United Dominions Leasing Limited

Annual report and accounts
for the year ended 31 December 2014

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

824614

Directors

G Ferguson
M F Fleming
P R Grant
C K Sarfo-Agyare

Company Secretary

P Gittins

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2014

The directors present their report and the audited financial statements of United Dominions Leasing Limited ("the Company") for the year ended 31 December 2014.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 824614).

The Company provides finance lease products for corporate customers.

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

Dividends

A dividend of £28,219,000, representing a dividend of £282,190 per share, in respect of the year to 31 December 2014 was declared and paid during the year (2013: £nil).

Going concern

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

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on the cover.

The following changes have taken place during the year or since the year end:

M J D Griffiths	(resigned 19 December 2014)
M F Fleming	(appointed 19 December 2014)
C Sutton	(resigned 18 August 2015)
P R Grant	(appointed 16 September 2015)

Directors' indemnities

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, 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 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.

Directors' report (continued)

For the year ended 31 December 2014

Statement of directors' responsibilities (continued)

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 they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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.

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

C K Sarfo-Agyare
Director

24/09/2015

Strategic report

For the year ended 31 December 2014

The directors present their Strategic report of the Company for the year ended 31 December 2014.

Business overview

The Company's results for the year show a Profit before tax of £5,459,000 (2013: £3,601,000) and Net interest income of £8,590,000 (2013: £9,439,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Asset Finance ("AF"), which is a part of the Consumer Finance Division of the Group, and are not managed separately for the Company. Further details of the Company's and AF's risk management policy are contained in note 2 to the financial statements.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. KPIs are monitored and reported at a divisional level and are disclosed in the financial statements for Black Horse Limited, which is the main trading company in AF.

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 competiveness.

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

C K Sarfo-Agyare
Director

24/09/2015

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

Report on the financial statements

Our opinion

In our opinion, the Company's financial statements (the "financial statements"):

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

What we have audited

The Company's financial statements comprise:

- the Balance sheet as at 31 December 2014;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

As explained more fully in the Statement of directors' responsibilities set out on pages 1 and 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs (UK 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.

What an audit of financial statements involves

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

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

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Neil Rummings (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
One Kingsway
Cardiff
CF10 3PW

24 September 2015

Income statement
For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Interest income		**12,869**	15,630
Interest expense		**(4,279)**	(6,191)
Net interest income	4	**8,590**	9,439
Other operating income	5	**2**	8
Impairment gains/(losses)	6	**584**	(43)
Other operating expenses	7	**(3,717)**	(5,803)
Profit before tax		**5,459**	3,601
Taxation	10	**(1,270)**	(6,676)
Profit/(loss) for the year attributable to owners of the parent		**4,189**	(3,075)

Statement of comprehensive income
For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Profit/(loss) for the year		**4,189**	(3,075)
Other comprehensive income			
Movement in cash flow hedges			
- before tax amount	10	**59**	144
- tax credit	10	**(20)**	(41)
		39	103
Total comprehensive income/(expense) for the year attributable to owners of the parent		**4,228**	(2,972)

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

Balance sheet
As at 31 December 2014

	Note	2014 £'000	2013 £'000
ASSETS			
Other current assets	12	**135,692**	1,803
Loans and advances to customers	13	**172,707**	258,801
Current tax asset		**376**	-
Deferred tax asset	14	**34,753**	36,225
Total assets		**343,528**	296,829
LIABILITIES			
Borrowed funds	15	**330,106**	245,246
Other current liabilities		**4,786**	63
Derivative financial liabilities		**225**	284
Current tax liability		**-**	18,834
Total liabilities		**335,117**	264,427
EQUITY			
Share capital	16	**-**	-
Other reserves		**(188)**	(227)
Retained earnings		**8,599**	32,629
Total equity		**8,411**	32,402
Total equity and liabilities		**343,528**	296,829

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

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

C K Sarfo-Agyare
Director

24/09/ 2015

Statement of changes in equity

For the year ended 31 December 2014

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total Equity £'000
At 1 January 2013	-	(330)	35,704	35,374
Loss for the year	-	-	(3,075)	(3,075)
Other comprehensive income for the year	-	103	-	103
At 31 December 2013	-	**(227)**	**32,629**	**32,402**
Profit for the year	-	-	4,189	4,189
Other comprehensive income for the year	-	39	-	39
Dividend paid to equity holders of the Company	-	-	(28,219)	(28,219)
At 31 December 2014	-	**(188)**	**8,599**	**8,411**

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

Cash flow statement

For the year ended 31 December 2014

	2014 £'000	2013 £'000
Cash flows generated from operating activities		
Profit before tax	**5,459**	3,601
Adjustments for:		
- Interest paid	**4,279**	6,191
- Cost on disposal of ex-leased assets	**-**	5
- Increase in Other reserves	**-**	-
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**86,094**	2,395
- Net decrease in Other debtors and Other trade receivables	**1,791**	722
- Net increase/(decrease) in Other current liabilities	**4,723**	(1)
Cash generated from operations	**102,346**	12,913
Interest paid	**(4,279)**	(6,191)
Group relief (paid)/received	**(19,028)**	4,667
Net cash generated from operating activities	**79,039**	11,389
Cash flows used in financing activities		
Repayment of borrowings with group undertakings	**(50,820)**	(11,389)
Dividend paid to equity holders of the Company	**(28,219)**	-
Net cash used in financing activities	**(79,039)**	(11,389)
Change in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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

Notes to the financial statements

For the year ended 31 December 2014

1. Accounting policies

1.1 Basis of preparation

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

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

The following new IFRS pronouncement relevant to the Company has been adopted in these financial statements:

(i) Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting. Provides relief from discontinuing hedge accounting in circumstances where a derivative designated as a hedging instrument is novated to a central counterparty as a consequence of introduction of laws or regulations.

The application of these pronouncements 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 2014 and which have not been applied in preparing these financial statements are given in note 22. No standards have been early adopted.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention, modified for the fair value of derivative contracts.

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. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

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 on the net lending balance 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.

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.

1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings, Loans and advances to customers and Other debtors. Financial liabilities comprise Amounts due to group undertakings and Other current liabilities. Derivative contracts can be either financial assets or financial liabilities and are discussed separately in note 18.7.

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

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

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.

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.

1. Accounting policies (continued)

1.6 Impairment (continued)

Loans and advances to customers (continued)

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

1.7 Dividends

Dividends on ordinary shares are recognised through equity in the period in which they are paid.

1.8 Cash and cash equivalents

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

1.9 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 in the Company or the Group 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.

1.10 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 affects 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 significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by an intermediate parent company, Lloyds Bank Asset Finance 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 AF'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 AF'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').

2. Risk management policy (continued)

2.1 Credit risk (continued)

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.

- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.

- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

- Counterparty limits: Credit risk in wholesale portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Divisional exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

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 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

The Company is exposed to market risk, however the directors do not consider it to be a material exposure, and believe the exposure to be fully managed.

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.

Individual component

All impaired loans which exceed a certain threshold are individually assessed for impairment having regard to expected future cash flows including those that could arise from the realisation of collateral. The determination of these allowances often requires the exercise of considerable judgement by management involving matters such as local economic conditions and the resulting trading performance of the customer and the value of the collateral held, for which there may not be a readily accessible market. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

Collective component

Impairment allowances for portfolios of loans that are below the individual assessment thresholds, and for loan losses that have been incurred but not separately identified at the balance sheet date, are determined on a collective basis. Collective impairment allowances are calculated 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.

Deferred tax

The recoverability of the Deferred tax asset requires the consideration of the level of forecast taxable profits in the Group, taking into account the Group's long term financial and strategic plans.

The Deferred tax asset has been recognised on the basis that tax losses arising in the future will be used by the Company against taxable profits or surrendered as group relief which will be paid for by the recipient company.

4. Net interest income

	2014	2013
	£'000	£'000
Interest income		
From finance lease contracts	**12,869**	15,630
Interest expense		
Group interest expense (see note 17)	**(4,279)**	(6,191)
Net interest income	**8,590**	9,439

5. Other operating income

	2014 £'000	2013 £'000
Proceeds on disposal of ex-leased assets	-	5
Operating lease income	2	3
	2	8

6. Impairment gains/(losses)

	2014 £'000	2013 £'000
Impairment gains/(losses) on Loans and advances to customers	584	(43)

7. Other operating expenses

	2014 £'000	2013 £'000
Management fees (see note 17)	3,717	5,704
Cost on disposal of ex-leased assets	-	5
Other operating expenses	-	94
	3,717	5,803

Fees payable to the Company's auditors for the audit of the financial statements of £8,000 (2013: £8,000) have been borne by a fellow group undertaking and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management fees.

8. Staff costs

The Company did not have any employees during the year (2013: none).

9. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2013: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 17).

10. Taxation

a) Analysis of charge for the year

	2014 £'000	2013 £'000
UK corporation tax:		
- Current tax on taxable (loss)/profit for the year	**(376)**	18,834
- Adjustments in respect of prior years	**194**	6,391
Current tax (credit)/charge	**(182)**	25,225
UK deferred tax:		
- Origination and reversal of timing differences	**1,561**	(12,357)
- Adjustments in respect of prior years	**-**	(6,192)
- Effect of reduction in tax rate and related impacts	**(109)**	-
Deferred tax charge/(credit) (see note 14)	**1,452**	(18,549)
	1,270	6,676

Corporation tax is calculated at a rate of 21.50% (2013: 23.25%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

Where taxation on the Company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 21.50% (2013: 23.25%), the differences are explained below:

	2014 £'000	2013 £'000
Profit before tax	**5,459**	3,601
Tax charge thereon at UK corporation tax rate of 21.50% (2013: 23.25%)	**1,174**	837
Factors affecting charge:		
- Non-allowable and non-taxable items	**11**	22
- Adjustments in respect of prior years	**194**	199
- Effect of reduction in tax rate and related impacts	**(109)**	5,618
Tax on profit on ordinary activities	**1,270**	6,676
Effective rate	**23.3%**	185.4%

c) Tax effects relating to Other comprehensive income

The tax effect relating to Other comprehensive income is as follows:

	Before tax amount £'000	Tax credit £'000	Net of tax amount £'000
2014			
Movements in cash flow hedges	**59**	**(20)**	**39**
Other comprehensive income for the year	**59**	**(20)**	**39**
2013			
Movements in cash flow hedges	144	(41)	103
Other comprehensive income for the year	144	(41)	103

Notes to the financial statements (continued)
For the year ended 31 December 2014

11. Dividends

In 2014, dividends totalling £282,190 per share were paid, representing a total dividend of £28,219,000 (2013: £nil).

12. Other current assets

	2014 £'000	2013 £'000
Amounts due from group undertakings (see note 17)	**135,692**	12
Other debtors	**-**	1,791
	135,692	1,803

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

13. Loans and advances to customers

	2014 £'000	2013 £'000
Gross loans and advances to customers	**172,812**	259,587
Less: allowance for losses on loans and advances	**(105)**	(786)
Net loans and advances to customers	**172,707**	258,801
of which:		
Due within one year	**73,472**	100,359
Due after one year	**99,235**	158,442
	172,707	258,801

Loans and advances to customers include finance lease receivables:

	2014 £'000	2013 £'000
Gross investment in finance lease receivables:		
- no later than one year	**80,447**	112,538
- later than one year and no later than five years	**103,359**	166,890
- later than five years	**318**	996
	184,124	280,424
Unearned future finance income on finance lease contracts	**(11,312)**	(20,837)
Net investment in finance lease contracts	**172,812**	259,587

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

	2014 £'000	2013 £'000
- no later than one year	**73,577**	101,145
- later than one year and no later than five years	**98,932**	157,486
- later than five years	**303**	956
	172,812	259,587

13. Loans and advances to customers (continued)

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 (2013: £nil).

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

14. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2014	2013
	£'000	£'000
Brought forward	**36,225**	17,717
(Charge)/credit for the year (see note 10)	**(1,452)**	18,549
	34,773	36,266
Amount credited to equity		
- Cash flow hedges	**(20)**	(41)
At 31 December	**34,753**	36,225

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

	2014	2013
	£'000	£'000
Accelerated capital allowances	**(1,447)**	18,562
Other temporary differences	**(5)**	(13)
	(1,452)	18,549

Deferred tax asset comprises:	**2014**	2013
	£'000	£'000
Accelerated capital allowances	**34,711**	36,158
Other temporary differences	**5**	10
Cash flow hedges	**37**	57
	34,753	36,225

The Finance Act 2013 ("the Act") was substantively enacted on 3 July 2013. The Act further reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

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

15. Borrowed funds

	2014	2013
	£'000	£'000
Amounts due to group undertakings (see note 17)	**330,106**	245,246

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 Bank plc are interest bearing at variable rates based on LIBOR. An interest rate swap derivative has been used to manage its exposure to interest rate risk. Amounts due to United Dominions Trust Limited are interest bearing at variable rates based on historic market swap rates. All other amounts are non-interest bearing.

16. Share capital

	2014 £'000	2013 £'000
Allotted, issued and fully paid		
100 ordinary shares of £1 each	-	-

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.

	2014 £'000	2013 £'000
Amounts due from group undertakings		
Lloyds Bank Leasing Limited	**102**	12
Lloyds Bank plc	**135,590**	-
Total Amounts due from group undertakings (see note 12)	**135,692**	12
Amounts due to group undertakings		
Black Horse Limited	**471**	471
Lloyds Bank plc	**885**	1,419
Lloyds UDT Limited	**9,874**	4,743
United Dominions Trust Limited	**318,876**	238,613
Total Amounts due to group undertakings (see note 15)	**330,106**	245,246
Derivative financial instruments		
Lloyds Bank plc	**225**	284
Interest expense		
Lloyds Bank plc	**137**	128
Lloyds UDT Limited	**190**	210
United Dominions Trust Limited	**3,952**	5,853
Total Interest expense (see note 4)	**4,279**	6,191
Management fees		
Black Horse Limited	**3,717**	5,703
Lloyds UDT Limited	-	1
Total Management fees (see note 7)	**3,717**	5,704

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 is comprised of 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 Group and consider that their services to the Company are incidental to their other activities within the Group.

UK Government

In January 2009, the UK Government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. As at 31 December 2014, HM Treasury retained a significant interest in Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of the Company during the year ended 31 December 2014.

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 - Loans and advances to customers

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

Loans and advances to customers – maximum exposure

	2014 £'000	2013 £'000
Neither past due nor impaired	**172,468**	257,001
Past due but not impaired	**239**	1,217
Impaired	**105**	1,369
Maximum exposure – loans and advances	**172,812**	259,587
Commitments to lend	**553,118**	411,504
Maximum credit exposure	**725,930**	671,091

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

	2014 £'000	2013 £'000
Good quality	**146,331**	218,054
Satisfactory quality	**26,061**	38,834
Lower quality	**76**	113
Below standard, but not impaired	**-**	-
Total	**172,468**	257,001

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

	2014 £'000	2013 £'000
Past due up to 30 days	**161**	1,216
Past due from 30-60 days	**7**	1
Past due from 60-180 days	**71**	-
Total	**239**	1,217

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

18. Financial risk management (continued)

18.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2014	2013
	£'000	£'000
Brought forward	**786**	885
Advances written off	**(100)**	(142)
(Credit)/charge for year (including recoveries)	**(584)**	43
Recoveries of prior advances written off	**3**	-
At 31 December	**105**	786

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 2. Included in Loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £nil (2013: £1,369,000).

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 possession of any collateral; instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness. Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

During the year the Company repossessed collateral in respect of defaulted debt with a value of £nil (2013: £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

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 market swap rates which is the basis for the interest rate on intercompany balances. A 0.01% increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as it is the amount by which the market swap rates increased in the year.

If market swap rates increased by 0.01% (2013: 0.5%) and all other variables remain constant this would increase Interest expense by £27,000 (2013: £1,047,000) and accordingly decrease Interest expense by £27,000 (2013: £1,047,000) 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 uses financial instruments to mitigate interest rate risk. However, the Company does not trade in financial instruments.

18. Financial risk management (continued)

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 £236,755,000 (2013: £263,668,000). Derivative financial instruments are carried at fair value (see note 1.4). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

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 notional principal amounts of the outstanding forward exchange contracts are £2,279,000 (2013: £3,290,000). These notional amounts will reduce to nil in 2019 in line with the reduction in the hedged borrowings. The interest terms on the derivatives provide for net settlement of fixed rates payable between 4.20% and 4.97% and floating rates receivable based on LIBOR.

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.

In 2014, all hedged cash flows are expected to occur so there is no ineffectiveness recognised in the Income statement (2013: £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.

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.

The decrease in the fair value liability, net of tax, of £39,000 (2013: £103,000) has been recognised in the Statement of comprehensive income. The table below analyses the fixed interest payable on the swaps by due date.

	Contractual cash flows	
	2014	2013
	£'000	£'000
0 to 12 months	**113**	138
1 to 2 years	**88**	113
2 to 5 years	**112**	189
5 years +	**-**	11
	313	451

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.

20. Contingent liabilities and capital commitments

There were no contracted capital commitments at the balance sheet date (2013: £nil).

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs ("HMRC") adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £24m. The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Undrawn formal standby facilities, credit facilities and other commitments to lend were £553,118,000 (2013: £411,504,000).

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 2014 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued December 2013)	A collection of amendments to IFRSs from the 2010 - 12 and 2011 - 13 cycle of the annual improvements projects.	Annual periods beginning on or after 1 July 2014.
Amendment to IFRS 9, 'Financial instruments', on general hedge accounting [1]	The amendment includes requirements on the classification and measurement of financial assets and liabilities. It also includes an expected credit losses model that replaces the current incurred loss impairment model.	Annual periods beginning on or after 1 January 2018

Notes to the financial statements (continued)
For the year ended 31 December 2014

22. Future developments (continued)

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments: Classification and Measurement [1]	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity categories in the 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 2018.

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

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

23. Ultimate parent undertaking and controlling party

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 and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.