

LLOYDS LEASING DEVELOPMENTS LIMITED

31 December 2014

Member of Lloyds Banking Group

Registered Number: 1856355

MONDAY



\*S4DI00JU\*

SCT

10/08/2015

#234

COMPANIES HOUSE

LLOYDS LEASING DEVELOPMENTS LIMITED

---

DIRECTORS

C G Dowsett  
G A Fox

COMPANY SECRETARY

M A A Johnson

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP  
Atria One  
144 Morrison Street  
Edinburgh  
EH3 8EX

REGISTERED OFFICE

25 Gresham Street  
London  
EC2V 7HN

COUNTRY OF INCORPORATION

England and Wales

REGISTERED COMPANY NUMBER

1856355

## DIRECTORS' REPORT

The directors present their report and audited financial statements for the year ended 31 December 2014.

The Company qualifies as a small company in accordance with Sections 381-382 of the Companies Act 2006 (the "Act") and the Directors' Report has therefore been prepared taking into consideration the provisions of Part 15 of the Act.

## 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 result before taxation of £nil (2013: £4,929,000 loss) for the year as set out in the income statement on page 6.

The company has shareholder's equity of £4,517,000 (2013: £4,525,000).

## DIVIDENDS

The directors did not authorise or pay any dividends during the year (2013: £nil).

## DIRECTORS

The names of the directors of the company who were in office during the year and up to the date of the signing of financial statements are shown on page 1. The following change in directors has taken place after the year end:

	Appointed	Resigned/ceased to be a director
J S Foster	-	5 March 2015

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 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 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.

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

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

## DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the directors of the company, including former directors who resigned during the year, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. Directors no longer in office but who served on the board of the company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the group has in place appropriate directors' and officers' liability insurance cover which was in place throughout the financial year.

**DIRECTORS' REPORT (CONTINUED)**

**INDEPENDENT AUDITORS' APPOINTMENT**

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

**PRINCIPAL RISKS AND UNCERTAINTIES**

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. For further details please refer to note 16 'Risk management of financial instruments' in these financial statements.

**KEY PERFORMANCE INDICATORS ('KPIs')**

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

On behalf of the board



C G Dowsett  
Director

Date: 31 JULY 2015

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

### **Report on the Financial Statements**

#### **Our opinion**

In our opinion, Lloyds Leasing Developments Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **What we have audited**

The financial statements, comprise:

- Income Statement for the year ended 31 December 2014;
- Statement of Comprehensive Income for the year then ended;
- Balance Sheet as at 31 December 2014;
- Statement of Changes in Shareholder's Equity for the year then ended;
- 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 matters 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 prepare financial statements in accordance with the small companies regime. We have no exceptions to report arising from this responsibility.

#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 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 & 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHARIOT FINANCE LIMITED (CONTINUED)**

**Responsibilities for the financial statements and the audit (continued)**

**What an audit of financial statements involves**

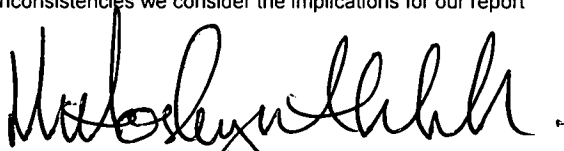
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

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

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



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

Edinburgh

Date:

31 July 2015

LLOYDS LEASING DEVELOPMENTS LIMITED

---

INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 £000	2013 £000
Finance income	2	(15)	3,603
Finance costs	3	-	(4,358)
		<u>(15)</u>	<u>(755)</u>
Other operating income	4	26	806
Other operating expenses	5	(11)	(4,541)
Impairment charge	6	-	(439)
		<u>-</u>	<u>(439)</u>
<b>Result/(loss) before taxation</b>	7	-	(4,929)
Taxation (charge)/credit	8	(8)	601
		<u>(8)</u>	<u>601</u>
<b>Loss after taxation for the year</b>		<u>(8)</u>	<u>(4,328)</u>

The accompanying notes are an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 December 2014

	Note	2014 £000	2013 £000
<b>Loss after taxation for the year</b>	15	(8)	(4,328)
Other Comprehensive Income			
Movement in cash flow hedges:			
- changes in fair value taken to equity	14	-	(1,217)
- discontinuation of cash flow hedge	14	-	26,518
<b>Total comprehensive (loss)/income for the year attributable to owners of the parent</b>		<u>(8)</u>	<u>20,973</u>

The accompanying notes are an integral part of the Financial Statements.



BALANCE SHEET  
As at 31 December 2014

	Note	2014 £000	2013 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Deferred taxation	12	19	89
<b>Total non-current assets</b>		19	89
<b>Current assets</b>			
Amounts owed by group companies	10	5,808	9,826
Other debtors		-	102
<b>Total current assets</b>		5,808	9,928
<b>Total assets</b>		5,827	10,017
<b>Liabilities</b>			
<b>Current liabilities</b>			
Amounts owed to group companies	11	949	4,813
Other creditors		361	321
<b>Total current liabilities</b>		1,310	5,134
<b>Non-current liabilities</b>			
Other creditors		-	358
<b>Total non-current liabilities</b>		-	358
<b>Equity</b>			
Share capital	13	100	100
Retained earnings	15	4,417	4,425
<b>Total equity</b>		4,517	4,525
<b>Total liabilities and equity</b>		5,827	10,017

The financial statements on pages 6 to 20 were approved by the Board of Directors on ~~31 JUL 2015~~ and signed on its behalf by:



**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

		Share capital	Other reserves	Retained earnings	Total equity
	Note	£000	£000	£000	£000
<b>Balance at 31 December 2012</b>	14, 15	100	(25,301)	8,753	(16,448)
<b>Total comprehensive income for the year</b>					
Loss for the year	15	-	-	(4,328)	(4,328)
Change in fair value of derivatives, net of tax	14	-	25,301	-	25,301
<b>Balance at 31 December 2013</b>	13, 14, 15	100	-	4,425	4,525
<b>Total comprehensive loss for the year</b>					
Loss for the year	15	-	-	(8)	(8)
<b>Balance at 31 December 2014</b>	13, 14, 15	100	-	4,417	4,517

The accompanying notes are an integral part of the Financial Statements.

CASH FLOW STATEMENT  
For the year ended 31 December 2014

	Note	2014 £000	2013 £000
<b>Net cash flow from operating activities</b>	17	(4,094)	63,612
<b>Financing activities</b>			
Movement in bank borrowings		-	(56,805)
<b>Net cash flow from financing activities</b>		-	(56,805)
Net movement in cash and cash equivalents		(4,094)	6,807
Cash and cash equivalents at beginning of the year		9,826	3,019
<b>Cash and cash equivalents at end of the year</b>		<b>5,732</b>	<b>9,826</b>
Cash and cash equivalents are comprised of:			
Cash at bank	10	3,447	7,549
Bank deposits	10	2,285	2,277
		<b>5,732</b>	<b>9,826</b>

The accompanying notes are an integral part of the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Accounting policies

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

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, under the historical cost convention.

The financial statements have been prepared in accordance with Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006.

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

### Critical accounting estimates and judgements

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

#### - Impairment

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

#### 1(a) Leases

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

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

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

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

#### 1(b) Impairment

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**1(b) Impairment (continued)**

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

**1(c) Taxation**

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

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

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

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

**1(d) Dividends**

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

**1(e) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months.

**1(f) Fair value**

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

**1(g) Derivative financial instruments**

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

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

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

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

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

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 cash flows of hedged items.

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

**1(h) Foreign currency translation**

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

**2 Finance income**

	2014 £000	2013 £000
Finance lease income	(24)	3,600
Interest receivable on bank deposits from other group companies	9	3
	<u>(15)</u>	<u>3,603</u>

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

**3 Finance costs**

	2014 £000	2013 £000
Interest payable on bank loans and overdraft to other group companies	-	1,170
Interest rate swaps: Cash flow hedges	-	3,188
	<u>-</u>	<u>4,358</u>

**4 Other operating income**

	2014 £000	2013 £000
Other fees receivable	26	-
Basel II adjustment	-	806
	<u>26</u>	<u>806</u>

Due to variation clauses within the lease, should the risk weighting applied to the leased assets change the lease will be repriced. The risk for the lease within this Company was recalculated due to the requirements under Basel II (effective from January 2008), which generated a one-off adjustment for the year ended 31 December 2013.

**5 Other operating expenses**

	2014 £000	2013 £000
Loss on termination of finance leases	-	4,541
Legal costs	11	-
	<u>11</u>	<u>4,541</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**5 Other operating expenses (continued)**

On 30 September 2013, four of the five leases held by the Company were terminated, resulting in a loss on termination of £4,541,000. The Company incurred swaps break costs of £26,518,000 in relation to the above termination, however these costs were fully recovered from the lessee.

**6 Impairment charge**

	2014 £000	2013 £000
Tax rate variation	-	439
	<u>-</u>	<u>439</u>

The reduction in the main rate of corporation tax from 21% to 20% is disclosed further in note 12.

The change in the rates of corporation tax gave 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 gave rise to a reduction in the interest rate implicit within the lease which when applied retrospectively, produced an impairment of the finance lease receivables.

**7 Result/(loss) before taxation**

Audit fees for the company are borne by the ultimate parent company.

The company has no employees (2013: 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 (charge)/credit**

	2014 £000	2013 £000
The taxation (charge)/credit for the year comprises:		
Current tax receivable/(payable) on result/(loss) for the year	75	(3,863)
Adjustments in respect of prior year	(13)	-
	<u>62</u>	<u>(3,863)</u>
Total current tax receivable/(payable) for the year	62	(3,863)
Deferred taxation (note 12)	(75)	4,526
Impact of tax rate change (note 12)	5	(62)
	<u>(8)</u>	<u>601</u>
Total taxation (charge)/credit for the year	(8)	601

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**8 Taxation (charge)/credit (continued)**

Where taxation on the company's loss for the year differs from the taxation credit that would arise using the standard rate of corporation tax of 21.5% (2013: 23.25%), the differences are explained below:

	2014 £000	2013 £000
Result/(loss) before taxation	-	(4,929)
Tax at standard rate of corporation tax	-	1,146
Tax adjustment released on disposal	-	(474)
Impact of tax rate change	5	(62)
Residual tax free exit write off	-	(9)
Adjustment in respect of prior years	(13)	-
Total taxation (charge)/credit	(8)	601

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

On 8 July 2015, the Government announced that the corporation tax rate applicable from 1 April 2017 would be 19% and from 1 April 2020 would be 18%. The proposed reductions in the rate of corporation tax are expected to be enacted during 2015.

**9 Finance lease receivables**

The fair value of the company's finance lease receivables at 31 December 2014 is estimated at £nil (2013: £nil).

The remaining lease is now in a repayment situation, therefore the amounts are disclosed as liabilities. This is a result of a change in corporation tax rates, which gave rise to a reduction in deferred taxation and, because of the tax rate variation clauses in the lease, a reduction in the lease rentals.

**10 Amounts owed by group companies**

	2014 £000	2013 £000
Cash at bank	3,447	7,549
Bank deposits	2,285	2,277
Interest receivable	2	-
Group relief receivable	74	-
	5,808	9,826

For further details please refer to note 18.

**11 Amounts owed to group companies**

	2014 £000	2013 £000
Interest payable	949	949
Group relief payable	-	3,864
	949	4,813

For further details please refer to note 18.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**12 Deferred taxation**

	2014 £000	2013 £000
At beginning of the year	89	3,183
Deferred taxation (charge)/credit for the year	(75)	4,526
Movement in other reserves	-	(7,640)
Impact of tax rate change on movement in other reserves	-	82
Impact of tax rate change on deferred taxation (charge)/credit for the year	5	(62)
At end of the year	19	89

The deferred taxation (charge)/credit in the income statement comprises the following:

	2014 £000	2013 £000
Impact of tax rate change	5	(62)
Accelerated tax depreciation	(75)	4,526
Total deferred taxation (charge)/credit	(70)	4,464

Deferred taxation assets are comprised as follows:

	2014 £000	2013 £000
Deferred taxation assets		
Accelerated tax depreciation	19	89
Total deferred taxation assets	19	89

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

On 8 July 2015, the Government announced that the corporation tax rate applicable from 1 April 2017 would be 19% and from 1 April 2020 would be 18%. The proposed reductions in the rate of corporation tax are expected to be enacted during 2015.

**13 Share capital**

	2014 £000	2013 £000
Allotted, issued and fully paid		
100,000 Ordinary shares of £1 each	100	100
	100	100

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**14 Other reserves**

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

	2014 £000	2013 £000
At beginning of the year	-	(25,301)
Change in fair value of cash flow hedges	-	6,341
Deferred taxation thereon	-	(7,640)
Impact of tax rate change	-	82
Discontinuation of cash flow hedge	-	26,518
	<hr/>	<hr/>
At end of the year	-	-

**15 Retained earnings**

	2014 £000	2013 £000
At beginning of the year	4,425	8,753
Result/(loss) for the year	(8)	(4,328)
	<hr/>	<hr/>
At end of the year	4,417	4,425

**16 Risk management of financial instruments**

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

In accordance with IAS 39 "Financial instruments: Recognition and measurement" all financial assets are designated as held at amortised cost. The accounting policies in note 1 describe how different classes of financial instruments are measured and how income and expenses are recognised.

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 company 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.

	2014 £000	2013 £000
Financial assets which are neither past due nor impaired for credit risk:		
Amounts owed by group companies	5,808	9,826
Other debtors	-	102
	<hr/>	<hr/>
Total credit risk exposure	5,808	9,928

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 (CONTINUED)

**16 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 2014							
Amounts owed by group companies	-	-	5,808	-	-	-	5,808
Total	-	-	5,808	-	-	-	5,808
At 31 December 2013							
Amounts owed by group companies	-	-	9,826	-	-	-	9,826
Other debtors	-	-	-	-	-	102	102
Total	-	-	9,826	-	-	102	9,928

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 2014 and 2013 there were no impairments relating to credit risk against any financial assets. The credit risk exposure under short-term debtors, deposits and other financial assets are represented by the book values in the above table.

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

Liquidity risk management:

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

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

	Other liabilities £000	Total Liabilities £000
At 31 December 2014		
On demand	949	949
Up to 1 month	361	361
1-3 months	-	-
3-12 months	-	-
1-5 years	-	-
Over 5 years	-	-
Total	1,310	1,310
At 31 December 2013		
On demand	4,813	4,813
Up to 1 month	321	321
1-3 months	-	-
3-12 months	-	-
1-5 years	-	-
Over 5 years	-	-
Total	5,134	5,134

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Liquidity risk management (continued):

The fair value of current liabilities approximates their carrying values.

Interest rate risk management:

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

The company takes into account the exposure on fluctuations in the prevailing levels of market interest rates on its cash flows when structuring its operations by ensuring the interest terms of its finance income is matched to the variable interest terms of the borrowing used to finance the leasing portfolio. As such the company has no material exposure to financial risk arising from changes in market interest rates.

Based on the balance sheet carrying values a +/- 25 basis point change in interest rates will increase/reduce finance income/costs by £6,000 (2013: £nil).

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 British Pounds as such the company has no exposure to foreign currency risk.

**17 Notes to the cash flow statement**

	2014 £000	2013 £000
<b>Result/(loss) before taxation</b>	-	(4,929)
Add/(less) non cash items:		
Impairment charge	-	439
Basel II adjustment	-	(806)
<b>Operating cash flows before movements in working capital</b>	-	(5,296)
Movement in receivables	100	68,253
Movement in payables	(318)	1,617
<b>Cash generated by operations</b>	(218)	64,574
Group relief paid	(3,876)	(962)
<b>Net cash flow from operations</b>	(4,094)	63,612

**18 Related parties**

The company's immediate parent company is Lloyds Bank Leasing Limited. The company regarded by the directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member. Lloyds Bank plc is the parent company of the smallest such group of undertakings. Copies of the group financial statements may be obtained from the company secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN or downloaded via [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com).

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, who are listed on page 1 of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**18 Related parties (continued)**

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

Nature of transaction	Related party	Related party relationship	2014 £000	2013 £000	Terms and conditions Repayment	Interest
Cash at bank	Lloyds Bank plc	Intermediate parent undertaking	3,447	7,549	No fixed date	N/A
Bank deposits	Lloyds Bank plc	Intermediate parent undertaking	2,285	2,277	14/01/2015	0.46%
Group relief receivable/(payable)	Bank of Scotland plc	Intermediate parent undertaking	74	(3,864)	No fixed date	N/A
Interest payable	Lloyds Bank plc	Intermediate parent undertaking	(949)	(949)	No fixed date	N/A
Interest receivable	Lloyds Bank plc	Intermediate parent undertaking	2	-	14/01/2015	0.46%

There were no doubtful debts or bad debt expenses relating to the above balances incurred during the year.

There were no bank borrowings during the year and therefore no interest rates have been charged (2013: up to 0.52%) and no finance costs were incurred (2013: £4,358,000).

The company earned interest on bank deposits of £9,000 (2013: £3,000) on which rates of interest of up to 0.46% (2013: 0.42%) were received.

The company paid group relief of £3,876,000 (2013: £962,000) during the year.

**19 Adopted accounting standards**

The following accounting standard changes were adopted by the company during the year.

<u>Pronouncement</u>	<u>Nature of change</u>	<u>Adoption date</u>
Amendment to IAS 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'	The amendments to IAS 32 clarify the requirements for offsetting financial instruments and address inconsistencies identified in applying the offsetting criteria used in the standard.	1 January 2014
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – 'Novation of Derivatives and Continuation of Hedge Accounting'	Provides relief from discontinuing hedge accounting in circumstances where a derivative designated as a hedging instrument is novated to a central counterparty as a consequence or introduction of laws or regulations.	1 January 2014

**20 Future developments**

The following accounting standard changes will impact the company in the future financial years. Save as disclosed below, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the Financial Statements.

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
IFRS 9 Financial Instruments <sup>1</sup>	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities and hedge accounting. IFRS 9 requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments and eliminated the available-for-sale financial asset and held-to-maturity investment categories in IAS 39. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach.	Annual periods beginning on or after 1 January 2018

<sup>1</sup> As at the reporting date, these pronouncements are awaiting EU endorsement.