

LLOYDS LEASING DEVELOPMENTS LIMITED

31 December 2011

Member of Lloyds Banking Group

Registered Number 1856355



LLOYDS LEASING DEVELOPMENTS LIMITED

DIRECTORS

C G Dowsett
S C Gledhill
R A Isaacs

SECRETARY

S N Slattery

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2V 7HN

REGISTERED OFFICE

25 Gresham Street
London
EC2V 7HN

REGISTERED NUMBER

1856355

REPORT OF THE DIRECTORS

REVIEW OF BUSINESS

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

The results of the company show a profit before taxation of £171,000 (2010 £495,000 profit) for the year as set out in the income statement on pages 5

The company has shareholder's deficit of £11,178,000 (2010 £5,148,000 deficit)

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

DIVIDENDS

The directors did not authorise or pay any dividends during the year (2010 £nil)

DIRECTORS

The names of the directors of the company are shown on page 1. The following change in directors has taken place since the year ended

	Appointment	Resigned/ceased to be a director
T J Cooke	-	14 August 2012
A J Cumming	-	26 April 2012
C G Dowsett	26 April 2012	-
S C Gledhill	26 April 2012	-
J M Herbert	-	26 April 2012

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

DIRECTORS' INDEMNITIES

The directors have the benefit of a deed of indemnity which constitutes a "qualifying third party indemnity provision". These deeds are in force during the whole of the financial year (or from the date of appointment in respect of the directors who join the board during the financial year). The indemnities remain in force at the date of signing these financial statements. Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the directors' report is approved

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

REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS' APPOINTMENT

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

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. For further details please refer to note '17 - Risk management of financial instruments' in these financial statements

KEY PERFORMANCE INDICATORS ('KPIs')

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

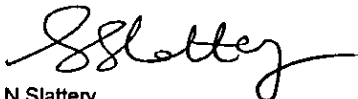
POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The company follows 'The Prompt Payment Code' published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers. Information about the 'Prompt Payment Code' may be obtained by visiting www.promptpaymentcode.org.uk

The company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the company owed no amounts to trade creditors at 31 December 2011, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2010 nil)

On behalf of the board



S N Slattery
Company secretary

Date 21-09-12

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS LEASING DEVELOPMENTS LIMITED

We have audited the financial statements of Lloyds Leasing Developments Limited for the year ended 31 December 2011 which comprise the Income Statement, Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Shareholder's Equity, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report of the directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

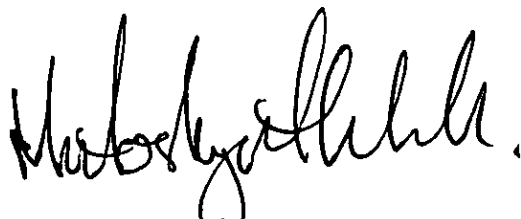
Opinion on other matter prescribed by the Companies Act 2006

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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.



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

Edinburgh

Date 21 September 2012

LLOYDS LEASING DEVELOPMENTS LIMITED

INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 £000	Restated 2010 £000
Finance income	2	5,229	5,412
Finance costs	3	(4,721)	(4,769)
		<u>508</u>	<u>643</u>
Other operating income	4	-	1
Other operating expenses	5	(4)	-
Impairment charge	6	(333)	(149)
		<u></u>	<u></u>
Profit before taxation	7	171	495
Taxation charge	8	(40)	(108)
		<u></u>	<u></u>
Profit for the year attributable to owners of the parent		<u>131</u>	<u>387</u>

The accompanying notes are an integral part of the Financial Statements

LLOYDS LEASING DEVELOPMENTS LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	Note	2011 £000	Restated 2010 £000
Profit for the year after taxation	16	131	387
Movement in cash flow hedges, net of tax - effective portion of changes in fair value taken to equity	15	(6,161)	(2,854)
Total comprehensive income for the year attributable to owners of the parent		<u>(6,030)</u>	<u>(2,467)</u>

The accompanying notes are an integral part of the Financial Statements

LLOYDS LEASING DEVELOPMENTS LIMITED

BALANCE SHEET
As at 31 December 2011

	Note	2011 £000	Restated 2010 £000
Assets			
Non-current assets			
Finance lease receivables	9	68,200	72,994
Deferred taxation	13	8,354	5,993
Total non-current assets		<u>76,554</u>	<u>78,987</u>
Current assets			
Finance lease receivables	9	4,377	3,549
Amounts owed by group companies	10	2,697	997
Total current assets		<u>7,074</u>	<u>4,546</u>
Total assets		<u>83,628</u>	<u>83,533</u>
Liabilities			
Current liabilities			
Amounts owed to group companies	11	94,806	88,681
Total current liabilities		<u>94,806</u>	<u>88,681</u>
Equity			
Share capital	14	100	100
Other reserves	15	(24,546)	(18,385)
Retained earnings	16	13,268	13,137
Total equity		<u>(11,178)</u>	<u>(5,148)</u>
Total liabilities and equity		<u>83,628</u>	<u>83,533</u>

The directors approved the accounts on 21st September 2012



C G Dowsett
Director

Registered Number 1856355

The accompanying notes are an integral part of the Financial Statements

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 31 December 2009 as restated	14 15 16	100	(15,531)	12,750	(2,681)
Total comprehensive income for the year					
Profit for the year as restated	16	-	-	387	387
Change in fair value of derivatives	15	-	(2,854)	-	(2,854)
Balance at 31 December 2010 as restated	14 15 16	100	(18,385)	13,137	(5,148)
Total comprehensive income for the year					
Profit for the year	16	-	-	131	131
Change in fair value of derivatives	15	-	(6,161)	-	(6,161)
Balance at 31 December 2011	14 15 16	100	(24,546)	13,268	(11,178)

The accompanying notes are an integral part of the Financial Statements

LLOYDS LEASING DEVELOPMENTS LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Net cash flow from operating activities	18	<u>4,146</u>	<u>1,038</u>
Financing activities			
Movement in bank borrowings		<u>(373)</u>	<u>(2,941)</u>
Net cash flow from financing activities		<u>(373)</u>	<u>(2,941)</u>
Net movement in cash and cash equivalents		3,773	(1,903)
Cash and cash equivalents at beginning of the year		<u>(1,076)</u>	<u>827</u>
Cash and cash equivalents at end of the year		<u><u>2,697</u></u>	<u><u>(1,076)</u></u>
Cash and cash equivalents are comprised of			
Cash at bank	10	2,644	-
Bank deposits	10	53	997
Bank overdraft	11	-	<u>(2,073)</u>
		<u>2,697</u>	<u>(1,076)</u>

The accompanying notes are an integral part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

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

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, under the historical cost convention, as modified by the revaluation of financial instruments (including derivatives) at fair value.

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

In preparing these financial statements the company has adopted IAS 1 (revised) Presentation of financial statements. The adoption of IAS 1 (revised) impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the company. In accordance with the transitional requirements of the standards, the company has provided full comparative information.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the company's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

- Impairment

The company regularly reviews the portfolio of financial assets for impairment. In determining whether an impairment has occurred at the balance sheet date the company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings, such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on repayments or values of underlying assets. Where this is the case, the impairment loss is measured in accordance with note 1(b) below.

1(a) Leases

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

When assets are leased under a finance lease the amount due from a lessee is recorded as a receivable at the present value of the lease payments being the company's net investment in the lease. Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the company's net investment in the lease.

Initial direct costs attributed to negotiating and arranging a finance lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term. Fees and commissions received are deferred and recognised as an adjustment to the effective interest rate on the lease over the lease term.

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

1(b) Impairment

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

1(b) Impairment (continued)

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of the estimated future cash flows discounted at the asset's implicit rate in the lease

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as a credit to the income statement

1(c) Taxation

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

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

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

1(d) Dividends

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

1(e) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. The prior year comparatives in the cash flow statement have been reclassified to conform to current year presentation

1(f) Fair value

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

1(g) Derivative financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

1(h) Foreign currency translation

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

1(i) Prior year restatement and reclassification

The 2010 comparatives have been restated in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" to reflect an error discovered as a result of a review of the deferred tax calculations. The impact of this restatement is to increase the deferred tax asset by £6,012,000 and increase retained earnings by £6,012,000 on the balance sheet and decrease the taxation charge in the income statement by £118,000. The impact on the opening 2010 reserves is to increase the balance by £5,894,000.

The prior year comparatives have been adjusted to conform to the current year presentation. Other creditors amounting to £406,000 in 2010 have been reclassified to finance lease receivables.

2 Finance income

	2011 £000	2010 £000
Finance lease income	5,223	5,412
Interest receivable on bank deposits from other group companies	6	-
	<u>5,229</u>	<u>5,412</u>

Finance 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

3 Finance costs

	2011 £000	2010 £000
Interest payable on bank loans and overdraft to other group companies	528	463
Interest rate swaps cash flow hedges	4,193	4,306
	<u>4,721</u>	<u>4,769</u>

4 Other operating income

	2011 £000	2010 £000
Other fees receivable	-	1
	<u>-</u>	<u>1</u>

5 Other operating expenses

	2011 £000	2010 £000
Other fees payable	4	-
	<u>4</u>	<u>-</u>

6 Impairment charge

	2011 £000	2011 £000
Tax rate variation	333	149
	<u>333</u>	<u>149</u>

The reduction in the main rate of corporation tax from 27% to 26% and then to 25% is disclosed further in note 13

The change in the rates of corporation tax has given rise to a reduction in deferred taxation and, because of tax rate variation clauses in the leases, a reduction in the lease rentals. This reduction in rentals has given rise to a reduction in the interest rate implicit within the lease which, when applied retrospectively, has produced a one-off impairment of the finance lease receivables

7 Profit before taxation

Audit fees for the company are borne by the immediate parent company, the audit fee attributed to this company for the year was £8,500 (2010 £8,500). The company has no employees and the directors received no remuneration in respect of their services to the company

NOTES TO THE FINANCIAL STATEMENTS

8 Taxation charge

	2011 £000	Restated 2010 £000
The taxation charge for the year comprises		
Group relief payable on current taxation profit for the year	(1,019)	(1,122)
Total group relief payable for the year	(1,019)	(1,122)
Deferred taxation (Note 13)	974	984
Impact of tax rate change on deferred taxation (Note 13)	5	30
Total taxation charge for the year	(40)	(108)

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 26.5% (2010: 28%), the differences are explained below

	2011 £000	Restated 2010 £000
Profit before taxation	171	495
Tax at standard rate of corporation tax	(45)	(138)
Impact of tax rate change	5	30
Total taxation charge	(40)	(108)

9 Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2011 £000	2010 £000	2011 £000	2010 £000
Amounts receivable under finance leases				
Within 1 year	9,315	8,943	4,377	3,549
2 - 5 years inclusive	22,345	25,826	2,984	6,150
After 5 years	93,790	100,286	65,216	66,844
	125,450	135,055	72,577	76,543
Less: Unearned finance income	(52,873)	(58,512)		
Present value of minimum lease payments receivable	72,577	76,543		
Analysed as				
Non-current finance lease receivable	68,200	72,994		
Current finance lease receivables	4,377	3,549		
	72,577	76,543		

The fair value of the company's finance lease receivables at 31 December 2011 is estimated at £62,612,000 (2010: £67,353,000)

There were no additions or disposals during the year

NOTES TO THE FINANCIAL STATEMENTS

10 Amounts owed by group companies

	2011 £000	2010 £000
Cash at bank	2,644	-
Bank deposits	53	997
	<u>2,697</u>	<u>997</u>

For further details please refer to note 19

11 Amounts owed to group companies

	2011 £000	2010 £000
Bank overdraft	-	2,073
Bank borrowings	59,128	59,531
Interest payable	52	13
Group relief payable	2,898	1,879
Derivative financial instruments (Note 12)	32,728	25,185
	<u>94,806</u>	<u>88,681</u>

For further details please refer to note 19

12 Derivative financial instruments

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

The fair values of these derivative financial instruments are based on discounted cash flow models at 31 December 2011.

Derivatives transactions are with group companies. See note 19 for further details of balances outstanding at the year end.

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

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

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

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

	Contractual/notional amount £000	Fair values liabilities £000
31 December 2011		
Interest rate swaps	57,349	32,728
	<u>57,349</u>	<u>32,728</u>
31 December 2010		
Interest rate swaps	57,733	25,185
	<u>57,733</u>	<u>25,185</u>

NOTES TO THE FINANCIAL STATEMENTS

13 Deferred taxation

	2011 £000	Restated 2010 £000
At beginning of the year	5,993	4,219
Deferred taxation credit for the year	974	984
Impact of tax rate change on deferred taxation	5	30
Movement in other reserves	1,999	1,012
Impact of tax rate change on movement in other reserves	(617)	(252)
At end of the year	8,354	5,993

The deferred taxation credit in the income statement comprises the following

	2011 £000	Restated 2010 £000
Accelerated tax depreciation	974	984
Impact of tax rate change	5	30
Total deferred taxation credit	979	1,014

Deferred taxation assets and liabilities are comprised as follows

Deferred taxation assets are comprised as follows

	2011 £000	Restated 2010 £000
Deferred taxation assets		
Cash flow hedges	8,182	6,800
Accelerated tax depreciation	172	-
Total deferred taxation assets	8,354	6,800

Deferred taxation liabilities are comprised as follows

	2011 £000	Restated 2010 £000
Deferred taxation liability		
Accelerated tax depreciation	-	(807)
Total deferred taxation liabilities	-	(807)
Total deferred taxation	8,354	5,993

On 23 March 2011, the Government announced that the corporation tax applicable from 1 April 2011 would be 26%. This change passed into legislation on 29 March 2011. In addition, the Finance Act 2011, which passed into law on 19 July 2011, included legislation to reduce the main rate of corporation tax from 26% to 25% with effect from 1 April 2012. The change in the main rate of corporation tax from 27% to 25% has resulted in an decrease in the Company's net deferred tax asset at 20 November 2011 of £612,000, comprising a £5,000 credit included in the income statement and a £617,000 charge included in equity.

NOTES TO THE FINANCIAL STATEMENTS

14 Share capital

	2011 £	2010 £
Authorised		
Ordinary shares of £1 each	100,000	100,000
	<u>100,000</u>	<u>100,000</u>
	2011 £	2010 £
Allotted, issued and fully paid		
Ordinary shares of £1 each	100,000	100,000
	<u>100,000</u>	<u>100,000</u>

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

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

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

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

15 Other reserves

Other reserves relates to gains and losses recognised on cashflow hedges

	2011 £000	2010 £000
At beginning of the year	(18,385)	(15,531)
Change in fair value of cash flow hedges	(7,543)	(3,614)
Deferred taxation thereon	1,999	1,012
Impact of tax rate change	(617)	(252)
	<u>(24,546)</u>	<u>(18,385)</u>

16 Retained earnings

	2011 £000	Restated 2010 £000
At beginning of the year	13,137	12,750
Profit for the year	131	387
	<u>13,268</u>	<u>13,137</u>

NOTES TO THE FINANCIAL STATEMENTS

17 Risk management of financial instruments

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

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

	Held at amortised cost £000	Derivatives at fair value £000	Loans or receivables £000	Total £000
At 31 December 2011				
Assets				
Finance lease receivables	-	-	72,577	72,577
Amounts owed by group companies	2,697	-	-	2,697
Total financial assets	2,697	-	72,577	75,274
Liabilities				
Amounts owed to group companies	62,078	32,728	-	94,806
Total financial liabilities	62,078	32,728	-	94,806
At 31 December 2010				
Assets				
Finance lease receivables	-	-	76,543	76,543
Amounts owed by group companies	997	-	-	997
Total financial assets	997	-	76,543	77,540
Liabilities				
Amounts owed to group companies	63,496	25,185	-	88,681
Total financial liabilities	63,496	25,185	-	88,681

Credit risk management

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

The maximum credit risk exposure of the group in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount as at 31 December 2011.

	2011 £000	2010 £000
Financial assets which are neither past due nor impaired for credit risk		
Finance lease receivables	72,577	76,543
Amounts owed by group companies	2,697	997
Total credit risk exposure	75,274	77,540

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each lease or loan is assessed for credit risk prior to approval and assigned a credit rating based on the credit risk rating methodology and management policy of the Lloyds Banking Group plc. Credit ratings of the lease counterparties are monitored, where necessary revised, over the life of the lease. The table below reflects the credit rating of the financial assets portfolio net of any financial guarantees received.

NOTES TO THE FINANCIAL STATEMENTS

17 Risk management of financial instruments (continued)

Credit risk management (continued)

Financial assets by credit rating

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2011							
Finance lease receivables	-	72,577	-	-	-	-	72,577
Amounts owed by group companies	-	-	2,697	-	-	-	2,697
Total	-	72,577	2,697	-	-	-	75,274

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2010							
Finance lease receivables	-	70,051	6,492	-	-	-	76,543
Amounts owed by group companies	-	997	-	-	-	-	997
Total	-	71,048	6,492	-	-	-	77,540

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

At 31 December 2011 and 2010 there were no impairments relating to credit risk against any financial assets nor any lease receivables past due on scheduled lease payments. The credit risk exposure under short-term debtors, deposits and other financial assets are represented by the book values in the above table.

For financial assets held at amortised cost the fair value approximates to their carrying values, except for leases whose fair value is disclosed in note 9.

Fair Value Estimation

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

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

Valuation hierarchy	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2011				
Derivative financial instruments	-	32,728	-	32,728
Financial liabilities	-	32,728	-	32,728
31 December 2010				
Derivative financial instruments	-	25,185	-	25,185
Financial liabilities	-	25,185	-	25,185

NOTES TO THE FINANCIAL STATEMENTS

17 Risk management of financial instruments (continued)**Liquidity risk management**

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

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

At 31 December 2011	Bank overdraft £000	Bank borrowings £000	Other liabilities £000	Derivatives £000	Total Liabilities £000
On demand	-	-	2,898	32,728	35,626
Up to 1 month	-	-	-	-	-
1-3 months	-	-	-	-	-
3-12 months	-	59,180	-	-	59,180
1-5 years	-	-	-	-	-
Over 5 years	-	-	-	-	-
Total	-	59,180	2,898	32,728	94,806

At 31 December 2010	Bank overdraft £000	Bank borrowings £000	Other liabilities £000	Other liabilities £000	Total Liabilities £000
On demand	2,073	-	1,879	25,185	29,137
Up to 1 month	-	-	-	-	-
1-3 months	-	-	-	-	-
3-12 months	-	59,544	-	-	59,544
1-5 years	-	-	-	-	-
Over 5 years	-	-	-	-	-
Total	2,073	59,544	1,879	25,185	88,681

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

Other liabilities are repayable on demand

Interest rate risk management

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

The company has no exposure to interest rate risk,

Foreign currency risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

18 Notes to the cash flow statement

	2011 £000	2010 £000
Profit from operations	171	495
Add non cash items		
Impairment charge	333	149
Operating cash flows before movements in working capital	504	644
Movement in receivables	3,632	2,876
Movement in payables	10	(2,835)
Cash generated by operations	4,146	685
Group relief received	-	353
Net cash flow from operations	4,146	1,038

19 Related parties

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

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

Nature of transaction	Related party	2011 £000	2010 £000
Cash at bank	Fellow subsidiary undertaking	2,644	-
Bank deposits	Fellow subsidiary undertaking	53	997
Bank overdraft	Fellow subsidiary undertaking	-	(2,073)
Group relief payable	Fellow subsidiary undertaking	(2,898)	(1,879)
Bank borrowings	Fellow subsidiary undertaking	(59,128)	(59,531)
Interest payable	Fellow subsidiary undertaking	(52)	(13)
Derivative financial instruments payable	Fellow subsidiary undertaking	(32,728)	(25,185)

Bank borrowings are interest bearing and during the year rates of interest of up to 1.5% (2010: 1.51%) were charged. Finance costs of £4,721,000 (2010: £4,769,000) were incurred during the year.

The company received group relief of £nil (2010: £353,000) during the year from fellow subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS

20 Future developments

The following accounting standard changes will impact the company in the future financial periods

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
IFRS 9 Financial Instruments ¹	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity investment categories in existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2015
IFRS 12 Disclosure of Interests in Other Entities	Requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.	Annual periods beginning on or after 1 January 2013
IFRS 13 Fair Value Measurement	The standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. It applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements.	Annual periods beginning on or after 1 January 2013

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

The initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the Financial Statements

21 Post balance sheet events

On 21 March 2012, the Government announced a further reduction in the rate of corporation tax to 24% with effect from 1 April 2012. This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012. In addition, the Finance Act 2012, which passed into law on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013. The reduction to 23% is estimated to decrease the net deferred tax asset by a further £669,000, comprising a £14,000 charge included in the income statement and a £655,000 charge included in equity, will be reflected in the financial statement for the year ended 31 December 2012.

The proposed further reduction in the rate of corporation tax by 1% to 22% from 1 April 2014 is expected to be enacted separately. The effect of this further change upon the company's deferred tax balances cannot be reliably quantified at this stage.