

Saleslease Purchase Limited

Annual report and accounts
for the year ended 31 December 2015

Registered office

Level 1, Citymark
150 Fountainbridge
Edinburgh
EH3 9PE

Registered number

SC141768

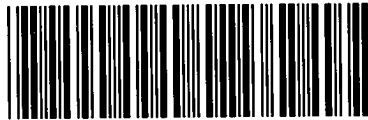
Current directors

P R Grant

Company Secretary

P Gittins

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COMPANIES HOUSE

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2015

The directors present their report and the audited financial statements of Saleslease Purchase Limited ("the Company") for the year ended 31 December 2015.

General information

The Company is a limited company incorporated and domiciled in Scotland (registered number: SC141768).

The Company provides a range of operating and finance lease products for corporate customers.

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Consumer Finance Division. While these risks are not managed separately for the Company, Consumer Finance is a portfolio of businesses and operates in a number of specialist markets providing consumer lending and contract hire to personal and corporate customers. Further details of risk management policies are contained in note 13 to the financial statements.

Future outlook

The Company ceased writing new business in 2010 and continues to manage the leasing transactions underwritten in previous years. Since the cessation of new lending, services are limited to the maintenance of accounting and other records and settling invoices.

Dividends

No dividends were paid or proposed during the year ended 31 December 2015 (2014: £nil).

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 have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

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 period and the approval of the Annual report and accounts:

C Sutton	(resigned 11 August 2015)
P R Grant	(appointed 13 August 2015)
M J D Griffiths	(deceased 19 December 2015)
R J Armstrong	(resigned 5 April 2016)

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 or from the date of appointment in respect of directors who join 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 have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

Directors' report (continued)

For the year ended 31 December 2015

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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.

Disclosure of information to auditors

Each director in office at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that 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 auditors are aware of that information.

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

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.

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



P R Grant
Director

2 JUNE 2016

Independent auditors' report to the member of Saleslease Purchase Limited

Report on the financial statements

Our opinion

In our opinion, Saleslease Purchase Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 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.

What we have audited

The financial statements, included within the Annual Report and accounts (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2015;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other 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.

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 companies exemption from preparing a Strategic report. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the member of Saleslease Purchase Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Neil Rummings (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
One Kingsway
Cardiff
CF10 3PW

2 June

2016

Statement of comprehensive income

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Interest income	3	20	19
Other operating income		7	1
Impairment gains on Loans and advances to customers	13.1	21	80
Profit before tax		48	100
Taxation	7	(10)	24
Profit for the year attributable to owners of the parent, being total comprehensive income		38	124

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

Balance sheet

As at 31 December 2015

	Note	2015 £'000	2014 £'000
ASSETS			
Cash and cash equivalents		5,568	5,525
Other current assets	8	211	211
Loans and advances to customers	9	-	-
<hr/>			
Total assets		5,779	5,736
<hr/>			
LIABILITIES			
Borrowed funds	10	4,990	4,966
Other current liabilities		1	2
Current tax liability		26	44
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Total liabilities		5,017	5,012
<hr/>			
EQUITY			
Share capital	11	-	-
Retained earnings		762	724
<hr/>			
Total equity		762	724
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Total equity and liabilities		5,779	5,736

The accompanying notes to the financial statements 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:


P R Grant
Director

2 JUNE 2016

Statement of changes in equity

For the year ended 31 December 2015

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2014	-	600	600
Profit for the year being total comprehensive income	-	124	124
At 31 December 2014	-	724	724
Profit for the year being total comprehensive income	-	38	38
At 31 December 2015	-	762	762

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

Cash flow statement

For the year ended 31 December 2015

	2015 £'000	2014 £'000
Cash flows generated from operating activities		
Profit before tax	48	100
Changes in operating assets and liabilities:		
- Net decrease in Other debtors	-	1
- Net (decrease)/increase in Other current liabilities	(1)	2
Cash generated from operations	47	103
Group relief paid	(28)	(97)
Net cash generated from operating activities	19	6
Cash flows generated from financing activities		
Proceeds from borrowings with group undertakings	24	48
Net cash generated from financing activities	24	48
Change in Cash and cash equivalents	43	54
Cash and cash equivalents at beginning of year	5,525	5,471
Cash and cash equivalents at end of year	5,568	5,525

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

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies

1.1 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 in 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 IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The following new IFRS pronouncement relevant to the Company has been adopted in these financial statements:

Annual improvement to IFRSs (issued December 2013). A collection of amendments to IFRSs from the 2011 - 13 cycle of the annual improvements projects.

The application of this pronouncement 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 December 2015 and which have not been applied in preparing these financial statements are given in note 17. No standards have been early adopted.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention.

1.2 Income recognition

Income and expense from financial assets

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments, including loans and advances, 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.

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 Loans and advances to customers. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2015

1. Accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers, Amounts due from group undertakings, Other debtors and Cash and cash equivalents. Financial liabilities comprise Borrowed funds and Other current liabilities.

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

Interest bearing financial assets and financial liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

1.4 Impairment

Loans and advances to customers

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

If there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

When a loan or advance is uncollectible, it is written off against the related provision once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Statement of comprehensive income on a cash receipts basis.

1.5 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents comprise cash on hand, demand deposits and other short term highly liquid investments with original maturities of less than three months.

1.6 Taxation, including deferred income taxes

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

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

Tax on the profit or loss for the year is recognised in the Statement of comprehensive income within Taxation and comprises only current tax. No provision for deferred tax is required under IAS 12 "Income Taxes" as no timing differences have arisen which would result in deferred tax on assets and liabilities.

Current tax is the expected tax payable on the taxable profit for the period, using tax rates enacted or substantively enacted at the reporting date, together with adjustments to estimates in prior years.

Notes to the financial statements (continued)

For the year ended 31 December 2015

2. 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.

There are no significant estimates or judgements that have been used in the preparation of these financial statements.

3. Net interest income

	2015 £'000	2014 £'000
Group interest income (see note 12)	20	19

4. Other operating expenses

Fees payable to the Company's auditors for the audit of the financial statements of £3,000 (2014: £6,000) have been borne by a fellow group company and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are not recharged to the Company.

5. Staff costs

The Company did not have any employees during the year (2014: none).

6. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2014: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 12).

Notes to the financial statements (continued)

For the year ended 31 December 2015

7. Taxation

	2015 £'000	2014 £'000
a) Analysis of charge/(credit) for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	10	22
- Adjustments in respect of prior years	-	(46)
Current tax charge/(credit)	10	(24)

Corporation tax is calculated at a rate of 20.25% (2014: 21.50%) of the taxable profit for the year.

b) Factors affecting the tax charge/(credit) for the year

Where taxation on the Company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 20.25% (2014: 21.50%), the differences are explained below:

	2015 £'000	2014 £'000
Profit before tax	48	100
Tax charge thereon at UK corporation tax rate of 20.25% (2014: 21.50%)	10	22
Factors affecting charge:		
- Adjustments in respect of prior years	-	(46)
Tax charge/(credit) on profit on ordinary activities	10	(24)
Effective rate	20.8%	(24.0%)

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

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

8. Other current assets

	2015 £'000	2014 £'000
Amounts due from group undertakings (see note 12)	211	211

Amounts due from group undertakings is unsecured, non-interest bearing and repayable on demand.

Notes to the financial statements (continued)

For the year ended 31 December 2015

9. Loans and advances to customers

	2015 £'000	2014 £'000
Gross loans and advances to customers	21	21
Less: allowance for losses on loans and advances	(21)	(21)
Net loans and advances to customers	-	-
of which:		
Due within one year	-	-

Loans and advances to customers include finance lease and hire purchase receivables:

	2015 £'000	2014 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	21	21
Unearned future finance income on finance lease and hire purchase contracts	-	-
Net investment in finance lease and hire purchase contracts	21	21

The net investment in finance lease and hire purchase contracts may be analysed as follows:

	2015 £'000	2014 £'000
- no later than one year	21	21

The unguaranteed residual value is £nil (2014: £nil).

The Company provides a range of finance lease products in connection with the financing of motor vehicles and equipment. The leases typically run for periods of between 1 and 5 years.

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2014: £nil).

Further analysis of Loans and advances to customers is provided in note 13.

Notes to the financial statements (continued)

For the year ended 31 December 2015

10. Borrowed funds

	2015 £'000	2014 £'000
Amounts due to group undertakings (see note 12)	4,990	4,966

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Interest is charged at the Bank of England base rate on the net intercompany position with Bank of Scotland plc, including Cash and cash equivalents.

11. Share capital

	2015 £'000	2014 £'000
Allotted, issued and fully paid 2 ordinary shares of £1 each	-	-

12. Related party transactions

The Company is controlled by Bank of Scotland Equipment Finance Limited (incorporated in England and Wales). A number of transactions are entered into with related parties in the normal course of business. A summary of the outstanding balances at the year end and the related income for the year are set out below.

	2015 £'000	2014 £'000
Amounts due from group undertakings		
Bank of Scotland Equipment Finance Limited (see note 8)	211	211
Amounts due to group undertakings		
Bank of Scotland plc (see note 10)	4,990	4,966
Cash and cash equivalents held with group undertakings		
Bank of Scotland plc	5,568	5,525
Interest income		
Bank of Scotland plc (see note 3)	20	19

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Statement of comprehensive income.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management is comprised of the directors of the Company and the members of the Lloyds Banking Group plc board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

UK Government

In January 2009, the UK government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. HM Treasury's interest fell below 20% on 11 May 2015. As a consequence, HM Treasury is no longer considered to have a significant influence and ceased to be a related party of the Company for IAS 24 Related Party Disclosures purposes at that date.

Notes to the financial statements (continued)

For the year ended 31 December 2015

13. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, interest rate risk, market risk, and business risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by an intermediate parent company, Bank of Scotland plc, 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 undertakings which fund the Company and credit risk is carefully monitored by Consumer Finance's credit committee and credit functions. Market risk is managed by the Company through the terms negotiated in commercial agreements and management regularly reviewing its portfolio of leases for impairment. Business risk is managed through regular reporting and oversight.

A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

13.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with instalment credit contracts and operating leases is managed through the application of strict underwriting criteria. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

In measuring the credit risk of loans and advances, the Company reflects three components: (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and their likely future development, from which the Company derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Cash and cash equivalents and Amounts due from other group undertakings are held with other companies within the Group. The credit risk associated with these financial assets is not considered to be significant.

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.
- 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.
- Counterparty limits: Credit risk in wholesale portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Divisional exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

Notes to the financial statements (continued)

For the year ended 31 December 2015

13. Financial risk management (continued)

13.1 Credit risk (continued)

Credit concentration - Loans and advances to customers

The Company lends predominantly to wholesale customers (being motor traders and corporate customers) geographically located in the United Kingdom.

Loans and advances to customers – maximum exposure

	2015 £'000	2014 £'000
Neither past due nor impaired	-	-
Past due but not impaired	-	-
Impaired	21	21
Maximum credit exposure	21	21

Allowance for loans and advances to customers which are impaired

	2015 £'000	2014 £'000
Brought forward	21	27
Advances written off	(2)	74
Credit for year	(21)	(80)
Recoveries of prior advances written off	23	-
At 31 December	21	21

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. All Loans and advances to customers are collectively assessed for impairment.

Reposessed collateral

Collateral held against Loans and advances to customers is principally comprised of office equipment. The Company does not take physical possession of any collateral; instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness. Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

During the year the Company reposessed collateral in respect of defaulted debt with a value of £nil (2014: £nil).

Notes to the financial statements (continued)

For the year ended 31 December 2015

13. Financial risk management (continued)

13.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Group.

13.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's net intercompany position with Bank of Scotland plc, including Cash and cash equivalents and takes account of movement in the Bank of England base rate which is the basis for the interest rate on intercompany balances. A 0.25% increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as the Bank of England base rate generally increases or decreases in increments of 0.25%.

If Bank of England base rate increased by 0.25% and all other variables remain constant this would increase Interest income by £2,000 (2014: £1,000) and accordingly decrease Interest income by £2,000 (2014: £1,000) if Bank of England base rate decreased by the same amount.

13.4 Financial strategy

The Company does not trade in financial instruments, nor does it use derivatives.

13.5 Fair values of financial assets and liabilities

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

The directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

14. 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 shareholders 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 shareholders, return capital to shareholders, issue new shares, or sell assets.

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity. The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally.

15. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2014: £nil).

16. Post balance sheet events

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

Notes to the financial statements (continued)

For the year ended 31 December 2015

17. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2015 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued September 2014)	A collection of amendments to IFRSs from the 2012 - 2014 cycle of the annual improvements projects.	Annual periods beginning on or after 1 January 2016
Annual improvement to IFRSs (issued December 2013)	A collection of amendments to IFRSs from the 2010 - 12 cycle of the annual improvements projects.	Annual periods beginning on or after 1 February 2015
Amendments to IAS 1 'Disclosure Initiative'	The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.	Annual periods beginning on or after 1 January 2016
IFRS 9 'Financial Instruments' ¹	Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised costs, 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. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.	Annual periods beginning on or after 1 January 2018

1. At the date of this report, this pronouncement was awaiting EU endorsement.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

18. Ultimate parent undertaking and controlling party

The immediate parent company is Bank of Scotland Equipment Finance Limited. The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated 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. Bank of Scotland plc is the parent undertaking 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.