

MANITOU FINANCE LIMITED

**ANNUAL REPORT
AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2018

REGISTERED NUMBER: 02308212



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MANITOU FINANCE LIMITED
COMPANY NUMBER 2308212

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

PRINCIPAL ACTIVITIES

The Company is a joint operation established between BNP Paribas Lease Group SA (51%) and Manitou BF SA (49%). The principal activities of the Company comprise the provision of finance by way of hire purchase, leasing, loans and stocking to customers of the Manitou group's UK dealer network. The Company's assets under management have decreased due to a decrease of the number of transactions set to live.

BUSINESS REVIEW

The results of the company for the period to 31 December 2018 are stated in the Statement of Comprehensive Income on page 10 and show a profit before tax of £3,153k (2017: Profit of £3,769k) and a profit after tax of £2,549k (2017: profit of £3,001k). The Company has net assets of £12,955k (2017: £15,888k).

KEY PERFORMANCE INDICATORS

The directors consider the Key Performance Indicators (KPIs) used by the business to be:

	2018	*Restated 2017
Profit Before Tax /Assets	2.04%	2.95%
Net Interest Income / Average Income Generating Assets	3.17%	3.68%
Equity Asset Ratio	8.37%	12.44%
Average Income Generating Assets	£141,256,000	£140,307,000
New Business Volumes	£70,688,000	£57,635,000

*The prior year figures have been restated in order to provide a more accurate reflection of the revenues and cost generated from asset disposals.

The Net Interest Income ratio has fallen as a result of a small decrease in new business margins. However, The level of Income Generating Assets has increased due to an increase in new business volumes.

The equity ratio has reduced as a result of the increase in assets and the payment of a dividend.

FUTURE OUTLOOK

The company expects to maintain business at current levels, however the future outlook for agricultural equipment sales is likely to continue to be less buoyant than in recent years.

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PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Company which are associated with its activities are liquidity risk, interest rate risk, credit risk, bad debt risk and loan to value risk.

Interest rate and liquidity risk

Fixed rate borrowings are taken from BNP Paribas, a related party, to match fixed rate lending and minimise exposure to interest rate risk.

The Company manages cash and borrowing requirements to maximise interest income and minimise interest expense, whilst ensuring it has sufficient liquid resources to meet the operating needs of its businesses.

Credit risk

Investments of cash surpluses and borrowings are made with BNP Paribas, a related party.

All customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an on going basis and provision is made for doubtful debts where necessary.

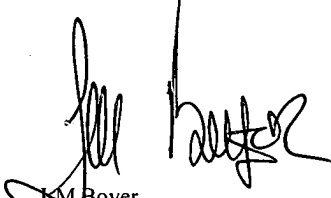
Bad debt risk

Bad Debt Risk arises from the non-payment of instalment or rentals by customers. The company has stringent risk management procedures, covering acceptance of clients, follow up of non payment of lease rentals through to recovery of assets, by which it aims to mitigate this risk as far as possible.

Loan to value risk

Loan to Value Risk arises from the ratio of the exposure of the company, to the value of the asset financed. The company manages this risk by careful client acceptance procedures, coupled with stringent asset valuation methodologies, using third party asset valuations where appropriate.

Approved by the Board of Directors and signed by order of the Board.



J.M. Boyer
Director

18 April 2019

Registered Office Address:
34 Blackmoor Road
Ebblake Industrial Estate
Verwood
Dorset
BH31 6BB

MANITOU FINANCE LIMITED
COMPANY NUMBER 2308212

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

RESULTS AND DIVIDENDS

The results of the company for the period to 31 December 2018 are stated in the Statement of Comprehensive Income on page 10 and show a profit before tax of £3,153k (2017: Profit of £3,769k).

A dividend of £5,500k (2017: £5,500k) was paid during the year. Further information can be found in note 11 to the financial statements.

SHARE CAPITAL

The issued share capital is £7,270,000. There was no movement in the share capital during the year. Further details are shown in Note 18 to the financial statements.

DIRECTORS

The directors of the Company who served during the year, and up to the date of signing the financial statements, were as follows:

J Bolton - Appointed 16 November 2018
I Barker - Resigned 16 November 2018
J-M Boyer
M Denis
G Himsworth

DIRECTOR INTERESTS

No director of the Company has at any time had any interest in the shares of the Company.

DIRECTORS' INDEMNITIES

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

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DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

GOING CONCERN

The directors are satisfied that the Company has adequate access to resources to enable it to meet its obligations and to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

PAYMENT OF SUPPLIERS

It is the Company's general policy to pay trade creditors when they fall due for payment. In the case of a number of major suppliers, specific terms and conditions of business have been agreed, and it is the Company's policy to pay in accordance with these terms provided that the supplier is also meeting all relevant terms and conditions.

INDEPENDENT AUDITORS

Mazars LLP will continue to hold office in accordance with Section 487 of the Companies Act 2006.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors have taken all the necessary steps they reasonably ought to have taken, as directors, to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

As far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware.

THE IMPACT OF BREXIT

The directors have evaluated Brexit on the most prudent basis i.e. a withdraw from the European Union with no deal and concluded that the impact on the business model is not material.

MANITOU FINANCE LIMITED
COMPANY NUMBER 2308212

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

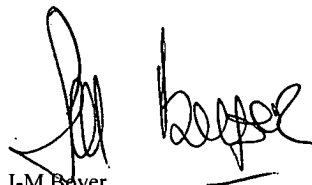
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable law. Under 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 accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements ;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; 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 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 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.

Approved by the Board of Directors and signed by order of the Board.



J-M Boyer
Director

18 April 2019

Registered Office Address:
34 Blackmoor Road
Ebblake Industrial Estate
Verwood
Dorset
BH31 6BB

MANITOU FINANCE LIMITED
COMPANY NUMBER 2308212

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
MANITOU FINANCE LIMITED

Opinion

We have audited the financial statements of Manitou Finance Limited for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to United Kingdom exiting the European Union on our audit

The Directors' view on the impact of Brexit is disclosed on page 6.

The terms on which the United Kingdom may withdraw from the European Union are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy. We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

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Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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
- 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the directors 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.

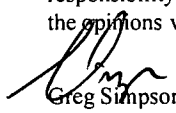
Auditor's responsibilities for the audit of the financial statements

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 auditor's 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 Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

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.


Greg Simpson (Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London E1W 1DD

1 May
~~18 April~~ 2019

MANITOU FINANCE LIMITED
COMPANY NUMBER 2308212

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

		2018		*Restated 2017	
	Notes	£'000	£'000	£'000	£'000
<u>CONTINUING OPERATIONS</u>					
REVENUE					
Interest Income	2	6,355		7,367	
Fee Income	3	1,001		713	
Other Income	4	-		3	
TOTAL INCOME			7,356		8,083
Interest Expense	5	(1,871)		(2,210)	
Cost from Operations	6	(193)		(85)	
Impairment (losses) / gains	7	(222)		294	
Administrative Expenses	8	(1,917)		(2,313)	
			(4,203)		(4,314)
PROFIT BEFORE TAX			3,153		3,769
Tax Expense	10		(604)		(768)
PROFIT FOR THE YEAR					
Attributable to Equity Holders			2,549		3,001
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR			-		-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			2,549		3,001

*The prior year figures have been restated in order to provide a more accurate reflection of the revenues and cost generated from asset disposals.

The accompanying notes on pages 14 to 36 are an integral part of this statement.

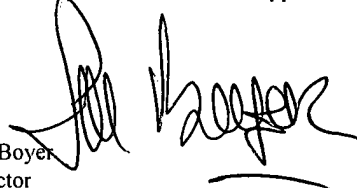
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STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2018

		2018		2017	
ASSETS	Notes	£'000	£'000	£'000	£'000
Non Current Assets					
Deferred Tax Assets	19	186		86	
Finance Lease Receivables	13	10,827		10,852	
Amounts due from Hire Purchase Agreements	15	53,914		47,317	
Total Non Current Assets			64,927		58,255
Current Assets					
Finance Lease Receivables	13	6,795		13,171	
Loans due from Customers	14	14,424		5,756	
Amounts due from Hire Purchase Agreements	15	37,057		36,218	
Cash and Cash Equivalents	16	28,488		11,016	
Other Receivables	17	3,158		3,247	
Total Current Assets			89,922		69,408
TOTAL ASSETS			154,849		127,663
EQUITY AND LIABILITIES					
Capital and Reserves					
Share Capital	18	7,270		7,270	
Retained Earnings		5,685		8,618	
TOTAL EQUITY			12,955		15,888
Non Current Liabilities					
Amounts due to Group Undertakings	20	67,370		54,389	
Total Non Current Liabilities			67,370		54,389
Current Liabilities					
Amounts due to Group Undertakings	20	70,903		54,072	
Other Payables	21	3,621		3,314	
Total Current Liabilities			74,524		57,386
Total Liabilities			141,894		111,775
TOTAL EQUITY AND LIABILITIES			154,849		127,663

The accompanying notes on pages 14 to 36 are an integral part of this statement.

These financial statements were approved by the Board of Directors on 18 April 2019 and signed on its behalf.


J-M Boyer
Director

MANITOU FINANCE LIMITED
COMPANY NUMBER 2308212

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Ordinary Shares £'000	Retained Earnings £'000	*Total £'000
Opening balance sheet as at 1 January 2017		7,270	11,117	18,387
			11,117	18,387
Profit for the year		-	3,001	3,001
Other Comprehensive Income for the year		-	-	-
Total Comprehensive Income for the year		-	3,001	3,001
Transactions with owners:				
Dividends paid for the year	11	-	(5,500)	(5,500)
Opening balance sheet as at 1 January 2018		7,270	8,618	15,888
IFRS 9 First time adjustment	12	-	18	18
Restated opening balance sheet as at 1 January 2018		7,270	8,636	15,906
Profit for the year		-	2,549	2,549
Other Comprehensive Income for the year		-	-	-
Total Comprehensive Income for the year		-	2,549	2,549
Transactions with owners:				
Dividends paid for the year	11	-	(5,500)	(5,500)
Equity as at 31 December 2018		7,270	5,685	12,955

* As a result of the changes on initial application of IFRS 9, the retained earnings were restated to £8,636k at 1 January 2018 which meant the total equity balance at 1 January 2018 became £15,906k (see note 12).

The accompanying notes on pages 14 to 36 are an integral part of this statement.

MANITOU FINANCE LIMITED
COMPANY NUMBER 2308212

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before Taxation		3,153	3,769
Adjustments for:			
Impairment Losses		222	(294)
		<u>3,375</u>	<u>3,475</u>
Movements in working capital			
Decrease in Finance Lease Receivables		6,196	8,194
Increase in Loans Due from Customers		(8,668)	(423)
(Increase)/Decrease in Amounts due from Hire Purchase agreements		(7,436)	12,115
Decrease in Other Receivables		89	4,924
Increase/(Decrease) in Trade and other payables		453	(1,786)
		<u>(9,366)</u>	<u>23,024</u>
Cash flow from operating activities before tax			
Corporation Tax Paid		(849)	(410)
		<u>(10,215)</u>	<u>22,614</u>
Net cash flow from operating activities		<u>(6,840)</u>	<u>26,089</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(5,500)	(5,500)
Increase/(Decrease) in borrowings from Group Undertakings		29,812	(21,350)
		<u>24,312</u>	<u>(26,850)</u>
Net cash flow from financing activities			
Increase/(Decrease) in cash and cash equivalents		17,472	(761)
Cash and cash equivalents at the start of the year	16	11,016	11,777
		<u>28,488</u>	<u>11,016</u>
Cash and cash equivalents at the end of the year	16		

The accompanying notes on pages 14 to 36 are an integral part of this statement.

MANITOU FINANCE LIMITED
COMPANY NUMBER 2308212

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Manitou Finance Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 34 Blackmoor Road, Ebblake Industrial Estate, Verwood, Dorset, BH31 6BB.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. The Company does not have any subsidiary undertakings.

1. ACCOUNTING POLICIES

Basis of Preparation of Financial Statements

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the Companies Act 2006 as applicable to companies reporting under IFRS.

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Management are not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements have therefore been prepared on a going concern basis.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received for goods and services provided in the normal course of business. Revenue includes interest income arising from finance lease receivables and loans, interest income arising from financial assets rental income from operating leases and income from the disposal of recovered assets, which are subject to lease arrangements. Revenue is stated net of any discounts, value-added taxes and other sales taxes.

Leases - Lessor Accounting

Leases contracted by the Company as lessor are categorised as either finance leases or operating leases.

Finance Leases

In a finance lease, the lessor transfers substantially all the risks and rewards of ownership of an asset to the lessee. It is treated as a loan made to the lessee to finance the purchase of the asset.

The present value of the lease payments, plus any residual value, is recognised as a finance lease receivable. The lease payments are spread over the lease term, and are allocated to reduce the principal and interest such that the net income reflects a constant rate of return on the net investment outstanding in the lease. The rate of interest used is the rate implicit in the lease. Finance lease income allocated to accounting periods is taken to the Statement of Comprehensive Income as interest income.

A lease contract may contain a provision giving the lessee an option to acquire title to the asset upon payment of a final rental. These contracts are known as hire purchase contracts and are disclosed separately as amounts due from hire purchase agreements.

Individual and collective impairments of finance lease receivables are determined using the same principles as applied to financial asset loans and receivables.

Operating Leases

An operating lease is a lease under which substantially all the risks and rewards of ownership of an asset are not transferred to the lessee. The Company does not hold any operating leases.

MANITOU FINANCE LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

Recovered Assets Subject to Lease Arrangements

Assets which are subject to lease arrangements, and that have been surrendered to the Company are included within finance lease receivables or amounts due from hire purchase agreements at the lower of net book value or net realisable value at the date of surrender. These assets are held with the intention of resale. Revenue relating to the disposal of recovered assets is recognised upon the transfer of legal title of the asset.

Financial Assets - Loans and Receivables

For 2017 Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value, plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

For 2017 Impairment was measured by identifying indicators of impairment that had occurred at the balance sheet date and assessing the recoverability of the asset.

For 2018 The Impairment of loans and receivables is now accounted for under IFRS 9 'Financial Instruments' Loans and receivables comprise loans due from customers, loans due from Group Undertakings, other receivables and cash and cash equivalents. Financial assets are managed within the business model whose objective is to hold financial assets in order to collect cash flows through the collection of contractual payments over the life of the instrument.

Financial Assets at Amortised Cost

For 2018 Financial assets are classified at amortised cost if the following two criteria are met: the business model objective is to hold the instrument in order to collect the contractual cash flows and the cash flows consist solely of payments relating to principal and interest on the principal. Such financial assets include most loans and receivables.

Loans and receivables are initially recognised at fair value, plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

Impairment

For 2018, The impairment model for credit risk is based on expected losses. This model applies to loans and debt instruments measured at amortised cost or fair value through equity, to loan commitments and financial guarantee contracts that are not recognised at fair value, as well as to lease receivables, trade receivables and contract assets. Impairment losses are presented under credit risk.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Where applicable, bank overdrafts are included within Borrowings in current liabilities of the Statement of Financial Position.

Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities measured at amortised cost comprise amounts due to group undertakings and other payables.

MANITOU FINANCE LIMITED
COMPANY NUMBER 2308212

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

Income and expenses arising from financial assets and financial liabilities

Income and expenses arising from financial instruments measured at amortised cost are recognised in the profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the asset or liability in the Statement of Financial Position. The effective interest rate calculation takes into account all fees received or paid that are an integral part of the effective interest rate of the contract, transaction costs and premiums and discounts.

The effective interest method used by the Company to recognise service-related fee income and expenses depends on the nature of the service. Fees treated as an additional component of interest is included in the effective interest rate, and is recognised in profit or loss in "Interest Income or Interest Expense". Fees payable or receivable on execution of a significant transaction is recognised in the profit or loss account in full on execution of the transaction, under "Fee Income or Costs from Operations". Fees payable or receivable for recurring services is recognised over the term of the service, also under "Fee Income or Cost from Operations".

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. The liability for current tax is calculated using tax rates that have been substantively enacted by the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The tax rates used in the determination of deferred income tax are the rates which are expected to apply when the asset is realised or the liability settled, based on the tax rates that have been substantively enacted at the reporting date of that period. They are not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Group Undertakings

The immediate holding Company is BNP Paribas Lease Group SA, which is registered in France. The ultimate parent Company is BNP Paribas SA, which is registered in France.

Foreign Currencies

Transactions in currencies other than the functional currency of sterling are initially recorded at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the reporting date. All translation differences are recognised in the statement of comprehensive income.

Dividends

Dividends are recognised when they become legally payable.

Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

This applies to:

- The measurement of expected credit losses. This applies in particular to the assessment of significant increase in credit risk, the models and assumptions used to measure expected credit losses, the determination of the different economic scenarios and their weighting. (see note 24)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

Transition to IFRS 9

Effect on the business model

The implementation of IFRS 9 has not resulted in a significant change to the Company's business model. The main objective of which is to hold financial assets in order to collect cashflows through the collection of contractual payments over the life of the Instrument.

The Company regularly assesses whether the financial instruments' cash flows solely represent payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Classification and measurement

Unless otherwise stated, the comparatives presented are the balance sheet position under IAS 39 at 31 December 2017. All 2018 values are under IFRS 9 from 1 January 2018.

Standards, amendments and interpretations adopted during the year

During the year, the following new standards, amendments and interpretations have become effective:

Annual Improvements to IFRS (2014 - 2016) - Effective for accounting periods beginning on or after 1 January 2018

IFRIC 22 Foreign Currency Transactions and Advance Consideration - Effective date 1 January 2018

IFRS 15 'Revenue from Contracts with Customers' - Effective date 1 January 2018

The standard replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations on revenue recognition. It sets out the principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contract with a customer and presents a five step approach to the recognition of revenue.

None of these new standards, amendments or interpretations had a material impact on these financial statements in the year.

IFRS 9 'Financial Instruments' – Effective date 1 January 2018

The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement', containing revised requirements in relation to classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The Impact of which is disclosed within notes 12 and 24.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

Standards, amendments and interpretations in issue, but not yet effective

At the date of authorisation of these financial statements the following standards, amendments and interpretations were in issue but not yet effective. These standards, amendments, and interpretations have not been adopted early and have not been applied to these financial statements.

Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement - Effective 1 January 2019, not yet endorsed by the EU

Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures - Effective 1 January 2019, not yet endorsed by the EU

Improvements to IFRSs 2015 - 2017 cycle: Minor amendments to standards and interpretations- Effective 1 January 2019, not yet endorsed by the EU

Conceptual Framework (Revised) and amendments to related references in IFRS Standards - Effective 1 January 2020, not yet endorsed by the EU.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material - Effective 1 January 2020, not yet endorsed by the EU

Amendment to IFRS 3 Business Combinations: Definition of a Business - Effective 1 January 2020, not yet endorsed by the EU

IFRIC 23 - Uncertainty over Income Tax Treatments - Effective 1 January 2019

Amendments to IFRS 9 Financial Instruments - Effective 1 January 2019

The Amendment enables companies to apply amortised cost measurement to certain financial assets with negative compensation which are capable of prepayment.

IFRS 16 'Leases' – Effective date 1 January 2019

The standard replaces IAS 17 'Leases', and eliminates the classification of a lease as either an operating lease or finance lease for lessees and introduces a single lessee accounting model.

The adoption of these standards, amendments and interpretations in future years are not expected to have a material impact on the Company's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

2. INTEREST INCOME

	2018 £'000	*Restated 2017 £'000
Interest Income from Loans	277	219
Interest Income from Hire Purchase	4,609	5,101
Interest Income from Finance Lease	1,361	1,994
Interest Income from Group Undertakings (see note 22)	116	58
Amortised Commissions and Origination Fees	(8)	(5)
	<u>6,355</u>	<u>7,367</u>

*The prior year figures have been restated in order to provide a more accurate reflection of the revenues and cost generated from asset disposals.

All interest income is derived from the United Kingdom and the Republic of Ireland.

3. FEE INCOME

	2018 £'000	2017 £'000
Administration fees	973	685
Fees on Default	28	28
	<u>1,001</u>	<u>713</u>

4. OTHER INCOME

	2018 £'000	*Restated 2017 £'000
Interest on tax payments	-	3
	<u>-</u>	<u>3</u>

*The prior year figures have been restated in order to provide a more accurate reflection of the revenues and cost generated from asset disposals.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

5. INTEREST EXPENSE

	2018 £'000	2017 £'000
Interest Expense to Group Undertaking (see note 22)	(1,871)	(2,210)
	<u>(1,871)</u>	<u>(2,210)</u>

Interest payable to group undertakings is payable on loans advanced by related parties in the BNP Paribas Group (Note 22).

6. COSTS FROM OPERATIONS

	2018 £'000	*Restated 2017 £'000
Foreign Exchange Loss	(5)	(10)
Other operating costs	(188)	(75)
	<u>(193)</u>	<u>(85)</u>

*The prior year figures have been restated in order to provide a more accurate reflection of the revenues and cost generated from asset disposals.

7. IMPAIRMENT GAINS AND LOSSES

	2018 £'000	2017 £'000
Net Provision Movement	(262)	289
Cost of Write Off Net of Provision Releases	40	5
	<u>(222)</u>	<u>294</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

8. ADMINISTRATION EXPENSES

	2018	2017
	£'000	£'000
Professional Costs	(21)	(13)
Bank Levy	(24)	(195)
Management Charges	(1,729)	(1,955)
Other administration costs	(143)	(150)
	<u>(1,917)</u>	<u>(2,313)</u>

The Bank Levy is recharged to the Company from BNP Paribas London Branch, on the basis of the Company's liabilities which are subject to the Bank Levy.

Emoluments of Directors

No remuneration has been paid to the Directors of the Company in the current or prior year.

9. AUDITOR'S REMUNERATION

The following is included within professional costs in administration expenses:

	2018	2017
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company	<u>(6)</u>	<u>(6)</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

10. TAXATION

The analysis of the tax charge for the year is as follows:

	2018 £'000	2017 £'000
Current Tax		
UK Corporation tax on profits of the current year	(706)	(697)
Adjustments in respect of prior years	1	(81)
IFRS 9 movement in the current year	1	n/a
	<hr/>	<hr/>
Current Tax Charge	(704)	(778)
Deferred Tax		
Current Year	102	(68)
Adjustments in respect of prior years	(1)	78
IFRS 9 movement in the current year	(1)	n/a
	<hr/>	<hr/>
Deferred Tax Credit (see note 19)	100	10
	<hr/>	<hr/>
Total Tax Charge for the year	<u>(604)</u>	<u>(768)</u>

Corporation Tax is calculated at 19% (2017: 19.25%) of the taxable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	(3,153)	(3,769)
Tax credit at the UK standard rate of Corporation Tax of 19% (2017: 19.25%)	(599)	(725)
Tax effect of expenses that are not deductible	(5)	(40)
Adjustments in respect of prior years	-	(3)
	<hr/>	<hr/>
Total Tax Charge for the year	<u>(604)</u>	<u>(768)</u>

11. DIVIDENDS

	2018 £'000	2017 £'000
Prior Year Final Dividend: 75.65 pence (2017: 75.65 pence) per share	5,500	5,500
	<hr/>	<hr/>
	<u>5,500</u>	<u>5,500</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

12. IFRS 9 "FINANCIAL INSTRUMENTS" AND IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS"

On 1 January 2018 the Company adopted IFRS 15 and IFRS 9.

As permitted, the company is not restating comparatives on initial application. Instead the classification and measurement and impairment requirements have been applied retrospectively by adjusting the opening balance sheet at 1 January 2018.

The following table presents the expected credit loss impacts of the company transitioning:

	IAS 39		IFRS 9 transitional adjustments		IFRS 9
	Measurement Category	Carrying amount at 31 Dec 2017 £'000	Measurement £'000	Measurement Category	Carrying amount at 1 Jan 2018 £'000
Deferred Tax Assets	N/A	86	(1)	N/A	85
Finance Lease Receivables	Amortised Cost	24,023	(31)	Amortised Cost	23,992
Loans to Customers	Amortised Cost	5,756	-	Amortised Cost	5,756
Hire Purchase	Amortised Cost	83,535	50	Amortised Cost	83,585
Cash and Cash Equivalents	Amortised Cost	11,016	-	Amortised Cost	11,016
Other Receivables	Amortised Cost	3,247	-	Amortised Cost	3,247
Total Assets		127,663	18		127,681
Total Liabilities		111,775	-		111,775
Total Equity		15,888	18		15,906

IFRS 15 "Revenue from Contracts with Customers" has been applied without any significant change to the balance sheet.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

13. FINANCE LEASE RECEIVABLES

	2018	2017
	£'000	£'000
Finance Lease receivables	17,792	24,079
Impairment of finance lease receivables	(170)	(56)
	<hr/>	<hr/>
Total of Finance Lease receivables due from customers net of impairment provisions	17,622	24,023
	<hr/>	<hr/>
	2018	2017
	£'000	£'000
<u>Finance Lease Receivables</u>		
Gross Investment	19,337	25,744
	<hr/>	<hr/>
Gross Receivable within 1 year	7,683	14,146
Gross Receivable between 1 and 5 years	11,384	11,507
Gross Receivable after 5 years	270	91
Unearned Interest Income	(1,545)	(1,665)
	<hr/>	<hr/>
Net Investment before impairment provisions	17,792	24,079
	<hr/>	<hr/>
Net Receivable within 1 year	6,965	13,227
Net Receivable between 1 and 5 years	10,633	10,802
Net Receivable after 5 years	194	50
	<hr/>	<hr/>
	17,792	24,079
Impairment Provisions	(170)	(56)
	<hr/>	<hr/>
	17,622	24,023
	<hr/>	<hr/>

The cost of the assets acquired during the year for onwards finance leasing was £9,658k (2017: £11,306k).

Included within the net investment above is £216k, (2017: £848k) which relates to the unguaranteed residual value receivable from leased assets.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

14. LOANS DUE FROM CUSTOMERS

	2018 £'000	2017 £'000
Loans due from Customers before impairment	14,494	5,756
Impairment of loans receivable	(70)	-
	<u>14,424</u>	<u>5,756</u>
Loans due from customers net of impairment provisions	<u>14,424</u>	<u>5,756</u>
Loans due from Customers within 1 year	<u>14,494</u>	<u>5,756</u>
Total Loans due from Customers before impairment	<u>14,494</u>	<u>5,756</u>

15. AMOUNTS DUE FROM HIRE PURCHASE AGREEMENTS

	2018 £'000	2017 £'000
Amounts due from hire purchase agreements before impairment	91,245	83,738
Impairment of hire purchase agreements	(274)	(203)
	<u>90,971</u>	<u>83,535</u>
	<u>90,971</u>	<u>83,535</u>
	2018 £'000	2017 £'000
<u>Amounts due from hire purchase agreements</u>		
Gross Receivables	98,218	90,069
Gross Receivable within 1 year	40,869	39,853
Gross Receivable between 1 and 5 years	56,958	49,981
Gross Receivable after 5 years	391	235
Unearned Interest Income	(6,973)	(6,331)
	<u>91,245</u>	<u>83,738</u>
Net Investment before impairment provisions	<u>91,245</u>	<u>83,738</u>
Net Receivable within 1 year	37,331	36,421
Net Receivable between 1 and 5 years	53,537	47,095
Net Receivable after 5 years	377	222
	<u>91,245</u>	<u>83,738</u>
Impairment Provisions	(274)	(203)
	<u>90,971</u>	<u>83,535</u>

The cost of the assets acquired during the year for use in hire purchase agreements was £61,030k (2017: £46,329k)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

16. CASH AND CASH EQUIVALENTS

	2018 £'000	2017 £'000
Balances held with Group bank (see note 22)	28,411	13,183
Balances held with non-group bank	77	(2,167)
	<u>28,488</u>	<u>11,016</u>

17. OTHER RECEIVABLES

	2018 £'000	2017 £'000
Trade Debtors	3,083	3,133
Other Receivables	75	114
	<u>3,158</u>	<u>3,247</u>

18. SHARE CAPITAL

	2018 £'000	2017 £'000
<u>Authorised</u>		
10,000,000 ordinary shares of £1 each	10,000	10,000
<u>Allotted and fully paid</u>		
7,270,000 ordinary shares of £1 each	<u>7,270</u>	<u>7,270</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

19. DEFERRED TAXATION

Deferred tax has been provided in full at 19% (2017: 19%) as follows:

	2018	2017
	£'000	£'000
Excess of tax allowances over book depreciation	186	86
IFRS 9 First time adjustment	(1)	n/a
Movement in the year	1	n/a
	<hr/>	<hr/>
Deferred Taxation asset	186	86
	<hr/>	<hr/>

The movement in deferred taxation is reconciled as follows:

	2018	2017
	£'000	£'000
Opening balance as at 1 January	86	76
IFRS 9 First time adjustment	(1)	n/a
Movement in the year	1	n/a
Deferred Tax Credit	100	10
	<hr/>	<hr/>
Closing balance as at 31 December	186	86
	<hr/>	<hr/>

The Finance Act 2018 (the Act) received Royal Assent on 15 March 2018. The Act maintained the main rate of corporation tax of 19% from April 2017 and proposed a further reduction to 17% from April 2020. The rate used to calculate deferred tax is the rate which the various timing differences are expected to reverse.

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Continued

20. AMOUNTS DUE TO GROUP UNDERTAKINGS

	Notes	2018 £'000	2017 £'000
Amount owed to Group Undertakings - current liability	22	70,903	54,072
Amount owed to Group Undertakings - non current liability	22	67,370	54,389
		<u>138,273</u>	<u>108,461</u>

All bank loans and overdrafts are owed to related parties in the BNP Paribas Group and have been classified as financial liabilities measured at amortised cost. These amounts are all non secured.

21. OTHER PAYABLES

	2018 £'000	2017 £'000
Accruals and Deferred Income	1,350	1,392
Trade Creditors	712	751
Corporation Tax payable	201	347
Other Payables	1,358	824
	<u>3,621</u>	<u>3,314</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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22. RELATED PARTY TRANSACTIONS

The accounts reflect the following transactions with related parties:

	Notes	2018 £'000	2017 £'000
BNP Paribas Leasing Solutions Limited - Management Charges		(1,729)	(1,955)
BNP Paribas Leasing Solutions Limited - Commissions receivable		165	189
BNP Paribas London Branch - Interest payable		(376)	(570)
BNP Paribas London Branch - Interest receivable		116	58
BNP Paribas London Branch - Bank Levy		(24)	(195)
BNP Paribas Leasing Solutions Luxembourg SA - Interest payable		(1,495)	(1,640)
		<u>(3,343)</u>	<u>(4,113)</u>

Amounts due to group undertakings

		£'000	£'000
BNP Paribas London Branch - Current Liability		(57,909)	(10,443)
BNP Paribas London Branch - Non-Current Liability		(62,770)	(2,511)
BNP Paribas Leasing Solutions Limited		(7,069)	(4,938)
BNP Paribas Leasing Solutions Luxembourg SA - Current Liability		(5,925)	(38,691)
BNP Paribas Leasing Solutions Luxembourg SA - Non-Current Liability		(4,600)	(51,878)
	20	<u>(138,273)</u>	<u>(108,461)</u>

Amounts due from group undertakings

		£'000	£'000
Balances held with Group Bank		28,411	13,183
		<u>28,411</u>	<u>13,183</u>

23. CAPITAL COMMITMENTS AND CONTINGENCIES

There were no capital commitments and contingencies at 31 December 2018 (2017: Nil)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial Risk Management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Interest Rate Risk
- Foreign Currency Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risk and adherence to limits.

The Company manages its capital in order to safeguard its ability to continue as a going concern and in order to provide adequate returns for equity holders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid or issue new ordinary share capital.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Company's maximum exposure to credit risk is the carrying value of the financial assets held at the reporting date £154,849k (2017 £127,663k). The company has assessed this maximum exposure to credit risk at the reporting date and determined that since this arises principally from the Companies receivables from within the BNP Paribas Group, the assets held at the reporting date are stage 1 with a low probability of default as a result further analysis is not disclosed as it is not material.

Adoption of IFRS 9

Impairment model

The impairment model for credit risk is based on expected losses, the calculation of which is conducted in two steps;

First the company places facilities in one of three 'stages' to determine the scope of application.

- 'Stage 1' (Performing) where, at the reporting date, the credit risk represented by the facility has not increased significantly since its origination
- 'Stage 2' (Underperforming) where, at the reporting date, the credit risk represented by the facility has deteriorated significantly but the facility is not credit impaired.
- "Stage 3" (Credit Impaired) where, at the reporting date, there are confirmed losses.

Secondly, the Expected Credit Loss (ECL) is calculated. The ECL is determined by projecting the probability of default (PD), Exposure at default (EAD) and Loss Given Default (LGD) for each future month and for each collective segment. For "Stage 1" a one year ECL is calculated and for "Stage 2" a lifetime ECL is calculated. Facilities in "Stage 3" are covered by specific provisions which correspond to lifetime ECL.

This general model is applied to all instruments within the scope of IFRS 9 impairment.

The IFRS 9 expected credit loss approach is symmetrical, i.e. if lifetime expected credit losses have been recognised in a previous reporting period, and if it is assessed in the current reporting period that there is no longer any significant increase in credit risk since initial recognition, the loss allowance reverts to a 12-months expected credit loss.

In the general principles of the Standard, significant increase in credit risk since initial recognition is assessed at each reporting date at financial instrument level in order to determine in which stage the financial instrument should be placed.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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Forward looking

PD projection methodologies allow the integration of forward looking information, not otherwise captured when assessing credit deterioration individually. The final ECL is the outcome of the linear combination of 3 weighted ECLs, whose computation is based on forward looking PDs. The methodology to build forward looking PD term structures requires:

- The construction of a 'Through the (economic) cycle' rating migration probability matrix based on a collected historical time series of rating transitions.
- The construction of a default time series and an econometric model that defines the relationship between the default rate and macroeconomic variables.
- Transformation of the above default rate time series into "Z" time series representing the position in the credit risk cycle (Z-factor) and into a parameter p representing the sensitivity of annual probability of default to the economic environment.
- The projection of three one year point in time migration matrices, one for each year of the forward looking horizon whose length corresponds to the horizon of the economic projections supplied by the economists. Each matrix takes into account the impact of the economic forecasts (Baseline, Optimistic and Adverse) on the probability of migration from one rating to another.
- The construction of a cumulative default probability term structure, from these yearly rating migration matrices.

Significant increase in credit risk

Significant increase in credit risk may be assessed on an individual basis or on a collective basis (by grouping financial instruments according to common credit risk characteristics) taking into account all reasonable and supportable information and comparing the risk of default of the financial instrument at the reporting date with the risk of default of the financial instrument at the date of initial recognition.

Assessment of deterioration is based on the comparison of the probabilities of default or the ratings on the date of initial recognition with those existing at the reporting date. There is also, according to the standard, a rebuttable presumption that the credit risk of an instrument has significantly increased since initial recognition when the contractual payments are more than 30 days past due. The indicator used for assessing increase in credit risk is also the internal counterparty rating of the obligor of the financial instrument.

Credit risk is measured through the allocation of internal credit gradings to each counterparty from a range of 1 – 12. A rating less than 4 indicates the financial instrument is performing, higher than 4 indicates it is being monitored for deterioration and a rating of 9+ and above would indicate that the financial instrument has significantly deteriorated or is deemed high risk.

Measurement of expected credit losses

Expected credit losses are defined as an estimate of credit losses (i.e. the present value of all cash shortfalls) weighted by the probability of occurrence of these losses over the expected life of financial instrument. They are measured on an individual basis for all exposures.

In practice, for exposures classified in stage 1 and stage 2, expected credit losses are measured as the product of the PD, LGD and EAD, discounted at the effective interest rate of the exposure (EIR). For exposures classified in stage 3, expected credit losses are measured as the value, discounted at the effective interest rate, of all cash shortfalls over the life of the financial instrument.

The financial instrument is assumed to be in stage 1 when its rating is better than or equal to 4- (or its 1-year PD is below or equal to 0.25%) at reporting date, since changes in PD related to downgrades in this zone are less material, and therefore not considered as "significant".

Changes in the 1-year probability of default are considered as a reasonable approximation of changes in the lifetime probability of default. Deterioration in credit quality is considered significant, and the financial instrument is therefore placed in stage 2, if the ratio (1-year PD at the reporting date / 1-year PD at origination) is higher than 4. As a backstop, when an financial instrument becomes 30 days past due, the credit risk is deemed to have increased significantly since initial recognition and the financial instrument is therefore placed into stage 2.

A financial asset is considered doubtful and classified in "stage 3" when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred for example, the financial instrument becomes 90 days past due or knowledge or indications of significant financial difficulties.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Definition of default

The definition of default is aligned with the Basel regulatory default definition, with a rebuttable presumption that the default occurs no later than 90 days past-due.

Gross Exposure Movement

Year Ended 31 December 2018

The following table contains an analysis of the credit risk exposure of financial instruments for which an Expected Credit Loss (ECL) allowance is recognised. The gross carrying amount of financial assets below also represents the maximum exposure to credit risk on these assets.

		IAS 39 Gross Exposure 2017	Stage 1	Stage 2	Stage 3	IFRS 9 Gross Exposure 2018
	Notes	£'000	£'000	£'000	£'000	£'000
Finance Leases	13	25,744	(7,281)	(258)	1,132	19,337
Loans to Customers	14	5,756	8,667	-	71	14,494
Hire Purchase	15	90,069	10,740	(2,521)	(70)	98,218
Other Receivables		3,247	(89)	-	-	3,158
		<u>124,816</u>	<u>12,037</u>	<u>(2,779)</u>	<u>1,133</u>	<u>135,207</u>

The above table represents the movement in the year by stage

Gross Exposure By Stage

	Stage 1	Stage 2	Stage 3	IFRS 9 Gross Exposure 2018
	£'000	£'000	£'000	£'000
Finance Leases	17,680	470	1,187	19,337
Loans to Customers	14,423	-	71	14,494
Hire Purchase	93,148	4,968	102	98,218
Other Receivables	3,158	-	-	3,158
	<u>128,409</u>	<u>5,438</u>	<u>1,360</u>	<u>135,207</u>

The combination of the related amounts in both tables above provides the opening position.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The following table contains an analysis of the impairment provision

Impairment Provision Movement

Year Ended 31 December 2018

	Notes	IAS 39 Provision 2017 £'000	First Time Adjustment £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	IFRS 9 ECL 2018 £'000
Finance Leases	13	56	31	(9)	(22)	113	169
Loans to Customers	14	-	-	-	-	71	71
Hire Purchase	15	203	(50)	59	41	21	274
Other Receivables		14	-	(14)	-	-	-
		<u>273</u>	<u>(19)</u>	<u>36</u>	<u>19</u>	<u>205</u>	<u>514</u>

The above table represents the movement in the year by stage

Impairment Provision by Stage

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	IFRS 9 ECL 2018 £'000
Finance Leases	27	8	134	169
Loans to Customers	-	-	71	71
Hire Purchase	182	57	35	274
	<u>209</u>	<u>65</u>	<u>240</u>	<u>514</u>

The combination of the related amounts in both tables above provides the opening position.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The following table represents the carrying amount of the financial assets that are past due but not impaired (by age of past due), and impaired assets. The credit risk is mitigated due to the Company retaining legal title to assets subject to finance leases and hire purchase agreements. The Company does not have any further credit enhancements. The amounts shown are stated before any provision on a portfolio basis.

Balances in Arrears

Year Ended 31 December 2018

	Not past due £'000	0-29 days £'000	30-59 days £'000	60 - 89 days £'000	Over 90 days £'000	Total £'000
Finance Leases	16,676	456	460	144	56	17,792
Loans to Customers	14,494	-	-	-	-	14,494
Hire Purchase	89,218	1,302	92	44	589	91,245
	<u>120,388</u>	<u>1,758</u>	<u>552</u>	<u>188</u>	<u>645</u>	<u>123,532</u>

Year Ended 31 December 2017

	Not past due £'000	0-29 days £'000	30-59 days £'000	60 - 89 days £'000	Over 90 days £'000	Total £'000
Finance Leases	23,506	497	5	14	57	24,079
Loans to Customers	5,756	-	-	-	-	5,756
Hire Purchase	81,671	1,650	24	90	303	83,738
	<u>110,933</u>	<u>2,147</u>	<u>29</u>	<u>104</u>	<u>360</u>	<u>113,573</u>

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to borrow from BNP Paribas, a related party, at a fixed rate matching fixed rate lending. Access to sources of funding is sufficiently available and debt maturing within 12 months can be replaced with Group companies.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company manages its interest rate risk by funding the loans with fixed rate funding within the Group. Finance lease receivables and loans due to customers are at fixed rate and as a result the Company has a limited exposure to variable rates of interest.

Since all loans are borrowed at a fixed rate at the time of the financing the interest sensitivity is minimal.

Foreign Currency Risk

Foreign exchange risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not exposed to this risk as it does not transact with overseas companies or operate in overseas countries. The Company's exposure to foreign exchange risk is therefore not considered to be significant and accordingly sensitivity analysis information has not been provided.

The net exposure to foreign exchange is minimal therefore no further disclosure is considered appropriate.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maturity Profile of Assets and Liabilities

The tables below summarises the maturity profile of the Company's financial assets and liabilities based on contractual undiscounted payments

Financial Assets

Year Ended 31 December 2018

	Less than 3 months £'000	3 - 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Finance Lease Receivables	2,490	5,193	11,384	270	19,337
Loans due from Customers	14,494	-	-	-	14,494
Amounts due from Hire Purchase	12,666	28,203	56,958	391	98,218
Other Receivables	3,158	-	-	-	3,158
	<u>32,808</u>	<u>33,396</u>	<u>68,342</u>	<u>661</u>	<u>135,207</u>

Year Ended 31 December 2017

	Less than 3 months £'000	3 - 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Finance Lease Receivables	5,098	9,048	11,507	91	25,744
Loans due from Customers	5,756	-	-	-	5,756
Amounts due from Hire Purchase	11,997	27,856	49,981	235	90,069
Other Receivables	3,247	-	-	-	3,247
	<u>26,098</u>	<u>36,904</u>	<u>61,488</u>	<u>326</u>	<u>124,816</u>

Financial Liabilities

Year Ended 31 December 2018

	Less than 3 months £'000	3 - 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Amounts due to Group Undertakings	37,130	35,421	69,537	246	142,334
Other Payables	2,271	-	-	-	2,271
	<u>39,401</u>	<u>35,421</u>	<u>69,537</u>	<u>246</u>	<u>144,605</u>

Year Ended 31 December 2017

	Less than 3 months £'000	3 - 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Amounts due to Group Undertakings	20,294	35,243	56,305	144	111,986
Other Payables	1,922	-	-	-	1,922
	<u>22,216</u>	<u>35,243</u>	<u>56,305</u>	<u>144</u>	<u>113,908</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Continued

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Reconciliation of liabilities from financing activities

The tables below summarise the changes in liabilities arising from financing activities.

Year Ended 31 December 2018

	2017 £'000	Cash flows £'000	Non-Cash changes £'000	2018 £'000
<u>Short term borrowings</u>				
Share Capital and Reserves	15,888	-	(2,933)	12,955
Amounts payable to Group Undertakings	111,986	29,812	536	142,334
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Year Ended 31 December 2017

	2016 £'000	Cash flows £'000	Non-Cash changes £'000	2017 £'000
<u>Short term borrowings</u>				
Share Capital and Reserves	18,387	-	(2,499)	15,888
Amounts payable to Group Undertakings	134,510	(21,350)	(1,174)	111,986
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument 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 finance lease receivables and hire purchase agreements, the carrying value is a reasonable approximation of fair value.

For all other financial assets and liabilities the carrying value approximates the fair value due to the short-term nature of these financial assets and liabilities.

26. PARENT AND ULTIMATE CONTROLLING PARTY

The immediate parent is BNP Paribas Lease Group SA, which is incorporated in France. The ultimate parent company and the ultimate controlling party is BNP Paribas SA which is incorporated in France.

The parent undertaking of the smallest group in which the results of the Company are consolidated is BGL BNP Paribas SA which is incorporated in Luxembourg. The parent undertaking of the largest group in which the results of the Company are consolidated is BNP Paribas SA. The consolidated financial statements of BGL BNP Paribas SA and BNP Paribas SA are available to the public and may be obtained from 16 Boulevard des Italiens, 75009 Paris, France.

27. EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred after the reporting period.