

LLOYDS INVESTMENT BONDS LIMITED

31 December 2014

Member of Lloyds Banking Group

Registered Number: 2468722

WEDNESDAY



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COMPANIES HOUSE

LLOYDS INVESTMENT BONDS LIMITED

DIRECTORS

C G Dowsett
G A Fox

COMPANY SECRETARY

M A A Johnson

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

2468722

DIRECTORS' REPORT

The directors present their report and audited financial statements for the year ended 31 December 2014.

The Company qualifies as a small company in accordance with Sections 381-382 of the Companies Act 2006 (the "Act") and the directors' report has therefore been prepared taking into consideration the provisions of Part 15 of the Act.

REVIEW OF BUSINESS

During the year, the principal activity of the company was the holding of an investment in a subsidiary undertaking and this is likely to continue for the foreseeable future.

The results of the company show a loss before taxation of £20,134,000 (2013: £6,227,000 profit) for the year as set out in the statement of comprehensive income on page 6.

The company has a net deficit of shareholder's equity of £98,610,000 (2013: £79,505,000 deficit).

The company is reliant on funding provided by Lloyds Banking Group plc. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2013: £nil).

DIRECTORS

The names of the directors of the company are shown on page 1. There were no changes in directors during the year.

No director had any interest in any material contract or arrangement with the company during or at the end of the year.

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 prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing 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.

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director 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.

DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the directors of the company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the group has in place appropriate directors' and officers' liability insurance cover which was in place throughout the financial year.

DIRECTORS' REPORT (CONTINUED)

INDEPENDENT AUDITORS' APPOINTMENT

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

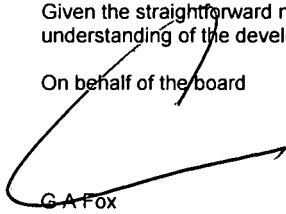
PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. For further details please refer to note 11 'Risk management of financial instruments' in these financial statements.

KEY PERFORMANCE INDICATORS ('KPIs')

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

On behalf of the board



G.A. Fox
Director

Date: 22/09/15

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS INVESTMENT BONDS LIMITED

Report on the Financial Statements

Our opinion

In our opinion, Lloyds Investment Bonds Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2014;
- the balance sheet as at 31 December 2014;
- the statement of changes in shareholder's equity for the year then ended;
- cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to prepare financial statements in accordance with the small companies regime. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, 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) ("ISAs (UK & 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS INVESTMENT BONDS LIMITED (CONTINUED)

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.



Mark Hoskyns-Abraham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Edinburgh

Date:

24/9/15

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

	Note	2014 £000	2013 £000
Finance income	2	4	4
Finance costs	3	(708)	(809)
		<u>(704)</u>	<u>(805)</u>
Foreign exchange (loss)/gain		(19,430)	7,032
(Loss)/profit before taxation	4	(20,134)	6,227
Taxation credit/(charge)	5	1,029	(125)
(Loss)/profit after taxation and total comprehensive (loss)/income for the year attributable to owners of the parent		<u>(19,105)</u>	<u>6,102</u>

The accompanying notes are an integral part of the Financial Statements.

LLOYDS INVESTMENT BONDS LIMITED

BALANCE SHEET
As at 31 December 2014

	Note	2014 £000	2013 £000
Assets			
Non-current assets			
Investment in subsidiary undertakings	6	281,871	281,871
Total non-current assets		281,871	281,871
Current assets			
Amounts owed by group companies	7	26,054	14,048
Total current assets		26,054	14,048
Total assets		307,925	295,919
Liabilities			
Current liabilities			
Amounts owed to group companies	8	406,535	375,424
Total current liabilities		406,535	375,424
Equity			
Share capital	9	10	10
Accumulated losses	10	(98,620)	(79,515)
Total equity		(98,610)	(79,505)
Total liabilities and equity		307,925	295,919

The financial statements on pages 6 to 17 were approved by the Board of Directors on

and signed on its behalf by:

G.A Fox
Director

Registered Number: 2468722

The accompanying notes are an integral part of the Financial Statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £000	Accumulated losses £000	Total equity £000
Balance at 31 December 2012	10	10	(85,617)	(85,607)
Total comprehensive income for the year				
Profit for the year	10	-	6,102	6,102
Balance at 31 December 2013	9, 10	10	(79,515)	(79,505)
Total comprehensive loss for the year				
Loss for the year	10	-	(19,105)	(19,105)
Balance at 31 December 2014	9, 10	10	(98,620)	(98,610)

The accompanying notes are an integral part of the Financial Statements.

LLOYDS INVESTMENT BONDS LIMITED

CASH FLOW STATEMENT
For the year ended 31 December 2014

	Note	2014 £000	2013 £000
Net cash flow from operating activities	12	10,722	5,307
Financing activities			
Movement in bank borrowings		1,918	(4,286)
Net cash flow from financing activities		1,918	(4,286)
Exchange losses on cash and cash equivalents		(1,833)	(486)
Net movement in cash and cash equivalents		10,807	535
Cash and cash equivalents at beginning of the year		12,299	11,764
Cash and cash equivalents at end of the year		23,106	12,299
Cash and cash equivalents are comprised of:			
Cash at bank	7	12,101	12,299
Bank deposits	7	11,005	-
		23,106	12,299

The accompanying notes are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 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.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, under the historical cost convention.

The financial statements have been prepared in accordance with Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006.

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the continuing financial support provided by Lloyds Bank plc. After making appropriate enquiries, the directors believe that it is appropriate for the financial statements to be prepared on the going concern basis.

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. The accounting policies deemed critical to the company's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

- Impairment

The company regularly reviews the portfolio of financial assets for impairment. In determining whether an impairment has occurred at the balance sheet date the company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or 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 repayments or values of underlying assets. Where this is the case, the impairment loss is measured in accordance with note 1(b) below.

1(a) Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at historical cost, less any provision for impairment.

Dividend income is recognised when the right to receive payment is established.

These separate financial statements contain information about Lloyds Investment Bonds Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken advantage of the exemption under IAS 27 (revised), 'Consolidated and separate financial statements', from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its parent, Lloyds Banking Group plc.

1(b) Impairment

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.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal and/or interest;
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty;
- Restructuring of debt to reduce the burden on the borrower;
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

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 carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as a credit to the statement of comprehensive income.

1(c) Taxation

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)**1(c) Taxation (continued)**

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. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects 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. Deferred tax related to fair value re-measurement of financial assets and liabilities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of comprehensive income together with the deferred gain or loss.

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

1(d) Dividends

Dividends are recognised in equity only when the company has the obligation to pay the ordinary shareholder.

1(e) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months.

1(f) Foreign currency translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income except when deferred in equity as qualifying cash flow hedges.

2 Finance income

	2014 £000	2013 £000
Interest receivable from other group companies	4	4
	<u>4</u>	<u>4</u>

3 Finance costs

	2014 £000	2013 £000
Interest payable to other group companies	708	809
	<u>708</u>	<u>809</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 (Loss)/profit before taxation

Audit fees for the company are borne by the ultimate parent company.

The company has no employees (2013: nil).

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

5 Taxation credit/(charge)

	2014 £000	2013 £000
The taxation credit/(charge) for the year comprises:		
Current tax receivable/(payable) on (loss)/profit for the year	1,029	(125)
Total taxation credit/(charge) for the year	1,029	(125)

Where taxation on the company's (loss)/profit for the year differs from the taxation credit/(charge) that would arise using the standard rate of corporation tax of 21.5% (2013: 23.25%), the differences are explained below:

	2014 £000	2013 £000
(Loss)/profit before taxation	(20,134)	6,227
Tax at standard rate of corporation tax	4,329	(1,447)
Permanent differences	-	1,322
Non taxable foreign exchange	(3,300)	-
Total taxation credit/(charge)	1,029	(125)

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

On 8 July 2015, the Government announced that the corporation tax rate applicable from 1 April 2017 would be 19% and from 1 April 2020 would be 18%. The proposed reductions in the rate of corporation tax are expected to be enacted during 2015.

6 Investment in subsidiary undertakings

	2014 £000	2013 £000
At beginning of the year	281,871	281,871
At end of the year	281,871	281,871

The principal subsidiary undertaking of the company, which is registered in England and Wales, is:

<u>Company name</u>	<u>Ownership & Voting (%)</u>	<u>Accounting reference date</u>	<u>Nature of business</u>
Silentdale Limited	100	31 December 2014	Management of investments

Investments in subsidiaries represents the company's 100% interest in Silentdale Limited, carried at cost. Silentdale Limited is incorporated in the United Kingdom. It carries on business as a holding company of investments in 5 limited partnerships. These limited partnerships carry on the business of holding interest earning financial assets. One of the limited partnerships was in the business of leasing aircraft, however the aircraft was sold during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 Investment in subsidiary undertakings (continued)

The company's investment in Silentdale Limited is represented by 100% interest in 418,615,689 redeemable non-voting shares of \$1.00 each, 100% interest in 200 ordinary non-voting shares of £0.25 each and 100% interest in 200 6% preference shares of £0.25 each.

7 Amounts owed by group companies

	2014 £000	2013 £000
Cash at bank	12,101	12,299
Bank deposits	11,005	-
Amounts due from group companies	1,858	1,749
Group relief receivable	1,090	-
	<u>26,054</u>	<u>14,048</u>

For further details please refer to note 13.

8 Amounts owed to group companies

	2014 £000	2013 £000
Bank borrowings	30,315	29,315
Interest payable	45	44
Amounts due to group companies	376,175	345,940
Group relief payable	-	125
	<u>406,535</u>	<u>375,424</u>

For further details please refer to note 13.

9 Share capital

	2014 £	2013 £
Allotted, issued and fully paid 10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
	<u>10,000</u>	<u>10,000</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Accumulated losses

	2014 £000	2013 £000
At beginning of the year	(79,515)	(85,617)
(Loss)/profit after taxation and total comprehensive (loss)/income for the for the year	(19,105)	6,102
At end of the year	(98,620)	(79,515)

11 Risk management of financial instruments

The primary financial risks affecting the company are: credit risk, liquidity risk and market risk (which include interest rate risk and foreign currency risk). Information on the management of these financial risks and further disclosures is given below.

In accordance with IAS 39 "Financial instruments: Recognition and measurement", all financial assets are designated as held at amortised cost. The accounting policies in note 1 describe how different classes of financial instruments are measured, and how income and expenses are recognised.

Credit risk management:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum credit risk exposure of the group in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount as at 31 December.

	2014 £000	2013 £000
Financial assets which are neither past due nor impaired for credit risk:		
Amounts owed by group companies	26,054	14,048
Total credit risk exposure	26,054	14,048

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each exposure is assessed for credit risk prior to approval and assigned a credit rating based on the credit risk rating methodology and management policy of the Lloyds Banking Group plc. The company has no credit risk to a third party, all assets are recoverable from the company's ultimate parent, Lloyds Banking Group plc being an A (2013: A) credit rated financial institution.

At the balance sheet date the company assesses if there is objective evidence that the financial assets have become impaired. Evidence of impairment may include indications that the counterparty is experiencing financial difficulty, default or delinquency in settlements of amounts due or debt restructurings to reduce the financial burden on the counterparty.

At 31 December 2014 and 2013 there were no impairments relating to credit risk against any financial assets. The credit risk exposure under short-term debtors, deposits and other financial assets are represented by the book values in the above table.

For financial assets held at amortised cost the fair value approximates to their carrying values.

Liquidity risk management:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

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

At 31 December 2014	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	-	-
Up to 1 month	30,315	376,220	406,535
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	-	-	-
Total	30,315	376,220	406,535

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Risk management of financial instruments (continued)

Liquidity risk management (continued):

At 31 December 2013	Bank borrowings £000	Other liabilities £000	Total Liabilities £000
On demand	-	346,109	346,109
Up to 1 month	29,315	-	29,315
1-3 months	-	-	-
3-12 months	-	-	-
1-5 years	-	-	-
Over 5 years	-	-	-
Total	29,315	346,109	375,424

The fair value of current liabilities approximates their carrying values.

Bank borrowings and the associated interest payable upon them are borrowed short term and all borrowings are advanced by a fellow subsidiary undertaking of Lloyds Banking Group plc.

Interest rate risk management:

Interest rate risk is the risk that the future cash flows and fair values of a financial instrument may fluctuate because of changes in market interest rates.

The company takes into account the exposure on fluctuations in the prevailing levels of market interest rates on its cash flows when structuring its operations by ensuring the interest terms of its finance income is matched to the variable interest terms of the borrowing used to finance the leasing portfolio. As such the company has no material exposure to financial risk arising from changes in market interest rates.

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance income by £62,000 (2013: £833,000) and finance costs by £1,016,000 (2013: £833,000).

Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Exposure to foreign currency fluctuations arises due to its financial assets and liabilities being denominated in foreign currencies.

At the year end, if the currency had fluctuated by +/- 25 basis points against the USD, with all other variables held constant, post tax profit would have changed by £848,000 (2013: £2,507,000) primarily due to assets/liabilities denominated in USD.

Below are the assets and liabilities of the company disclosed in USD:

Foreign currency risk - carrying amount	2014 \$000	2013 \$000
Financial assets		
Amounts owed by group companies	20,047	2,892
Interest receivable	1	-
	<u>20,048</u>	<u>2,892</u>
Financial liabilities		
Amounts owed to group companies	549,891	532,035
Interest payable	48	47
	<u>549,939</u>	<u>532,082</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Notes to the cash flow statement

	2014 £000	2013 £000
(Loss)/profit before taxation	(20,134)	6,227
Add/(less) non cash items:		
Foreign exchange movement	19,430	(7,032)
Operating cash flows before movements in working capital	(704)	(805)
Movement in receivables	(3)	(4)
Movement in payables	11,615	5,576
Cash generated by operations	10,908	4,767
Group relief (paid)/received	(186)	540
Net cash flow from operations	10,722	5,307

13 Related parties

The company's immediate parent company is Lloyds Bank Leasing Limited. The company regarded by the directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member. Lloyds Bank plc is the parent company of the smallest such group of undertakings. Copies of the group financial statements may be obtained from the company secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

The company's related parties include other companies in the Lloyds Banking Group and the company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company, which is determined to be the company's directors, who are listed on page 1 of these financial statements.

In respect of related party transactions, the outstanding balances receivable/(payable) at 31 December were as follows:

Nature of transaction	Related party	Related party relationship	2014 £000	2013 £000	Terms and conditions Repayment	Interest
Cash at bank	Lloyds Bank plc	Intermediate parent undertaking	12,101	12,299	No fixed date	N/A
Bank deposits	Lloyds Bank plc	Intermediate parent undertaking	11,005	-	12/01/15	0.09%
Amounts due from group companies	Silentdale Limited	Immediate subsidiary undertaking	1,858	1,749	12/01/15	0.16%
Group relief receivable/(payable)	Bank of Scotland plc	Fellow subsidiary undertaking	1,090	(125)	No fixed date	N/A
Amounts due to group companies	Silentdale Limited	Immediate subsidiary undertaking	(163,331)	(143,394)	12/01/15	0.16%
Amounts due to group companies	Lloyds Bank Equipment Leasing (No. 5) Limited	Fellow subsidiary undertaking	(33,771)	(31,840)	12/01/15	0.16%
Amounts due to group companies	Rail Partnerships	Fellow subsidiary undertaking	(139,670)	(131,496)	12/01/15	0.16%
Amounts due to group companies	Lloyds Bank Leasing Limited	Immediate parent undertaking	(39,403)	(39,210)	12/01/15	0.49819%
Bank borrowings	Lloyds Bank plc	Intermediate parent undertaking	(30,315)	(29,315)	12/01/15	0.16% - 0.5%
Interest payable	Lloyds Bank plc	Intermediate parent undertaking	(5)	(5)	12/01/15	N/A
Interest payable	Silentdale Limited	Immediate subsidiary undertaking	(28)	(27)	12/01/15	N/A
Interest payable	Lloyds Bank Leasing Limited	Immediate parent undertaking	(12)	(12)	12/01/15	N/A

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

Bank borrowings are interest bearing and during the year rates of interest of up to 0.5% (2013: 0.27%) were charged. Finance costs of £708,000 (2013: £809,000) were incurred during the year.

The company earned interest on bank deposits of £1,000 (2013: £nil) on which rates of interest of up to 0.12% (2013: 0%) were received.

The company paid group relief of £186,000 (2013: £540,000 received) during the year to fellow subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Adopted accounting standards

The following accounting standard changes were adopted by the company during the year.

<u>Pronouncement</u>	<u>Nature of change</u>	<u>Adoption date</u>
Amendment to IAS 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'	Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement.	1 January 2014

15 Future developments

The following accounting standard changes will impact the company in the future financial years. Save as disclosed below, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the Financial Statements.

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
IFRS 9; 'Financial Instruments' ¹	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities and hedge accounting. IFRS 9 requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments and eliminated the available-for-sale financial asset and held-to-maturity investment categories in IAS 39. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach.	Annual periods beginning on or after 1 January 2018

¹ As at the date of signing, this pronouncement is awaiting EU endorsement.