LEX VEHICLE FINANCE 2 LIMITED

Directors' report and financial statements

For the year ended 31 December 2013

Registered number: 04753662

Registered Office:
Charterhall House
Charterhall Drive
Chester
Cheshire
CH88 3AN

Lex Vehicle Finance 2 Limited

Directors' report and financial statements

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Lex Vehicle Finance 2 Limited

Directors and company information

Directors

C A Parkes
C Sarfo-Agyare

Company secretary

P Gittins

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
One Kingsway
Cardiff
CF10 3PW

Directors' report for the year ended 31 December 2013

The directors present their report together with the audited financial statements of Lex Vehicle Finance 2 Limited (the "Company") for the year ended 31 December 2013.

Principal activities

The principal activity of the Company is to act as an agent in providing structured loans to individual third party company employees for the purpose of acquiring motor vehicles.

Business review

The Company is primarily funded by a fellow subsidiary, Lex Autolease Limited, and is a component part of the Group's Asset Finance business. The loans and advances book is in run-off, with new business being written in other companies within Lloyds Banking Group.

Risk management

Responsibility for the control of overall risk within the Company lies with the board of directors. See note 2 for further information.

Performance

The profit before tax for the year ended 31 December 2013 was £1,342,000 (2012: £2,066,000). The reduction in profit is due to the planned book run-off.

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. Further details can be found in note 17.

Future developments

As a result of the integration of the Company within Lloyds Banking Group plc, the Company has now ceased to write new business. New business is now written in other group companies and the Company will eventually become dormant once the current structured loans have reached the end of their agreement.

Key performance indicators ('KPIs')

The directors of Lloyds Banking Group plc manage the Group's operations on a divisional basis. At year end, the Company was included within the Asset Finance business unit of the Consumer Finance Division.

As at 31 December 2013 the Company had total assets of £9,572,000 (2012: £10,373,000).

Directors

The directors who held office during the year and up until the date of signing the financial statements are listed on page 1. The following directors resigned during the year:

R Francis resigned 14 June 2013

Directors' report for the year ended 31 December 2013 *(continued)*

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. 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.

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 estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (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.

Directors' report for the year ended 31 December 2013 *(continued)*

Disclosure of information to auditors

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

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

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

Going concern

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.

Independent auditors

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

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

On behalf of the board

CAParkes

C A Parkes
Director

Date: ..25 September 2014..............

Registered Office:
Charterhall House
Charterhall Drive
Chester
Cheshire
CH88 3AN

Independent auditors' report to the member of Lex Vehicle Finance 2 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 profit 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.

This 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 Lex Vehicle Finance 2 Limited, comprise:

- the balance sheet as at 31 December 2013;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in 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 Directors report and financial statements 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 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.

Independent auditors' report to the member of Lex Vehicle Finance 2 Limited
(continued)

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: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companics exemption from preparing a strategic report. 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 3, 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 & 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 member 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.

Neil Rummings (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
05 September 2014

Lex Vehicle Finance 2 Limited

Statement of comprehensive income

for the year ended 31 December 2013

	Notes	**2013 £000**	2012 £000
Revenue	*4*	**909**	1,702
Other income		**619**	662
Operating profit before finance costs	*5*	**1,528**	2,364
Finance costs	*6*	**(186)**	(298)
Profit before taxation		**1,342**	2,066
Taxation	*7*	**(312)**	(506)
Profit for the year attributable to the owner, being total comprehensive income		**1,030**	1,560

The accompanying notes on pages 11 to 19 are an integral part of the financial statements.

Registered number: 04753662

Lex Vehicle Finance 2 Limited

Balance sheet

as at 31 December 2013

	Notes	**2013** **£000**	2012 £000
Assets			
Non-current assets			
Loans and advances to customers	*9*	-	1,807
Total non-current assets		-	1,807
Current assets			
Trade and other receivables	*8*	**6,361**	4,680
Loans and advances to customers	*9*	**3,211**	3,886
Total current assets		**9,572**	8,566
Total assets		**9,572**	10,373
Equity and liabilities			
Current liabilities			
Trade and other payables	*11*	**649**	2,026
Current tax liabilities		**312**	766
Total current liabilities		**961**	2,792
Total liabilities		**961**	2,792
Equity attributable to owners of the parent			
Share capital	*10*	-	-
Retained earnings		**8,611**	7,581
Total equity		**8,611**	7,581
Total equity and liabilities		**9,572**	10,373

The financial statements on pages 7 to 19 were approved by the board of directors on ..25 September 2014..... and were signed on its behalf by:

CAParkes

C A Parkes
Director

The accompanying notes on pages 11 to 19 are an integral part of the financial statements.

Registered number: 04753662

Statement of changes in equity

for the year ended 31 December 2013

	Share capital £000	Retained earnings £000	Total equity £000
At 31 December 2011	-	**6,021**	**6,021**
Profit and total comprehensive income for the year	-	1,560	1,560
At 31 December 2012	-	**7,581**	**7,581**
Profit and total comprehensive income for the year	-	1,030	1,030
At 31 December 2013	-	**8,611**	**8,611**

The accompanying notes on pages 11 to 19 are an integral part of the financial statements.

Lex Vehicle Finance 2 Limited

Cash flow statement

for the year ended 31 December 2013

	2013 £000	Restated 2012 £000
Cash flows from operating activities		
Profit before taxation	**1,342**	2,066
Interest payable	**186**	298
Decrease in loans and advances to customers	**2,482**	11,619
Decrease in trade and other receivables	**-**	55
Decrease in trade and other payables	**(1,377)**	(2,267)
Cash generated from operations	**2,633**	11,771
Interest paid	**(186)**	(298)
Taxes paid via group relief	**(766)**	-
Net cash generated from operating activities	**1,681**	11,473
Cash flows used in financing activities		
Increase in amounts due from group companies	**(1,681)**	(4,680)
Decrease in amounts due to group companies	**-**	(6,793)
Net cash used in financing activities	**(1,681)**	(11,473)
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

The accompanying notes on pages 11 to 19 are an integral part of the financial statements.

Registered number: 04753662

Notes to the financial statements

for the year ended 31 December 2013

1. Significant accounting policies

Lex Vehicle Finance 2 Limited is a limited liability company incorporated and domiciled in the United Kingdom.

Basis of preparation

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

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

No new IFRS pronouncements relevant to the Company have been adopted in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2013 and which have not been applied in preparing these financial statements are given in note 16.

The financial statements have been prepared under the historical cost convention.

Going concern

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.

Trade and other receivables

Trade receivables are recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Revenue

Interest receivable on employee car ownership agreements is credited to the statement of comprehensive income over the estimated life of each contract using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the contractual life of the agreement to the net carrying amount of the financial asset or liability. Income earned on short term hire and agency services is credited to the statement of comprehensive income in the period in which the services are provided.

Loans and advances to customers

Employee car ownership agreements are reported as loans and advances to customers and are stated at their amortised cost calculated using the effective interest rate method less any impairment.

Notes to the financial statements *(continued)*
for the year ended 31 December 2013

1. Significant accounting policies *(continued)*

Income tax

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

Finance costs

Finance costs represent borrowing costs which are recognised as an expense in the period in which they are incurred.

Impairment provisions

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

Impairment is assessed individually for financial assets. Provisions against customers' accounts are calculated by reference to the record of payments received and, where appropriate, the security held or the value of the goods to which the agreements relate. If impaired, the carrying value is adjusted and the difference charged to the statement of comprehensive income. The reversal of an impairment loss for an asset is recognised immediately in the statement of comprehensive income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Prior year adjustment

Following a review by the Company, a decision was taken to reclassify movements in cash and cash equivalents as movements in amounts due from, or owed to, group companies within the cash flow statement to better reflect the nature of the underlying cash flows. 2012 comparatives have been restated to reclassify the movement in cash and cash equivalents as the movement in amounts due from, and amounts owed to, group companies.

2. Risk management policy

The Company's operations expose it to credit risk, liquidity risk and interest rate risk; it is not exposed to any foreign exchange risks. Responsibility for the control of overall risk within the Company lies with the Board of Directors, operating within a managerial framework established by a fellow subsidiary company, Lloyds Bank Asset Finance Limited (formerly Lloyds TSB Asset Finance Division Limited), and the ultimate parent, Lloyds Banking Group plc.

The interest rate and liquidity risk faced by the Company is in substance managed and borne by other group companies which provide funding to the Company and credit risk is carefully monitored by the Asset Finance business unit credit committees and credit functions.

Notes to the financial statements *(continued)*

for the year ended 31 December 2013

2. Risk management policy *(continued)*

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

The credit risk associated with trade receivables is managed through the application of strict underwriting criteria, determined by the Lloyds Bank Asset Finance Limited credit committee and credit functions. Significant credit exposures are measured and reported to the credit committee on a regular basis.

Other risks

The Company's activities expose it to movement in the used values of motor vehicles as the sale proceeds arising from the disposal of returned vehicles are important to the profitability of the Company. Residual values, which are set at lease inception, are determined by reference to the latest available industry data and are subject to regular review by the Company's Pricing Committee, which comprises members of the management team with significant industry experience. Thereafter, residual values are subject to regular review as explained in note 3.

Capital disclosures

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 advises the board of directors 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 board of directors may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, 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.

The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally.

Notes to the financial statements *(continued)*
for the year ended 31 December 2013

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.

Impairment of assets

The Company reviews the residual value of the underlying vehicle assets on which all loans are secured on a quarterly basis by reference to independent market value data and the prevailing economic conditions. The adjustment arising from the reviews are dealt with as set out in note 1.

4. Revenue

	2013	2012
	£000	£000
Interest receivable	**909**	1,702

5. Operating profit before finance costs

Operating profit before finance costs has been arrived at after crediting:

	2013	2012
	£000	£000
Impairment provision release	**29**	761
Other provision release	**890**	-

The impairment provision release includes the impact of the sale of vehicles returned where the customer has decided not to make the final payment on the employee car ownership agreement.

Auditors' remuneration for audit services was borne by a fellow group company during both years.

Lex Autolease Limited provided management services to the Company during the year for which no management charge is made.

The Company did not directly employ any person during the year (2012: none). As such, no employee costs have been included in the statement of comprehensive income.

6. Finance costs

	2013	2012
	£000	£000
Interest payable to fellow group companies (note 14)	**186**	298

Notes to the financial statements *(continued)*
for the year ended 31 December 2013

7. Taxation

	2013 £000	2012 £000
Current tax:		
UK corporation tax on profit for the year	**312**	506
Total income tax charge on profit	**312**	506

Reconciliation of effective tax rate

The Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24 per cent to 23 per cent with effect from 1 April 2013. Accordingly, the Company's result for this accounting year is taxed at an effective rate of 23.25% (2012: 24.5%).

	2013 £000	2012 £000
Profit before taxation	**1,342**	2,066
Income tax using the effective rate of corporation tax in the UK of 23.25% (2011: 24.5%)	**312**	506
Total income tax on profit	**312**	506

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 per cent with effect from 1 April 2014 and to 20 per cent with effect from 1 April 2015.

8. Trade and other receivables

	2013 £000	2012 £000
Amounts due from group companies (note 14)	**6,361**	4,680

9. Loans and advances to customers

	2013 £000	2012 £000
Gross loans and advances to customers	**3,502**	6,013
Less allowance for losses on loans and advances to customers	**(291)**	(320)
	3,211	5,693

9. Loans and advances to customers (continued)

Of which due:

	2013	2012
	£000	£000
Within one year	**3,211**	3,886
In more than one year but not more than five years	**-**	1,807
	3,211	5,693

Further analysis of loans and advances to customers is provided in note 15.

10. Share capital

	2013	2012
	£	£
Authorised, allotted and fully paid		
2 ordinary shares of £1 each	**2**	2

11. Trade and other payables

	2013	2012
	£000	£000
Accruals	**649**	2,026

12. Parent undertaking

The Company's immediate parent company is ACL Autolease Holdings Limited. The company regarded by the directors as the ultimate parent company and 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 (formerly Lloyds TSB Bank plc) is the parent undertaking of the smallest such group of undertakings. Copies of the group financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

13. Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements.

14. Related party transactions

Transactions with group undertakings

Transactions during the year and outstanding at the year end with group undertakings are as follows:

	2013	2012
	£000	£000
Transactions:		
	Expense	Expense
Interest payable to group companies	**186**	298
Outstanding balances:		
	Debtor	**Debtor**
Amounts due from group companies	**6,361**	4,680

Transactions with directors and key managers

No remuneration was paid or is payable by the Company to the directors (2012: £nil). The directors are employed by other companies within Lloyds Banking Group plc and consider that their duties to this Company are incidental to their other activities within the group.

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management personnel comprise the directors of the Company and the members of the Lloyds Bank Asset Finance Limited Board, which comprise the statutory directors of that company and certain other senior management. Key management personnel are employed by other companies within the Lloyds Bank Asset Finance Limited sub group and consider that their services to the Company are incidental to their activities within the group.

15. Financial instruments

Exposure to credit and interest rate risks arises in the normal course of the Company's business.

Credit risk

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures principally arise from secured lending activities that bring loans and advances to customers into the Company's asset portfolio.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers. The table below sets out the maximum exposure to credit risk at the balance sheet date.

	2013	2012
	£000	£000
Loans and advances to customers	**3,211**	5,693

Notes to the financial statements *(continued)*

for the year ended 31 December 2013

15. Financial instruments *(continued)*

All financial assets are disclosed at amortised cost. Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after an interest payment is missed. In determining whether there is objective evidence that an impairment loss has occurred the expected cash flows discounted at the loan's original effective rate are compared with the carrying value. If impaired, the carrying value is adjusted and the difference is charged to the statement of comprehensive income. Exposures consist of loans and advances to customers.

The tables below set out the impairment information and internal credit ratings in respect of loans and advances. There were no significant concentrations of credit risk at the balance sheet date.

	2013	2012
	£000	£000
Not impaired:		
Neither past due nor impaired	**154**	1,402
Past due 0 to 3 months	**71**	35
Impaired	**3,277**	4,576
Loans and advances to customers before impairment provisions	**3,502**	6,013

	2013	2012
	%	%
Internal credit rating:		
Superior/very strong	**-**	-
Strong	**100**	100
Satisfactory	**-**	-
Viable but monitoring	**-**	-
Close watch	**-**	-
	100	100

Fair values

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.

Fair values of loans and advances to customers are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the balance sheet date.

The aggregated fair value of loans and advances to customers before impairment is approximately £3,648,000 (2012: £6,364,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

16. Accounting standards

The following pronouncements will be relevant to the Company but were not effective at 31 December 2013 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
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. 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 financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2015.
Annual improvement to IFRSs (issued December 2013)	A collection of amendments to IFRSs from the 2010-2012 and 2011-2013 cycle of the annual improvements cycle	Annual periods beginning on or after 1 July 2014.

[1] As at the date of this report, this pronouncements is awaiting EU endorsement.

[2] IFRS 9 is the initial stage of the project to replace IAS 39. Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting, as well as a reconsideration of classification and measurement. Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that neither of these pronouncements is expected to cause any material adjustments to the reported numbers in the financial statements.

17. 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 £803,000. 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.