

**KINGSTAR LEASING LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
31 AUGUST 2010**

**Registered office**

25 Gresham Street  
London EC2V 7HN

**Registered number**

1582256

**Directors**

R J Eddowes  
I Lomas  
G Ferguson

**Company Secretary**

P Gittins

Member of Lloyds Banking Group



**KINGSTAR LEASING LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS 31 AUGUST 2010**

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## **KINGSTAR LEASING LIMITED**

### **REPORT OF THE DIRECTORS**

The directors present their report together with the audited financial statements of the Company for the year ended 31 August 2010

#### **Business review, principal activities and future outlook**

During the period the principal activity of the company was the leasing of vehicles, plant and equipment by way of finance leases

The directors consider the level of performance to be in line with expectations

As the Company has not written any new business since January 2008 and, in order to take advantage of operational and financial benefits, it was decided to assign all remaining lease agreements to its parent company, Lloyds TSB Commercial Finance Scotland Ltd. The assignment was dated 28 July 2010. It is the Company's intention to become dormant after the balance sheet date. As a result the financial statements for the period have not been prepared under the going concern concept, and all trading profits have been classified as discontinuing.

The profit before tax for the year ended 31 August 2010 amounted to £8,799 (2009 profit of £7,848) as set out in the statement of comprehensive income on page 8.

No ordinary dividends have been paid in the year (2009 £nil). An ordinary interim dividend of £1,600,000 was proposed on 20 August 2010 and has been paid subsequent to the year end (see note 18).

Ownership of the ordinary share capital of the company was transferred from Lloyds TSB Scotland plc to Lloyds TSB Commercial Finance Limited on 6 April 2010.

#### **Principal risks**

The principal risks and uncertainties of the Company are closely aligned to those of the Lloyds Banking Group and are not managed separately. Further information is given in note 15 to the financial statements.

#### **Financial risk management**

Disclosure of the Company's financial risk management objectives and policies is given in note 15 to the financial statements.

#### **Key performance indicators (KPI's)**

Given the straightforward nature of the business, the directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the company's business.

#### **Directors**

The directors of the company who were in office during the year and up to the date of signing the financial statements are shown on page 1. The following changes have taken place during the year:

## KINGSTAR LEASING LIMITED

### REPORT OF THE DIRECTORS (continued)

	<u>Resigned</u>	<u>Appointed</u>
<u>Directors</u>		
P J Newman	26 January 2010	
S Rice	26 January 2010	
I Lomas		26 January 2010
G Ferguson		26 January 2010
<u>Secretary</u>		
R A Connor	15 October 2010	
P Gittins		15 October 2010

#### Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have 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, the directors are required to

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

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

#### Auditors and disclosure of information to auditors

In the case of each director in office at the date the director's report is approved, the following applies

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

**KINGSTAR LEASING LIMITED**

**REPORT OF THE DIRECTORS (continued)**

By order of the board



I Lomas  
**Director**

Date      22/2/2011

## **KINGSTAR LEASING LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KINGSTAR LEASING LIMITED**

We have audited the financial statements of Kingstar Leasing Limited for the year ended 31 August 2010 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. 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.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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.

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

#### **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.

#### **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 31 August 2010 and of its profit and cash flows 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.

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

**KINGSTAR LEASING LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KINGSTAR LEASING LIMITED (continued)**

**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

*M Newman*

Michael Newman (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

*23 February 2011*

**KINGSTAR LEASING LIMITED****STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 AUGUST 2010**

	Note	2010 £	2009 £
Interest and similar income		11,829	22,291
Interest expense and similar charges		(3,030)	(8,842)
Net interest income	4	8,799	13,449
Other operating expenses	5	-	(5,601)
Profit before tax		8,799	7,848
Tax	6	(6,251)	1,555
Profit for the year attributable to equity shareholders being total comprehensive income		2,548	9,403

All activities are classified as discontinuing following the assignment of all lease agreements to the parent company

The notes on pages 12 to 25 are an integral part of these financial statements




# KINGSTAR LEASING LIMITED

## BALANCE SHEET AS AT 31 AUGUST 2010

	Note	2010 £	2009 £
<b>ASSETS</b>			
<b>Non current assets</b>			
Deferred tax	9	-	79,953
Trade and other receivables	8	-	16,471
		<hr/>	<hr/>
		-	96,424
<b>Current assets</b>			
Trade and other receivables	8	1,687,069	1,566,854
Group relief receivable		17,545	45,958
		<hr/>	<hr/>
		1,704,614	1,612,812
 <b>Total assets</b>			
		<hr/>	<hr/>
		1,704,614	1,709,236
 <b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	161	7,331
		<hr/>	<hr/>
<b>Total liabilities</b>		161	7,331
 <b>EQUITY</b>			
Share capital	11	39	39
Retained profits		1,704,414	1,701,866
		<hr/>	<hr/>
<b>Total equity</b>		1,704,453	1,701,905
 <b>Total equity and liabilities</b>			
		<hr/>	<hr/>
		1,704,614	1,709,236

The notes on pages 12 to 25 are an integral part of these financial statements

The financial statements on pages 8 to 25 were approved by the directors on x 22/02/ 2011  
and signed on their behalf by

I Lomas   
Director  
Date x 22/02/ 2011

Company number 1582256

**KINGSTAR LEASING LIMITED****STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 AUGUST 2010**

	<b>Share Capital £</b>	<b>Retained Profits £</b>	<b>Total £</b>
<b>At 31 August 2008</b>	39	1,692,463	1,692,502
Profit for the year and total comprehensive income	-	9,403	9,403
<b>At 31 August 2009</b>	39	1,701,866	1,701,905
Profit for the year and total comprehensive income	-	2,548	2,548
<b>At 31 August 2010</b>	39	1,704,414	1,704,453

The notes on pages 12 to 25 are an integral part of these financial statements

**KINGSTAR LEASING LIMITED****STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 AUGUST 2010**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
<b>Cash flows from operating activities</b>		
Profit on ordinary activities before tax	<b>8,799</b>	<b>7,849</b>
Adjustments for		
Interest expense	<b>3,030</b>	<b>8,842</b>
Increase in trade and other receivables	<b>(103,744)</b>	<b>(1,076)</b>
Decrease in trade payables	<b>(7,170)</b>	<b>(6,773)</b>
<b>Cash generated from operating activities</b>	<b>(99,085)</b>	<b>8,842</b>
Interest paid	<b>(3,030)</b>	<b>(8,842)</b>
Group relief received	<b>102,115</b>	<b>-</b>
<b>Net cash from operating activities</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Dividends paid to shareholders	<b>-</b>	<b>-</b>
<b>Net cash used in financing activities</b>	<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>		
Cash and cash equivalents at beginning of year	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	<b>-</b>	<b>-</b>

The notes on pages 12 to 25 are an integral part of these financial statements.

# **KINGSTAR LEASING LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. General information**

The Company is incorporated and domiciled in Great Britain

### **2. Accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **2.1 Basis of preparation**

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006, as applied to the company and applicable accounting standards in the United Kingdom. Following the assignment out of all remaining lease agreements during the year, the Company has effectively ceased trading and so the going concern basis is no longer considered appropriate. Any costs to be incurred in winding down the Company will be borne by the immediate parent company.

Details of standards and interpretations relevant to the Company but not effective at 31 August 2010 and not applied in preparing these financial statements are set out in note 14.

The financial statements have been prepared under the revised disclosure requirements of IAS 1 (revised) "Presentation of financial statements". The application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements.

#### **2.2 Income recognition**

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

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

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

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

## **KINGSTAR LEASING LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **2.3 Financial assets and liabilities**

Financial assets comprise amounts due from other group entities and trade and other receivables  
Financial liabilities comprise other creditors and preference shares

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 any residual interest in the assets of the entity after deducting all of its financial liabilities.

Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired.

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

When assets are leased under a finance lease the amount due from a lessee is recorded at the present value of the lease payments as a receivable within loans and advances to customers.

#### **2.4 Impairment of financial assets**

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation or the debt being restructured to reduce the burden on the borrower.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate. If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset or group of assets reflects the cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the provision is adjusted and the amount of the reversal is recognised in the statement of comprehensive income.

#### **2.5 Taxation**

Current tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred 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. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

# KINGSTAR LEASING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2.5 Taxation (continued)

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Tax assets and liabilities are offset when they arise in the same tax reporting group and where there is a legal right of offset and the intention to settle on a net basis or to release the asset and settle the liability simultaneously.

### 3. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The company regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment has occurred the company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows and their timings, such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on assets in the company. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### 4. Net interest income

	Note	2010 £	2009 £
<b>Interest and similar income</b>			
Finance lease interest		14,078	22,607
Profit on disposal of leased assets		12,008	22,927
Rebate of rentals less settlement fee		(14,257)	(23,243)
		<u>11,829</u>	<u>22,291</u>
<b>Interest and similar charges</b>			
Group interest expense	13	(3,020)	(8,832)
Preference shares	7, 11	(10)	(10)
		<u>(3,030)</u>	<u>(8,842)</u>
<b>Net interest income</b>		<u>8,799</u>	<u>13,449</u>

# KINGSTAR LEASING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4. Net interest income (continued)

There is no interest income included in respect of impaired financial assets (2009 £nil)

Rebate of rentals less settlement fees relates to assets with a net book value of £42,000 (2009 £20,000) where the lease was settled early, with the remainder relating to sales profits distributed to customers at the end of the lease term

### 5. Profit before tax

	Note	2010 £	2009 £
Management charges payable to group company	13	-	10,800
Impairment on loans and advances		-	(5,199)
		<hr/>	<hr/>
		-	5,601
		<hr/>	<hr/>

Audit fees of £3,000 (2009 £3,000) are borne by the parent company

There are no employees contracted to the company (2009 nil) Employees' contracts of service are with Lloyds TSB Commercial Finance Limited and their remuneration is included in that company's financial statements The management charge made by the parent company includes the cost of these employees but it is not possible to ascertain separately the element that relates to employees' benefits and expenses

No remuneration was paid or is payable by the Company to the directors The directors are employed by other companies in the Lloyds Banking group and consider their services to this company as incidental to their other activities within the group

# KINGSTAR LEASING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6. Taxation

	Note	2010 £	2009 £
<b>a) Analysis of charge / (credit) for the year</b>			
UK Corporation tax			
- Group relief payable / (receivable) for the year		3,253	(14,088)
- Adjustments in respect of prior years		25,160	-
<b>Current tax charge / (credit)</b>		<b>28,413</b>	<b>(14,088)</b>
Deferred tax			
Current year (origination) / reversal of timing differences		(787)	16,285
Adjustment due to reduction in tax rate		3,785	-
Deferred tax in respect of prior years - origination of timing differences		(25,160)	(3,752)
<b>Deferred tax (credit) / charge for the year</b>	9	<b>(22,162)</b>	<b>12,533</b>
<b>Total</b>		<b>6,251</b>	<b>(1,555)</b>

The charge / (credit) for tax on the profit for the year is based on a UK corporation tax effective rate of 28% (2009 28%)



# KINGSTAR LEASING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6. Taxation (continued)

#### b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge for the year is given below

	2010 £	2009 £
Profit before tax	<u>8,799</u>	<u>7,848</u>
Tax charge thereon at UK corporation tax effective rate of 28% (2009 28%)	2,463	2,197
Factors affecting charge		
- Capital Allowances for period in excess of depreciation	787	-
- Expenses not deductible for tax purposes	3	-
- Adjustments in respect of prior years	-	(3,752)
- Tax on Capital Allowances for period in excess of depreciation	(787)	-
- Effect of change in DT rate to 27%	3,785	-
Tax on profit on ordinary activities	<u>6,251</u>	<u>(1,555)</u>
Effective rate	71%	(20%)

### 7. Preference share dividends

	2010 £	2009 £
Non-equity – Preference		
Paid 1 5p (2009 1 5p) per share	10	10

# KINGSTAR LEASING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 8. Trade and other receivables

	Note	2010 £	2009 £
<b>Amounts falling due within one year</b>			
Advances to customers under finance lease arrangements		-	95,067
Less allowance for losses on loans and advances		-	-
		<hr/>	<hr/>
		-	95,067
Amounts due from immediate parent company	13	1,687,069	1,471,787
		<hr/>	<hr/>
		1,687,069	1,566,854
		<hr/>	<hr/>
		2010 £	2009 £
<b>Amounts falling due after more than one year</b>			
Advances to customers under finance lease arrangements		-	16,471
		<hr/>	<hr/>
		1,687,069	1,583,325
		<hr/>	<hr/>
Advances to customers under finance lease arrangements		2010 £	2009 £
Gross investment in finance lease receivables			
- No later than one year		-	99,914
- Later than one year and no later than five years		-	17,269
		<hr/>	<hr/>
		-	117,183
Unearned future finance income on finance lease agreements		-	(5,645)
		<hr/>	<hr/>
Net investment in finance lease contracts		-	111,538
		<hr/>	<hr/>

Amounts due from the company's immediate parent company are unsecured, repayable on demand and non-interest bearing

The cost of assets acquired during the year for the purpose of letting under finance leases amounted to £nil (2009 £nil) There are no unguaranteed residual values accruing to the benefit of the lessor and no contingent rents recognised as income in the period

# KINGSTAR LEASING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9. Deferred taxation

The movement in the net deferred tax asset is as follows

	2010 £	2009 £
At 1 September 2009	79,953	92,486
Current year origination of timing differences	787	-
Prior year origination / (reversal) of timing differences	25,160	(12,533)
Effect of change in tax rate	(3,785)	-
Transfer to parent company	(102,115)	-
	<hr/>	<hr/>
At 31 August 2010	-	79,953
	<hr/>	<hr/>

The deferred tax charge in the income statement and deferred income tax asset comprise accelerated capital allowances

Deferred income tax assets are recoverable as follows

	2010 £	2009 £
After more than 12 months	-	68,977
Within 12 months	-	10,976
	<hr/>	<hr/>
At 31 August 2010	-	79,953
	<hr/>	<hr/>

### 10. Trade and other payables

	2010 £	2009 £
<b>Amounts falling due within one year</b>		
Accruals and deferred income	-	3,018
Other creditors	-	4,152
Preference shares (note 11)	161	161
	<hr/>	<hr/>
	161	7,331
	<hr/>	<hr/>

# KINGSTAR LEASING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 11. Called up share capital

	2010 £	2009 £
Ordinary shares of 25p each (non-voting)		
Authorised	839	839
Allotted, called up, fully paid (157 shares)	39	39
6% preference shares of 25p each (voting)		
Authorised, allotted, called up, fully paid (643 shares)	161	161

The irredeemable preference shares carry a dividend of 6% per annum, payable half yearly on 20 May and 20 November. The dividend rights are non-cumulative. On a return of assets, whether in a winding up or otherwise, there is a right to a return of capital paid up on the 6% preference shares in priority over the holders of the non-voting ordinary shares, but no further right to participate in profits or assets. The preference shares carry the right to receive notice of and to attend and vote in person on a show of hands at every general meeting and the right to one vote per 6% preference share on a poll thereafter.

Preference shares are classed as liabilities and included within trade and other payables. Preference share dividends are recognised as interest expense.

Ownership of the ordinary share capital of the company was transferred from Lloyds TSB Scotland plc to Lloyds TSB Commercial Finance Limited on 6 April 2010.

Ownership of the preference share capital is held by Lloyds TSB Commercial Finance Scotland Limited.

### 12. Ultimate parent company

As described in note 11, Called up share capital, ownership of all non voting ordinary shares was transferred from Lloyds TSB Scotland plc to Lloyds TSB Commercial Finance Limited on 6 April 2010. The 6% preference voting shares continue to be held by Lloyds TSB Commercial Finance Scotland Limited, who by virtue of control, remain the company's immediate parent undertaking. Lloyds TSB Commercial Finance Scotland Limited is a wholly owned subsidiary of Lloyds TSB Commercial Finance Limited.

The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc (formerly Lloyds TSB Group plc), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member. Lloyds TSB Bank Plc was at the balance sheet date the parent undertaking of the smallest such group of undertakings.

Copies of the financial statements of Lloyds TSB Commercial Finance Scotland Limited are available from 110 St Vincent Street, Glasgow, G2 5ER.

Copies of the financial statements of Lloyds TSB Commercial Finance Limited are available from No 1, Brookhill Way, Banbury, OX16 3EL.

# KINGSTAR LEASING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 12. Ultimate parent company (continued)

Copies of the group financial statements of Lloyds Banking Group plc and Lloyds TSB Bank Plc are available from the Company Secretary's office, 25 Gresham Street, London, EC2V 7HN

### 13. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. These include loans, recharges and expense transactions. The outstanding balances at the year end and related expense and income for the year are set out below

	Note	2010 £	2009 £
<b>Lloyds TSB Commercial Finance Scotland Limited</b>			
<u>Balance outstanding at 31 August 2010</u>			
Amounts due from immediate parent company	8	1,687,069	1,471,787
Group relief receivable		17,545	45,958
<u>Transactions for year ended 31 August 2010</u>			
Interest paid	4	3,020	8,832
Management charge	5	-	10,800

Preference dividends paid to Lloyds TSB Commercial Finance Scotland Limited are disclosed in note 7

The amount of interest payable to Lloyds TSB Commercial Finance Scotland Limited is based on the number of lease agreements in existence during the financial year, rather than on the basis of the outstanding intercompany balance

Lloyds TSB Commercial Finance Scotland Limited owns all 643 voting Preference shares. On 6 April 2010, ownership of the 157 issued non voting ordinary shares passed from Lloyds TSB Scotland plc to Lloyds TSB Commercial Finance Ltd

### Directors and key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprise the directors of the Company and the members of the Lloyds TSB Commercial Finance Ltd board which comprises the statutory directors of that company and certain other senior management. There were no transactions between the Company and key management personnel during the current or preceding year.

## KINGSTAR LEASING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 14. Future accounting developments

The following pronouncements will be relevant to the Company but were not effective at 31 August 2010 and has not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Improvements to IFRS (issued April 2009)	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010
IAS24 Related Party Disclosures	Simplifies the definition of a related party	Annual periods beginning on or after 1 January 2011

These pronouncements will be adopted during the year commencing 1 September 2010

The full impact of these pronouncements is being assessed by the Company, they are not expected to have a material impact

#### 15. Financial Risk Management

The company's activities are principally related to the use of financial instruments through the leasing of vehicles, plant and equipment to its customers. The company does not trade in financial instruments, nor does it use derivatives. Lending activity is largely in the form of advances to customers. The company's other financial instruments are amounts from Group companies.

The company's operations expose it to credit risk, liquidity risk and interest rate risk, it is not exposed to any foreign exchange risk. Responsibility for the control of overall risk lies with the Board of Directors, operating within a management framework established by Lloyds TSB Commercial Finance Ltd.

A description of the financial assets and liabilities and associated accounting is provided in note 23.

##### 15.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with instalment credit contracts is managed through the application of strict underwriting criteria, determined by Lloyds TSB Commercial Finance Limited. Significant credit exposures are measured and reported on a regular basis.

Credit risk associated with amounts due from the immediate parent company is considered minimal.

**KINGSTAR LEASING LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)****15.1 Credit risk (continued)****Credit concentration**

The company lends to commercial customers geographically located within the United Kingdom

**Loans and advances to customers – maximum exposure**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Neither past due nor impaired	-	105,128
Past due but not impaired	-	6,410
Impaired	-	-
<b>Gross exposure – loans and advances</b>	<b>-</b>	<b>111,538</b>
Allowances for loan losses	-	-
<b>Loans and advances net of impairment allowances</b>	<b>-</b>	<b>111,538</b>

**Loans and advances to customers which are neither past due nor impaired**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Satisfactory quality	-	66,695
Lower quality	-	38,433
<b>Total</b>	<b>-</b>	<b>105,128</b>

**Loans and advances to customers which are past due but not impaired**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Past due up to 30 days	-	6,286
Past due > 90 days	-	124
<b>Total</b>	<b>-</b>	<b>6,410</b>

Past due is defined as failure to make a payment when it falls due

## KINGSTAR LEASING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 15.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2010	2009
	£	£
Balance at 1 September	-	5,199
(Credit) / charge to income statement	-	(5,199)
At 31 August	-	-

The criteria used to determine whether there is objective evidence of impairment is disclosed in note 2.4. Included in loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £nil (2009 £nil).

#### Reposessed collateral

The fair value of collateral held against impaired debt is £nil (2009 £nil). The company does not take physical possession of any collateral, instead it uses agents to realise the collateral's value as soon as practicable, usually at auction to settle indebtedness. Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

#### Renegotiated loans and advances to customers

During the year the company renegotiated no loans and advances to customers, which would otherwise have been past due or impaired.

#### 15.2 Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations as they fall due.

Significant cash deposits relating to this company are held by Lloyds TSB Commercial Finance Scotland Limited (who collect customer rentals) and these intercompany debtors are all repayable on demand. As such, liquidity risks are minimal.

#### 15.3 Interest rate risk

Interest rate risk is the risk of financial loss as the result of movements in interest rates and arises largely because of timing differences between the repricing of financial assets and liabilities.

Rates of interest payable to Lloyds TSB Commercial Finance Scotland Limited are matched to rates receivable from customers, so that the interest rate risk faced by the company is limited.



## **KINGSTAR LEASING LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **15.4 Fair values of financial assets and liabilities**

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments in this context are loans and advances to customers and funds lent to Group companies. The accounting policy for such financial instruments is explained at note 2. These products are accounted for on an amortised cost basis and no financial instruments use fair value accounting.

The Company provides loans and advances to commercial and corporate customers at fixed rates. Finance leases are initially recognised at fair value and subsequently amortised using the effective interest rate method. Fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by other financial institutions. The aggregated fair value of loans and advances to customers is approximately £nil (2009 £140,000).

#### **15.5 Market risk**

The Company believes it is not subject to market risk exposure as all remaining lease agreements were assigned to the company's parent company, Lloyds TSB Commercial Finance Scotland Ltd, during the year.

#### **16. Capital management**

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, and indirectly, to support the Lloyds Banking Group's regulatory capital requirements.

The company's parent manages the company's capital structure and advises the board to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company's parent may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The company's capital comprises all components of equity, movements in which appear in the statement of changes in equity on page 10.

#### **17. Post Balance Sheet Events**

After the year end an ordinary interim dividend payment of £1,600,000 was made to Lloyds TSB Commercial Finance Limited. Dividends on ordinary shares are recognised in equity in the period in which they are paid.

#### **18. Dividends per share**

The proposed dividend of £1,600,000 in respect of 2010 amounts to £10.191 08 per share. The financial statements for the year ended 31 August 2010 do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ended 31 August 2011.