

LLOYDS BANK MARITIME LEASING (NO 10) LIMITED
(Formerly known as Lloyds TSB Maritime Leasing (No 10) Limited)
31 December 2013

MONDAY



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COMPANIES HOUSE

Member of Lloyds Banking Group

Registered Number: 4440166

LLOYDS BANK MARITIME LEASING (NO 10) LIMITED

DIRECTORS

S Ball
C G Dowsett
G A Fox
R O Williams

COMPANY SECRETARY

M A A Johnson

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Atrium 1
144 Morrison Street
Edinburgh
EH3 8EX

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

4440166

REPORT OF THE DIRECTORS

The directors present their report and audited financial statements for the year ended 31 December 2013

REVIEW OF BUSINESS

During the year, the principal activity of the company was the leasing of plant and equipment through finance lease transactions and this is likely to continue for the foreseeable future

The results of the company show a loss before taxation of £180,000 (2012 £800,000 profit) for the year as set out in the income statement on page 6

On 23 September 2013, Lloyds TSB Maritime Leasing (No 10) Limited changed its name to Lloyds Bank Maritime Leasing (No 10) Limited

The company has shareholder's equity of £1,562,000 (2012 £1,229,000)

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2012 £nil)

DIRECTORS

The names of the directors of the company who were in office at the date of the signing of financial statements are shown on page 1 The following changes in directors have taken place during the year and since the year end

	Appointed	Resigned/ceased to be a director
S Ball	22 May 2013	-
G A Fox	30 May 2013	-
S C Gledhill	-	6 March 2014

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 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the directors of the company, including former directors who resigned during the year, 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 (or from the date of appointment in respect of directors who joined the board of the company during the financial year) Directors no longer in office but who served on the board of the company at any time in the financial year had the benefit of this contract of indemnity during that period of service 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

REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

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

AUDITORS' APPOINTMENT

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

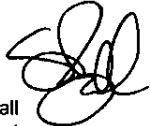
PRINCIPAL RISKS AND UNCERTAINTIES

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 16 '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

By order of the board



S Ball
Director

Date 25th June 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK MARITIME LEASING (NO 10) LIMITED

Report on the Financial Statements

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the company's affairs as at 31 December 2013 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

The opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The financial statements, which are prepared by Lloyds Bank Maritime Leasing (No 10) Limited, comprise

- Balance Sheet as at 31 December 2013,
- Income Statement for the year then ended,
- Statement of Comprehensive Income for the year then ended,
- Cash Flow Statement for the year then ended,
- Statement of Changes in Shareholder's Equity 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 their preparation 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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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

In addition, we read all the financial and non-financial information in the Financial Statements (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 other matters prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK MARITIME LEASING (NO 10) LIMITED (CONTINUED)

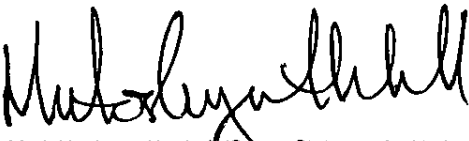
Responsibilities for the financial statements and the audit

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 ISAs (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



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

Edinburgh

Date

24 June 2014.

LLOYDS BANK MARITIME LEASING (NO 10) LIMITED

INCOME STATEMENT

For the year ended 31 December 2013

	Note	2013 £000	2012 £000
Finance income	2	1,364	1,675
Finance costs	3	(879)	(931)
		<u>485</u>	<u>744</u>
Other operating income	4	-	56
Other operating expenses	5	(665)	-
		<u>(180)</u>	<u>800</u>
(Loss)/profit before taxation	6	(180)	800
Taxation credit/(charge)	7	42	(196)
		<u>42</u>	<u>(196)</u>
(Loss)/profit after tax for the year		<u>(138)</u>	<u>604</u>

The accompanying notes are an integral part of the Financial Statements

LLOYDS BANK MARITIME LEASING (NO 10) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	Note	2013 £000	2012 £000
(Loss)/profit after tax for the year	15	(138)	604
Other Comprehensive Income			
Items that may subsequently be reclassified to profit or loss			
Movement in cash flow hedges, net of tax - changes in fair value taken to equity	14	471	166
Total comprehensive income for the year attributable to owners of the parent		<u>333</u>	<u>770</u>

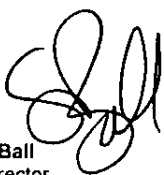
The accompanying notes are an integral part of the Financial Statements

LLOYDS BANK MARITIME LEASING (NO 10) LIMITED

BALANCE SHEET
As at 31 December 2013

	Note	2013 £000	2012 £000
Assets			
Non-current assets			
Finance lease receivables	8	15,884	20,791
Deferred taxation	12	114	277
Total non-current assets		<u>15,998</u>	<u>21,068</u>
Current assets			
Finance lease receivables	8	7,443	10,914
Amounts owed by group companies	9	2,297	2,550
Total current assets		<u>9,740</u>	<u>13,464</u>
Total assets		<u>25,738</u>	<u>34,532</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	10	23,847	32,943
Other creditors		329	360
Total current liabilities		<u>24,176</u>	<u>33,303</u>
Equity			
Share capital	13	-	-
Other reserves	14	(457)	(928)
Retained earnings	15	2,019	2,157
Total equity		<u>1,562</u>	<u>1,229</u>
Total liabilities and equity		<u>25,738</u>	<u>34,532</u>

The financial statements on pages 6 to 22 were approved by the Board of Directors on 25 JUNE 2014 and signed on its behalf by



S Ball
Director

Registered Number 4440166

The accompanying notes are an integral part of the Financial Statements

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 31 December 2011	13, 14, 15	-	(1,094)	1,553	459
Total comprehensive income for the year					
Profit for the year	15	-	-	604	604
Change in fair value of derivatives	14	-	166	-	166
Balance at 31 December 2012	13, 14, 15	-	(928)	2,157	1,229
Total comprehensive income for the year					
Loss for the year	15	-	-	(138)	(138)
Change in fair value of derivatives	14	-	471	-	471
Balance at 31 December 2013	13, 14, 15	-	(457)	2,019	1,562

The accompanying notes are an integral part of the Financial Statements

LLOYDS BANK MARITIME LEASING (NO 10) LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2013

	Note	2013 £000	2012 £000
Net cash flow from operating activities	17	7,876	8,198
Financing activities			
Movement in bank borrowings		(8,171)	(7,324)
Net cash flow from financing activities		(8,171)	(7,324)
Net movement in cash and cash equivalents		(295)	874
Cash and cash equivalents at beginning of the year		2,550	1,676
Cash and cash equivalents at end of the year		2,255	2,550
Cash and cash equivalents are comprised of			
Cash at bank	9	2 255	2,550
		2,255	2,550

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 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.

In preparing these financial statements the company has adopted the amendments to IAS 1 Presentation of Financial Statements - 'Presentation of Items of Other Comprehensive Income'. The amendments to IAS 1 require entities to group items presented in other comprehensive income on the basis of whether they may potentially be reclassified to profit or loss subsequently. The statement of other comprehensive income in these financial statements has been revised to reflect the new requirements.

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) Leases

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee, all other leases are classified as operating leases.

When assets are leased under a finance lease the amount due from a lessee is recorded as a receivable at the present value of the lease payments being the company's net investment in the lease. 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 a finance lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term. Fees and commissions received are deferred and recognised as an adjustment to the effective interest rate on the lease over the lease term.

A change in corporation tax can give rise to a reduction or increase in deferred tax. Due to tax rate variation clauses in some of the company's leases this may lead to a reduction or increase in lease rentals. This change in the lease rentals can give rise to a change in the interest rate implicit in the lease which when applied retrospectively, produces a one-off adjustment of the finance lease receivables carrying value. This one-off adjustment is reported as either an impairment or other income in the income statement.

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 balance sheet carrying value of the asset and the present value of the estimated future cash flows discounted at the asset's implicit rate in the lease.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

1(b) Impairment (continued)

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 income statement.

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.

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 income statement 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) Fair value

The fair value of finance lease receivables is derived from a present value cash flow model of expected cash flows from the lease using current market interest rates and margin for the risks inherent in the lease.

1(g) Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of any derivative instrument that is not part of a hedging relationship are recognised immediately in the income statement.

Derivatives embedded in financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the movements in the fair value of the derivatives depends on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Hedge accounting allows one financial instrument, generally a derivative such as a swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of the same. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item and the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value or cash flow of the hedged risk. The effectiveness of the hedging relationship must be tested throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its objective the hedge relationship is terminated.

The company designates derivatives as hedges of highly probable future cash flows attributable to recognised assets or liabilities (cash flow hedges).

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)**1(g) Derivative financial instruments (continued)**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income, and in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The company documents at the inception of the transaction the relationship between hedging instrument and the hedged item. The company also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cashflows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability, if the maturity of the hedged item is less than 12 months.

1(h) 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.

2 Finance income

	2013 £000	2012 £000
Finance lease income	1,364	1,675
	<u>1,364</u>	<u>1,675</u>

Finance lease income represents the income component of finance lease receivables earned in the year, being lease rentals less capital repayment.

3 Finance costs

	2013 £000	2012 £000
Interest payable on bank loans and overdraft with other group companies	335	293
Interest rate swaps Cashflow hedges	544	638
	<u>879</u>	<u>931</u>

4 Other operating income

	2013 £000	2012 £000
Other fees receivable	-	56
	<u>-</u>	<u>56</u>

NOTES TO THE FINANCIAL STATEMENTS

5 Other operating expenses

	2013 £000	2012 £000
Loss on sale of finance lease assets	665	-
	<u>665</u>	<u>-</u>

During the year one finance lease was terminated and another finance lease was part-terminated

6 (Loss)/profit before taxation

Audit fees for the company are borne by the ultimate parent company, the audit fee attributed to this company for the year was £8,500 (2012 £8,500). The company has no employees and the directors received no remuneration in respect of their services to the company

7 Taxation credit/(charge)

	2013 £000	2012 £000
The taxation credit/(charge) for the year comprises		
Current tax receivable/(payable) on (loss)/profit for the year	42	(196)
Total current tax receivable/(payable) for the year	<u>42</u>	<u>(196)</u>
Total taxation credit/(charge) for the year	<u>42</u>	<u>(196)</u>

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 23.25% (2012 24.5%), the differences are explained below:

	2013 £000	2012 £000
(Loss)/profit before taxation	<u>(180)</u>	<u>800</u>
Tax at standard rate of corporation tax	<u>42</u>	<u>(196)</u>
Total taxation credit/(charge)	<u>42</u>	<u>(196)</u>

8 Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2013 £000	2012 £000	2013 £000	2012 £000
Amounts receivable under finance leases				
Within 1 year	8,410	12,117	7,443	10,914
2 - 5 years inclusive	16,744	22,284	15,884	20,791
After 5 years	-	-	-	-
	<u>25,154</u>	<u>34,401</u>	<u>23,327</u>	<u>31,705</u>
Less: Unearned finance income	<u>(1,827)</u>	<u>(2,696)</u>		
Present value of minimum lease payments receivable	<u>23,327</u>	<u>31,705</u>		

NOTES TO THE FINANCIAL STATEMENTS

8 Finance lease receivables (continued)

	2013 £000	2012 £000
Analysed as		
Non-current finance lease receivable	15,884	20,791
Current finance lease receivables	7,443	10,914
	<u>23,327</u>	<u>31,705</u>

The fair value of the company's finance lease receivables at 31 December 2013 is estimated at £22,859,000 (2012 £31,279,000)

During the year one finance lease was terminated and another finance lease was part-terminated, resulting in a loss of £665,000

9 Amounts owed by group companies

	2013 £000	2012 £000
Cash at bank	2,255	2,550
Group relief receivable	42	-
	<u>2,297</u>	<u>2,550</u>

For further details please refer to note 18

10 Amounts owed to group companies

	2013 £000	2012 £000
Bank borrowings	22,553	30,724
Interest payable	668	587
Amounts due to fellow subsidiaries	56	-
Group relief payable	-	428
Derivative financial instruments (note 11)	570	1,204
	<u>23,847</u>	<u>32,943</u>

For further details please refer to note 18

11 Derivative financial instruments

Derivative financial instruments include interest rate swaps. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts.

An interest rate swap option is an option to enter into an interest rate swap at a future date.

Derivative transactions are with group companies. See note 18 for further details of balances outstanding at the year end.

The derivatives used by the company are designated as cash flow hedges, these hedge against fluctuations in market interest rates and are detailed below.

The effective portion of changes in the fair value of cashflow hedges is recognised in other comprehensive income. The ineffective portion is recognised immediately in the income statement. The cash flow hedges were highly effective through out the year and no ineffectiveness was recognised in profit or loss during the year.

There was no portion of the hedging reserve reclassified from equity to profit and loss during the period.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining hedged item is less than 12 months.

Interest payments arising on borrowings are settled on a quarterly basis.

NOTES TO THE FINANCIAL STATEMENTS

11 Derivative financial instruments (continued)

	Contractual/ Notional amount £000	Fair Values Liabilities £000
31 December 2013		
Interest rate swaps	22,553	570
	<u>22,553</u>	<u>570</u>
31 December 2012		
Interest rate swaps	30,724	1,204
	<u>30,724</u>	<u>1,204</u>

12 Deferred taxation

	2013 £000	2012 £000
At beginning of the year	277	365
Movement in other reserves (note 14)	(147)	(62)
Impact of tax rate change thereon (note 14)	(16)	(26)
	<u>114</u>	<u>277</u>
At end of the year		

Deferred taxation assets are comprised as follows

	2013 £000	2012 £000
Deferred taxation assets		
Cashflow hedges	114	277
	<u>114</u>	<u>277</u>
Total deferred taxation assets		
	<u>114</u>	<u>277</u>

The Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013. In addition, the Finance Act 2013, which was substantively enacted on 2 July 2013, included legislation to reduce the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The change in the main rate of corporation tax from 23% to 20% has resulted in a reduction in the company's net deferred tax asset at 31 December 2013 of £16,000, comprising a £16,000 charge included in equity.

13 Share capital

As permitted by the Companies Act 2006, the company removed references to authorised share capital from its articles of association

	2013 £	2012 £
Allotted, issued and fully paid		
Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

NOTES TO THE FINANCIAL STATEMENTS

13 Share capital (continued)

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 accounts 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 accounts 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 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.

14 Other reserves

Other reserves relates to gains and losses recognised on cashflow hedges

	2013 £000	2012 £000
At beginning of the year	(928)	(1,094)
Change in fair value of cash flow hedges	634	254
Deferred taxation thereon (note 12)	(147)	(62)
Impact of tax rate change (note 12)	(16)	(26)
At end of the year	(457)	(928)

There was no in-effectiveness to be recorded in the income statement from cashflow hedges

15 Retained earnings

	2013 £000	2012 £000
At beginning of the year	2,157	1,553
(Loss)/profit after tax for the year	(138)	604
At end of the year	2,019	2,157

16 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 IAS39 "Financial instruments: Recognition and measurement", the following financial instruments are classified as shown:

	Held at cost/amortised cost £000	Held at Fair Value £000	Loans or receivables £000	Total £000
At 31 December 2013				
Assets				
Finance lease receivables	-	-	23,327	23,327
Amounts owed by group companies	2,297	-	-	2,297
Total financial assets	2,297	-	23,327	25,624

NOTES TO THE FINANCIAL STATEMENTS

16 Risk management of financial instruments (continued)

	Held at cost/amortised cost £000	Held at Fair Value £000	Loans or receivables £000	Total £000
At 31 December 2013 (continued)				
Liabilities				
Amounts owed to group companies	23,277	570	-	23,847
Other creditors	329	-	-	329
Total financial liabilities	23,606	570	-	24,176

	Held at cost/amortised cost £000	Held at Fair Value £000	Loans or receivables £000	Total £000
At 31 December 2012				
Assets				
Finance lease receivables	-	-	31,705	31,705
Amounts owed by group companies	2,550	-	-	2,550
Total financial assets	2,550	-	31,705	34,255
Liabilities				
Amounts owed to group companies	31,739	1,204	-	32,943
Other creditors	360	-	-	360
Total financial liabilities	32,099	1,204	-	33,303

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

	2013 £000	2012 £000
Financial assets which are neither past due nor impaired for credit risk		
Finance lease receivables	23,327	31,705
Amounts owed by group companies	2,297	2,550
Total credit risk exposure	25,624	34,255

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each lease or loan 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. Credit ratings of the lease counterparties are monitored, where necessary revised, over the life of the lease. The table below reflects the credit rating of the financial assets portfolio net of any financial guarantees received

Financial assets by credit rating

	AAA £000	AA £000	A £000	BBB £000	Rated BB or lower £000	Not rated £000	Total £000
At 31 December 2013							
Finance lease receivables	-	-	-	23,327	-	-	23,327
Amounts owed by group companies	-	-	2,297	-	-	-	2,297
Total	-	-	2,297	23,327	-	-	25,624

NOTES TO THE FINANCIAL STATEMENTS

16 Risk management of financial instruments (continued)

Credit risk management (continued)

Financial assets by credit rating (continued)

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
At 31 December 2012	£000	£000	£000	£000	£000	£000	£000
Finance lease receivables	-	-	-	30,721	984	-	31,705
Amounts owed by group companies	-	-	2,550	-	-	-	2,550
Total	-	-	2,550	30,721	984	-	34,255

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 2013 and 2012 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, except for leases whose fair value is disclosed in note 8.

Fair Value Estimation

The table below provides an analysis of the financial assets and liabilities of the company's that are carried at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable as defined below:

- Quoted prices (unadjusted) in active markets of identical assets and liabilities (level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly, or indirectly (level 2)
- Inputs for the asset or liability that are not based on observable market data (level 3)

Valuation hierarchy	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2013				
Derivative financial instruments	-	570	-	570
Financial liabilities	-	570	-	570
31 December 2012				
Derivative financial instruments	-	1,204	-	1,204
Financial liabilities	-	1,204	-	1,204

NOTES TO THE FINANCIAL STATEMENTS

16 Risk management of financial instruments (continued)**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 asset

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

At 31 December 2013	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	-	588	-	588
Up to 1 month	-	-	-	-
1-3 months	22,553	465	570	23,588
3-12 months	-	-	-	-
1-5 years	-	-	-	-
Over 5 years	-	-	-	-
	<u>22,553</u>	<u>1,053</u>	<u>570</u>	<u>24,176</u>
Total	22,553	1,053	570	24,176

At 31 December 2012 (as restated)	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	-	801	-	801
Up to 1 month	-	-	-	-
1-3 months	30,724	574	1,204	32,502
3-12 months	-	-	-	-
1-5 years	-	-	-	-
Over 5 years	-	-	-	-
	<u>30,724</u>	<u>1,375</u>	<u>1,204</u>	<u>33,303</u>
Total	30,724	1,375	1,204	33,303

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. Interest rate risk is hedged using interest rate swaps

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance income and finance costs by £nil

Foreign currency risk

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

The company's transactions are all denominated in British Pounds as such the company has no exposure to foreign currency risk

NOTES TO THE FINANCIAL STATEMENTS

17 Notes to the cash flow statement

	2013 £000	2012 £000
(Loss)/profit from operations	(180)	800
Operating cash flows before movements in working capital	(180)	800
Movement in receivables	8,378	7,511
Movement in payables	106	(105)
Cash generated by operations	8,304	8,206
Group relief paid	(428)	(8)
Net cash flow from operations	7,876	8,198

18 Related parties

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.

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

Nature of transaction	Related party	2013 £000	2012 £000
Cash at bank	Fellow subsidiary undertaking	2,255	2,550
Group relief payable	Fellow subsidiary undertaking	-	(428)
Amounts due to group companies	Fellow subsidiary undertaking	(56)	-
Bank borrowings	Fellow subsidiary undertaking	(22,553)	(30,724)
Interest payable	Fellow subsidiary undertaking	(668)	(587)
Derivative financial instruments payable	Fellow subsidiary undertaking	(570)	(1,204)
Group relief receivable	Fellow subsidiary undertaking	42	-

Bank borrowings are interest bearing and during the year rates of interest of up to 0.71% (2012: 1.36%) were charged. Finance costs of £879,000 (2012: £931,000) were incurred during the year.

The company paid group relief of £428,000 (2012: £8,000) during the year to fellow subsidiary undertakings.

19 Contingent liabilities

The company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs ('HMRC') adopt a different interpretation and application of tax law which might lead to additional tax. A number of Group companies, including the company, have an open matter in relation to a claim for group relief of losses incurred in a former Irish banking subsidiary of the Lloyds Banking Group, which ceased trading on 31 December 2010. In the second half of 2013 HMRC informed the Lloyds Banking Group that their interpretation of the UK rules, permitting the offset of such losses, denies these claims; if HMRC's position is found to be correct, management estimate that this would result in an increase in the company's current tax liability of approximately £249,000. The Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due on the company.

NOTES TO THE FINANCIAL STATEMENTS

20 Future developments

The following accounting standard changes will impact the company in the future financial periods. 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>
Amendment to IAS 32 Financial Instruments Presentation – Offsetting Financial Assets and Financial Liabilities ¹	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.	Annual periods beginning on or after 1 January 2014
Amendments to IAS 39 Financial Instruments Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting ¹	Provides relief from discontinuing hedge accounting in circumstances where a derivative designated as a hedging instrument is novated to a central counterparty as a consequence of introduction of laws or regulations.	Annual periods beginning on or after 1 January 2014
IFRS 7, Financial instruments Disclosures, on offsetting financial assets and financial liabilities	Enhances current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements.	Annual periods beginning on or after 1 January 2013
IFRS 9 'Financial Instruments' ^{1,2}	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.	Date yet to be determined
IFRS 12, Disclosure of Interests in Other Entities ¹	Requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.	Annual periods beginning on or after 1 January 2013
IFRS 13 'Fair Value Measurement	The standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. It applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements.	Annual periods beginning on or after 1 January 2013

¹ At the date of this report, these pronouncements are awaiting EU endorsement.

² IFRS 9 is the standard which will replace IAS 39. Further changes to IFRS 9 are expected dealing with impairment of financial assets measured at amortised cost which will be based on expected rather than incurred credit losses and limited amendments to classification and measurement which include the introduction of a third measurement category fair value through other comprehensive income. Until the standard is complete, it is not possible to determine the overall impact of the standard on the financial statements.

21 Post balance sheet events

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