

Capital Bank Leasing 12 Limited

Annual report and financial statements
for the year ended 31 December 2019

Registered office

The Mound
Edinburgh
EH1 1YZ

Registered number

SC028042

Current directors

C M Adams
R A Jones

Company Secretary

D D Hennessey

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Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2019

The directors present their report and the audited financial statements of Capital Bank Leasing 12 Limited ("the Company") for the year ended 31 December 2019.

General information

The Company is a private company limited by shares, incorporated in the United Kingdom, and registered and domiciled in Scotland (registered number: SC028042). The Company provides a range of operating and finance lease products for corporate customers.

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

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Retail Division, which is part of the Lloyds Banking Group. The Retail Division is a portfolio of businesses and operates in a number of specialist markets providing consumer lending and contract hire to personal and corporate customers. Further details of risk management policies are contained in note 19 to the 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.

Future outlook

The Company ceased writing new business from 23 April 2009 and continues to manage the leasing transactions underwritten in previous years. The carrying value of Property, plant and equipment, Loans and advances to customers and associated income and expenses will reduce as individual lease agreements expire and assets are disposed of. A small volume of additional lending under existing contractual agreements will continue.

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including in the financial services sector. This continued lack of clarity over the UK's relationship with the EU and other foreign countries, and on-going challenges in the Eurozone, including weak growth, raise additional uncertainty for the UK's economic outlook. There also remains the possibility of a further referendum on Scottish independence. The Company is part of the wider Lloyds Banking Group, and, it is at that level that consideration of the many potential implications this may have has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications. No impact is expected for the Company.

Post balance sheet event

On January 30, 2020, the World Health Organisation declared Covid-19 to be a public health emergency and a pandemic on 11 March 2020. Given the circumstances and information that was available as at 31 December 2019, the resulting impact of Covid-19 has been assessed by the directors to be a non-adjusting post balance sheet event.

The directors have considered the actual and potential impacts of Covid-19 and the UK government's responses to the pandemic on the activities of the Company and concluded that there will be no significant impact for the Company.

Dividends

No dividends were paid or proposed during the year ended 31 December 2019 (2018: £nil).

Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors

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

There have been no changes to directors between the beginning of the reporting period and the approval of the Annual report and financial statements.

Directors' report (continued)

For the year ended 31 December 2019

Directors' indemnities

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

Statement of directors' responsibilities

The directors are responsible for preparing the Director's 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 Company's 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.

Independent auditors and disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the 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 they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

This report has been prepared in accordance with the special provisions relating to small companies within Section 414 of the Companies Act 2006.

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



C M Adams
Director

20 July 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Net interest income/(expense)	3	20	(44)
Other operating income	4	341	1,236
Impairment gains	5	3	18
Other operating expenses	6	(347)	(1,429)
<hr/>			
Profit/(loss) before tax		17	(219)
Taxation	9	98	(193)
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Profit/(loss) for the year, being total comprehensive income/(expense)		115	(412)

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

Balance sheet

As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Cash and cash equivalents		3,458	1,953
Trade and other receivables	10	-	114
Loans and advances to customers	11	10	60
Investment in partnership	12	-	-
Property, plant and equipment	13	-	336
Current tax asset		957	1,002
Deferred tax asset	14	3,990	4,849
Total assets		8,415	8,314
LIABILITIES			
Borrowed funds	15	3,498	3,498
Trade and other payables	16	50	64
Total liabilities		3,548	3,562
EQUITY			
Share capital	17	1,924	1,924
Share premium account		610	610
Retained earnings		2,333	2,218
Total equity		4,867	4,752
Total equity and liabilities		8,415	8,314

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

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



C M Adams
Director

20 July 2020

Statement of changes in equity

For the year ended 31 December 2019.

	Share capital	Share premium account	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 31 December 2017	1,924	610	2,646	5,180
Transition to IFRS 9	-	-	(16)	(16)
At 1 January 2018	1,924	610	2,630	5,164
Loss for the year being total comprehensive expense	-	-	(412)	(412)
At 31 December 2018	1,924	610	2,218	4,752
Profit for the year being total comprehensive income	-	-	115	115
At 31 December 2019	1,924	610	2,333	4,867

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

Cash flow statement

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows generated from operating activities		
Profit/(loss) before tax	17	(219)
Adjustments for:		
- Impact of transition to IFRS 9 on Loans and advances to customers	-	(19)
- Depreciation of Property, plant and equipment	28	787
- NBV of ex-leased assets at disposal	308	366
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	50	393
- Net decrease in Other debtors and Trade and other receivables	31	45
- Net decrease in Trade and other payables	(14)	(107)
Cash generated from operations	420	1,246
Tax received	1,002	344
Net cash generated from operating activities	1,422	1,590
Cash flows generated from/(used in) financing activities		
Proceeds from/(Increase in) net borrowings with group undertakings	83	(8,349)
Net cash generated from/(used in) financing activities	83	(8,349)
Change in Cash and cash equivalents	1,505	(6,759)
Cash and cash equivalents at beginning of year	1,953	8,712
Cash and cash equivalents at end of year	3,458	1,953

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

Notes to the financial statements

For the year ended 31 December 2019

1. Accounting policies

1.1 Basis of preparation

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

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

There are no new pronouncements relevant to the Company requiring adoption in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 23. No standards have been early adopted.

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

1.2 Income recognition

Income and expense from financial instruments

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

Lease classification

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

When assets are leased under a finance lease, the net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable within Loans and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income.

Finance lease income

Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the lease. Initial direct incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term. The Company no longer writes new business.

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

Operating lease income

Operating lease income is recognised on a straight line basis over the life of a lease.

When an operating lease is terminated before the end of the lease period, any payment made to the Company by way of penalty is recognised as income in the period of termination.

Where operating lease contracts are extended, in certain pre-specified circumstances, profits from the extension rentals are shared with a third party as part of a risk sharing agreement. All extension rentals are recognised within Other operating income and any related direct cost is charged to Other operating expenses. The Company no longer writes new business.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings, Loans and advances to customers, Other debtors and Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings and Trade and other payables.

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

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

Amounts due from group undertakings is assessed at the reporting date for impairment on a forward looking basis and where appropriate an expected credit loss ("ECL") is recognised based on reasonable and supportable information.

1.4 Impairment

(i) Impairment of financial assets

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for Loans and advances to customers and other financial assets held at amortised cost. Expected credit losses are calculated by using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Statement of comprehensive income. The write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

Impairment of loans and advances

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

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default ("PD") movements linked to internal credit ratings together with qualitative indicators such as watch lists and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired.

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer in default (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.4 Impairment (continued)

The probability of default ("PD") of an exposure, both over a 12 month period or over its lifetime is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The Company has adopted the following definition of default for all its products:

- factors indicating an unwillingness to pay, such as bankruptcy or other financial hardship support, e.g. individual voluntary arrangements; or
- a payment is past due by 90 days;

IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due, which the Company has adopted.

(ii) Assets held under operating leases

Impairment of Property, plant and equipment leased to customers under operating leases is assessed by comparing the net present value of the expected future cash flows with the asset's carrying value. Any impairment identified in this way is charged immediately to the Statement of comprehensive income.

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, the residual value of the related asset is adjusted and the amount of the reversal is recognised in the Statement of comprehensive income.

1.5 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is based on the specific identification method and excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories include Property, plant and equipment which has returned from operating lease rental and has become held for sale.

1.6 Property, plant and equipment

Property, plant and equipment is included at historical purchase cost less depreciation and any impairment allowance. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight line method to allocate the difference between the cost and expected residual value over the period of the lease. The useful life of all items of Property, plant and equipment is up to 25 years.

Future rates of depreciation are reassessed each year in light of changes to anticipated residual values, and are amended prospectively unless the reduction in residual values are significant enough to be deemed an impairment as described in note 1.4.

The carrying value of Property, plant and equipment held as operating lease assets is transferred to Inventories at the end of the operating lease period when the asset becomes held for sale. Upon sale, the invoiced value of these assets is recognised as Other operating income and the carrying value charged to Other operating expenses.

1.7 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents comprise balances with less than three months' maturity.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.8 Taxation, including deferred income taxes

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

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

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

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

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

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

1.9 Investment in partnership

Investment in partnership comprises investments in and capital contributions to the partnership entity. This is carried at cost less impairment provisions. At each reporting date an assessment is undertaken to determine if there is any indication of impairment. This assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the partnership. If there is an indication of impairment an estimate of the recoverable amount is made, being the higher of the net realisable value and value in use. If the carrying value exceeds the recoverable amount then a provision for impairment is made to reduce the carrying value to the recoverable amount.

This Company has taken the exemption conferred by regulation 7 of the Partnerships and Unlimited Companies (Accounts Regulations 1993(a) from additional investments in partnership disclosures.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The following are critical accounting estimates that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Critical accounting estimates and judgements in applying accounting policies (continued)

Allowance for impairment losses

The calculation of the Company's expected credit loss ("ECL") allowances and provisions against loan and advances under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

Definition of default

The probability of default ("PD") of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in note 1.4 Impairment of financial assets.

Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. For loans and advances to customers, the Company has assumed the expected life for each product to be the time taken for all losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.

In addition, the Company has considered the losses beyond the contractual term over which the Company is exposed to credit risk. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.

Significant increase in credit risk ("SICR")

The Company monitors a series of account flags which may indicate whether the asset has suffered a SICR which, for non-retail loans, are aligned to operational credit risk management strategies.

All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

Origination PDs

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not, generally, available and consequently management judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

Post-model adjustments

Limitations in the Company's impairment models may be identified through its on-going assessment of the models. In these circumstances, post-model judgement is used to make appropriate adjustments to the Company's allowance for impairment losses.

Forward looking

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Company applies the outputs of the economic model developed for the LBG Motor Finance Retail portfolio to translate observed default rates into a forward looking view of PDs required for IFRS9 impairment. These drivers include the unemployment rate and other factors. Combined losses across portfolios are used to rank the scenarios by severity of loss, with specified points along the loss distribution selected to reflect the range of outcomes; the central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario. Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events. To allow for this a relatively unlikely severe downside scenario is therefore included.

Notes to the financial statements (continued)

For the year ended 31 December 2019

3. Net interest income/(expense)

	2019 £'000	2018 £'000
Rebates	(2)	(105)
Early settlement income	12	46
Other finance lease income	6	14
<hr/>		
Total interest income/(expense) from finance lease contracts	16	(45)
Group interest income (see note 18)	4	6
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Total interest income/(expense)	20	(39)
Group interest expense (see note 18)	-	(5)
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Net interest income/(expense)	20	(44)

During 2018 rebates exceeded the total of all other finance lease income, resulting in an overall finance lease expense.

4. Other operating income

	2019 £'000	2018 £'000
Proceeds on disposal of ex-leased assets	308	368
Operating lease income	33	868
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	341	1,236

5. Impairment gains

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
31 December 2019				
Loans and advances to customers	3	-	-	3
<hr/>				
31 December 2018				
Loans and advances to customers	18	-	-	18

Further information can be found in note 19.1 with respect to movement in the impairment allowance on Loans and advances to customers.

6. Other operating expenses

	2019 £'000	2018 £'000
Management charges payable (see note 18)	2	11
Depreciation (see note 13)	28	787
Cost on disposal of ex-leased assets	308	366
Other operating expenses	-	199
Commission payable	9	66
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	347	1,429

Fees payable to the Company's auditors for the audit of the financial statements of £12,000 (2018: £12,000) have been borne by a fellow group undertaking and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management fees.

Notes to the financial statements (continued)

For the year ended 31 December 2019

7. Staff costs

The Company did not have any employees during the year (2018: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2018: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 18).

9. Taxation

	2019 £'000	2018 £'000
a) Analysis of (credit)/charge for the year		
UK corporation tax:		
- Current tax on taxable profit/(loss) for the year	(957)	(1,002)
UK deferred tax:		
- Origination and reversal of timing differences	960	960
- Due to change in UK corporation tax rate	(101)	235
Deferred tax charge (see note 14)	859	1,195
Tax (credit)/charge	(98)	193

Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable profit/(loss) for the year.

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

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

	2019 £'000	2018 £'000
Profit/(loss) before tax	17	(219)
Tax charge/(credit) thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	3	(42)
Factors affecting charge/(credit):		
- Due to change in UK corporation tax rate	(101)	235
Tax (credit)/charge on profit/(loss) on ordinary activities	(98)	193
Effective rate	(576.47%)	(88.13%)

Notes to the financial statements (continued)

For the year ended 31 December 2019

10. Trade and other receivables

	2019 £'000	2018 £'000
Amounts due from group undertakings (see note 18)	-	83
Other debtors	-	31
	-	114

Amounts due from group undertakings is unsecured, non-interest bearing and repayable on demand. The Company reviewed its balances held with group undertakings to consider whether any of these should be impaired. The Company concluded that no provision is required in respect of this.

11. Loans and advances to customers

11.1 Loans and advances to customers - maturity

	2019 £'000	2018 £'000
Gross loans and advances to customers	10	67
Less: allowance for losses on loans and advances	-	(3)
	10	64

of which:

- no later than one year	10	53
- later than one year and no later than five years	-	11

	10	64
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Loans and advances to customers include finance lease receivables:

	2019 £'000	2018 £'000
Gross investment in finance lease receivable:		
- no later than one year	10	53
- later than one year and no later than five years	-	11
	10	64

Unearned future finance income on finance lease contracts

	-	(4)
Net investment in finance lease contracts	10	60

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

	2019 £'000	2018 £'000
- no later than one year	10	50
- later than one year and no later than five years	-	10
	10	60

The unguaranteed residual value is £nil (2018: £nil).

The Company provides a range of finance lease products in connection with the financing of motor vehicles and equipment. The leases typically run for periods of up to 25 years.

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2018: £nil).

Further analysis of Loans and advances to customers is provided in note 19.

Notes to the financial statements (continued)

For the year ended 31 December 2019

11. Loans and advances to customers (continued)

11.2 Loans and advances to customers - movement over time

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 January 2018	468	-	-	468
Net decrease in loans and advances to customers	(401)	-	-	(401)
<hr/>				
Gross loans and advances to customers	67	-	-	67
Less: allowance for losses on loans and advances	(3)	-	-	(3)
<hr/>				
Net loans and advances to customers at 31 December 2018	64	-	-	64
<hr/>				
Balance as at 1 January 2019	64	-	-	64
Net decrease in loans and advances to customers	(54)	-	-	(54)
<hr/>				
Gross loans and advances to customers	10	-	-	10
Less: allowance for losses on loans and advances	-	-	-	-
<hr/>				
Net loans and advances to customers at 31 December 2019	10	-	-	10

12. Investment in partnership

	2019 £'000	2018 £'000
Cost and net book value	-	-

During November 2018, the Company acquired a 25.00% share in the Anglo Scottish Utilities Partnership 1 at £nil from Capital Bank Leasing 9 Limited. The partnership earns income from secondary lease rentals. The investment in partnership is stated at cost less any provision for impairment.

	Share in partnership	Accounting reference date	Registered address
Anglo Scottish Utilities Partnership 1	25.00%	30 September 2019	25 Gresham Street, London, EC2V 7HN

13. Property, plant and equipment

	Total £'000
Cost	
At 1 January 2018	8,599
Transfer to Inventories	(7,248)
<hr/>	
At 31 December 2018	1,351
Transfer to Inventories	(1,351)
<hr/>	
At 31 December 2019	-

Notes to the financial statements (continued)

For the year ended 31 December 2019

13. Property, plant and equipment (continued)

	Total £'000
Accumulated depreciation	
At 1 January 2018	7,110
Charge for the year (see note 6)	787
Transfer to Inventories	(6,882)
<hr/>	
At 31 December 2018	1,015
Charge for the year (see note 6)	28
Transfer to Inventories	(1,043)
<hr/>	
At 31 December 2019	-
<hr/>	
Balance sheet amount at 31 December 2019	-
<hr/>	
Balance sheet amount at 31 December 2018	336

Property, plant and equipment represents assets leased to customers under operating leases. The Company's operating leases are typically for terms of up to 25 years.

During the year no contingent rentals in respect of operating leases were recognised in the Statement of comprehensive income (2018: £nil).

At 31 December the future minimum rentals receivable under non-cancellable operating leases were as follows:

	2019 £'000	2018 £'000
Receivable within one year	-	55

14. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2019 £'000	2018 £'000
At 1 January under IFRS 9	4,849	6,044
Charge for the year (see note 9)	(859)	(1,195)
<hr/>		
At 31 December	3,990	4,849

The deferred tax charge in the Statement of comprehensive income comprises the following temporary differences:

	2019 £'000	2018 £'000
Accelerated capital allowances	(859)	(1,195)
<hr/>		
Deferred tax asset comprises:	2019 £'000	2018 £'000
Accelerated capital allowances	3,990	4,849

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19% on 1 April 2020. Had this rate change been substantively enacted at 31 December 2019, the effect would have been to increase net deferred tax assets by £471,000.

Notes to the financial statements (continued)

For the year ended 31 December 2019

15. Borrowed funds

	2019 £'000	2018 £'000
Amounts due to group undertakings (see note 18)	3,498	3,498

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

16. Trade and other payables

	2019 £'000	2018 £'000
Other tax payable	50	60
Other payables	-	4
	50	64

17. Share capital

	2019 £'000	2018 £'000
Allotted, issued and fully paid 1,923,909 ordinary shares of £1 each	1,924	1,924

18. Related party transactions

The Company is controlled by the Retail Division. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income and expense for the year is set out below.

	2019 £'000	2018 £'000
Amounts due from group undertakings Cartwright Finance Limited (see note 10)	-	83
Amounts due to group undertakings Bank of Scotland plc (see note 15)	3,498	3,498
Cash and cash equivalents held with group undertakings Bank of Scotland plc	3,458	1,953
Interest income Bank of Scotland plc (see note 3)	4	6
Interest expense Bank of Scotland plc (see note 3)	-	5
Management fees payable Bank of Scotland plc (see note 6)	2	11

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

Commission payable of £9,000 (2018: £66,000) comprises charges in respect of commission payable to group undertakings.

Notes to the financial statements (continued)

For the year ended 31 December 2019

18. Related party transactions (continued)

Key management personnel

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

19. Financial risk management

The Company's operations expose it to credit risk and liquidity risk, ; it is not exposed to any significant foreign exchange risk, market risk, business risk and interest rate risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the Retail Division, and the ultimate parent, Lloyds Banking Group plc. The interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by Retail's credit committee and credit functions.

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

19.1 Credit risk

Credit risk management

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

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.
- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.
- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.
- Counterparty limits: Credit risk in wholesale portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Divisional exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

Credit concentration - Loans and advances to customers

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

Notes to the financial statements (continued)

For the year ended 31 December 2019

19. Financial risk management (continued)

19.1 Credit risk (continued)

Loans and advances to customers - gross carrying amount

The analysis of lending has been prepared by applying the Group's Corporate Master Scale ("CMS") to the Company's impairment model, for its non-Retail loan portfolio. The internal credit ratings systems are set out below. The Group's probabilities of default ("PD"s), that have been applied, include forward-looking information and are based on 24 month values, with the exception of credit impaired. All remaining Loans and advances to customers are due within 12 months.

			CMS Grade	PD %
Good quality			1-4	0.00-0.050
Satisfactory quality			5	0.051-3.00
Lower quality			6	3.01-20.00
Below standard			7	20.01-99.99
Credit impaired			8	100.0

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2019				
Good quality	10	-	-	10

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2018				
Good quality	67	-	-	67

Classifications of lending incorporate expected recovery levels, as well as probabilities of default assessed using internal rating models. Good quality lending includes the lower assessed default probabilities and all loans with low expected losses in the event of default, with other categories reflecting progressively higher risks and lower expected recoveries.

Analysis of movement in the allowance for impairment losses by stage

As at 31 December 2019

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2019	3	-	-	3
Credit for year (including recoveries)	(3)	-	-	(3)

At 31 December 2019

As at 31 December 2018

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2018	-	-	-	-
Adjustment on adoption of IFRS 9	19	-	-	19
Balance as at 1 January 2019	19	-	-	19
Credit for year (including recoveries)	(18)	-	-	(18)
Advances written off	2	-	-	2
At 31 December 2018	3	-	-	3

Notes to the financial statements (continued)

For the year ended 31 December 2019

19. Financial risk management (continued)

19.1 Credit risk (continued)

Repossessed collateral

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

During the year the Company repossessed collateral in respect of defaulted debt with a value of £nil (2018: £nil).

19.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Group. Liquidity risks are managed as part of the Group by the immediate parent company, Bank of Scotland plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

The Company is funded entirely by companies within the Group. Such funding is repayable on demand, although there is no expectation that such a demand would be made.

19.3 Financial strategy

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

19.4 Fair values of financial assets and liabilities

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

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

20. Capital disclosures

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

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

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

21. Contingent liabilities and capital commitments

There were no contracted capital commitments at the Balance sheet date (2018: £nil).

The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs ("HMRC") adopt a different interpretation and application of tax law which might lead to additional tax. A number of group companies, including the Company, have an open matter in relation to a claim for group relief of losses incurred in a former Irish banking subsidiary of the Group, which ceased trading on 31 December 2010. In the second half of 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies these claims; if HMRC's position is found to be correct, management estimates that this would result in an increase in the Company's current tax liability of approximately £5,823,000. The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due on the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2019

22. Post balance sheet events

On January 30, 2020, the World Health Organisation declared Covid-19 to be a public health emergency and a pandemic on 11 March 2020. Given the circumstances and information that was available as at 31 December 2019, the resulting impact of Covid-19 has been assessed by the directors to be a non-adjusting post balance sheet event.

The directors have considered the actual and potential impacts of Covid-19 and the UK government's responses to the pandemic on the activities of the Company and concluded that there will be no significant impact for the Company.

23. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2019 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs (including IFRS 3 Business Combinations and IAS 1 Presentation of Financial Statements).	Annual periods beginning on or after 1 January 2020

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

24. Ultimate parent undertaking and controlling party

The immediate parent company is Bank of Scotland plc (incorporated in Scotland). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Bank of Scotland plc is the parent undertaking of the smallest such group of undertakings. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

Independent Auditors' report to the member of Capital Bank Leasing 12 Limited

Report on the audit of the financial statements

Opinion

In our opinion, Capital Bank Leasing 12 Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Statement of comprehensive income, the Cash flow statement and the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included:

Based on these responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

Independent Auditors' report to the member of Capital Bank Leasing 12 Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

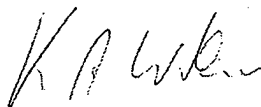
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Kevin Williams (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

20 July 2020