

Registered number 07459591

**COMMUNITY FINANCE COMPANY 1 PLC**

**DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2012**

## **COMMUNITY FINANCE COMPANY 1 PLC**

### **CONTENTS**

Corporate Information	1
Report of the Directors	2
Auditors' Report	5
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11

## **COMMUNITY FINANCE COMPANY 1 PLC**

### **CORPORATE INFORMATION**

Company number	07459591
Registered office	4th Floor 40 Dukes Place London EC3A 7NH
Directors	Capita Trust Corporate Limited Capita Trust Corporate Services Limited Sean P Martin
Secretary	Capita Trust Secretaries Limited 34 Beckenham Road, Beckenham Kent, BR3 4TU
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors 7 More London Riverside London SE1 2RT
Bankers	Lloyds TSB Bank plc 25 Gresham Street London EC2V 7HN

## **COMMUNITY FINANCE COMPANY 1 PLC**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **Introduction**

The directors present their report and the audited financial statements for the year ended 31 December 2012.

#### **Principal activities, business review and future development**

The company is incorporated in Great Britain and registered in England and Wales and is domiciled in the United Kingdom. The principal activity of the company is to make loans to UK local authorities, funded by note issues.

Community Finance Company 1 plc will not engage in any business activity other than the issuance of Notes in accordance with its Notes Programme and the lending of the proceeds to local authorities in England and Wales under Local Authority Loan Agreements.

The company is a special purpose vehicle established for the purpose of issuing Notes and lending the proceeds thereof to local authorities in England and Wales to be applied in the achievement of such local authorities' objects.

Each Series of Notes will be secured by an assignment of the Local Authority Loan Agreement relating to that Series and the obligations of the company in respect of that Series will be limited in recourse to the Local Authority Loan Agreement and other secured assets relating to that Series.

In the previous year the company issued loan notes of £600,000,000 on the Channel Islands Stock Exchange (CISX) and the proceeds were loaned to the Greater London Authority ("GLA"). During the current year the only activities of Community Finance Company 1 plc was that of servicing the GLA loan. There were no new issues and no pre-payments.

The company's only key performance indicator is that future income streams will be sufficient to meet future obligations of the company.

#### **Directors**

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Capita Trust Corporate Limited  
Capita Trust Corporate Services Limited  
Sean P Martin

## **COMMUNITY FINANCE COMPANY 1 PLC**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **Principal risks and uncertainties**

Community Finance Company 1 plc's sole activity is to lend to public sector clients. The principal risk facing the company is therefore the failure of the counterparty to meet its payment obligations. The company's risk management policies in relation to this are set out in note 18 to the financial statements.

#### **Policy and practice on payment of suppliers**

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

#### **Post balance sheet events**

There are no post balance sheet events to report.

#### **Dividends**

The directors do not recommend the payment of a dividend.

#### **Directors' Responsibility Statement**

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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

## **COMMUNITY FINANCE COMPANY 1 PLC**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012**

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.

#### **Statement of disclosure of information to auditors**

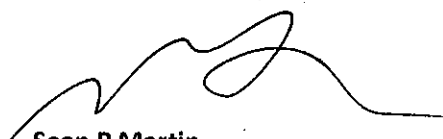
As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

#### **Independent Auditors**

A resolution concerning the reappointment of PricewaterhouseCoopers LLP as auditors will be proposed at the Annual General Meeting of the Company to be held on 22 May 2013.

A resolution authorising the directors to set the remuneration of the auditors will be proposed at the Annual General Meeting.

On behalf of the board



**Sean P Martin**  
Director  
22 May 2013

## **COMMUNITY FINANCE COMPANY 1 PLC**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMMUNITY FINANCE COMPANY 1 PLC FOR THE YEAR ENDED 31 DECEMBER 2012**

We have audited the financial statements of Community Finance Company 1 PLC for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

#### **Scope of the audit of the financial statements**

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

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 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.

**COMMUNITY FINANCE COMPANY 1 PLC**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMMUNITY FINANCE COMPANY 1  
PLC FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)**

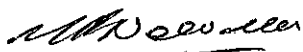
**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Michael P Newman (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
22 May 2013



**COMMUNITY FINANCE COMPANY 1 PLC**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	Year ended 31 Dec 2012 £'000	Period 03 Dec 2010 to 31 Dec 2011 £'000
Finance income	2	30,102	14,510
Finance costs	3	(30,102)	(14,510)
Net interest income		<hr/>	<hr/>
Other income		55	180
Administration expenses		(52)	(154)
		<hr/>	<hr/>
Profit before tax		3	26
Taxation	7	(1)	(1)
		<hr/>	<hr/>
Profit and total comprehensive income for the year/period		2	25
		<hr/>	<hr/>

The results for the year arise wholly from continuing operations.

The profit and total comprehensive income for the year /period are entirely attributable to the owners of the company.

**COMMUNITY FINANCE COMPANY 1 PLC**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2012**

	Note	31 Dec 2012 £'000	31 Dec 2011 £'000
<b>Assets</b>			
<i>Non-current assets</i>			
Financial assets	8	600,000	600,000
<i>Current assets</i>			
Trade and other receivables	9	12,598	14,546
Cash and cash equivalents	10	163	145
Total current assets		12,761	14,691
Total assets		612,761	614,691
<b>Liabilities</b>			
<i>Non-current liabilities</i>			
Borrowings	11	600,000	600,000
Deferred revenue	13	90	94
Total non-current liabilities		600,090	600,094
<i>Current liabilities</i>			
Trade and other payables	12	12,626	14,554
Current tax liabilities	7	1	1
Deferred revenue	13	4	4
Total current liabilities		12,631	14,559
Total liabilities		612,721	614,653
<b>Net assets</b>		40	38
<b>Equity</b>			
Issued capital	15	13	13
Retained earnings	16	27	25
<b>Total equity</b>		40	38

The notes on pages 11 – 23 form part of these financial statements. The financial statements were approved by the board of directors on 22 May 2013 and signed on its behalf by:

  
**Sean P Martin**  
Director

Registered number 07459591

**COMMUNITY FINANCE COMPANY 1 PLC**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Issued capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2012	13	25	38
Profit for the year	-	2	2
At 31 December 2012	<u>13</u>	<u>27</u>	<u>40</u>

**COMMUNITY FINANCE COMPANY 1 PLC**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	Year ended 31 Dec 2012 £'000	Period 03 Dec 2010 to 31 Dec 2011 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	14	20	132
Tax paid		(1)	-
Interest paid		(32,015)	-
Net cash generated from operating activities		(31,996)	132
<b>Cash flows from investing activities</b>			
Payments to acquire financial assets		-	(600,000)
Interest received		32,014	-
Net cash used in investing activities		32,014	(600,000)
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares	15	-	13
Proceeds from issue of notes	11	-	600,000
Payment for debt issue costs	11	-	(1,352)
Compensation for debt issue costs	11	-	1,352
Net cash generated from financing activities		-	600,013
Net increase in cash and cash equivalents		18	145
Cash and cash equivalents at the beginning of the year/period		145	-
Cash and cash equivalents at the end of the year/period	10	163	145

## **COMMUNITY FINANCE COMPANY 1 PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **1. Accounting policies**

The principal accounting policies adopted 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.

##### **1.1 Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the basis of historical cost except as noted below.

##### **1.2 Going concern**

Payments in respect of each Series of Notes are funded by the interest and principal payable on the Local Authority Loan Agreement relating to that Series. In relation to each Series of Notes, the interest rate on the Local Authority Loan Agreement is specified in the applicable Pricing Supplement. The maturity date and other terms of the Local Authority Loan Agreement correspond to the maturity date and other terms of the Notes which are secured on such Local Authority Loan Agreement.

Each Borrower under a Local Authority Loan Agreement is required to pay an agreed initial fee to the company, such fee being applied by the company in meeting its initial transaction costs, and a semi-annual fee which is applied by the company in meeting its ongoing costs.

To ensure funds are available to meet its commitments under the Notes, interest on each Loan is required to be paid two business days prior to the relevant interest payment date and each repayment of principal under the Loan is payable one business day prior to each principal repayment date on the Notes.

No material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern have been identified by the directors. Accordingly, the directors are satisfied that the going concern basis remains appropriate for the preparation of these financial statements.

##### **1.3 Segment information**

In the opinion of the directors the company has one class of business, namely the issuance of Notes and the lending of the proceeds of the issue of Notes to local authorities in England and Wales. During the year the company had no activities outside the United Kingdom. Accordingly, no segmental analysis by class of business or geographical location is provided.

## **COMMUNITY FINANCE COMPANY 1 PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)**

#### **1.4 Revenue and expense recognition**

Interest receivable from financial assets and interest payable on financial liabilities are recognised in comprehensive income by accrual on a time basis. The rate of interest used is the effective rate that exactly discounts estimated future cash receipts or payments over the expected life of the asset or liability to that asset's or liability's net carrying amount on initial recognition.

Fees, commissions and similar payments that are not an integral part of the effective interest rate are recognised in comprehensive income when the service has been provided or the right to receive payment has been established.

#### **1.5 Taxation**

The company is taxed under the Taxation of Securitisation Companies Regulations 2006. The charge for current taxation is based on the retained profit as determined by the Permanent Regime set out in the regulations. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

#### **1.6 Loans and receivables investments**

Loans and receivables investments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured initially at purchase price less directly attributable transaction costs (net of fees received to compensate for such transaction costs). Loans and receivables are measured subsequently at amortised cost using the effective interest method, less any impairment.

#### **1.7 Impairment policy**

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## **COMMUNITY FINANCE COMPANY 1 PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)**

#### **1.8 Trade and other receivables**

Trade and other receivables are amounts due from the local authority.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

#### **1.9 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and other short term highly liquid investments with maturities of three months or less.

#### **1.10 Trade and other payables**

Trade payables are amounts due to secured note holders. Other payables relate to accrued costs.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

#### **1.11 Borrowings**

Borrowings are initially measured at fair value, net of transaction costs directly attributable to the issue of the liability. Subsequent measurement is at amortised cost using the effective interest method.

#### **1.12 Critical accounting judgements and estimates**

The preparation of the company's financial statements in accordance with IFRS requires the use of accounting estimates, judgements and assumptions in applying the accounting policies that affect the amounts reported in the financial statements. 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.

The areas where accounting estimates, judgements or assumptions have been used in applying accounting policies, which have the most significant effect on the amounts reported in the financial statements are summarised as follows:

##### **Loans and receivables financial assets and impairment**

The directors have assessed impairment in accordance with the policy set out in 1.7 above and concluded that there is no objective evidence that the company's financial assets are impaired.

**COMMUNITY FINANCE COMPANY 1 PLC**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012  
(CONTINUED)**

**1.13 New standards and interpretations not applied**

The IASB and IFRIC have issued a number of new standards, amendments and interpretations with an effective date after the date of these financial statements. Of these, only the following are expected to be relevant to the company:

<i>Standard</i>	<i>Subject</i>	<i>Effective from periods beginning</i>
IFRS 9	Financial Instruments: Recognition and Measurement	1 January 2015
IFRS 13	Fair Value Measurement	1 January 2013

These amendments are not expected to have a material impact on the company's financial statements.



## COMMUNITY FINANCE COMPANY 1 PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

#### 2. Finance income

Finance income represents total interest revenue from the company's loans and receivables investments carried at amortised cost.

#### 3. Finance costs

Finance costs represent total interest expense on borrowings carried at amortised cost.

#### 4. Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.

The company had three directors during the year.

	Year ended 31 Dec 2012 £'000	Period 03 Dec 2010 to 31 Dec 2011 £'000
Directors' emoluments not borne by the company	-	-

The directors consider that their services to this company were incidental to their other duties as employees of other companies and accordingly no specific remuneration relates to their services to this company.

Lloyds TSB Bank plc, a wholly owned subsidiary of Lloyds Banking Group plc, acts as administrator to the company under an agreement whereby Lloyds TSB Bank plc provides all necessary operating and administrative services to the company. Lloyds TSB Bank plc does not control or have significant influence over the financial and operating policies of the company and accordingly is not considered a related party of the company.

#### 5. Staff costs

The company has no employees and no staff costs.

# **COMMUNITY FINANCE COMPANY 1 PLC**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)**

### **6. Auditors' remuneration**

	Year ended 31 Dec 2012 £'000	Period 03 Dec 2010 to 31 Dec 2011 £'000
Services provided by the company's auditors:		
Fees payable to company's auditor for the audit of the company financial statements	12	12
Total auditors' remuneration	<u>12</u>	<u>12</u>

The company has also borne the audit fee for its parent, CoFCo Holdings 1 Limited, of £1,560 which is included in the above. There are no non-audit fees paid to the auditors.

### **7. Taxation**

#### **7.1 Income tax recognised in the statement of comprehensive income**

	Year ended 31 Dec 2012 £'000	Period 03 Dec 2010 to 31 Dec 2011 £'000
Tax expense comprises:		
Current tax expense in respect of the current year/period	1	1
Total tax expense relating to continuing operations	<u>1</u>	<u>1</u>

The expense for the year/period can be reconciled to the accounting profit as follows:

Profit before tax	3	26
Income tax expense calculated at 24.5% (2011: 26%)	1	7
Effect of income that is exempt from taxation	-	(6)
Effect of expenses that are not tax deductible in determining taxable profit	-	-
Income tax expense recognised in the statement of comprehensive income	<u>1</u>	<u>1</u>

The tax rate used for the reconciliation above is the hybrid corporation tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The UK corporation tax rate was reduced to 24% from 1 April 2012.

**COMMUNITY FINANCE COMPANY 1 PLC**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR YEAR ENDED 31 DECEMBER 2012  
(CONTINUED)**

**7. Taxation (continued)**

**7.2 Income tax liability on statement of financial position**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Tax expense in respect of the current year/period	1	1
At 31 December	<u>1</u>	<u>1</u>

**7.3 Deferred tax balances**

No deferred tax asset or liability existed at the year/period end.

**8. Financial assets**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Loans and receivables investments, at amortised cost:		
Loans	600,000	600,000
	<u>600,000</u>	<u>600,000</u>
Current	-	-
Non-current	600,000	600,000
	<u>600,000</u>	<u>600,000</u>

The loan of £600,000,000 was issued to the Greater London Authority at 5.017 per cent in July 2011. Principal repayments are due in ten equal instalments from January 2030 to July 2034.

**9. Trade and other receivables**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Accrued interest receivable	12,598	14,510
Other receivables	-	36
	<u>12,598</u>	<u>14,546</u>

**COMMUNITY FINANCE COMPANY 1 PLC**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012  
(CONTINUED)**

**10. Cash and cash equivalents**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Cash at bank and in hand	163	145
	<hr/>	<hr/>

**11. Borrowings**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Brought forward		
Secured fixed rate loan notes, at amortised cost	600,000	-
	<hr/>	<hr/>
Additions		
Issue price	-	600,000
Less: directly attributable transaction costs	-	(1,352)
Add: fees received	-	1,352
	<hr/>	<hr/>
	-	600,000
	<hr/>	<hr/>
Carried forward		
Current	-	-
Non-current	600,000	600,000
	<hr/>	<hr/>
	600,000	600,000
	<hr/>	<hr/>

The loan series of £600,000,000 was issued on the Channel Island Stock Exchange at 5.017 per cent in July 2011. Principal repayments are due in ten equal instalments from January 2030 to July 2034. This loan note series is secured by the loan to the Greater London Authority disclosed in note 8.

**12. Trade and other payables**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Accrued interest payable	12,597	14,510
Other payables	29	44
	<hr/>	<hr/>
	12,626	14,554
	<hr/>	<hr/>

**COMMUNITY FINANCE COMPANY 1 PLC**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012  
(CONTINUED)**

**13. Deferred revenue**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Arising on issue of notes	94	98
	<u>94</u>	<u>98</u>
Current	4	4
Non-current	90	94
	<u>94</u>	<u>98</u>

Deferred income arises in respect of fees charged on issue of the notes in respect of future costs.

**14. Cash generated from operations**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Profit before income tax	3	26
Adjustments for:		
Trade and other receivables	1,949	(14,546)
Trade and other payables	(1,928)	14,554
Deferred revenue	(4)	98
Cash generated from operations	<u>20</u>	<u>132</u>

## COMMUNITY FINANCE COMPANY 1 PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 31 DECEMBER 2012 (CONTINUED)

#### 15. Issued capital

	Number of shares	Share capital £'000	Share premium £'000
At 31 December 2011 and 31 December 2012:			
Ordinary shares of £1 each, fully paid	2	-	-
Ordinary shares of £1 each, 25p paid	49,998	13	-
Total	<u>50,000</u>	<u>13</u>	<u>-</u>

49,998 ordinary shares which have a par value of £1 have been partly paid by 25p. The remaining 2 shares have been fully paid. All ordinary shares carry full voting, dividend and capital distribution rights (including winding up) attached to them. They do not confer any rights of redemption.

#### 16. Retained earnings

	31 Dec 2012 £'000	31 Dec 2011 £'000
At 1 January	25	-
Profit for the year/period	2	25
At 31 December	<u>27</u>	<u>25</u>

#### 17. Related party transactions

The immediate parent of the company is CoFCo Holdings 1 Limited. Copies of the consolidated financial statements can be obtained from Companies House. The shares of CoFCo Holdings 1 Limited are held on trust for charitable purposes by The Capita Group PLC. CoFCo Holdings 1 Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2012.

Details of transactions between the company and its related parties are disclosed below.

Subsidiaries of the Capita Trust Group provide Directors of the company and act as Corporate Service Provider.

The company paid fees in the year to Capita Trust Corporate Limited amounting to £12,063 (2011: £18,000) for the corporate services provided to the company.

## COMMUNITY FINANCE COMPANY 1 PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

#### 18. Financial instruments and risk management

##### 18.1 Capital risk management

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern. The Board of Directors manage the company's capital structure and the risk characteristics of the underlying assets. The company's capital comprises all components of equity, movements in which appear in the statement of changes in equity.

##### 18.2 Credit risk

Credit risk represents the risk that the counterparty will default on its contractual obligations to the company, resulting in financial loss. The main risk to the company is that the counterparty to the loans and receivables investments will fail to meet its contracted interest or capital repayments.

The company mitigates its credit risk by ensuring that it will not engage in any business activity other than the issuance of Notes and the lending of proceeds to the local authorities as defined in the Local Government Act 2003. In addition, the company retains a credit buffer for the payment of fees and expenses to ensure it remains a going concern.

The company's maximum exposure to credit risk at the reporting date is the carrying amount of loans and receivables investments recognised in the financial statements. The company has not pledged any financial assets as collateral against its liabilities.

The table below shows the credit rating and balance of the counterparty at the end of the reporting period using the Standard and Poor's credit rating symbols.

Counterparty	Rating	Carrying amount	Rating	Carrying amount
		31 Dec 2012 £'000		31 Dec 2011 £'000
Greater London Authority	AA+	600,000	AA+	600,000

##### 18.3 Liquidity risk

The company manages its liquidity risk by maintaining adequate reserves to be able to meet its financial obligations, and by matching the maturity profiles of its Loans and Notes. The company will be subject to the risk of delays in the receipt, or risk of defaults in the making of payments due from the relevant Borrower in respect of the relevant Loan. This will be mitigated by the interest on each Loan being paid two days prior to the relevant interest payment date on the Notes and each repayment of principal under the Loan will be paid one business day prior to each principal repayment date on the Notes.

## COMMUNITY FINANCE COMPANY 1 PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

#### 18.3.1 Maturities of assets and liabilities

The table below analyses financial instrument assets and liabilities of the company on an undiscounted future cash flow basis according to contract maturity, into relevant maturity groupings based on the remaining contractual period at the balance sheet date. The table includes both interest and principal cash flows.

Maturity of assets and liabilities	1-5 Years	6-10 Years	10+ years	Total
	£'000	£'000	£'000	£'000
31 Dec 2012				
<i>Assets</i>				
Loans and receivables	150,510	150,510	893,495	1,194,515
Investments				
Total assets	150,510	150,510	893,495	1,194,515
<i>Liabilities</i>				
Borrowings	150,510	150,510	893,495	1,194,515
Total liabilities	150,510	150,510	893,495	1,194,515

#### 18.4 Interest rate risk

Interest rate risk is the risk that future cash flows of a financial asset or liability may fluctuate because of changes in market interest rates.

The company is not exposed to interest rate risk because it does not currently issue Notes or lend at floating interest rates.



## **COMMUNITY FINANCE COMPANY 1 PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)**

#### **18.4.1 Interest rate sensitivity analysis**

A change in Interest Rates would have no net impact on the company as the Notes have been issued at a fixed rate which mirrors the fixed rate under the Local Authority Loan Agreements.

#### **18.5 Fair value of financial instruments carried at amortised cost**

The carrying amounts of loans and receivables investments and other financial liabilities in the financial statements approximate to their fair values.

The fair value of a financial instrument carried at amortised cost 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 fair values of cash and cash equivalents, trade payables and trade receivables approximate to their carrying values due to the short term maturities of these instruments.

#### **18.6 Financial assets pledged as collateral for liabilities or contingent liabilities**

Each Series of Notes is, or will be secured by an assignment of the Local Authority Loan Agreement relating to that Series, and the obligations of the company in respect of that Series will be limited in recourse to the Local Authority Loan Agreement and other secured assets relating to that Series.

#### **19. Off balance sheet arrangements**

There are no off balance sheet arrangements.