United Dominions Leasing Limited

Directors' report and financial statements
For the year ended 31 December 2011

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

824614

Directors

G Ferguson
D J S Oldfield
C K Sarfo-Agyare

Company secretary

A J Curne

Member of Lloyds Bankıng Group

Directors' report

For the year ended 31 December 2011

The directors present their report and the audited financial statements of United Dominions Leasing Limited for the year ended 31 December 2011

Business review and principal activities

United Dominions Leasing Limited ("the Company") is a limited company incorporated and domiciled in England and Wales (registered number 824614)

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

The Company's results for the year show a Profit before tax of £9,469,000 (2010 £3,146,000) and Net interest income of £11,888,000 (2010 £8,720,000)

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

Future outlook

The environment within which the Company operates remains competitive The Company has written a satisfactory level of new business in the year and this is expected to continue in the foreseeable future The directors are supporting a strategy designed to ensure that the Company's interest and other charges fully reflect the risks associated with its core products whilst maintaining competitiveness

A decision was made in June 2008 to cease writing new operating lease business The carrying value of Property, plant and equipment and associated income will reduce as individual lease agreements expire and assets are disposed Also, at the end of February 2011 the business sold a particular agency operating lease portfolio and associated balances to a third party, Asset Advantage Limited As a result of these events there will be no significant future rental income in respect of operating leases

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Lloyds TSB Asset Finance Division ("the Division") and are not managed separately for the Company Further details of the Company's and Division's risk management policy are contained in note 2 to the financial statements

Key performance indicators ("KPIs")

The directors of the Group manage the Group's operations on a divisional basis The Company is a significant entity in the Division

The directors consider that the three key drivers of performance for the Company are new business volumes, gross margins and the levels of customer arrears experienced

During 2011 new business volumes decreased against those achieved in 2010, but increases in the new business margin in the Company's largest business unit lead to an increase in Interest income

The percentage of provision against the gross loan book was 0 8% (2010 1 1%)

Policy and practice on payment of suppliers

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

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated

It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

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

Dividends

No dividends were paid or proposed during the year ended 31 December 2011 (2010 £nil)

Directors' report (continued)

For the year ended 31 December 2011

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 receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis

Directors

The names of the current directors are shown on the cover

The following changes have taken place during the year and since the year end

T M Blackwell	(resigned 21 June 2011)
A P White	(resigned 19 September 2011)

Directors' indemnities

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

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently,

- make judgements and accounting estimates that are reasonable and prudent,

- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, 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

Disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

Independent auditors

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

On behalf of the board

D J S Oldfield
Director

22 June 2012

Independent auditors' report to the member of United Dominions Leasing Limited

We have audited the financial statements of United Dominions Leasing Limited for the year ended 31 December 2011 which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

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 and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Felicity Rees

Felicity Rees (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

22 June 2012

Income statement

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Interest income		**23,168**	22,194
Interest expense		**(11,280)**	(13,474)
Net interest income	4	**11,888**	8,720
Other operating income	5	**7,020**	10,562
Impairment gains/(losses) on Loans and advances to customers	18 1	**2,422**	(2,380)
Other operating expenses	6	**(11,861)**	(13,756)
Profit before tax		**9,469**	3,146
Taxation	9	**(4,318)**	(130)
Profit for the year attributable to owners of the parent		**5,151**	3,016

Statement of comprehensive income

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Profit for the year		**5,151**	3,016
Other comprehensive (expense)/income			
Movement in cash flow hedges, net of tax	9	**(19)**	78
Total comprehensive income for the year attributable to owners of the parent		**5,132**	3,094

The notes on pages 8 to 23 are an integral part of these financial statements

Balance sheet

As at 31 December 2011

	Note	2011 £'000	2010 £'000
ASSETS			
Other current assets	10	**958**	3,092
Loans and advances to customers	11	**289,106**	326,568
Inventories		**1,745**	4,460
Property, plant and equipment	12	**15**	4,048
Current tax asset		**-**	1,574
Deferred tax asset	13	**36,727**	-
Total assets		**328,551**	339,742
LIABILITIES			
Borrowed funds	14	**284,317**	319,572
Other current liabilities	15	**6,602**	4,794
Derivative financial liabilities	18 7	**498**	486
Current tax liability		**29,560**	-
Deferred tax liability	13	**-**	12,448
Total liabilities		**320,977**	337,300
EQUITY			
Share capital	16	**-**	-
Other reserves		**(374)**	(355)
Retained profits		**7,948**	2,797
Total equity		**7,574**	2,442
Total equity and liabilities		**328,551**	339,742

The notes on pages 8 to 23 are an integral part of these financial statements

The financial statements on pages 4 to 23 were approved by the board of directors and were signed on its behalf by

D J S Oldfield
Director

22 June 2012

Statement of changes in equity

For the year ended 31 December 2011

	Share capital £'000	Other reserves £'000	Retained profits £'000	Total £'000
At 1 January 2010	-	(433)	(219)	(652)
Profit for the year	-	-	3,016	3,016
Other comprehensive income for the year	-	78	-	78
At 31 December 2010	**-**	**(355)**	**2,797**	**2,442**
Profit for the year	-	-	5,151	5,151
Other comprehensive expense for the year	-	(19)	-	(19)
At 31 December 2011	**-**	**(374)**	**7,948**	**7,574**

The notes on pages 8 to 23 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2011

	2011 £'000	2010 £'000
Cash flows generated from/(used in) operating activities		
Profit before tax	**9,469**	3,146
Adjustments for		
- Interest paid	**11,280**	13,474
- Depreciation	**1,106**	4,554
- Cost on disposal of ex-leased assets	**5,642**	5,010
Changes in operating assets and liabilities		
- Net decrease/(increase) in Loans and advances to customers	**37,462**	(44,349)
- Net decrease in Other debtors and Other trade receivables	**545**	1,663
- Net increase in Other current liabilities	**1,808**	1,410
Cash generated from/(used in) operations	**67,312**	(15,092)
Interest paid	**(11,280)**	(13,474)
Taxes (paid)/received via group relief	**(22,366)**	16,317
Net cash generated from/(used in) operating activities	**33,666**	(12,249)
Cash flows (used in)/from financing activities		
(Repayment of)/Proceeds from balances with group undertakings	**(33,666)**	12,249
Net cash (used in)/from financing activities	**(33,666)**	12,249
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

The notes on pages 8 to 23 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2011

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 to 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 International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements

(i) Amendments to IAS 24 Related Party Disclosures Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for related party transactions with government related entities As the amendments only result in reduced disclosures, the amendments have not had any impact for amounts recognised in these financial statements

(ii) Improvements to IFRSs (issued May 2010) Sets out minor amendments to IFRS standards as part of annual improvements process Most amendments clarified existing practice The application of these new interpretations has not had any impact for amounts recognised in these financial statements

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2011 and which have not been applied in preparing these financial statements are given in note 22

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention as modified for the revaluation of derivatives

1 2 Income recognition

Income from financial assets

Interest income and expense are recognised in the Income statement 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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

Lease classification

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

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

Finance lease income

Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the lease Initial direct incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term

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

Notes to the financial statements
For the year ended 31 December 2011

1. Accounting policies (continued)

1 2 Income recognition (continued)

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

1 3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings, Loans and advances to customers, Other trade receivables and Other debtors Financial liabilities comprise Amounts due to group undertakings and Other current liabilities Derivative contracts can be either a financial asset or liability and are discussed separately in note 1 4

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 liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method

1 4 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date The resulting gain or loss is recognised in equity in Other reserves

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability

1 5 Hedge accounting

Derivatives may only be designated as hedges provided certain strict criteria are met At the inception of a hedge, its terms must be clearly documented and there must be an expectation that the derivative will be highly effective in offsetting changes in the fair value or cash flow of the hedged risk

The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued

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

1 6 Impairment

Loans and advances to customers

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

Notes to the financial statements (continued)

For the year ended 31 December 2011

1. Accounting policies (continued)

1.6 Impairment (continued)

Loans and advances to customers (continued)

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate The calculation of the present value of the estimated future cash flows of a collateralised asset or group of assets reflects the cash flows that may result from foreclosure less the costs of obtaining and selling the collateral

The method and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between the loss estimates and actual loss experience

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

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

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 Income statement

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 Income statement

1 7 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 ceased to be rented and has become held for sale

1.8 Property, plant and equipment

Property, plant and equipment relates to operating lease assets, being motor vehicles, which are 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 1 to 5 years

Future rates of depreciation are reassessed each year in light of changes to anticipated residual values, and are amended as required

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 9 Cash and cash equivalents

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

1. Accounting policies (continued)

1.10 Taxation, including deferred income taxes

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

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

1.11 Other reserves

Other reserves comprise a cash flow hedging reserve representing the cumulative after tax gains and losses on effective cash flow hedging instruments that will be reclassified to the Income statement in the periods in which the hedged item effects profit or loss

2. Risk management policy

The Company's operations expose it to credit risk, liquidity risk, interest rate risk, market risk, and business risk, it is not exposed to any foreign exchange risk Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the intermediate parent, Lloyds TSB Asset Finance Division Limited, and the ultimate parent, Lloyds Banking Group plc Interest rate hedges are used to mitigate interest rate risk relating to a proportion of the Company's intercompany borrowings The remaining 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 the Division's credit committee and credit functions Market risk is managed by the Company through the terms negotiated in commercial agreements and management regularly reviewing its portfolio of leases for impairment Business risk is managed through regular reporting and oversight

2 1 Credit risk

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 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

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

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

- 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

2. Risk management policy (continued)

2.2 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 an intermediate parent company, Lloyds TSB Bank plc, in consultation with the board of directors Monthly reviews of funding positions are undertaken to anticipate any shortfalls

2.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been provided in note 18 3

In respect of a particular portfolio of larger leases, however, the Company has managed interest rate risk through use of interest rate swaps which convert interest payable on group borrowings from floating to fixed rate in order to match the fixed rentals receivable on the Company's finance lease books

2 4 Market risk

Market risk is the risk that the Company is unable to realise the carrying value of its Inventories and the risk that market factors management have applied in estimating the anticipated residual values of Property, plant and equipment and residual values on finance lease agreements where the Company retains title of the asset differ from actual trends, as the Company is exposed to fluctuations in the value of second hand motor vehicles and other plant and machinery

Market risk is managed through a combination of management regularly reviewing the Company's portfolio of leases to assess for impairment and residual values being agreed on commencement of leases, which has been designed to reduce the impact of adverse fluctuations in second hand markets

2 5 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy In assessing business risk, consideration is given to internal and external factors such as products, funding, resource capability, and economic, political and regulatory factors

Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary

3. 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

Impairment of assets accounted for at amortised cost

The Company regularly reviews its portfolio of leases to assess for impairment In determining whether an impairment has occurred the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows and their timings, such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on assets in the Company

The methodology used to calculate the required impairment provisions are calculated collectively using formulae which take into account factors such as the length of time that the customer's account has been delinquent, historical loss rates and the value of any collateral held in order to determine expected future cash flows The variables used in the formulae are kept under regular review to ensure that as far as possible they reflect the current economic circumstances, although actual experience may differ from that assumed

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

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

Operating lease assets

The Company reviews the residual value of its operating lease assets on a quarterly basis by reference to independent market value data and the prevailing economic conditions and adjusts rates of depreciation accordingly

Impairment of Inventories

The Company regularly reviews its inventories of vehicles to assess for impairment In determining whether an impairment has occurred, the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future proceeds from sale of the vehicles compared to the purchase cost, such observable data includes whether there has been an adverse change in the current market prices or economic conditions

The variables used in the evaluation are kept under regular review to ensure that as far as possible they reflect the current economic circumstances, although actual experience may differ from that assumed

4. Net interest income

	2011 £'000	2010 £'000
Interest income		
From finance lease contracts	**23,168**	22,194
Interest expense		
Group interest expense (see note 17)	**(11,280)**	(13,474)
Net interest income	**11,888**	8,720

Included within Interest income is £177,000 (2010 £105,000) in respect of impaired financial assets

5. Other operating income

	2011 £'000	2010 £'000
Proceeds on disposal of ex-leased assets	**5,629**	4,974
Operating lease income	**1,391**	5,588
	7,020	10,562

6 Other operating expenses

	2011 £'000	2010 £'000
Management fees (see note 17)	**5,103**	4,192
Depreciation (see note 12)	**1,106**	4,554
Cost on disposal of ex-leased assets	**5,642**	5,010
Other operating expenses	**10**	-
	11,861	13,756

Fees payable to the Company's auditors for the audit of the financial statements of £4,000 (2010 £4,000) have been borne by a fellow subsidiary undertaking and are not recharged to the Company Accounting and administration services are provided by a fellow subsidiary undertaking and are recharged to the Company as part of Management fees

Notes to the financial statements (continued)
For the year ended 31 December 2011

7. Staff costs

The Company did not employ any persons during the year (2010 none)

8. Directors' emoluments

No director received any fees or emoluments during the year (2010 £nil) The directors are employed by other companies within the Lloyds Banking Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 17)

9. Taxation

	2011 £'000	2010 £'000
a) Analysis of charge for the year		
UK corporation tax		
- Current tax on taxable profit for the year	**29,561**	(1,574)
- Adjustments in respect of prior years	**23,939**	(36,564)
Current tax charge/(credit)	**53,500**	(38,138)
UK deferred tax		
- Origination and reversal of timing differences	**(24,634)**	1,989
- Adjustments in respect of prior years	**(24,548)**	36,279
Deferred tax (credit)/charge (see note 13)	**(49,182)**	**38,268**
	4,318	**130**

Corporation tax is calculated at a rate of 26 5% (2010 28 0%) of the taxable profit for the year

b) Factors affecting the tax charge for the year

The tax on the Company's Profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows

	2011 £'000	2010 £'000
Profit before tax	**9,469**	3,146
Tax charge thereon at UK corporation tax rate of 26 5% (2010 28 0%)	**2,509**	881
Factors affecting charge		
- Adjustments in respect of prior years	**(609)**	(285)
- Effect of reduction in tax rate	**2,418**	(466)
Tax on profit on ordinary activities	**4,318**	130
Effective rate	**45 6%**	4 1%

9. Taxation (continued)

c) Tax effects relating to Other comprehensive income

The tax effect relating to Other comprehensive income is as follows

	Before tax amount £'000	Tax charge £'000	Net of tax amount £'000
2011			
Increase in cash flow hedge liability	(12)	(7)	(19)
2010			
Decrease in cash flow hedge liability	115	(37)	78

10 Other current assets

	2011 £'000	2010 £'000
Amounts due from group undertakings (see note 17)	**958**	2,547
Other trade receivables	**-**	92
Other debtors	**-**	453
	958	3,092

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

11. Loans and advances to customers

	2011 £'000	2010 £'000
Gross loans and advances to customers	**290,073**	330,044
Less allowance for losses on loans and advances	**(967)**	(3,476)
Net loans and advances to customers	**289,106**	326,568
of which		
Due within one year	**121,840**	141,744
Due after one year	**167,266**	184,824
	289,106	326,568

Loans and advances to customers include finance lease receivables

	2011 £'000	2010 £'000
Gross investment in finance lease contracts, receivable		
- no later than one year	**139,276**	163,090
- later than one year and no later than five years	**176,729**	195,791
- later than five years	**2,443**	3,328
	318,448	362,209
Unearned future finance income on finance lease contracts	**(28,375)**	(32,165)
Net investment in finance lease contracts	**290,073**	330,044

11 Loans and advances to customers (continued)

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

	2011 £'000	2010 £'000
- no later than one year	**122,807**	145,220
- later than one year and no later than five years	**164,995**	181,780
- later than five years	**2,271**	3,044
	290,073	330,044

The Company provides a range of finance lease products in connection with the financing of motor vehicles and equipment The leases typically run for periods of between 3 and 20 years

During the year, no contingent rentals in respect of finance leases were recognised in the Income statement (2010 £nil)

Further analysis of Loans and advances to customers is provided in note 18

12 Property, plant and equipment

	Total £'000
Cost	
At 1 January 2010	28,189
Transfer to Inventories	(19,452)
At 31 December 2010	8,737
Transfer to Inventories	(8,692)
At 31 December 2011	45
Accumulated depreciation	
At 1 January 2010	12,282
Charge for the year	4,554
Transfer to Inventories	(12,147)
At 31 December 2010	4,689
Charge for the year	1,106
Transfer to Inventories	(5,765)
At 31 December 2011	30
Balance sheet amount at 31 December 2011	**15**
Balance sheet amount at 31 December 2010	4,048

Property, plant and equipment represents assets leased to customers under operating leases

During the year, no contingent rentals in respect of operating leases were recognised in the Income statement (2010 £nil)

Notes to the financial statements (continued)
For the year ended 31 December 2011

12. Property, plant and equipment (continued)

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

	2011 £'000	2010 £'000
Receivable within one year	**4**	1,418
Receivable between two to five years	**-**	4
Receivable later than five years	**-**	-
	4	1,422

The Company's operating leases are typically for terms of 1 to 5 years

13. Deferred tax asset/(liability)

The movement in the Deferred tax asset/(liability) is as follows

	2011 £'000	2010 £'000
Brought forward	**(12,448)**	25,857
Credit/(charge) for the year (see note 9)	**49,182**	(38,268)
	36,734	(12,411)
Amount charged to equity		
- cash flow hedges	**(7)**	(37)
At 31 December	**36,727**	(12,448)

The deferred tax credit/(charge) in the Income statement comprises the following temporary differences

	2011 £'000	2010 £'000
Enhanced/(accelerated) capital allowances	**49,186**	(38,266)
Other temporary differences	**(4)**	(2)
	49,182	(38,268)

Deferred tax asset/(liability) comprises	2011 £'000	2010 £'000
Enhanced/(accelerated) capital allowances	**36,562**	(12,624)
Other temporary differences	**41**	45
Cash flow hedges	**124**	131
	36,727	(12,448)

Notes to the financial statements (continued)
For the year ended 31 December 2011

13. Deferred tax asset/(liability) (continued)

Within the Deferred tax asset at 31 December 2011 are amounts of approximately £nil (2010 £nil) that are expected to be settled in less than twelve months after the balance sheet date

The UK Government announced on 23 March 2011 that the headline rate of corporation tax would be reduced from 28% by 2% on 1 April 2011 and 1% each year thereafter until it reaches 23% On 22 March 2012 the UK Government announced that on 1 April 2012 the headline rate of corporation tax would be reduced by 2% rather than 1% to 24%, and 1% each year thereafter until it reaches 22%

These rate changes will affect the amount of future cash tax payments to be made by the Company and will also reduce the size of the Company's Deferred tax asset in the future

The change to 25% announced on 23 March 2011 was "substantively enacted" on 5 July 2011 and as such, in accordance with accounting standards, deferred tax has been calculated at a rate of 25% The effect of the change in rate to 24% would not significantly affect the Company's Deferred tax asset and will be reflected in the Company's financial statements for the year ending 31 December 2012 The proposed further reductions in the rate of corporation tax by 1% per annum to 22% by 1 April 2014 are expected to be enacted separately each year The effect of these further changes upon the Company's deferred tax balances cannot be reliably quantified at this stage

14. Borrowed funds

	2011	2010
	£'000	£'000
Amounts due to group undertakings (see note 17)	**284,317**	319,572

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made Amounts due to Lloyds UDT Limited are interest bearing at fixed rates set at the inception of lease agreements Amounts due to Lloyds TSB Bank plc are interest bearing at variable rates based on LIBOR Amounts due to United Dominions Trust Limited are interest bearing based on historic market swap rates All other amounts are non-interest bearing

15. Other current liabilities

	2011	2010
	£'000	£'000
Other creditors	**1,804**	4,794
Other tax payable	**4,798**	-
	6,602	4,794

16. Share capital

	2011	2010
	£'000	£'000
Allotted, issued and fully paid		
100 ordinary shares of £1 each	-	-

At 31 December 2011, the authorised share capital of the Company was £100 divided into 100 shares of £1 each

The immediate parent company is Black Horse Finance Holdings Limited (incorporated in England and Wales) The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings Copies of the accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN

17. Related party transactions

The Company is controlled by Black Horse Finance Holdings Limited 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 expense for the year are set out below

	2011 £'000	2010 £'000
Amounts due from group undertakings		
Lloyds TSB Leasing Limited (see note 10)	**958**	2,547
Amounts due to group undertakings		
Black Horse Limited	**1,438**	913
Lloyds TSB Bank plc	**3,476**	7,535
Lloyds UDT Limited	**8,707**	8,739
United Dominions Trust Limited	**270,696**	302,385
Total amounts due to group undertakings (see note 14)	**284,317**	319,572
Derivative financial instruments		
Lloyds TSB Bank plc (see note 18 7)	**498**	486
Interest expense		
Lloyds TSB Bank plc	**272**	458
Lloyds UDT Limited	**388**	557
United Dominions Trust Limited	**10,620**	12,459
Total interest expense (see note 4)	**11,280**	13,474
Management fees		
Black Horse Limited	**5,062**	4,134
Lloyds TSB Leasing Limited	**41**	58
Total management fees (see note 6)	**5,103**	4,192

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 comprise the directors of the Company and the members of the Lloyds Banking Group plc board There were no transactions between the Company and key management personnel during the current or preceding year Key management personnel are employed by other companies within the Lloyds Banking Group and consider that their services to the Company are incidental to their other activities within the Group

18. Financial risk management

A description of the nature and mitigation of key risks facing the Company is provided in note 2 A description of the Company's financial assets/liabilities and associated accounting is provided in note 1

18 1 Credit risk

Credit concentration - Other trade receivables

The Company provides operating lease arrangements to customers geographically located in the United Kingdom The maximum exposure to Other trade receivables at the year end is £nil (2010 £92,000) Past due is defined as failure to make a payment when it falls due No trade receivables are considered to be impaired (2010 £nil)

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

18. Financial risk management (continued)

18 1 Credit risk (continued)

Loans and advances to customers – maximum exposure

	2011 £'000	2010 £'000
Neither past due nor impaired	**278,806**	308,334
Past due but not impaired	**7,549**	15,573
Impaired	**3,718**	6,137
Maximum exposure – loans and advances	**290,073**	330,044
Commitments to lend	**190,082**	198,431
Maximum credit exposure	**480,155**	528,475

Loans and advances to customers which are neither past due nor impaired

	2011 £'000	2010 £'000
Good quality	**61,308**	68,785
Satisfactory quality	**139,928**	177,592
Lower quality	**77,439**	61,957
Below standard, but not impaired	**131**	-
Total	**278,806**	308,334

In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default

Loans and advances to customers which are past due but not impaired

	2011 £'000	2010 £'000
Past due up to 30 days	**7,644**	15,573
Past due from 30-60 days	**4**	-
Past due from 60-180 days	**1**	-
Total	**7,549**	15,573

Past due is defined as failure to make a payment when it falls due

Allowance for loans and advances to customers which are impaired

	2011 £'000	2010 £'000
Brought forward	**3,476**	1,635
Advances written off	**(87)**	(539)
(Credit)/charge for year (including recoveries)	**(2,422)**	2,380
At 31 December	**967**	3,476

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1 6 Included in Loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £3,718,000 (2010 £6,137,000)

18. Financial risk management (continued)

Repossessed collateral

Collateral held against Loans and advances to customers is principally comprised of motor vehicles and other plant and machinery The Company does not take physical posession 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 (2010 £nil)

18 2 Liquidity risk

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 With the exception of derivative financial instruments (see note 18 7), all other financial liabilities are repayable on demand

18 3 Interest rate risk

Interest rate risk is managed at a divisional level As the Company is exposed to interest rate fluctuations a sensitivity analysis has been prepared to illustrate the impact of a change in the rates

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's Amounts due to group undertakings and takes account of movement in the market swap rates which is the basis for the interest rate on unhedged intercompany balances A 0 6% (2010 0 8%) increase or decrease is used to assess the possible change in Interest expense This is appropriate as it is the amount by which the market swap rates decreased in the year

If market swap rates increased by 0 6% (2010 0 8%) and all other variables remain constant this would increase Interest expense by £1,589,000 (2010 £2,364,000) and accordingly decrease Interest expense by £1,589,000 (2010 £2,364,000) if swap rates decreased by the same amount

18 4 Market risk

The leasing portfolio includes agreements where the Company has a risk in respect of residual value of the assets This area of credit policy is monitored by a residual value committee which meets on a regular basis to consider the exposure taking into account current and projected industry trends in addition to the Company's own risk management data

18 5 Financial strategy

The Company's activities are principally related to the use of financial instruments However, the Company does not trade in financial instruments

18 6 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

Fair values of Loans and advances to customers are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the balance sheet date

The aggregated fair value of Loans and advances to customers is approximately £295,697,000 (2010 £329,052,000) Derivative financial instruments are carried at fair value (see note 18 7) The carrying value of all other financial assets and liabilities is considered an approximation of fair value

18. Financial risk management (continued)

18 7 Derivative financial instruments

The principal derivatives used by the Company are interest rate swaps to hedge against fluctuations in interest rates An interest rate swap is an agreement between two parties to exchange fixed and floating rate payments, based upon interest rates defined in the contract

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and variable rate interest amounts calculated on agreed notional principal amounts Such contracts enable the Company to mitigate the risk of changing interest rates on the borrowings utilised to fund existing finance lease agreements

The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using interest rate yield curves which are developed from publicly quoted rates, and is disclosed below The average interest rate is calculated using a weighted average methodology

The following table details the notional principal amount and remaining terms of interest rate swap contracts outstanding as at the reporting date The table has been drawn up based on the undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis

	Average contract fixed interest rate		Contractual cash flows		Fair value	
	2011	2010	**2011**	2010	**2011**	2010
	%	%	**£'000**	£'000	**£'000**	£'000
0 to 12 months	**5 273**	5 177	**1,184**	1,198	**137**	132
1 to 2 years	**5 012**	5 281	**412**	1,184	**48**	97
2 to 5 years	**4 951**	4 957	**1,572**	1,491	**181**	116
5 years +	**4 888**	4 905	**1,142**	1,635	**132**	141
			4,310	5,508	**498**	486

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss

The increase in the fair value liability, net of tax, of £19,000 (2010 decrease of £78,000) has been recognised in the Statement of comprehensive income

In 2011, all hedged cash flows are expected to occur so there is no ineffectiveness recognised in the Income statement (2010 £nil) Due to the contractual arrangements in place between the Company and its customers, the Company does not have any exposure to future losses should a customer settle a loan before its contractual term

Fair value hierarchy

The interest swap agreements entered into by the Company are carried at fair value These valuations are based on inputs other than quoted prices in active markets for identical assets or liabilities that are observable for the asset or liability, either directly or indirectly, and are considered to be level 2 in the fair value hierarchy defined under IFRS 7

19 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

Notes to the financial statements (continued)
For the year ended 31 December 2011

20. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2010 £nil)

21. Post balance sheet events

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

22 Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2011 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Amendments to IAS 1 Presentation of financial statements [1]	Requires entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently Additionally, requires tax associated with items presented before tax to be shown separately for each of the two groups of OCI items	Annual periods beginning on or after 1 July 2012
IFRS 13 Fair value Measurement [1]	Sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements	Annual periods beginning on or after 1 January 2013
IFRS 9 Financial Instruments Classification and Measurement [1&2]	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument The available-for sale financial asset and held-to-maturity categories in existing IAS 39 will be eliminated The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2015

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

2 IFRS 9 is the initial stage of the project to replace IAS 39 Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting Until all stages of the replacement project are complete it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39

The full impact of these pronouncements is being assessed by the Company However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements