level 1 £000	2019 Level 2 £000	2019 Level 3 £000	2019 Total £000
Financial Instruments				
Cash and Equivalents	-	4,995	-	4,995
Trade and Other Receivables	-	-	1	1
Trade and Other Payables	-	-	(202)	(202)
	-	4,995	(201)	4,793

	2018 Level 1 £000	2018 Level 2 £000	2018 Level 3 £000	2018 Total £000
Financial Instruments				
Cash and Equivalents	1,927	-	-	1,927
Trade and Other Receivables	-	3,055	-	3,055
Borrowings	-	(94,611)	-	(94,611)
Trade and Other Payables	-	(2,913)	-	(2,913)
Loans Receivable	-	96,712	-	96,712
	1,927	2,243	-	4,170

During the year the Directors reassessed the reporting levels for financial instruments. As a result of that assessment, certain line items were moved between levels. Prior year figures were not restated since the impact was not deemed to be material in the context of these financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

[NOTE 15] RELATED PARTIES

TRANSACTIONS WITH KEY PERSONNEL

Key management personnel are the Directors of the company. The remuneration of the Directors of the company is disclosed in note 3. The remuneration of all Directors is borne in full by other entities and disclosed in those companies' financial statements. There is no reasonable and economical basis to allocate Directors' remuneration between companies. The Directors spend most of their time working on tasks relating to other entities and as a result their costs are fully borne by other companies and not recharged to this company.

STATEMENT OF FINANCIAL POSITION: RELATED PARTY DISCLOSURES

	2019 Fellow Subsidiaries £000	**2019 Subsidiaries & Jointly Controlled Entities £000**
Cash and Equivalents	4,995	-
	4,995	-

	2018 Fellow Subsidiaries £000	**2018 Subsidiaries & Jointly Controlled Entities £000**
Cash and Equivalents	1,927	-
Borrowings	(94,611)	-
Trade and Other Payables	(2,512)	-
	(95,196)	-

Details of subsidiaries, fellow subsidiaries and jointly controlled entities are shown below:

Fellow Subsidiaries
SMBC Europe Limited
SMBC Leasing (UK) Limited
SMBC Leasing and Finance, Inc. London Branch

Subsidiaries and Jointly Controlled Entities
None

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)

INCOME STATEMENT: RELATED PARTY DISCLOSURES

	2019 Interest Income £000	2019 Interest Expense £000	2019 General Expense £000	2019 Gain (Loss) on Derivatives £000
Fellow Subsidiary	-	4,109	25	-
Subsidiary	-	-	-	-
	-	4,109	25	-

	2018 Interest Income £000	2018 Interest Expense £000	2018 General Expense £000	2018 Gain (Loss) on Derivatives £000
Fellow Subsidiary	-	5,384	22	-
Subsidiary	-	-	-	-
	-	5,384	22	-

[NOTE 16] SUBSEQUENT EVENTS

As at 31 March 2019, the majority of the company's assets comprised cash at bank. There were no live transactions booked as at the year end. Subsequent to 31 March 2019, the company entered into a new lending transaction valued at £57m with an external customer. The new transaction was booked on 2 November 2019.

This transaction was funded in full by internal borrowing and the transaction is scheduled to mature in 2035. Between the booking date and the maturity date, the transaction is expected to generate significant margin and cash returns which provide an excellent base line income for the company in the future.

[NOTE 17] IMMEDIATE PARENT AND HOLDING COMPANY

As at 31 March 2019, the company's immediate parent was SMBC Leasing and Finance, Inc.

SMBC Leasing and Finance, Inc. is the smallest group company into which the financial results of this company are consolidated. The consolidated financial statements of SMBC Leasing and Finance, Inc. are available from its registered office (277 Park Avenue, New York NY 10172, USA).

Sumitomo Mitsui Financial Group is the company's ultimate parent and this is the largest group into which the results of this company are consolidated. The consolidated financial statements of Sumitomo Mitsui Financial Group are available from its registered office (1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan).