

Lloyds UDT Leasing Limited

Report and Accounts 30 September 2010

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

665240

Directors

T M Blackwell
G Ferguson
D J S Oldfield
C K Sarfo-Agyare
A P White

Member of Lloyds Banking Group

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Directors' report

For the year ended 30 September 2010

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 profit before tax of £479,000 (2009 £50,000) and net interest expense of £343,000 (2009 £988,000)

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. A decision was made in June 2008 to discontinue the operating lease business due to unfavourable margins. Accordingly, the carrying value of property, plant and equipment, loans and advances and the associated income will reduce as individual lease agreements expire and assets are disposed.

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 Black Horse Limited.

Policy and practice on payment of suppliers

The Company follows "The Better Payment Practice Code" published by the Department for Business, Innovation and Skills (BIS) regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref URN 04/606.

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 2010, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2009 nil).

Dividends

No dividends were paid or proposed during the year ending 30 September 2010 (2009 £nil).

Going Concern

The Company is reliant on funding ultimately provided by Lloyds TSB Bank plc. Notwithstanding the improvement in market liquidity during 2009 and 2010, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position. 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' report (continued)

For the year ended 30 September 2010

Directors

The names of the current directors are shown on the cover

The following changes have taken place during the year

G Ferguson (appointed 1 February 2010)

C K Sarfo-Agyare (appointed 1 February 2010)

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 International Financial Reporting Standards (IFRS) 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.

Auditors and 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.

On behalf of the Board



T M Blackwell
Director

29 March 2011

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

We have audited the financial statements of Lloyds UDT Leasing Limited for the year ended 30 September 2010 which comprise the income statement, 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 directors' responsibilities statement 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 members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 2010 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



Mark Ellis (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

One Kingsway
Cardiff
CF10 3PW

29th March 2011

Income statement

For the year ended 30 September 2010

	Note	2010 £'000	Reclassified 2009 £'000
Interest and similar income		735	1,033
Interest and similar expenses		(1,078)	(2,021)
Net interest expense	4	(343)	(988)
Other operating income	5	12,529	12,551
Impairment losses on loans and advances		(40)	(1)
Other operating expenses	6	(11,667)	(11,512)
Profit before tax		479	50
Taxation	9	(10)	(108)
Profit/(loss) for the year attributable to equity shareholders		469	(58)

Statement of comprehensive income

For the year ended 30 September 2010

	2010 £'000	2009 £'000
Profit/(loss) for the year	469	(58)
Other comprehensive income		
Movement in cash flow hedges, net of tax	(155)	(531)
Total comprehensive income for the year	314	(589)

The notes on pages 8 to 25 are an integral part of these financial statements

The 2009 comparatives have been restated to reflect the reclassification explained in note 21

All results derive from continuing operations

Balance sheet

As at 30 September 2010

	Note	2010 £'000	Reclassified 30 September 2009 £'000	Reclassified 1 October 2008 £'000
ASSETS				
Cash at bank		-	1,575	-
Other current assets	10	7,528	5,513	5,976
Derivative financial assets	17 7	-	-	132
Loans and advances to customers	11	11,550	15,704	21,735
Inventories		4,968	2,650	1,509
Property, plant and equipment	12	2,425	16,146	28,265
Deferred tax asset	13	298	3,106	-
Total assets		26,769	44,694	57,617
LIABILITIES				
Borrowed funds	14	13,335	30,366	41,038
Other current liabilities		6,278	4,228	3,848
Derivative financial liabilities	17 7	809	605	-
Current tax liability		42	3,504	3,102
Deferred tax liability	13	-	-	3,049
Total liabilities		20,464	38,703	51,037
EQUITY				
Share capital	15	6,500	6,500	6,500
Retained profits/(losses)		396	(73)	(15)
Other reserves		(591)	(436)	95
Total equity		6,305	5,991	6,580
Total equity and liabilities		26,769	44,694	57,617

The notes on pages 8 to 25 are an integral part of these financial statements

The 2009 comparatives have been restated to reflect the reclassification explained in note 21

The financial statements on pages 4 to 25 were approved by the board of directors and were signed on its behalf by



T M Blackwell
Director

29 March 2011

Statement of changes in equity

For the year ended 30 September 2010

	Share capital £'000	Other reserves £'000	Retained profits £'000	Total £'000
At 1 October 2008	6,500	95	(15)	6,580
Loss for the year and total comprehensive income	-	(531)	(58)	(589)
At 30 September 2009	6,500	(436)	(73)	5,991
Profit for the year and total comprehensive income	-	(155)	469	314
At 30 September 2010	6,500	(591)	396	6,305

The notes on pages 8 to 25 are an integral part of these financial statements

Cash flow statement

For the year ended 30 September 2010

	2010 £'000	Reclassified 2009 £'000
Cash flows from operating activities		
Profit before tax	479	50
Adjustments for		
- interest paid	1,078	2,021
- depreciation	4,613	7,391
- cost on disposal of ex leased assets	6,790	3,587
Changes in operating assets and liabilities		
- net decrease in loans and advances to customers	4,154	6,031
- net decrease/(increase) in other debtors and other current assets	436	(344)
- net increase in other current liabilities	2,050	380
Cash generated from operations	19,600	19,116
Interest paid	(1,078)	(2,021)
Taxes paid via group relief	(615)	(5,654)
Net cash generated from operating activities	17,907	11,441
Cash flows used in financing activities		
Repayment of balances with group undertakings	(19,482)	(9,866)
Net cash used in financing activities	(19,482)	(9,866)
Net (decrease)/increase in net bank overdrafts	(1,575)	1,575
Cash and cash equivalents at beginning of year	1,575	-
Cash and cash equivalents	-	1,575

The notes on pages 8 to 25 are an integral part of these financial statements

The 2009 comparatives have been restated to reflect the reclassification explained in note 21

Notes to the financial statements

For the year ended 30 September 2010

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.

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

- (i) IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Company has chosen to present two statements. The financial statements have been prepared under the revised disclosure requirements, the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements.

This revised standard has also introduced the requirement to present an additional balance sheet, representing the balance sheet as at the beginning of the earliest comparative period, where the prior year comparatives have been restated. As the Company has retrospectively applied the amendment to IAS 16 'Property, plant and equipment' detailed in part (iii) below, a restated balance sheet as at 1 October 2008 has been presented in these financial statements.

- (ii) Amendments to IFRS 7 'Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the amendments only result in additional disclosures, the amendments have not had any impact for amounts recognised in these financial statements.
- (iii) IAS 16 'Property, plant and equipment' (amendment). The amendment requires that where a company routinely sells items of property, plant and equipment that it has held for rental to others the company shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The amendment also requires that proceeds from the sale of such assets shall be recognised as revenue in accordance with IAS 18 'Revenue'. Comparative information has been re-presented so that it also is in conformity with the revised standard, as set out in note 21. The effect has been to reclassify assets with a value of £7,416,000 (2009: £2,650,000) from property, plant and equipment to inventories and to increase other operating income and expenses by £4,338,000 (2009: £3,507,000).
- (iv) Improvements to IFRSs (issued May 2008). Sets out minor amendments to IFRSs as part of annual improvements process. Most amendments clarified existing practice. The application of these new interpretations has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 30 September 2010 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.

1.2 Income recognition

Interest 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.

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.

Notes to the financial statements (continued)

For the year ended 30 September 2010

1. Accounting policies (continued)

1.2 Income recognition (continued)

Interest income from financial assets (continued)

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.

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.

Operating lease rental income

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

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 operating expenses.

1.3 Financial assets and liabilities

Financial assets comprise amounts due from group undertakings, loans and advances to customers, other trade receivables and other debtors. Financial liabilities comprise 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 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 must be tested throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its objective the hedge relationship is terminated.

Notes to the financial statements (continued)

For the year ended 30 September 2010

1. Accounting policies (continued)

1.5 Hedge accounting (continued)

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.

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

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

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

Assets held under operating leases

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the residual value of the related asset is adjusted and the amount of the reversal is recognised in the income statement.

1.7 Inventories

Inventories are 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.

Notes to the financial statements (continued)

For the year ended 30 September 2010

1. Accounting policies (continued)

1.9 Cash and cash equivalents

For the purposes of the cash flow statement, 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 substantially enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

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

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

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 significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the intermediate parent, Lloyds TSB Asset Finance Division Limited, and the ultimate parent, Lloyds Banking Group plc. Interest rate hedges are used to mitigate interest rate risk relating to a proportion of the Company's intercompany borrowings. The remaining interest rate and liquidity risk faced by the Company are 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

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')

In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see note 1.6)

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

Notes to the financial statements (continued)

For the year ended 30 September 2010

2. Risk management policy (continued)

2.1 Credit risk (continued)

Credit risk mitigation (continued)

- 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 17.3

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 the intermediate parent company, Lloyds TSB Bank plc, in consultation with the board of directors

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 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

Notes to the financial statements (continued)

For the year ended 30 September 2010

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

Operating lease assets

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

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

	2010 £'000	2009 £'000
Interest income		
From finance lease contracts	735	1,033
Interest expense		
Group interest expense (see note 16)	(1,078)	(2,021)
Net interest expense	(343)	(988)

5. Other operating income

	2010 £'000	Restated 2009 £'000
Proceeds on disposal of ex leased assets	6,786	3,507
Operating lease rental income	5,743	9,044
	12,529	12,551

The 2009 comparatives have been restated to reflect the reclassification explained in note 21

6. Other operating expenses

	2010 £'000	Restated 2009 £'000
Management fees (see note 16)	245	434
Depreciation (see note 12)	4,613	7,391
Cost on disposal of ex leased assets	6,790	3,587
Other operating expenses	19	100
	11,667	11,512

Fees payable to the Company's auditors for the audit of the financial statements of £6,000 (2009 £8,000) 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

The 2009 comparatives have been restated to reflect the reclassification explained in note 21

Notes to the financial statements (continued)

For the year ended 30 September 2010

7. Staff costs

The Company did not employ any persons during the year (2009 none)

8. Directors' emoluments

No director received any fees or emoluments during the year (2009 £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 16)

9. Taxation

	2010 £'000	2009 £'000
a) Analysis of charge for the year		
UK corporation tax		
- Current tax on taxable profit for the year	42	3,333
- Adjustments in respect of prior years	(2,890)	2,724
Current tax (credit)/charge	(2,848)	6,057
Deferred tax charge/(credit) (see note 13)	2,858	(5,949)
	10	108

Corporation tax is calculated at a rate of 28.0% (2009 28.0%) of the estimated taxable profit for the year

b) Factors affecting the tax charge for the year

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

	2010 £'000	2009 £'000
Profit before tax	479	50
Tax charge thereon at UK corporation tax rate of 28.0% (2009 28.0%)	134	14
Factors affecting charge		
- Adjustments in respect of prior years	-	94
- Effect of reduction in tax rate	3	-
- Losses claimed for no payment	(127)	-
Tax on profit on ordinary activities	10	108
Effective rate	2.1%	216.0%

During the year group relief of £454,000 (2009 £nil) was surrendered by fellow Group Undertakings to the Company for no payment

Notes to the financial statements (continued)

For the year ended 30 September 2010

9. Taxation (continued)

c) Tax effects relating to 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
2010			
Movements in cash flow hedges	(205)	50	(155)
2009			
Movements in cash flow hedges	(737)	208	(531)

10. Other current assets

	2010 £'000	2009 £'000
Amounts due from group undertakings (see note 16)	7,515	5,064
Other trade receivables	9	442
Other debtors	4	7
	7,528	5,513

Amounts due from Lloyds UDT Limited are net of funding on which interest is payable at fixed rates set at the inception of lease agreements. All other amounts are non-interest bearing.

11. Loans and advances to customers

	2010 £'000	2009 £'000
Gross loans and advances to customers	11,554	15,724
Less: allowance for losses on loans and advances	(4)	(20)
Net loans and advances to customers	11,550	15,704
of which		
Due within one year	2,548	4,318
Due after one year	9,002	11,386
	11,550	15,704

Notes to the financial statements (continued)

For the year ended 30 September 2010

11 Loans and advances to customers (continued)

Loans and advances to customers include finance lease receivables

	2010 £'000	2009 £'000
Gross investment in finance lease contracts, receivable		
- no later than one year	3,027	4,991
- later than one year and no later than five years	5,731	7,400
- later than five years	4,956	6,174
	13,714	18,565
Unearned future finance income on finance lease contracts	(2,160)	(2,841)
Net investment in finance lease contracts	11,554	15,724

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

	2010 £'000	2009 £'000
- no later than one year	2,552	4,337
- later than one year and no later than five years	4,557	5,957
- later than five years	4,445	5,430
	11,554	15,724

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 2010 and 2009, 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 17.

Notes to the financial statements (continued)

For the year ended 30 September 2010

12. Property, plant and equipment

	Total £'000
Cost	
At 1 October 2008 - previously reported	42,285
Prior period adjustment (see note 21)	(2,218)
At 1 October 2008 - as restated	40,067
Transfer to inventories	(10,026)
At 30 September 2009	30,041
Transfer to inventories	(23,388)
At 30 September 2010	6,653
Accumulated depreciation	
At 1 October 2008 - previously reported	12,512
Prior period adjustment (see note 21)	(709)
At 1 October 2008 - as restated	11,803
Charge for the year	7,391
Transfer to inventories	(5,299)
At 30 September 2009	13,895
Charge for the year	4,613
Transfer to inventories	(14,280)
At 30 September 2010	4,228
Balance sheet amount at 30 September 2010	2,425
Balance sheet amount at 30 September 2009	16,146

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

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

	2010 £'000	2009 £'000
Receivable within 1 year	893	5,855
Receivable between 1 to 5 years	4	961
	897	6,816

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 2010

13 Deferred tax

The movement in the deferred tax asset is as follows

	2010 £'000	2009 £'000
At 1 October	3,106	(3,049)
(Charge)/credit for the year (see note 9)	(2,858)	5,949
	248	2,900
Amount credited to equity - cash flow hedges	50	206
At 30 September	298	3,106

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

	2010 £'000	2009 £'000
Accelerated capital allowances	(2,858)	5,949
Deferred tax assets comprise	2010 £'000	2009 £'000
Accelerated capital allowances	79	2,937
Cash flow hedges	219	169
	298	3,106

With effect from 1 April 2011 profits are charged to corporation tax at the rate of 27%. Accordingly deferred tax has been provided at 27%.

Within the deferred tax asset at 30 September 2010 are amounts of approximately £nil (2009 £854,000) that are expected to be realised in less than twelve months after the balance sheet date.

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.

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, proposed a reduction to the main rate of corporation tax from 28% to 27%. Accordingly the deferred tax asset has been recognised at 27%. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The proposed further reductions in the rate of corporation tax by 1% per annum to 24% by 1 April 2014 are expected to be enacted separately each year starting in 2011. The effect of these further changes upon the Company's deferred tax balances and leasing business cannot be reliably quantified at this stage.

14. Borrowed funds

	2010 £'000	2009 £'000
Amounts due to group undertakings (see note 16)	13,335	30,366

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 United Dominions Trust Limited are interest bearing based on historic market swap rates and Lloyds TSB Bank plc at variable rates based on LIBOR. All other amounts are non-interest bearing.

Notes to the financial statements (continued)

For the year ended 30 September 2010

15 Share capital

	2010 £'000	2009 £'000
Allotted, issued and fully paid		
6,500,100 ordinary shares of £1 each	6,500	6,500

At 30 September 2010, the authorised share capital of the Company was £6,500,100 divided into 6,500,100 ordinary 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.

16. 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 expenses for the year are set out below.

	2010 £'000	2009 £'000
Amounts due from group undertakings		
Lloyds UDT Limited	7,497	5,046
Lloyds TSB Leasing Limited	18	18
Total amounts due from group undertakings (see note 10)	7,515	5,064
Amounts due to group undertakings		
United Dominions Trust Limited	5,475	19,541
Lloyds TSB Bank plc	7,654	10,321
Black Horse Limited	206	504
Total amounts due to group undertakings (see note 14)	13,335	30,366
Derivative financial instruments		
Lloyds TSB Bank plc (see note 17.7)	809	605
Interest expenses		
United Dominions Trust Limited	550	1,244
Lloyds TSB Bank plc	393	488
Lloyds UDT Limited	135	289
Total interest expenses (see note 4)	1,078	2,021
Management fees		
Black Horse Limited	245	372
Lloyds TSB Leasing Limited	-	62
Total management fees (see note 6)	245	434

Notes to the financial statements (continued)

For the year ended 30 September 2010

16. 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.

17. 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.

17.1 Credit risk

Credit concentration - trade receivables

The Company provides operating lease arrangements to customers geographically located in the United Kingdom. The maximum exposure to trade receivables at the year end is £9,000 (2009: £442,000), all of which are past due up to 30 days. Past due is defined as failure to make a payment when it falls due. No trade receivables are considered to be impaired (2009: £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

	2010 £'000	2009 £'000
Neither past due nor impaired	11,326	15,649
Past due but not impaired	211	34
Impaired	17	41
Maximum exposure – loans and advances	11,554	15,724

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

	2010 £'000	2009 £'000
Good quality	2,528	3,747
Satisfactory quality	3,118	5,610
Lower quality	5,678	528
Below standard, but not impaired	2	5,764
Total	11,326	15,649

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 2010

17. Financial risk management (continued)

17.1 Credit risk (continued)

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

	2010 £'000	2009 £'000
Past due up to 30 days	12	34
Past due from 30-60 days	113	-
Past due from 60-180 days	86	-
Total	211	34

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

Allowance for loans and advances to customers which are impaired

	2010 Total £'000	2009 Total £'000
Brought forward at 1 October	20	9
Advances written off	(56)	-
Charge for year (including recoveries)	40	1
Recoveries of prior advances written off	-	10
At 30 September	4	20

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.6. All loans and advances to customers are individually assessed for impairment.

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 (2009: £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 (2009: £nil).

17.2 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 17.7), all other financial liabilities are repayable on demand.

Notes to the financial statements (continued)

For the year ended 30 September 2010

17. Financial risk management (continued)

17.3 Interest rate risk

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

Interest rate risk - Sensitivity analysis

The sensitivity analysis is based on the Company's amounts due to group undertakings and takes account of movement in the market swap rates which is the basis for the interest rate on intercompany balances. A 0.7% increase or decrease is used to assess the possible change in interest rates.

If market swap rates increased by 0.7% and all other variables remain constant this would increase interest expense by £83,000 (2009 £165,000) and accordingly decrease interest expense by £83,000 (2009 £165,000) if swap rates decreased by the same amount.

17.4 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.

17.5 Financial strategy

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

17.6 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 £12,354,000 (2009 £16,309,000). Derivative financial instruments are carried at fair value (see note 17.7). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

17.7 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 the curves at the reporting date and is disclosed below. The average interest rate is calculated using a weighted average methodology.

Notes to the financial statements (continued)

For the year ended 30 September 2010

17. Financial risk management (continued)

17.7 Derivative financial instruments (continued)

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

	Average contract fixed interest rate		Notional principal value		Fair value	
	2010 %	2009 %	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Less than 1 year	4.927	4.918	996	1,126	111	81
1 to 2 years	4.948	4.927	874	996	97	72
2 to 5 years	4.951	4.949	2,463	2,573	275	186
5 years +	4.926	4.932	2,928	3,691	326	266
			7,261	8,386	809	605

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

The increase in the fair value liability, net of tax, of £155,000 (2009: £531,000) has been recognised in the statement of comprehensive income.

In 2010, all hedged cash flows are expected to occur so there is no ineffectiveness recognised in the income statement (2009: £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.

18. 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.

19. Contingent liabilities and commitments

There were no contingencies or contracted capital commitments at the balance sheet date (2009: £nil).

20. Post balance sheet events

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

Notes to the financial statements (continued)

For the year ended 30 September 2010

21 Reclassification of comparatives

The following items have been restated in the 2009 comparatives as required by the retrospective application of the amendment to IAS 16 'Property, plant and equipment', adopted on 1 October 2009. Details of amounts and account items affected are provided below.

		Restated £'000	Adjustment £'000	Previously reported £'000
Income statement				
Other operating income	(a)	12,551	3,507	9,044
Other operating expenses	(a)	(11,512)	(3,507)	(8,005)
Balance sheet				
At 1 October 2008				
Inventories	(b)	1,509	1,509	-
Property, plant and equipment	(b)	28,265	(1,509)	29,774
At 30 September 2009				
Inventories	(a)	2,650	2,650	-
Property, plant and equipment	(a)	16,146	(2,650)	18,796

- (a) Under the amendment to IAS 16 'Property, plant and equipment', the Company is required to transfer the property, plant and equipment held for rental to inventories at their carrying amount when they cease to be rented and become held for sale and to recognise the proceeds from the sale of such assets as revenue. The 2009 comparatives have been reclassified as the change in accounting policy has been applied retrospectively.

The amendment to IAS 16 'Property, plant and equipment' has resulted in the gross up of Other operating income and Other operating expenses by £3,507,000, being the separation of proceeds from the sale of ex leased assets from the net book value of the associated assets. The reclassifications have also resulted in an amount of £2,650,000 being transferred from property, plant and equipment to inventories representing the net book value of operating lease assets held for sale at 30 September 2009.

- (b) Under IAS 1 (revised) 'Presentation of financial statements', the Company is required to include an additional balance sheet as at the beginning of the comparative period, i.e. 1 October 2008, due to the retrospective application of the amendment to IAS 16. A restated balance sheet as at 1 October 2008 has been presented in the financial statements with an amount of £1,509,000 reclassified from property, plant and equipment to inventories.

The reclassifications have had £nil impact on the profit before or after tax, £nil impact on net assets and have increased cash generated from operations by £3,507,000 and decreased cash generated from investing activities by £3,507,000.

Notes to the financial statements (continued)

For the year ended 30 September 2010

22. Future developments

The following pronouncements will be relevant to the Company but were not effective at 30 September 2010 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued May 2010)	Sets out minor amendments to IFRSs as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 July 2010
IAS 24 Related Party Disclosures	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011
IFRS 9 Financial Instruments Classification and Measurement ¹	Simplifies the way entities will classify financial assets and reduces the number of classification categories to two, fair value and amortised cost. The existing available-for-sale and held-to-maturity categories have been eliminated. Classification will be made on the basis of the objectives of entity's business model for managing the assets and the characteristics of the contractual cash flows	Annual periods beginning on or after 1 January 2013

¹ At the date of this report this pronouncement 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