Lloyds UDT Leasing Limited

Directors' report and financial statements
30 September 2011

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

665240

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 30 September 2011

Business review and principal activities

Lloyds UDT Leasing Limited ("the Company") is a limited company incorporated and domiciled in England and Wales (registered number 665240)

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

The Company's results for the year show a Loss before tax of £96,000 (2010 Profit before tax of £479,000) and Net interest expense of £24,000 (2010 £343,000)

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

Future outlook

The Company ceased to write new finance lease business in September 2007 and operating lease business in June 2008 Accordingly the carrying value of Property, plant and equipment and Loans and advances to customers (and the associated income) has continued to reduce as individual lease agreements expire and assets are disposed

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 In October 2011 the remaining operating lease book matured 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')

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 United Dominions Leasing Limited and United Dominions Trust Limited

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 30 September 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 30 September 2011 (2010 £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 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

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

Directors' report (continued)
For the year ended 30 September 2011

Directors' indemnities

The directors have the benefit of a contract of indemnity which constitutes a "qualifying third party indemnity provision" This contract came into force during the financial year and remains in force It is 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

C K Sarfo-Agyare
Director

27 March 2012

Independent auditors' report to the member of Lloyds UDT Leasing Limited

We have audited the Directors' report and financial statements of Lloyds UDT Leasing Limited for the year ended 30 September 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 30 September 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

M A Ellis

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

27th March 2012

Income statement
For the year ended 30 September 2011

	Note	2011 £'000	2010 £'000
Interest income		**553**	735
Interest expense		**(577)**	(1,078)
Net interest expense	4	**(24)**	(343)
Other operating income	5	**6,832**	12,529
Impairment losses on loans and advances		**(105)**	(40)
Other operating expenses	6	**(6,799)**	(11,667)
(Loss)/profit before tax		**(96)**	479
Taxation	9	**1,100**	(10)
Profit for the year attributable to equity shareholders		**1,004**	469

Statement of comprehensive income
For the year ended 30 September 2011

		2011 £'000	2010 £'000
Profit for the year		**1,004**	469
Other comprehensive income:			
Movement in cash flow hedges, net of tax	18 7	**42**	(155)
Total comprehensive income for the year		**1,046**	314

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

All results derive from continuing operations

Balance sheet
As at 30 September 2011

	Note	2011 £'000	2010 £'000
ASSETS			
Other current assets	10	**8,459**	7,528
Loans and advances to customers	11	**8,976**	11,550
Inventories		**776**	4,968
Property, plant and equipment	12	**31**	2,425
Deferred tax asset	13	**2,092**	298
Total assets		**20,334**	26,769
LIABILITIES			
Borrowed funds	14	**10,828**	13,335
Other current liabilities	15	**1,088**	6,278
Derivative financial liabilities		**732**	809
Current tax liability		**335**	42
Total liabilities		**12,983**	20,464
EQUITY			
Share capital	16	**6,500**	6,500
Retained profits		**1,400**	396
Other reserves		**(549)**	(591)
Total equity		**7,351**	6,305
Total equity and liabilities		**20,334**	26,769

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

C K Saffo-Agyare
Director

27 March 2012

Statement of changes in equity

For the year ended 30 September 2011

	Share capital £'000	Retained profits £'000	Other reserves £'000	Total £'000
At 1 October 2009	6,500	(73)	(436)	5,991
Profit for the year	-	469	-	469
Other comprehensive income	-	-	(155)	(155)
At 30 September 2010	**6,500**	**396**	**(591)**	**6,305**
Profit for the year	-	1,004	-	1,004
Other comprehensive income	-	-	42	42
At 30 September 2011	**6,500**	**1,400**	**(549)**	**7,351**

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

Cash flow statement

For the year ended 30 September 2011

	2011 £'000	2010 £'000
Cash flows generated from operating activities		
(Loss)/profit before tax	**(96)**	479
Adjustments for		
- Interest paid	**577**	1,078
- Depreciation	**686**	4,613
- Cost of sale on disposal of ex-leased assets	**5,900**	6,790
Changes in operating assets and liabilities		
- Net decrease in Loans and advances to customers	**2,574**	4,154
- Net decrease in Other debtors and Other trade receivables	**13**	436
- Net (decrease)/increase in Other current liabilities	**(5,190)**	2,050
Cash generated from operations	**4,464**	19,600
Interest paid	**(577)**	(1,078)
Taxes paid via group relief	**(436)**	(615)
Net cash generated from operating activities	**3,451**	17,907
Cash flows used in financing activities		
Repayment of balances with group undertakings	**(3,451)**	(19,482)
Net cash used in financing activities	**(3,451)**	(19,482)
Net increase in cash and cash equivalents	**-**	(1,575)
Cash and cash equivalents at beginning of year	**-**	1,575
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 30 September 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 pronouncement relevant to the Company has been adopted in these financial statements

(i) Improvements to IFRSs (issued May 2010) Sets out minor amendments to IFRSs as part of the annual improvements process Most amendments clarified 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 30 September 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 by the valuation 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

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 lessor by way of penalty is recognised as an 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. Accounting policies (continued)

1 3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers, Amounts due from group undertakings, Other trade receivables and Other debtors Financial liabilities comprise Borrowed funds 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 at amortised cost inclusive of transaction costs, using the effective interest rate method

1 4 Derivative financial instruments

The Company 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

If there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment Future cash flows are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently

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

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

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 stated at the lower of cost and net realisable value Cost 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 are included at historical purchase cost less depreciation and any impairment allowance 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 the Cash flow statement and the Balance sheet, Cash and cash equivalents comprise balances with less than three months' maturity

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

A deferred tax asset is 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

Notes to the financial statements (continued)

For the year ended 30 September 2011

2. Risk management policy

The Company's operations expose it to credit risk, interest rate risk, liquidity risk and market 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 an 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

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

For loans and advances, credit risk arises both from amounts lent and commitments to extend credit to a customer, principally loan commitments

In measuring the credit risk of Loans and advances to customers, 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 2 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

2.3 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 Lloyds Banking Group

Liquidity risks are managed as part of the Lloyds Banking Group by an intermediate parent company, Lloyds TSB Bank plc, in consultation with the board of directors

2. Risk management policy (continued)

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, residual values being agreed on commencement of leases and the existence of a risk sharing agreement with a third party company, which has been designed to reduce the impact of adverse fluctuations in second hand markets

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 and assumptions 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

Operating lease assets

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

Deferred tax

The Deferred tax asset has been recognised on the basis that tax losses arising in the future will be surrendered as group relief which will be paid for by the recipient company None of this Deferred tax asset is expected to be realised within 12 months of the balance sheet date

4. Net interest expense

	2011 £'000	2010 £'000
Interest income		
From finance lease contracts	**553**	735
Interest expense		
Group interest expense (see note 17)	**(577)**	(1,078)
Net interest expense	**(24)**	(343)

Included within Interest income is £nil (2010 £nil) in respect of impaired financial assets

5. Other operating income

	2011 £'000	2010 £'000
Sales proceeds from disposal of ex-leased assets	**5,932**	6,786
Operating lease income	**900**	5,743
	6,832	12,529

6. Other operating expenses

	2011 £'000	2010 £'000
Management fees (see note 17)	**161**	245
Depreciation (see note 12)	**686**	4,613
Cost on disposal of ex-leased assets	**5,900**	6,790
Other operating expenses	**52**	19
	6,799	11,667

Fees payable to the Company's auditors for the audit of the financial statements of £3,000 (2010 £6,000) 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

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 (credit)/charge for the year		
UK corporation tax		
- Current tax on taxable (loss)/profit for the year	**334**	42
- Adjustments in respect of prior years	**395**	(2,890)
Current tax charge/(credit)	**729**	(2,848)
UK deferred tax		
- Origination and reversal of timing differences	**(319)**	(32)
- Adjustments in respect of prior years	**(1,510)**	2,890
Deferred tax (credit)/charge (see note 13)	**(1,829)**	2,858
	(1,100)	10

Corporation tax is calculated at a rate of 27 0% (2010 28 0%) of the taxable profit for the year

9. Taxation (continued)

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

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

	2011 £'000	2010 £'000
(Loss)/profit before tax	**(96)**	479
Tax (credit)/charge thereon at UK corporation tax rate of 27 0% (2010 28 0%)	**(26)**	134
Factors affecting (credit)/charge		
- Adjustments in respect of prior years	**(1,115)**	-
- Effect of reduction in tax rate	**153**	3
- Losses claimed for no payment	**(112)**	(127)
Tax on (loss)/profit on ordinary activities	**(1,100)**	10
Effective rate	**1,145 8%**	2 1%

During the year, group relief of £416,000 (2010 £4,634,000) was surrendered by fellow group undertakings to the Company for no payment

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)/ credit £'000	Net of tax amount £'000
2011			
Movements in cash flow hedges	77	(35)	42
Other comprehensive income for the year	77	(35)	42
2010			
Movements in cash flow hedges	(205)	50	(155)
Other comprehensive income for the year	(205)	50	(155)

10. Other current assets

	2011 £'000	2010 £'000
Amounts due from group undertakings (see note 17)	**8,459**	7,515
Other trade receivables	-	9
Other debtors	-	4
	8,459	7,528

Amounts due from Lloyds UDT Limited are unsecured, interest bearing at fixed rates set at the inception of lease agreements and repayable on demand All other Amounts due from group undertakings are unsecured, non-interest bearing and repayable on demand

11. Loans and advances to customers

	2011 £'000	2010 £'000
Advances under finance lease contracts	**8,978**	11,554
Less allowance for losses on loans and advances	**(2)**	(4)
Net loans and advances to customers	**8,976**	11,550
of which		
Due within one year	**1,657**	2,548
Due after one year	**7,319**	9,002
	8,976	11,550

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	**1,967**	3,027
- later than one year and no later than five years	**4,757**	5,731
- later than five years	**3,716**	4,956
	10,440	13,714
Unearned future finance income on finance lease contracts	**(1,462)**	(2,160)
Net investment in finance lease contracts	**8,978**	11,554

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

	2011 £'000	2010 £'000
- no later than one year	**1,659**	2,552
- later than one year and no later than five years	**3,904**	4,557
- later than five years	**3,415**	4,445
	8,978	11,554

The unguaranteed residual value is £nil (2010 £nil)

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

During 2011 and 2010, no contingent rentals in respect of finance leases were recognised in the Income statement

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

12. Property, plant and equipment

	Total £'000
Cost	
At 1 October 2009	30,041
Transfer to inventories	(23,388)
At 30 September 2010	6,653
Transfer to inventories	(5,578)
Disposals	(966)
At 30 September 2011	109
Accumulated depreciation	
At 1 October 2009	13,895
Charge for the year	4,613
Transfer to inventories	(14,280)
At 30 September 2010	4,228
Charge for the year	686
Transfer to inventories	(3,882)
Disposals	(954)
At 30 September 2011	78
Balance sheet amount at 30 September 2011	**31**
Balance sheet amount at 30 September 2010	2,425

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

At 30 September 2011 the future minimum rentals receivable under non cancellable operating leases were as follows

	2011 £'000	2010 £'000
Receivable within 1 year	-	893
Receivable between 2 to 5 years	-	4
Receivable later than five years	-	-
	-	897

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

Notes to the financial statements (continued)
For the year ended 30 September 2011

13. Deferred tax asset

The movement in the Deferred tax asset is as follows

	2011 £'000	2010 £'000
At the start of the year	298	3,106
Credit/(charge) for the year (see note 9)	1,829	(2,858)
	2,127	248
Amount (charged)/credited to equity - cash flow hedges	(35)	50
At 30 September	2,092	298

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

	2011 £'000	2010 £'000
Accelerated capital allowances	1,829	(2,858)

Deferred tax asset comprises	2011 £'000	2010 £'000
Accelerated capital allowances	1,908	79
Cash flow hedges	184	219
	2,092	298

Within the Deferred tax asset at 30 September 2011 are amounts of approximately £nil (2010 £nil) that are expected to be realised in less than twelve months after the balance sheet date

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011

In his Budget speech on 23 March 2011 the Chancellor announced a further reduction in the rate of corporation tax to 26% with effect from 1 April 2011 This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 29 March 2011 A further rate reduction to 25% (with effect from 1 April 2012) was enacted on 19 July 2011 Accordingly the deferred tax asset has been recognised at 25%

In addition to the changes in rates of corporation tax disclosed above, a number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year The overall effect of the further changes from 25% to 23%, if these applied to the Deferred tax asset at the balance sheet date, cannot be reliably quantified at this stage

14. Borrowed funds

	2011 £'000	2010 £'000
Amounts due to group undertakings (see note 17)	10,828	13,335

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 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 £'000	2010 £'000
VAT	**300**	1,143
Other creditors	**788**	5,135
	1,088	6,278

16. Share capital

	2011 £'000	2010 £'000
Allotted, issued and fully paid		
6,500,100 ordinary shares of £1 each	**6,500**	6,500

At 30 September 2011, the authorised share capital of the Company was £6,500,100 divided into 6,500,100 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 UDT Limited	**8,441**	7,497
Lloyds TSB Leasing Limited	**18**	18
Total amounts due from group undertakings (see note 10)	**8,459**	7,515
Amounts due to group undertakings		
United Dominions Trust Limited	**4,067**	5,475
Lloyds TSB Bank plc	**6,555**	7,654
Black Horse Limited	**206**	206
Total amounts due to group undertakings (see note 14)	**10,828**	13,335
Derivative financial liabilities		
Lloyds TSB Bank plc (see note 18 7)	**732**	809
Interest expense		
Lloyds TSB Bank plc	**338**	393
United Dominions Trust Limited	**181**	550
Lloyds UDT Limited	**58**	135
Total interest expense (see note 4)	**577**	1,078
Management fees		
Black Horse Limited (see note 6)	**161**	245

Group relief was surrendered to the company for no payment as per note 9

17. Related party transactions (continued)

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company Accordingly, key management 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 financial assets/liabilities and associated accounting is provided in note 1

18.1 Credit risk

Credit concentration - 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 £9,000) 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

Loans and advances to customers – maximum exposure

	2011 £'000	2010 £'000
Neither past due nor impaired	**8,847**	11,326
Past due but not impaired	**104**	211
Impaired	**27**	17
Maximum exposure – loans and advances	**8,978**	11,554
Commitments to lend	**-**	-
Maximum credit exposure	**8,978**	11,554

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

	2011 £'000	2010 £'000
Good quality	**1,794**	2,528
Satisfactory quality	**192**	3,118
Lower quality	**6,584**	5,678
Below standard, but not impaired	**277**	2
Total	**8,847**	11,326

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

Notes to the financial statements (continued)

For the year ended 30 September 2011

18. Financial risk management (continued)

18.1 Credit risk (continued)

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

	2011 £'000	2010 £'000
Past due up to 30 days	**104**	12
Past due from 30-60 days	**-**	113
Past due from 60-180 days	**-**	86
Total	**104**	211

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 Total £'000	2010 Total £'000
Brought forward	**4**	20
Advances written off	**(18)**	(56)
Charge for year (including recoveries)	**16**	40
At 30 September	**2**	4

The criteria used to determine that there is objective evidence of an impairment are 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 £nil (2010 £nil)

Renegotiated Loans and advances to customers

During the year the Company did not renegotiate any Loans and advances to customers which would otherwise have been past due or impaired (2010 £nil)

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

Due to the nature and volume of the assets held as collateral it is impracticable to estimate the fair value of collateral held at the year end in respect of Loans and advances to customers

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 Lloyds Banking 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

18. Financial risk management (continued)

18 3 Interest rate risk (continued)

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 intercompany balances A 0 6% increase or decrease is used to assess the possible change in interest expense

If market swap rates increased by 0 6% and all other variables remain constant this would increase interest expense by £28,000 (2010 £73,000) and accordingly decrease interest expense by £28,000 (2010 £73,000) if swap rates decreased by the same amount

18 4 Market risk

The Company believes it is not subject to market risk exposure as all residual values of amounts owed under finance lease agreements are guaranteed under the terms of the associated agreements

Impact of deferred taxation rate change on Loans and advances to customers

Held within Loans and advances to customers is a portfolio of long-term finance leases where the present value is influenced by future taxation rates The change in deferred taxation rates from 27% to 25% (see note 13) has reduced the future receivable in respect of this portfolio by £97,000 as at 30 September 2011

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 £9,709,000 (2010 £12,354,000) 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 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

Notes to the financial statements (continued)
For the year ended 30 September 2011

18. Financial risk management (continued)

18.7 Derivative financial instruments (continued)

	Average contract fixed interest rate		Contractual cash flows		Fair value	
	2011	2010	**2011**	2010	**2011**	2010
	%	%	**£'000**	£'000	**£'000**	£'000
0 to 12 months	**4.948**	4 927	**876**	1,059	**102**	118
1 to 2 years	**4 948**	4 948	**865**	859	**101**	96
2 to 5 years	**4 956**	4 951	**3,429**	2,470	**401**	275
5 years +	**4 912**	4 926	**1,093**	2,873	**128**	320
			6,263	7,261	**732**	809

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Company'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 decrease in the fair value liability, net of tax, of £42,000 (2010 increase of £155,000) 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 its 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 contingent liabilities or contracted capital commitments at the balance sheet date (2010 £nil)

21. Post balance sheet events

Apart from the tax rate changes discussed in note 13, 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 30 September 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 [2]	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
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	Annual periods beginning on or after 1 January 2011
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
IFRS 13 Fair value measurement [2]	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

1 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 effective date of the standard is annual periods beginning on or after 1 January 2015

2 At the date of this report this amendment is awaiting EU endorsement.

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