

UK Municipal Bonds Agency plc
(Formerly Local Capital Finance Company Limited)
Report and Financial Statements
For the period from 3 June 2014 to
30 November 2015

Registered number: 09069106

UK Municipal Bonds Agency plc

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**UK Municipal Bonds Agency plc
Company Information**

DIRECTORS: Sir Merrick Cockell
Michael Lockwood
Adrian Bell
Derrick Anderson
Melanie McLaren
Mridul Tansley
Sir Stephen Houghton

SECRETARY: Cargil Management Services Limited

**RISK, COMPLIANCE
AND AUDIT COMMITTEE:** Melanie McLaren (Chair)
Michael Lockwood
Mridul Tansley

**NOMINATIONS AND
REMUNERATION
COMMITTEE:** Adrian Bell (Chair)
Sir Stephen Houghton
Derrick Anderson

REGISTERED OFFICE: 5-8 The Sanctuary
London
SW1P 3JS

AUDITOR: Deloitte LLP
London, UK

BANKERS: HSBC plc,
RMS Dept.
Level 2, 62-67 Park Street,
London SE1 9DZ

UK Municipal Bonds Agency plc Strategic report

Strategic overview

English local authorities are responsible for £157 billion of public spending each year on roads, schools, etc. and around £20 billion of capital expenditure on basic and vital UK infrastructure. To support that capital spending councils have £87 billion of borrowings, mostly from the Public Works Loan Board (PWLB), with only £5 billion coming from public debt markets. Across the EU and internationally, there are established municipal bonds agencies raising significant amounts of financing for local authorities and providing an attractive debt security for investors. Meanwhile, in the UK, the costs of PWLB borrowing have risen from 0.1% over the rate that the Government can borrow to 0.6-1% over the that rate with significant early repayment penalties introduced in recent years. Against a background of long-term pressure on public spending and increasing demands on local government, local authorities/Local Government Association (LGA) decided they wanted to do better – to get more choice and better value for money by reducing the cost of borrowing.

Following a period of extensive research and consultation, the UK Municipal Bonds Agency plc (the Company) was set up in June 2014 with the primary aim of helping to reduce local authority finance costs. It is a new financial institution and the first of its kind in the UK. Backed by 56 local authority shareholders and the LGA, the Company is a strong example of local government working together on a commercial basis to create an independent institution in order to deliver benefit for all.

We set out how this will be done through our robust and innovative business model and the people and processes which ensure the skills and governance of the Company - and describe our activities to date.

Business model

The purpose of the Company is to reduce local authority financing costs by issuing bonds in the capital markets, both public and private; by facilitating more efficient lending between councils; and by sourcing funding from 3rd party sources and on-lending to councils on a matched basis. These activities carry the potential for certain legal and financial risks which we will mitigate through the twin pillars of our business model:

- A joint and several guarantee by signatory local authorities of other signatories' borrowing; and
- Our proprietary credit process which will provide a data-driven and evidence based rationale for our borrowing metrics

The Company will require any local authority which wishes to borrow to sign a joint and several guarantee. Taken as a whole, UK local authorities have a very high credit rating and through the joint and several guarantee, the Company will ensure that the overall credit quality of its debt will match or exceed that. While the risk of default of any single borrowing authority is already very low, the joint and several guarantee ensures that even in this unlikely event, lenders can enjoy full confidence that they will be repaid. For the first time, participating authorities will be able to leverage their combined creditworthiness to obtain better deals in the debt markets.

The joint and several guarantee is the cornerstone of the new legal framework which the Company has developed to enable local authorities to enter into borrowing arrangements with the Company. Described in a package of documentation known as the Framework Agreement, it sets out in detail the rights and obligations of both borrowers from the Company and of the Company itself with respect to those borrowers. It details the many controls which the Company has in place to ensure that any risks associated with the joint and several guarantee are mitigated to the extent possible, whilst continuing to maintain the Company's underlying value proposition. The Framework Agreement is the product of detailed negotiations over several months with those councils which took a lead on behalf of the local government sector. Specifically, the document package for councils includes: the Framework Agreement, legal advice thereon, Queen's Counsel opinion on both the vires of the guarantee and steps which councils should take to ensure compliance with the Wednesbury principle, in addition to further explanatory guides from the Company itself. As such, it addresses in full the practical, legal and public policy issues which this novel development potentially gives rise to. The Framework Agreement was finalised in December 2015 and is now undergoing a formal review process prior to signature by local authorities.

Source: All statistics from DCLG "Local Government Financial Statistics England No 25 2015"

UK Municipal Bonds Agency plc

Strategic report

Credit quality lies at the heart of all debt financing; moreover, the provision by local authority borrowers of a joint and several guarantee makes it a top priority for the Company to ensure that any loans advanced meet a demanding credit standard. In conjunction with local authority stakeholders, the Company has developed a proprietary credit process, largely based on those used by leading ratings agencies. This provides us with the basis for an independent, objective assessment of applicant credit quality based on proven methodologies. The credit process is rigorous, but smart, with much of the input extracted from publicly available information. Applying these credit models, the Company would intend to duly extend credit to local authorities which it believes could achieve an AA rating if rated individually.

People and processes

The Company has recruited a high quality board of independent, non-executive directors, who bring a range of skills and experience from the financial markets, business and regulation and local and central government. Our board includes the former chairman of the LGA, a current senior council leader, one current and one former local authority chief executive; a former senior HM Treasury official; a senior banker with deep experience in the sterling debt capital markets; and an executive director from the Financial Reporting Council, who in addition to governance and accounting skills brings deep risk experience, having previously held the role of chief risk officer in a major financial services firm. Taken together, the Company's board has a breadth of experience which enables it to both support its development and ensure that it is governed in an appropriate manner.

The Company is run from day-to-day by a full time staff of five, a deliberately small executive team which may be scaled up and down as business volumes require. This core team has the key skills, knowledge and experience markets, operational and sectoral to build, run and grow our business.

Activities to date

The Company's activities to date have comprised developing a new and comprehensive operational and legal platform to deliver its objectives: recruitment of appropriate personnel, development of policies and procedures and such third party relationships as required. The Company has also built a network of supplier and potential commercial partner relationships which it expects will both support the development of the business and accelerate the introduction of the products required to enable the Company fully to service its client base.

The expenses of the Company to date reflect these activities. The overall costs therefore include a number of one-off items which are not expected to be repeated: for example, legal fees on the development and negotiation of the Framework Agreement; set up costs for both the office and certain outsourced administrative services; recruitment costs for the board and staff, and incremental resources to support the development of policies, including the credit process.

Principal risks and uncertainties

As the Company has not yet begun to do business, it faces many of the same risks as other companies at an early stage of their development. For example, the Company has a relatively small staff and operations may be impeded due to the loss of key personnel. However, the principal risk facing the Company is failure to commence financing operations; or, when operations begin, failure to achieve breakeven volumes. This might happen for a number of reasons:

- the Company may fail to find a source of debt which would be competitive with alternative providers;
- competitors may reduce their margins or fees in response to the competitive pressure arising from the Company's commencing activity;
- too few local authorities may wish to borrow from the Company, either due to more competitive solutions being available or there being an insufficient overall demand for borrowing.

UK Municipal Bonds Agency plc Strategic report

Notwithstanding these risks, the Company believes its chosen activities and strategies are achievable in the current environment. The Company is committed to monitoring, and mitigating where possible, these and other unanticipated risks. This may require significant modifications to its stated strategies depending on future events. It is possible that the Company may seek additional equity capital, should it fail to reach breakeven volumes on a timely basis.

Key performance indicators (KPI)

The Company's KPIs will evolve as its business matures. Our overall performance will be judged by how well we deliver our core purpose – to reduce local authority finance costs. How we do that which is by the specific products and services we deliver, will depend on customer requirements and market conditions. These will all be subject to demanding performance standards on cost, design and fitness for purpose.

Post Balance sheet date events

Since the date of these accounts, seven local authorities have signed the Framework Agreement after successfully taking the documents fully through their internal approval processes, and are now able to borrow from the Company.



Mark Coussar

Chairman

27th March 2016.

UK Municipal Bonds Agency plc Directors' Report

General Information

The Company was incorporated on 3 June 2014 as Local Capital Finance Company Limited and reregistered on 11 September 2015 as UK Municipal Bonds Agency Plc. The Directors present their report with the financial statements of the Company for the 18 month period ended 30 November 2015.

The Company's purpose is to become a municipal bond agency, raising money on the capital markets and from other sources and then lending this to UK local authorities to fund capital expenditure and for refinancing purposes. The Company aims to inject diversity and competition into the local government finance market by offering cheaper and more efficient financing.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future and settle its debts as they fall due. The Company holds cash resources of £3.9million at the balance sheet date and has no debt. The Company has anticipated ongoing operating expenses of £1.3million per annum (ignoring start-up costs), thus they have accepted to adopt the going concern basis in preparing the annual financial statements.

Dividends

The Directors do not recommend paying a dividend.

Directors

The following directors held office throughout the period and to the date of approval of this report (except where otherwise shown):

Sir Merrick Cockell	(Appointed 24/03/2015)
Michael Lockwood	(Appointed 03/06/2014)
Adrian Bell	(Appointed 12/10/2015)
Derrick Anderson	(Appointed 12/10/2015)
Melanie McLaren	(Appointed 12/10/2015)
Mridul Tansley	(Appointed 12/10/2015)
Sir Stephen Houghton	(Appointed 12/10/2015)

The Board established a Risk, Compliance and Audit Committee and a Nominations and Remuneration Committee to deal with certain matters delegated to them by the board.

The Risk, Compliance and Audit Committee comprises Melanie McLaren as chair, Michael Lockwood and Mridul Tansley. Its terms of reference include advising the board on risk management, regulation and compliance, internal controls, financial reporting, internal and external audit.

The Nominations and Remuneration Committee comprises Adrian Bell as chair, Sir Stephen Houghton and Derrick Anderson. Its terms of reference include advising the board on the size and composition of the board, succession planning for the Board, the nomination of individuals to the Board and the remuneration of senior executive. This also includes providing an executive oversight of executive remuneration and board and other senior appointments.

Directors' indemnities

The Company has made third party indemnity provisions of £5m for the benefit of its directors which were made during the year and remain in force at the date of this report.

**UK Municipal Bonds Agency plc
Directors' Report**

Auditor


The Directors at the date of approval of this report confirm that:


- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP were appointed auditor to the Company and in accordance with Section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put forward at the next General Meeting.

Approved by the Board and signed on its behalf by:


.....
Director Sir Marcus Coates
Date: 22nd March 2016.


.....
Director MELANIE MCLAREN
Date: 22 MARCH 2016

UK Municipal Bonds Agency plc Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, Director's Report and 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 (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are 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
- make an assessment of the Company's ability to continue as a going concern.

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.

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

Independent auditor's report to the members of UK Municipal Bonds Agency plc

We have audited the financial statements of UK Municipal Bonds Agency Plc for the period from 3 June 2014 to 30 November 2015 which comprise the Statement of Total Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2015 and of its loss for the period ended 30 November 2015;
- 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of UK Municipal Bonds Agency plc

Matters on which we are required to report by exception

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, 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.



Caroline Britton, Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Date: 22 March 2016

UK Municipal Bonds Agency plc
Statement of Total Comprehensive Income

For the period from 3 June 2014 to 30 November 2015

	Note	Period ended 30 November 2015 £'000
Administrative expenses		(2,506)
Operating loss	5	(2,506)
Finance income	8	1
Loss before tax		(2,505)
Income tax expense	9	-
Loss for the period attributable to the Owners of the Company		(2,505)
Other comprehensive income		-
Total comprehensive loss for the period attributable to the Owners of the Company		(2,505)


All results are from continuing operations.

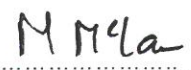
UK Municipal Bonds Agency plc
Statement of Financial Position

As at 30 November 2015

	Note	£'000	2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	10		31
Current assets			
Other receivables	11	64	
Cash and cash equivalents		3,910	
Total current assets		<u> </u>	3,974
Total assets			<u>4,005</u>
Current liabilities			
Trade and other payables	12	465	
		<u> </u>	465
Net assets			<u>3,540</u>
Equity			
Share capital	14		74
Retained earnings	16		3,466
			<u> </u>
Equity attributable to owners of the Company			<u>3,540</u>

The financial statements of UK Municipal Bonds Agency Plc (Registration No. – 09069106) were approved by the board of Directors and authorised for issue on _____ They were signed on its behalf by:

.....  Sir Maurice Coates
 Director 22nd March 2016.

.....  MELANIE MCLAREN
 Director 22 MARCH 2016

UK Municipal Bonds Agency plc
Statement of changes in equity

For the period from 3 June 2014 to 30 November 2015

	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total £'000
Issue of share capital	60	5,985	-	6,045
Bonus issue	14	(14)	-	-
Total other comprehensive loss for period	-	-	(2,505)	(2,505)
Capital reduction of Share premium	-	(5,971)	-	(5,971)
Distributable reserves from Share premium	-	-	5,971	5,971
Balance at 30 November 2015	<u>74</u>	<u>-</u>	<u>3,466</u>	<u>3,540</u>

Refer to notes 14,15,16

UK Municipal Bonds Agency plc
Cash flow statement

For the period from 3 June 2014 to 30 November 2015

	Note	Period ended 30 November 2015 £'000
Net cash used in operating activities	17	(2,098)
Investing activities		
Finance income		1
Purchase of property, plant and equipment		(38)
Net cash used in investing activities		(37)
Financing activities		
Proceeds on issue of shares		6,045
Net cash from financing activities		6,045
Net increase in cash and cash equivalents		3,910
Cash and cash equivalents at end of period		3,910

UK Municipal Bonds Agency plc

Notes to the financial statements

For the period from 3 June 2014 to 30 November 2015

1. General information

UK Municipal Bonds Agency plc (Registration No. – 09069106) is a Public Company Limited by shares and incorporated and domiciled in the United Kingdom. The Company was incorporated on 3 June 2014 in the United Kingdom under the Companies Act 2006. The address of the registered office is 5-8 The Sanctuary, London SW1P 3JS. The nature of the Company's operations and its principal activities are set out in the Directors' report on pages 7 to 8.

2. Adoption of new and revised Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with customers
IFRS 16	Leases
IAS 1	Disclosure Initiative
IAS 16 and IAS 38	Clarification of Acceptable methods of depreciation and amortisation

The Board will consider the impact of the standards and interpretations listed above and whether they will have a material impact on the financial statements of the company in future periods.

3. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The adoption of the IFRSs was approved by the Board of Directors.

The financial statements have been prepared on a going concern and historical cost basis. The principal accounting policies adopted are set out below.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Directors' Report on pages 7 to 8.

The Company is expected to generate positive cash flows on its own account in the foreseeable future. If no income is received, the Company will still be able to meet its projected financial commitments for the foreseeable future.

UK Municipal Bonds Agency plc

Notes to the financial statements

3. Significant accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use. Depreciation is calculated to write down the cost of property, plant and equipment to their residual values on a straight line basis over the estimated useful economic life as follows:

Furniture, fixtures and office equipment - Straight-line over 3 years

Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

The Company classifies all financial assets as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in Current assets. The Company's loans and receivables comprise 'other receivables' and 'cash and cash equivalents' in the Balance sheet.

Financial assets are initially measured at the transaction price and are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. All of the Company's financial liabilities are classified as "other financial liabilities" and measured at amortised cost.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Financial instruments classified as equity instruments are recorded at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments.

Current and deferred tax

The tax expense comprises current and deferred tax. Taxable profits or losses differ from profit as reported in the Statement of Total Comprehensive Income because they exclude items of income or expense that are taxable or deductible in other years and they further exclude items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

UK Municipal Bonds Agency plc Notes to the financial statements

3. Significant accounting policies (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Leasing

Operating leases and the annual rentals are charged to profit and loss on a straight-line basis over the lease term with inflation adjustments where appropriate.

Critical estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The judgements, estimates and associated assumptions are evaluated based on various factors, including expectations of future events, which are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Some key assumptions are discussed below:

Depreciation

The Company exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives.

Classification of leases as operating leases

In categorising a lease as an operating lease, the directors have made judgements and ascertained that no significant risks and rewards of ownership have transferred to the Company as lessee. Given this, the lease has been classified as an operating lease.

4. Revenue

The Company has no revenue from operations as it has not yet commenced lending activities. The Company earned £1,175 of interest from the bank account.

5. Operating loss for the period

Operating loss has been arrived at after charging:

	Period ended 30 November 2015 £'000
Operating lease payment – Land and buildings	34
Depreciation of Property, plant and equipment	7
	<hr/> <hr/>

6. Auditor's remuneration

Fees payable to Deloitte LLP for the audit of the Company's accounts are £40,200 (including VAT), consisting of:

Audit of statutory financial statements for 2015	£24,000
Other assurance services:	
Audit of non-statutory financial statements	£10,200
Audit of capital reduction event	£6,000

UK Municipal Bonds Agency plc
Notes to the financial statements

7. Staff costs

The average monthly number of employees (including Directors) during the period was:

	Period ended 30 November 2015 Number
Management and administration	<u>5</u>

Their aggregate remuneration comprised:

	Period ended 30 November 2015 £'000
Wages and salaries	709
Social security costs	84
	<u>793</u>

Key management remuneration and Directors' emoluments:

	Period ended 30 November 2015 £'000
Wages and salaries	593
Social security costs	70
	<u>663</u>

Key management is defined as senior management with the authority and responsibility for planning, directing and controlling the Company's activities, including directors and non-executive directors of the Company.

The total amounts payable during the period to the highest paid director in respect of emoluments were £52,770.

UK Municipal Bonds Agency plc
Notes to the financial statements

8. Finance income

	Period ended 30 November 2015 £'000
Interest receivable	1
Total finance income	<u>1</u>

9. Taxation

On the basis of these financial statements no provision has been made for tax.

Factors affecting the tax charge for the year:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (20.55%). The differences are explained below:

	Period ended 30 November 2015 £'000
Loss on ordinary activities before tax	(2,505)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.55%.	<u>(515)</u>
Effects of:	
Expenses not deductible for tax purposes	32
UK tax rate change impact from 20.55% to 18%	60
Deferred tax not recognised	423
Total tax for the period	<u>-</u>

The company has deferred tax assets not included in these financial statements as recovery is not sufficiently certain, calculated at a corporation tax rate of 18% as follows:

	£
Tax losses carried forward	428
Fixed asset timing differences	(5)
	<u>423</u>

The deferred tax asset is recoverable against future profits from the same trade of the same type.

UK Municipal Bonds Agency plc
Notes to the financial statements

10. Property, plant and equipment

	Furniture, fixtures and office equipment £'000	Total £'000
Cost:		
Additions	38	38
30 November 2015	<u>38</u>	<u>38</u>
Depreciation:		
Depreciation charged in period	7	7
30 November 2015	<u>7</u>	<u>7</u>
Net book value:		
30 November 2015	<u>31</u>	<u>31</u>

11. Other receivables

	2015 £'000
Other receivables	32
Prepayments	32
	<u>64</u>

The fair value of other receivables is the same as the book value.

12. Trade and other payables

	2015 £'000
Trade payables	212
Social security and other taxes	42
Accrued expenses	211
	<u>465</u>

UK Municipal Bonds Agency plc
Notes to the financial statements

13. Financial instruments

The carrying amounts of the Company's financial instruments at 30 November 2015 were: **2015**
£'000

Financial assets measured at amortised cost	
Other receivables	32
Cash at bank	3,910
	3,942
Financial liabilities measured at amortised cost	
Trade payables	212
Accrued expenses	211
	423

Financial Risk Management

The Directors consider that the Company has the following credit and liquidity risks attached to the Financial Instruments. However, the Directors are of the view that at this stage these risks are minimal and hence no formal policies and procedures have been established:

Credit risk

The Company's principal financial assets are cash and cash equivalents.

The Company's credit risk is primarily attributable to its cash and cash equivalents

Liquidity risk

To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Company uses common equity.

Further details regarding liquidity risk can be found in the Statement of accounting policies on page 16.

14. Share capital

The share capital issued during the period was as follows:

	LGA shares of £0.01 each		B shares of £0.01 each	
	No.	Share Capital £'000	No.	Share Capital £'000
3 June 2014	100	-	-	-
2 October 2014	499,900	5	872,000	9
24 April 2015	-	-	1,308,000	13
30 April 2015	250,000	3	1,090,000	11
17 June 2015	-	-	2,210,000	22
7 August 2015	-	-	1,155,000	11
	750,000	8	6,635,000	66

On incorporation the Company issued 1 Ordinary £1 shares. On 2 October 2014 this share was subdivided into 100 LGA £0.01 shares.

UK Municipal Bonds Agency plc
Notes to the financial statements

14. Share capital (continued)

On 2 October 2014, the Company issued 499,900 LGA shares of £0.01 each and 872,000 B shares at a premium of £1,358,230.

On 24 April 2015, the Company issued 1,308,000 B shares of £0.01 at a premium of £1,294,920.

On 30 April 2015, the Company made a bonus issue of 250,000 LGA shares of £0.01 each and 1,090,000 B shares at £0.01 each from the share premium account.

On 17 June 2015, the Company issued 2,210,000 B shares of £0.01 at par at a premium of £2,187,900.

On 7 August 2015, the Company issues 1,155,000 B shares of £0.01 at par at a premium of £1,143,450.

All shares are authorised and fully paid.

Each shareholder's right to vote is capped at a maximum of 5% of total voting rights. All shareholders also have full rights to dividends and capital distributions but they are not entitled to any rights of redemption.

The LGA shareholder is entitled to veto any amendment to the articles or appointment of a director.

The company maintains sufficient share capital in order to provide the necessary cash and other funding requirements for the day to day running of the business.

15. Share premium

	2015 £'000
On issue of 500,000 LGA shares of £0.01 each	495
On issue of 5,545,000 B shares of £0.01 each	5,490
	<hr/> 5,985
Bonus issue:	
On issue of 250,000 LGA shares of £0.01 each	(3)
On issue of 1,090,000 B shares of £0.01 each	(11)
	<hr/> 5,971
Capital reduction	(5,971)
	<hr/> <hr/> -

The share premium account represents the excess of consideration received for shares issued above their nominal value, net of transaction costs.

During the period, there was a capital reduction of share premium totalling £5,971,150 which was transferred to retained earnings. The capital reduction was approved by shareholders at an EGM.

UK Municipal Bonds Agency plc
Notes to the financial statements

16. Retained earnings

	£'000
Loss for the period	(2,505)
Share premium reduction	5,971
	<hr/>
Balance at 30 November 2015	3,466
	<hr/> <hr/>

Retained earnings represent the cumulative amount of distributable reserves net of distributions to owners.

Share premium was reduced in the period by £5,971,150 and transferred to retained earnings. This is now distributable to the shareholders.

17. Notes to the cash flow statement

	Period ended 30 November 2015 £'000
Loss for the period	(2,505)
Depreciation	7
Finance income	(1)
Increase in receivables	(64)
Increase in payables	465
	<hr/>
Cash used in operations	(2,098)
	<hr/>
Net cash used in operating activities	(2,098)
	<hr/> <hr/>
Cash and cash equivalents	2015 £'000
Cash and cash equivalents represent:	
Cash at bank	3,910
	<hr/> <hr/>

18. Commitments

The company entered into a 5 year non-cancellable operating lease during the period.

The future minimum lease payments are as follows:

	Land and Buildings 2015 £'000
No later than 1 year	64
Between 1 and 5 years	218
	<hr/>
	282
	<hr/> <hr/>

UK Municipal Bonds Agency plc

Notes to the financial statements

19. Related party transactions

Transactions with related parties relate to charges for services of £681,000 provided by the Local Government Association (LGA), a shareholder of the Company. The balance due at the period end date was £nil. The services charged related to staff members seconded to UK Municipal Bond Agency and use of their premises. All services provided ceased by the period end.

20. Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party.

21. Post balance sheet events

There are no significant Post balance sheet events to disclose.

