# Lloyds Bank Corporate Asset Finance (No. 1) Limited

## Annual report and financial statements for the year ended 31 March 2022

**Registered office**

25 Gresham Street
London
EC2V 7HN

**Registered number**

04839284

**Current directors**

J C Daglish
L F Dorey

**Company Secretary**

A E Mulholland



Member of Lloyds Banking Group

# Directors' report

For the year ended 31 March 2022

The Directors present their Annual report and audited financial statements of Lloyds Bank Corporate Asset Finance (No. 1) Limited (the "Company") for the year ended 31 March 2022.

The Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

### General information

The Company is a private company limited by shares, incorporated and domiciled in England and Wales, United Kingdom (registered number: 04839284).

### Principal activity

During the year, the principal activity of the Company was the leasing of assets through finance lease transactions, and this is likely to continue for the foreseeable future.

### Company performance

The results of the Company show a loss after taxation of £967,000 (2021: £752,000 profit after taxation) for the year as set out in the Income statement on page 4.

The Company has a deficit of shareholders' equity of £24,384,000 (2021: £23,777,000).

The Company is funded entirely by other companies within the Lloyds Bank Corporate Markets plc Group ("the Group").

### 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.

### Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 21 to the financial statements.

The Company is part of the wider Lloyds Banking Group, and, at that level, following the United Kingdom's ("UK") vote to leave the European Union ("EU") and the UK's subsequent exit from the EU on the 31 December 2020, consideration of many of the potential implications has been undertaken. Work continues to assess the impact of the EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

The Company has not been directly impacted by UK's exit from the EU, but the directors will continue to monitor for further developments and at this stage they do not anticipate any material issues for the Company.

The global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to financial markets and normal patterns of business activity across the world, including in the UK. Measures taken to contain the health impacts of the COVID-19 pandemic are resulting in adverse impacts on economic activity across the world, and the duration for which such measures will remain in place is uncertain. The impact on the economy remains highly uncertain in both its depth and length, and may go beyond current forecasts of scale of loss of output and recession in the UK and globally.

The Company has not been directly impacted by COVID-19 but the directors continue to monitor for further developments however at this stage they do not anticipate any material issues for the Company.

### Future outlook

The Company no longer writes any new business, but will continue to manage its existing portfolio of assets to achieve the best return for the Company.

### Employees

The Company has no direct employees (2021: nil). All staff are employed by other group undertakings and no staff costs are recharged to the Company.

## Directors' report (continued)

For the year ended 31 March 2022

### Dividends

No dividends were paid or proposed during the year ended 31 March 2022 (2021: £nil).

### Directors

The current directors of the Company are shown on the front cover.

The following changes have taken place between the beginning of the reporting year and the approval of the Annual report and financial statements:

| | |
|---|---|
| J C Daglish | (appointed 11 January 2022) |
| C J K Edis | (resigned 11 January 2022) |

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

### Directors' indemnities

Lloyds Banking Group plc ("LBG") has granted to the Directors of the Company a deed of indemnity which constitutes '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 the Director 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 deed of indemnity during that period of service. 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.

### Going Concern

The Company has a net deficit position at the year end. The Directors have considered this, along with the expected activities of the Company for the foreseeable future, and have reached the conclusion that the Company will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis.

The Company has no external funding obligations and is reliant on funding from the Group. The funding facility available to the Company is in place for the expected life and in line with the expected cash flows of the active lease in the Company.

The Directors are also satisfied that it is the intention of Lloyds Bank Corporate Markets plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future.

The Company's reserves include a cash flow hedging reserve ('the hedging reserve') representing the cumulative post tax gains and losses on effective cash flow hedging instruments. Currently the hedging reserve is in a deficit position, which is causing the Company to hold a net deficit position on its Balance sheet at the year end. However, the hedging reserve will unwind in full over the remaining lease term of the hedged asset through the collection of rental receipts. Further, from a position when the hedge is excluded, the Company is showing a solid net asset position.

### Statement of directors' responsibilities

The Directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Company's financial statements in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the IASB. 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;
- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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' report (continued)

For the year ended 31 March 2022

**Statement of disclosure of information to auditor**

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 auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Independent auditor**

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

Approved by the board of directors and signed on its behalf by:

Julienne Daglish

**J C Daglish**
Director
20 December 2022

## Income statement

For the year ended 31 March 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Finance income | 4 | **6,693** | 5,583 |
| Finance costs | 5 | **(2,517)** | (4,133) |
| **Net operating income** | | **4,176** | 1,450 |
| Impairment credit/(charge) | 6 | **478** | (522) |
| **Profit before tax** | 7 | **4,654** | 928 |
| Taxation | 8 | **(5,621)** | (176) |
| **(Loss)/profit after tax** | | **(967)** | 752 |

The accompanying notes are an integral part of these financial statements.

## Statement of comprehensive income

For the year ended 31 March 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **(Loss)/profit after tax** | | **(967)** | 752 |
| **Other comprehensive income** | | | |
| *Items that may subsequently be reclassified to profit or loss:* | | | |
| Movement in cash flow hedges | | | |
| - effective portion of changes in fair value taken to other comprehensive income | 19 | **(5,352)** | 96 |
| - Income statements transfers | 19 | **2,330** | 3,147 |
| - tax | 19 | **3,382** | (617) |
| Other comprehensive income for the year, net of tax | | **360** | 2,626 |
| **Total comprehensive (expense)/income for the year** | | **(607)** | 3,378 |

The accompanying notes are an integral part of these financial statements.

## Balance sheet
As at 31 March 2022

| | Note | 2022 £'000 | * Restated 2021 £'000 | * Restated As at 1 April 2020 £'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 9 | **8,283** | 7,600 | 1,568 |
| Amounts due from group undertakings | 10 | **542** | 1,035 | 6,828 |
| Finance lease receivables | 11 | **133,681** | 130,706 | 130,875 |
| **Total assets** | | **142,506** | 139,341 | 139,271 |
| **LIABILITIES** | | | | |
| Bank borrowings * | 13 | **111,219** | 113,054 | 114,398 |
| Amounts due to group undertakings * | 14 | **2** | 1 | 32 |
| Derivative financial liabilities | 15 | **46,788** | 43,766 | 47,009 |
| Trade and other payables | 16 | **840** | 1,037 | 1,180 |
| Deferred tax liability | 17 | **8,041** | 5,260 | 3,807 |
| **Total liabilities** | | **166,890** | 163,118 | 166,426 |
| **EQUITY** | | | | |
| Share capital | 18 | **12,800** | 12,800 | 12,800 |
| Other reserve | 19 | **(35,091)** | (35,451) | (38,077) |
| Accumulated losses | | **(2,093)** | (1,126) | (1,878) |
| **Total equity** | | **(24,384)** | (23,777) | (27,155) |
| **Total equity and liabilities** | | **142,506** | 139,341 | 139,271 |

* The comparatives have been restated to reflect the change in presentation as explained in note 22.

The accompanying notes are an integral part of these financial statements.

The financial statements were approved by the board of directors and were signed on its behalf by:

Julianne Daglish

**J C Daglish**
Director
20 December 2022

## Statement of changes in equity

For the year ended 31 March 2022

| | Note | Share capital £'000 | Other reserves £'000 | Accumulated losses £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2020** | | 12,800 | (38,077) | (1,878) | (27,155) |
| **Comprehensive income** | | | | | |
| Profit for the year | | - | - | 752 | 752 |
| *Other comprehensive income* | | | | | |
| Movements in cash flow hedging reserve, net of tax | 19 | - | 2,626 | - | 2,626 |
| **Total comprehensive income** | | - | 2,626 | 752 | 3,378 |
| At 31 March 2021 | | 12,800 | (35,451) | (1,126) | (23,777) |
| **Comprehensive expense** | | | | | |
| Loss for the year | | - | - | **(967)** | **(967)** |
| *Other comprehensive income* | | | | | |
| Movements in cash flow hedging reserve, net of tax | 19 | - | **360** | - | **360** |
| **Total comprehensive expense** | | - | **360** | **(967)** | **(607)** |
| **At 31 March 2022** | | **12,800** | **(35,091)** | **(2,093)** | **(24,384)** |

The accompanying notes are an integral part of these financial statements.

## Cash flow statement

For the year ended 31 March 2022

| | Note | 2022<br>£'000 | * Re-presented<br>2021<br>£'000 |
|---|---|---|---|
| Profit before tax | | **4,654** | 928 |
| Adjustments for: | | | |
| - Movement in impairment allowance for finance leases | 6 | **(478)** | 522 |
| **Operating cash flows before movements in working capital** | | **4,176** | 1,450 |
| Increase in Finance lease receivables | 11 | **(2,497)** | (353) |
| Increase in Amounts due to group undertakings | 14 | **1** | - |
| Decrease in Trade and other payables | 16 | **(198)** | (174) |
| **Cash generated from operations** | | **1,482** | 923 |
| Tax received | | **660** | 1,972 |
| **Net cash generated from operating activities** | | **2,142** | 2,895 |
| **Cash flows (used in)/generated from financing activities** | | | |
| Proceeds from Bank borrowings * | | **112,062** | 117,910 |
| Repayment of Bank borrowings * | | **(113,521)** | (114,773) |
| **Net cash (used in)/generated from financing activities** | | **(1,459)** | 3,137 |
| **Change in Cash and cash equivalents** | | **683** | 6,032 |
| Cash and cash equivalents at beginning of year | | **7,600** | 1,568 |
| **Cash and cash equivalents at end of year** | | **8,283** | 7,600 |
| **Cash and cash equivalents comprise** | | | |
| Cash at bank | 9 | **8,283** | 7,600 |
| **Total cash and cash equivalents** | | **8,283** | 7,600 |

* The comparatives have been restated to reflect the change in presentation as explained in note 22.

The accompanying notes are an integral part of these financial statements.

## Notes to the financial statements
For the year ended 31 March 2022

## 1. Basis of preparation

The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and with IFRSs as issued by the IASB. IFRSs comprise accounting standards prefixed IFRS issued by the IASB and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

On adoption of IFRS 9 in 2018, the Group elected to continue applying hedge accounting under IAS 39.

The financial information has been prepared under the historical cost convention, as modified for derivative contracts held at fair value through other comprehensive income. As stated below, the directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

In the preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements:

(i) Interest Rate Benchmark Reform - Phase 2 amendments as issued by the IASB. These amendments require that changes to expected future cash flows, that both arise as a direct result of IBOR Reform and are economically equivalent to the previous cash flows, are accounted for as a change to the effective interest rate with no adjustment to the impacted asset's or liability's carry value. No immediate gain or loss is recognised. The new requirements also provide relief from the requirements to discontinue hedge accounting as a result of amending hedge documentation if the changes are required solely as a result of the IBOR Reform. These amendments do not have a material impact of the Company's comparatives, which have not been restated.

(ii) Minor amendments to other accounting standards. The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

The application of these pronouncements has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 March 2022 and which have not been applied in preparing these financial statements are given in note 24. No standards have been early adopted.

The Company has a net deficit position at the year end. The Directors have considered this, along with the expected activities of the Company for the foreseeable future, and have reached the conclusion that the Company will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis.

The Company has no external funding obligations and is reliant on funding from the Group. The funding facility available to the Company is in place for the expected life and in line with the expected cash flows of the active lease in the Company.

The Directors are also satisfied that it is the intention of Lloyds Bank Corporate Markets plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future.

The Company's reserves include a cash flow hedging reserve ('the hedging reserve') representing the cumulative post tax gains and losses on effective cash flow hedging instruments. Currently the hedging reserve is in a deficit position, which is causing the Company to hold a net deficit position on its Balance sheet at the year end. However, the hedging reserve will unwind in full over the remaining lease term of the hedged asset through the collection of rental receipts. Further, from a position when the hedge is excluded, the Company is showing a solid net asset position.

## 2. Accounting policies

The Company's accounting policies are set out below. These accounting policies have been applied consistently.

### 2.1 Income recognition

#### Income and expense from financial instruments

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

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

## 2. Accounting policies (continued)

### 2.1 Income recognition (continued)

**Lease classification**

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of 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 net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable within finance lease receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income.

**Finance lease income**

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 incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term.

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

**Finance costs**

Interest expense for all interest bearing financial instruments is recognised in the Income statement as it accrues, within finance costs.

### 2.2 Financial assets and liabilities

Financial assets comprise Cash and cash equivalents, Amounts due from group undertakings and Finance lease receivables. Financial liabilities comprise Amounts due to group undertakings, Derivative financial liabilities and Trade and other payables.

On initial recognition, financial assets are measured at fair value. These are subsequently classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Company reclassifies financial assets when and only when its business model for managing those assets changes.

A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit and loss on initial recognition which are held at fair value.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

### 2.3 Impairment of financial assets and lease receivables

The impairment charge in the Income statement includes the change in expected credit losses. Expected credit losses are recognised for financial assets and finance lease receivables. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

# Notes to the financial statements (continued)

For the year ended 31 March 2022

## 2. Accounting policies (continued)

### 2.3 Impairment of financial assets and lease receivables (continued)

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensure alignment between the assessment of staging and the Group's management of credit risk which utilises these internal metrics within risk management practices. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Company uses this 90 day backstop for all its products.

The Company has not adopted the simplified expected credit loss model for its lease receivables, as allowed by IFRS 9, paragraph 5.5.15. Instead, the general expected credit loss model has been applied to financial assets and lease receivables.

### 2.4 Derivative financial instruments and hedge accounting

IFRS 9 requires all derivative financial instruments to be recognised initially at fair value on the Balance sheet and to be re measured to fair value at subsequent reporting dates. 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.

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.

Changes in the fair value of all derivative instruments, other than those in effective cash flow, are recognised immediately in the income statement. As noted in (1) below, the change in fair value of a derivative in an effective cash flow is allocated between the income statement and other comprehensive income.

(1) Cash flow hedges
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 in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement. Amounts accumulated in equity are reclassified 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 in the Income statement 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.

### 2.5 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.

### 2.6 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 pounds sterling, which is the Company's functional and presentation currency.

### 2.7 Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the Balance sheet date.

## 2. Accounting policies (continued)

### 2.7 Taxation, including deferred income taxes (continued)

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or other tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each Balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the Balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

### 2.8 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Dividends on ordinary shares are recognised as a reduction in equity in the period in which they are paid.

### 2.9 Other reserves

Other reserves comprise a cash flow hedging reserve representing the cumulative after tax gains and losses on effective cash flow hedging instruments that will be reclassified to the Income statement in the periods in which the hedged item affects profit or loss.

## 3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies 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.

In the course of preparing these financial statements, no critical judgements nor have any critical accounting estimates been made in the process of applying the company's accounting policies.

## 4. Finance income

| | **2022 £'000** | 2021 £'000 |
|---|---|---|
| Finance lease income | **6,693** | 5,537 |
| Interest receivable from other group companies | **-** | 46 |
| | **6,693** | 5,583 |

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

## Notes to the financial statements (continued)
For the year ended 31 March 2022

### 5. Finance costs

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interest payable on bank loans to other group companies | **187** | 986 |
| Interest payable on derivatives | **2,330** | 3,147 |
| | **2,517** | 4,133 |

### 6. Impairment credit/(charge)

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Impairment credit/(charge) of finance lease receivables (see note 12) | **478** | (522) |

### 7. Profit before tax

Fees payable to the Company's auditors for the audit of the financial statements of £8,275 (2021: £7,875) have been borne by the ultimate parent Company and are not recharged to the Company.

The Company has no employees (2021: 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.

### 8. Taxation

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **a) Analysis of charge for the year** | | |
| UK corporation tax: | | |
| - Current tax receivable on taxable loss for the year | **542** | 660 |
| Current tax credit | **542** | 660 |
| UK deferred tax: | | |
| - Origination and reversal of timing differences | **(1,426)** | (836) |
| - Impact of deferred tax rate change | **(4,737)** | - |
| Deferred tax charge (see note 17) | **(6,163)** | (836) |
| Tax charge | **(5,621)** | (176) |

Corporation tax is calculated at a rate of 19.00% (2021: 19.00%) of the taxable profit for the year.

# Notes to the financial statements (continued)

For the year ended 31 March 2022

## 8. Taxation (continued)

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

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Profit before tax | **4,654** | 928 |
| Tax charge thereon at UK corporation tax rate of 19.00% (2021: 19.00%) | **(884)** | (176) |
| Factors affecting charge: | | |
| - Effect of change in tax rate and related impacts | **(4,737)** | - |
| Tax charge on profit on ordinary activities | **(5,621)** | (176) |
| Effective rate | **120.78%** | 18.97% |

## 9. Cash and cash equivalents

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Cash at bank | **8,283** | 7,600 |

Cash at bank of £8,283,000 (2021: £7,600,000) is unsecured, non-interest bearing and repayable on demand. For further details, please refer to note 20.

## 10. Amounts due from group undertakings

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Treasury deposits | **-** | 375 |
| Taxation receivable | **542** | 660 |
| | **542** | 1,035 |

Treasury deposits of £nil (2021: £375,000) are unsecured, non-interest bearing and repayable on maturity. For further details, please refer to note 20.

All other balances within Amounts due from group undertakings of £542,000 (2021: £660,000) are unsecured, non-interest bearing and repayable on demand. For further details, please refer to note 20.

## 11. Finance lease receivables

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Gross investment in finance leases | **133,752** | 131,255 |
| Allowance for losses | **(71)** | (549) |
| Net investment in finance leases | **133,681** | 130,706 |

## Notes to the financial statements (continued)
For the year ended 31 March 2022

### 11. Finance lease receivables (continued)

| | Stage 1<br>£'000 | Stage 2<br>£'000 | Stage 3<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| Balance at 1 April 2021 | **131,255** | - | - | **131,255** |
| Exchange and other adjustments | - | - | - | - |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Net increase in finance lease receivables | **2,497** | - | - | **2,497** |
| Gross investment in finance leases at 31 March 2022 | **133,752** | - | - | **133,752** |
| Allowance for impairment losses | **(71)** | - | - | **(71)** |
| Net investment in finance leases at 31 March 2022 | **133,681** | - | - | **133,681** |

| | Stage 1<br>£'000 | Stage 2<br>£'000 | Stage 3<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| Balance at 1 April 2020 | 130,902 | - | - | 130,902 |
| Exchange and other adjustments | - | - | - | - |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Net increase in finance lease receivables | 353 | - | - | 353 |
| Gross investment in finance leases at 31 March 2021 | 131,255 | - | - | 131,255 |
| Allowance for impairment losses | (549) | - | - | (549) |
| Net investment in finance leases at 31 March 2021 | 130,706 | - | - | 130,706 |

The gross investment in finance leases represents amounts recoverable as follows:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Gross investment in finance leases, receivable: | | |
| Not later than 1 year | **7,454** | 6,365 |
| Later than 1 year and not later than 2 years | **7,901** | 7,259 |
| Later than 2 years and not later than 3 years | **8,296** | 7,622 |
| Later than 3 years and not later than 4 years | **8,711** | 8,004 |
| Later than 4 years and not later than 5 years | **9,146** | 8,404 |
| Later than 5 years | **175,048** | 172,935 |
| | **216,556** | 210,589 |
| Unearned future finance income on finance leases | **(82,875)** | (79,883) |
| Net investment in finance leases | **133,681** | 130,706 |

The net investment in finance leases represents amounts recoverable as follows:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Net investment in finance leases, receivable: | | |
| Not later than 1 year | **1,078** | 254 |
| Later than 1 year and not later than 2 years | **1,563** | 1,187 |
| Later than 2 years and not later than 3 years | **2,049** | 1,588 |
| Later than 3 years and not later than 4 years | **2,562** | 2,059 |
| Later than 4 years and not later than 5 years | **3,120** | 2,556 |
| Later than 5 years | **123,309** | 123,062 |
| Net investment in finance leases | **133,681** | 130,706 |

## Notes to the financial statements (continued)
For the year ended 31 March 2022

### 12. Allowance for impairment losses

Analysis of movement in the allowance for impairment losses by stage:

| Year ended 31 March 2022 | **Stage 1 £'000** | **Stage 2 £'000** | **Stage 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| *In respect of drawn balances* | | | | |
| At 1 April 2021 | **549** | - | - | **549** |
| Exchange and other adjustments | - | - | - | - |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Credit for the year | **(478)** | - | - | **(478)** |
| At 31 March 2022 | **71** | - | - | **71** |

| Year ended 31 March 2021 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| *In respect of drawn balances* | | | | |
| At 1 April 2020 | 27 | - | - | 27 |
| Exchange and other adjustments | - | - | - | - |
| *Transfers to Stage 1* | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Charge for the year | 522 | - | - | 522 |
| At 31 March 2021 | 549 | - | - | 549 |

### 13. Borrowed funds

| | **2022 £'000** | * Restated 2021 £'000 |
|---|---|---|
| Bank borrowings | **111,219** | 113,054 |

* The comparatives have been restated to reflect the change in presentation as explained in note 22.

Bank borrowings of £111,219,000 (2021: £113,054,000) are unsecured, interest bearing and repayable on maturity. For further details, please refer to note 20.

### 14. Amounts due to group undertakings

| | **2022 £'000** | * Restated 2021 £'000 |
|---|---|---|
| Interest payable | **2** | 1 |

* The comparatives have been restated to reflect the change in presentation as explained in note 22.

All balances within amounts due to group undertakings of £2,000 (2021: £1,000) are unsecured, non-interest bearing and repayable on demand. For further details, please refer to note 20.

## Notes to the financial statements (continued)
For the year ended 31 March 2022

### 15. Derivative financial instruments

| Hedging instruments | Contract/ Notional amount 2022 £'000 | Fair value liabilities 2022 £'000 | Contract/ Notional amount 2021 £'000 | Fair value liabilities 2021 £'000 |
|---|---|---|---|---|
| Derivatives designated as cash flow hedges | | | | |
| RPI swaps (see note 19) | **111,469** | **46,788** | 113,054 | 43,766 |

Details of the Company's hedging instruments are set out below:

| **At 31 March 2022** | **Up to 1 month £'000** | **1-3 months £'000** | **3-12 months £'000** | **1-5 years £'000** | **Over 5 years £'000** |
|---|---|---|---|---|---|
| **Derivative financial liabilities** | | | | | |
| RPI swaps | | | | | |
| Notional | - | - | - | - | **111,469** |
| Average retail price index | - | - | - | - | **7.090%** |
| Fixed interest rate | - | - | - | - | **1.365%** |

| At 31 March 2021 | Up to 1 month £'000 | 1-3 months £'000 | 3-12 months £'000 | 1-5 years £'000 | Over 5 years £'000 |
|---|---|---|---|---|---|
| **Derivative financial liabilities** | | | | | |
| RPI swaps | | | | | |
| Notional | - | - | - | - | 113,054 |
| Average retail price index | - | - | - | - | 2.250% |
| Fixed interest rate | - | - | - | - | 1.365% |

The counterparty of the derivative instrument is Lloyds Bank Corporate Markets plc (see note 20).

| **Cash flow hedges** | **Carrying amount** | | | |
|---|---|---|---|---|
| **At 31 March 2022** | **Notional amount £'000** | **Assets £'000** | **Liabilities £'000** | **Changes in fair value used for calculating hedge ineffectiveness (YTD) £'000** |
| **RPI swaps** | **111,469** | **-** | **46,788** | **3,022** |
| At 31 March 2021 | | | | |
| RPI swaps | 113,054 | - | 43,766 | (3,243) |

All amounts are held within derivative financial instruments (see note 21.7).

### 15. Derivative financial instruments (continued)

Details of the Company's hedged items are summarised as follows:

| **Cash flow hedges** | **Changes in fair value of hedged item for ineffectiveness assessment** | **Cash flow hedge reserve** |
|---|---|---|
| **At 31 March 2022** | **£'000** | **£'000** |
| RPI swaps | | |
| Included within Finance lease receivables | **(3,022)** | **(46,788)** |
| At 31 March 2021 | | |
| RPI swaps | | |
| Included within Finance lease receivables | 3,243 | (43,766) |

The accumulated amount of cash flow value hedge adjustments remaining in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is £nil (2021: £nil).

The cash flow hedge reserve in the previous table is calculated on a pre-deferred tax basis.

Gains and losses arising from hedge accounting are summarised as follows:

| | | **Amounts reclassified from reserves** | | |
|---|---|---|---|---|
| **Cash flow hedges** | **Gain (loss) recognised in other comprehensive income** | **Income statement line item that includes reclassified** | **Hedge ineffectiveness recognised in the Income statement** | **Hedged item affected Income statement** |
| **At 31 March 2022** | **£'000** | **amount** | **£'000** | **£'000** |
| RPI swaps | | | | |
| Included within Finance lease receivables | **(3,022)** | Interest expense | **-** | **2,330** |
| At 31 March 2021 | | | | |
| RPI swaps | | | | |
| Included within Finance lease receivables | 3,243 | Interest expense | - | 3,147 |

### 16. Trade and other payables

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Other payables | **840** | 1,037 |

### 17. Deferred tax liability

The movement in the Deferred tax liability is as follows:

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| At 1 April | **5,260** | 3,807 |
| Deferred tax charge for the year | **6,163** | 836 |
| Movement in other reserves (note 19) | **(3,382)** | 617 |
| At 31 March | **8,041** | 5,260 |

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 17. Deferred tax liability (continued)

The deferred tax charge in the Income Statement comprises the following temporary differences:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Accelerated capital allowances | **6,163** | 836 |
| Deferred tax charge | **6,163** | 836 |

The Deferred tax liability is comprised as follows:

| | £'000 | £'000 |
|---|---|---|
| Cash flow hedges | **(11,697)** | (8,316) |
| Accelerated capital allowances | **19,738** | 13,576 |
| Total Deferred tax liability | **8,041** | 5,260 |

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

### 18. Share capital

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Allotted, issued and fully paid** | | |
| 12,800,100 (2021: 12,800,100) ordinary shares of £1 each | **12,800** | 12,800 |

The Company's objectives when managing capital are to safeguard the Company'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 parent can also request the Company to pay dividends or make a capital contribution in order to maintain or adjust the Group's capital structure.

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity.

### 19. Other reserves

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| At 1 April | **(35,451)** | (38,077) |
| Change in fair value of cash flow hedges | **(5,352)** | 96 |
| Income statement transfers | **2,330** | 3,147 |
| Deferred taxation thereon (note 17) | **3,382** | (617) |
| At 31 March | **(35,091)** | (35,451) |

Other reserves relates to gains and losses recognised on cash flow hedges.

There was no ineffectiveness to be recorded in the Income Statement from cash flow hedges.

### 20. Related party transactions

The Company's immediate parent company is Lloyds Bank Corporate Markets plc. 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 Corporate Markets plc is the parent company of the smallest such group of undertakings. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via

The Company's related parties include other companies in the 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 the cover of these financial statements.

A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

| **Cash and cash equivalents** | | | | **2022 £'000** | 2021 £'000 |
|---|---|---|---|---|---|
| **Nature of transaction** | **Related party** | **Repayment** | **Interest** | | |
| Cash at bank (see note 9) | Lloyds Bank plc | On demand | N/A | **8,283** | 7,600 |

| **Amounts due from group undertakings** | | | | **2022 £'000** | 2021 £'000 |
|---|---|---|---|---|---|
| **Nature of transaction** | **Related party** | **Repayment** | **Interest** | | |
| Treasury deposits | Lloyds Bank Corporate Markets plc | 31/03/2022 | Various | **-** | 375 |
| Taxation receivable | Bank of Scotland plc | On demand | N/A | **542** | 660 |
| Total Amounts due from group undertakings (note 10) | | | | **542** | 1,035 |

| **Borrowed funds** | | | | **2022 £'000** | * Restated 2021 £'000 |
|---|---|---|---|---|---|
| **Nature of transaction** | **Related party** | **Repayment** | **Interest** | | |
| Bank borrowings (see note 13) | Lloyds Bank Corporate Markets plc | 31/03/2023 - 31/03/2041 | 0.02% to 0.86% | **111,219** | 113,054 |

| **Amounts due to group undertakings** | | | | **2022 £'000** | * Restated 2021 £'000 |
|---|---|---|---|---|---|
| **Nature of transaction** | **Related party** | **Repayment** | **Interest** | | |
| Interest payable (see note 14) | Lloyds Bank Corporate Markets plc | On demand | N/A | **2** | 1 |

| **Derivative financial instruments** | | | | **2022 £'000** | 2021 £'000 |
|---|---|---|---|---|---|
| **Nature of transaction** | **Related party** | **Repayment** | **Interest** | | |
| RPI swaps (see note 15) | Lloyds Bank Corporate Markets plc | 31/03/2041 | 1.365% | **46,788** | 43,766 |

## Notes to the financial statements (continued)
For the year ended 31 March 2022

## 20. Related party transactions (continued)

| Finance income | Related party | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Interest receivable on bank deposits from other group companies (see note 4) | Lloyds Bank Corporate Markets plc | - | 46 |

| Finance costs | Related party | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Interest payable on bank loans to other group companies | Lloyds Bank Corporate Markets plc | 187 | 986 |
| Interest payable on derivatives | Lloyds Bank Corporate Markets plc | 2,330 | 3,147 |
| Total Finance costs (note 5) | | 2,517 | 4,133 |

* The comparatives have been restated to reflect the change in presentation as explained in note 22.

There were no credit losses or bad debt expenses relating to the above balances incurred during the year or prior year.

The Company received group taxation of £660,000 during the year (2021: £1,972,000) from a fellow group undertaking.

The registered offices of related parties are noted below:

| Related party | Related party relationship | Registered address |
|---|---|---|
| Lloyds Banking Group plc | Ultimate parent undertaking | The Mound, Edinburgh, EH1 1YZ |
| Lloyds Bank Corporate Markets plc | Immediate parent undertaking | 25 Gresham Street, London, EC2V 7HN |
| Bank of Scotland plc | Fellow group undertaking | The Mound, Edinburgh, EH1 1YZ |

## 21. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, market risk, interest rate risk and foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by Lloyds Bank Corporate Markets plc, and the ultimate parent, Lloyds Banking Group plc.

### 21.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with finance leases is managed through the application of strict underwriting criteria, determined by the Group's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in note 2.3.

**Credit risk mitigation**

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.
- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.

## Notes to the financial statements (continued)
For the year ended 31 March 2022

## 21. Financial risk management (continued)

### 21.1 Credit risk (continued)

**Credit risk mitigation (continued)**

- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

**Maximum credit exposure**

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Cash and cash equivalents | **8,283** | 7,600 |
| Amounts due from group undertakings | **542** | 1,035 |
| Finance lease receivables | **133,752** | 131,255 |
| | **142,577** | 139,890 |

The credit risk associated with Cash and cash equivalents and Amounts due from group undertakings is not considered significant as held with other companies within the Group.

**Credit quality of finance lease receivables**

The analysis of lending has been prepared based on the division in which the asset is held; with the business segment in which the exposure is recorded reflected in the ratings system applied. All probabilities of default (PDs) include forward-looking information and are based on 12 month values, with the exception of credit impaired.

**At 31 March 2022**

| PD range | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| 0.00-0.50% | **133,752** | - | - | **133,752** |
| 0.51-3.00% | - | - | - | - |
| 3.01-20.00% | - | - | - | - |
| 20.01-99.99% | - | - | - | - |
| 100% | - | - | - | - |
| | **133,752** | - | - | **133,752** |

At 31 March 2021

| PD range | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| 0.00-0.50% | 131,255 | - | - | 131,255 |
| 0.51-3.00% | - | - | - | - |
| 3.01-20.00% | - | - | - | - |
| 20.01-99.99% | - | - | - | - |
| 100% | - | - | - | - |
| | 131,255 | - | - | 131,255 |

# Notes to the financial statements (continued)
For the year ended 31 March 2022

## 21. Financial risk management (continued)

### 21.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. The Company is funded entirely by companies within the Group.

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

**As at 31 March 2022**

| | < 1 month £'000 | 1-3 months £'000 | 3-12 months £'000 | 1-5 years £'000 | > 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Bank borrowings | - | - | 1,724 | 10,476 | 99,019 | 111,219 |
| Interest payable | - | - | 2 | - | - | 2 |
| Derivative financial liabilities | - | - | - | - | 46,788 | 46,788 |
| Other payables | 840 | - | - | - | - | 840 |
| | 840 | - | 1,726 | 10,476 | 145,807 | 158,849 |

As at 31 March 2021

| | < 1 month £'000 | 1-3 months £'000 | 3-12 months £'000 | 1-5 years £'000 | > 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Bank borrowings | - | - | 113,054 | - | - | 113,054 |
| Interest payable | - | - | 1 | - | - | 1 |
| Derivative financial liabilities | - | - | - | - | 43,766 | 43,766 |
| Other payables | 1,037 | - | - | - | - | 1,037 |
| | 1,037 | - | 113,055 | - | 43,766 | 157,858 |

### 21.3 Market risk

Market risk is the risk of financial loss from changes in market prices of financial assets and liabilities, typically from changes and volatility in interest rates (interest rate risk (see note 21.4)), prices (inflation risk) and foreign exchange rates (foreign currency risk (see note 21.5)).

The directors believe that the Company's exposure to market risk through inflation is carefully managed. The Company has put in place derivative financial instruments to hedge against this risk, further details which can be found in note 21.7).

### 21.4 Interest rate risk

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 due to variable interest rate clauses in the Company's finance lease agreement.

# Notes to the financial statements (continued)
For the year ended 31 March 2022

## 21. Financial risk management (continued)

### 21.4 Interest rate risk (continued)

**Interest rate benchmark reform**

During 2021, Lloyds Banking Group has continued to manage its process to alternative benchmark rates under its Group-wide IBOR Transition Programme and has delivered the core changes to its technology and business processes. Through this programme, Lloyds Banking Group has ensured that the most appropriate benchmark rate is used for new product, has transitioned substantially all of its legacy products to new benchmark rates and has managed the impacts and risk relating to systems, processes, accounting and reporting. The Company, which is part of the Lloyds Banking Group, does not expect material changes to its risk management approach and strategy as a result of interest rate benchmark reform.

At 31 December 2021, Lloyds Banking Group has successfully transitioned all of its derivative products settled through the London Clearing House ("LCH") that were dependent on Sterling LIBOR to alternative benchmark rates, including those of the Company which have transitioned to SONIA ("Sterling Overnight Index Average").

In respect of the Company's hedge accounting relationships impacted by this transition, for the purposes of determining whether:

- a forecast transaction is highly probable;
- hedged future cash flows are expected to occur;
- a hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk; and
- an accounting hedging relationship should be discontinued because of a failure of the retrospective effectiveness test;

The Company has ascertained that the interest rate benchmark on which the hedged risk or the cash flows of the hedged item or hedging instrument are based is not altered by uncertainties resulting from the transition and that no de-designation of the original hedging relationships is required with any immaterial ineffectiveness resulting from the transition to be amortised over the remaining life of the new hedging relationships.

In addition, for a cash flow hedge of a non-contractually specified benchmark portion of interest rate risk, the Company assesses only at inception of the hedge relationship and not on an ongoing basis that the risk is separately identifiable and hedge effectiveness can be measured.

### 21.5 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.

The company's transactions are all denominated in pounds sterling and as such the company has no exposure to foreign currency risk.

### 21.6 Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

**Valuation of financial assets and liabilities**

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

**Level 1 portfolios**

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise equity shares, treasury bills and government securities.

**Level 2 portfolios**

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

## 21. Financial risk management (continued)

### 21.6 Fair values of financial assets and liabilities (continued)

**Valuation of financial assets and liabilities (continued)**

**Level 3 portfolios**

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

**Financial assets and liabilities carried at fair value**

The tables below provide an analysis of the financial assets and liabilities of the Company that are carried at fair value in the Company's Balance sheet, grouped into Levels 1 to 3 based on the degree to which the inputs to fair value are observable.

| **At 31 March 2022** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| Derivative financial liabilities (note 21.7) | **-** | **46,788** | **-** | **46,788** |
| Total derivative financial instruments | **-** | **46,788** | **-** | **46,788** |

| As at 31 March 2021 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Derivative financial liabilities (note 21.7) | - | 43,766 | - | 43,766 |
| Total derivative financial instruments | - | 43,766 | - | 43,766 |

The fair value of the RPI swap at the reporting date is determined by using valuation techniques commonly used by market participants to price these instruments. These techniques included discounted cash flow analysis and other pricing models. The fair values calculated from these models are regularly compared with prices obtained in actual market transactions to ensure reliability. In all instances models use only observable market data.

**Financial assets and liabilities carried at amortised cost**

Cash and cash equivalents, Amounts due from group undertakings, Finance lease receivables, Amounts due to group undertakings and Trade and other payables are all held at amortised cost.

The fair value of the Company's finance lease receivables is considered to be level 2 in the valuation hierarchy as the fair value 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.

The fair value of the Company's finance lease receivables at 31 March 2022 is estimated at £142,893,000 (2021: £122,738,000) and has increased during the year due to the significant increases in the forecast RPI inflation used to value the loans compared to the previous year, which is line with current market increases in RPI during the last 12 months.

The directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value of all other financial assets and liabilities, due to their short term nature.

## 21. Financial risk management (continued)

### 21.7 Derivative financial instruments

The principal derivatives used by the Company is an RPI swap to hedge the risk of inflation. An RPI swap is an agreement between two parties where one party pays a fixed rate cash flow based on a notional amount while the other party pays a floating rate linked to an inflation index.

Under RPI contracts, the Company agrees to an exchange of interest calculated by reference to the Retail Price Index and another reference rate, in this case SONIA. Such contracts enable the Company to mitigate inflation risk on the cash flows utilised to fund existing finance lease agreements.

The RPI swap used by the Company is designated as a cash flow hedge. The effective portion of changes in the fair value of cash flow hedges is recognised in other comprehensive income. The ineffective portion is recognised immediately in the Income statement. The cash flow hedges were highly effective throughout the year and no ineffectiveness was recognised in the profit or loss during the year.

Sources of ineffectiveness can include basis differences, timing differences and notional amount differences.

Further information on the Company's RPI swap and its effectiveness as cash flow hedges can be found in note 15.

## 22. Restatement of comparatives

The comparative information reported has been restated, as summarised in the table below:

| | Previously reported £'000 | Change in £'000 | Restated £'000 |
|---|---|---|---|
| **Balance sheet as at 1 April 2020** | | | |
| **LIABILITIES** | | | |
| Bank borrowings | - | 114,398 | **114,398** |
| Amounts due to group undertakings | 114,430 | (114,398) | **32** |
| **Balance sheet as at 31 March 2021** | | | |
| **LIABILITIES** | | | |
| Bank borrowings | - | 113,054 | **113,054** |
| Amounts due to group undertakings | 113,055 | (113,054) | **1** |
| **Cash flow statement for the year ended 31 March 2021** | | | |
| **Financing activities** | | | |
| Proceeds from Bank borrowings | 3,137 | 114,773 | **117,910** |
| Repayment of Bank borrowings | - | (114,773) | **(114,773)** |

The Company has carried out an exercise to reclassify Bank borrowings to align its presentation with the Group, which are held by other companies within the Group. Previously, these were reported in Amounts due to group undertakings and are now reported separately on the Balance sheet in line with the requirements of IAS 1. Accordingly, the comparatives for the prior year and prior year opening position have been re-presented to align with this change in presentation.

The Company has also carried out an exercise to re-present its Cash flow statement. In respect to the Cash flows from financing activities, in the prior year a single net increase in Bank borrowings of £3,137,000 was presented which represented £117,910,000 cash inflows and £114,773,000 cash outflows. However, none of these cashflows were allowed to be netted off per IAS 7 exemptions. Therefore the Company has re-presented the cash flows for financing activities to comply with IAS 7, resulting in £117,910,000 being presented as Proceeds from Bank borrowings and £114,773,000 being presented as Repayment of Bank borrowings, with the net increase in Bank borrowings being unchanged overall at £3,137,000.

## 23. Contingent liability

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £359,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 24. Future developments

The following pronouncement is not applicable for the year ending 31 March 2022 and has not been applied in preparing these financial statements. Save as disclosed below, the impact of this accounting change is still being assessed by the Company and reliable estimates cannot be made at this stage.

With the exception of certain minor amendments, as at 31 March 2022 this pronouncement has been endorsed for use in the United Kingdom.

**Minor amendments to other accounting standards**
The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

This amendment is not expected to have a significant impact on the Company.

## Independent auditor's report to the members of Lloyds Bank Corporate Asset Finance (No.1) Limited

### Report on the audit of the financial statements

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#### Opinion

In our opinion, the financial statements of Lloyds Bank Corporate Asset Finance (No.1) Limited (the company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Independent auditor's report to the members of Lloyds Bank Corporate Asset Finance (No.1) Limited (Continued)

### Other information

The other information comprises the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of its policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

## Independent auditor's report to the members of Lloyds Bank Corporate Asset Finance (No.1) Limited (Continued)

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and UK tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

### Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

### Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

P Cowley

Paul Cowley CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
20 December 2022