Lloyds UDT Leasing Limited

Annual report and accounts
for the year ended 30 September 2016

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

00665240

Current directors

G Ferguson
I S Perez

Company Secretary

P Gittins

Member of Lloyds Banking Group

Directors' report
For the year ended 30 September 2016

The directors present their report and the audited financial statements of Lloyds UDT Leasing Limited ("the Company") for the year ended 30 September 2016.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 00665240).

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

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

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Consumer Finance Division. While these risks are not managed separately for the Company, Consumer Finance is a portfolio of businesses and operates in a number of specialist markets providing consumer lending and contract hire to personal and corporate customers. Further details of risk management policies are contained in note 14 to the financial statements.

Key performance indicators ("KPIs")

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

Future outlook

The company ceased to write new finance lease business in September 2007 and operating lease business in June 2008. Accordingly the carring value of Loans and advances to customers (and the associated income) will continue to reduce as individual lease agreements expire and assets are disposed of. In October 2011 the operating lease book matured. There will be no future rental income in respect of operating leases.

Dividends

No dividends were paid or proposed during the year ended 30 September 2016 (2015: £nil).

Going concern

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

Directors

The current directors of the Company are shown on the front cover.

The following changes have taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

D J Burke	(resigned 5 February 2016)
A Walsh	(resigned 27 April 2016)

Directors' indemnities

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

Directors' report (continued)

For the year ended 30 September 2016

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 ("IFRSs") as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Independent auditors

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

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

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

G Ferguson
Director

19 May 2017

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

Report on the financial statements

Our opinion

In our opinion, Lloyds UDT Leasing Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 30 September 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and accounts (the "Annual Report") comprise:

- the Balance sheet as at 30 September 2016;
- the Income Statement and Statement of comprehensive income for the year then ended;
- the Cash flow statement for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption in preparing the Directors' report and take advantage of the small companies exemption from preparing a Strategic report. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

As explained more fully in the Statement of directors' responsibilities set out on 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) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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

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

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

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

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

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

19 May 2017

Income statement
For the year ended 30 September 2016

	Note	2016 £'000	2015 £'000
Interest income		**227**	270
Interest expense		**(230)**	(312)
Net interest expense	3	**(3)**	(42)
Impairment (losses)/gains		**(355)**	6
Loss before tax		**(358)**	(36)
Taxation	7	**(11)**	22
Loss for the year attributable to owners of the parent		**(369)**	(14)

Statement of comprehensive income
For the year ended 30 September 2016

	Note	2016 £'000	2015 £'000
Loss for the year		**(369)**	(14)
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Movement in cash flow hedges, net of tax	7	**85**	47
Total comprehensive (expense)/income for the year attributable to owners of the parent		**(284)**	33

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

Balance sheet
As at 30 September 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Other current assets	8	**8,890**	8,849
Loans and advances to customers	9	**2,894**	4,184
Current tax asset		**1,077**	319
Deferred tax asset	10	**1,595**	2,057
Total assets		**14,456**	15,409
LIABILITIES			
Borrowed funds	11	**7,564**	8,142
Other current liabilities		**7**	10
Derivative financial liabilities		**162**	250
Total liabilities		**7,733**	8,402
EQUITY			
Share capital	12	**6,500**	6,500
Other reserves		**(132)**	(217)
Retained earnings		**355**	724
Total equity		**6,723**	7,007
Total equity and liabilities		**14,456**	15,409

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

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

G Ferguson
Director

19 May 2017

Statement of changes in equity

For the year ended 30 September 2016

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 October 2015 - restated	6,500	(264)	738	6,974
Loss for the year	-	-	(14)	(14)
Other comprehensive income for the year	-	47	-	47
At 30 September 2015	**6,500**	**(217)**	**724**	**7,007**
Loss for the year	-	-	(369)	(369)
Other comprehensive income for the year	-	85	-	85
At 30 September 2016	**6,500**	**(132)**	**355**	**6,723**

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

Cash flow statement

For the year ended 30 September 2016

	2016 £'000	Reclassfied 2015 £'000
Cash flows generated from/(used in) operating activities		
Loss before tax	**(358)**	(36)
Adjustments for:		
Movement in cash flow hedges, gross of tax	**88**	80
- Interest paid	**230**	312
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**1,290**	941
- Net (decrease)/increase in Other current liabilities	**(3)**	1
- Net decrease in Derivative financial liabilities	**(88)**	(80)
Cash generated from operations	**1,159**	1,218
Interest paid	**(230)**	(312)
Group relief paid	**(310)**	(23)
Net cash generated from operating activities	**619**	883
Cash flows used in financing activities		
Repayment of borrowings with group undertakings	**(619)**	(883)
Net cash used in financing activities	**(619)**	(883)
Change in Cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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

The 2015 comparatives have been restated to reflect the reclassification explained in note 18.

Notes to the financial statements
For the year ended 30 September 2016

1. Accounting policies

1.1 Basis of preparation

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

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

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

(i) Annual improvement to IFRSs (issued December 2013). A collection of amendments to IFRSs from the 2010 - 12 and 2011 - 13 cycle of the annual improvements projects.

(ii) Amendmemnts to IAS 39 Financial Instruments: recognition and Measurement - Novation of Derviatives and Continuation of Hedge Accounting. Provides relief from discounting hedge accounting in circumstances where a derivative designated as a hedging instrument is novated to a central counterparty as a consequence of introduction of laws or regulations.

(iii) Amendment to IAS 36 Impairment of assets on recoverable amount disclosures. Addresses the disclosure of information about the recoverable amount of impaired assets that is based on fair value costs of disposal.

The application of these pronouncements has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 30 September 2016 and which have not been applied in preparing these financial statements are given in note 19. No standards have been early adopted.

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

1.2 Income recognition

Lease classification

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

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

Finance lease income

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

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

1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings and Loans and advances to customers. Financial liabilities comprise Amounts due to group undertakings and Other current liabilities. Derivative contracts can be either financial assets or financial liabilities and are discussed separately in note 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 financial liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

Notes to the financial statements (continued)

For the year ended 30 September 2016

1. Accounting policies (continued)

1.4 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.

1.5 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.

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.

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

1.6 Cash and cash equivalents

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

1.7 Taxation, including deferred income taxes

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

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

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

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

1.8 Other reserves

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

Notes to the financial statements (continued)
For the year ended 30 September 2016

2. 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.

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

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

Deferred tax

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

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

Fair value of financial instruments

In accordance with IFRS 13 Fair value measurement, the Company categorises financial instruments carried on the Balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. Valuation techniques for level 2 financial instruments use inputs that are based on observable market data. Level 3 financial instruments are those where the instrument's valuation is not based on observable market data. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information.

3. Net interest expense

	2016	2015
	£'000	£'000
Interest income		
From finance lease and hire purchase contracts	**227**	270
Interest expense		
Group interest expense (see note 13)	**(230)**	(312)
	(3)	(42)

4. Other operating income

Fees payable to the Company's auditors for the audit of the financial statements of £3,000 (2015: £3,000) have been borne by a fellow group undertaking and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management fees.

5. Staff costs

The Company did not have any employees during the year (2015: none)

6. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2015: £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 13).

7. Taxation

	2016 £'000	2015 £'000
a) Analysis of charge/(credit) for the year		
UK corporation tax:		
- Current tax on taxable loss for the year	**(448)**	(605)
- Adjustments in respect of prior years	**-**	1
Current tax credit	**(448)**	(604)
UK deferred tax:		
- Origination and reversal of timing differences	**376**	598
- Adjustments in respect of prior years	**-**	(1)
- Impact of deferred tax rate change	**83**	(15)
Deferred tax charge (see note 10)	**459**	582
Tax charge/(credit)	**11**	(22)

Corporation tax is calculated at a rate of 20.00% (2015: 20.50%) of the taxable profit for the year.

The Finance Act 2013 which was substantively enacted on 2 July 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the corporate tax rate to 17% with effect from 1 April 2020.

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

Where taxation on the Company's loss for the year differs from the taxation credit that would arise using the standard rate of corporation tax of 20.00% (2015: 20.50%), the differences are explained below:

	2016 £'000	2015 £'000
Loss before tax	**(358)**	(36)
Tax credit thereon at UK corporation tax rate of 20.00% (2015: 20.50%)	**(72)**	(7)
Factors affecting credit:		
- Effect of reduction in tax rate and related impacts	**83**	(15)
Tax charge/(credit) on loss on ordinary activities	**11**	(22)
Effective rate	**(3.07%)**	61.11%

7. Taxation (continued)

c) Tax effects relating to Other comprehensive income

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

	Before tax amount £'000	Tax (charge) / credit £'000	Net of tax amount £'000
2016			
Movements in cash flow hedges	**88**	**(3)**	**85**
Other comprehensive income for the year	88	(3)	85
2015			
Movements in cash flow hedges	14	33	47
Other comprehensive income for the year	14	33	47

8. Other current assets

	2016 £'000	2015 £'000
Amounts due from group undertakings (see note 13)	**8,890**	8,849

Amounts due from Lloyds UDT Limited are unsecured, non-interest bearing and repayable on demand.

9. Loans and advances to customers

	2016 £'000	2015 £'000
Advances under finance lease and hire purchase contracts	**2,894**	4,184
Net loans and advances to customers	**2,894**	4,184
of which:		
Due within one year	**777**	876
Due after one year	**2,117**	3,308
	2,894	4,184

Loans and advances to customers include finance lease and hire purchase receivables:

	2016 £'000	2015 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**880**	1,038
- later than one year and no later than five years	**2,146**	3,336
- later than five years	**144**	264
	3,170	4,638
Unearned future finance income on finance lease and hire purchase contracts	**(276)**	(454)
Net investment in finance lease and hire purchase contracts	**2,894**	4,184

9. Loans and advances to customers (continued)

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

	2016 £'000	2015 £'000
- no later than one year	**777**	876
- later than one year and no later than five years	**1,978**	3,058
- later than five years	**139**	250
	2,894	4,184

The unguaranteed residual value is £nil (2015: £nil).

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

During the year, no contingent rentals in respect of finance leases were recognised in the Income statement (2015: £nil).

10. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2016 £'000	2015 £'000
Brought forward	**2,057**	2,672
Charge for the year (see note 7)	**(459)**	(582)
	1,598	2,090
Amount credited to equity		
- Cash flow hedges	**(3)**	(33)
At 30 September	**1,595**	2,057

The deferred tax charge in the Income statement comprises the following temporary differences:

	2016 £'000	2015 £'000
Accelerated capital allowances	**(459)**	(582)

Deferred tax asset comprises:	2016 £'000	2015 £'000
Accelerated capital allowances	**1,565**	2,023
Cash flow hedges	**30**	34
	1,595	2,057

Notes to the financial statements (continued)

For the year ended 30 September 2016

11. Borrowed funds

	2016 £'000	2015 £'000
Amounts due to group undertakings (see note 13)	**7,564**	8,142

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 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.

12. Share capital

	2016 £'000	2015 £'000
Allotted, issued and fully paid		
6,500,100 ordinary shares of £1 each	**6,500**	6,500

13. 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 income and expense for the year are set out below.

	2016 £'000	2015 £'000
Amounts due from group undertakings		
Lloyds UDT Limited	**8,884**	8,843
Lloyds Bank Leasing Limited	**6**	6
Total Amounts due from group undertakings (see note 8)	**8,890**	8,849
Amounts due to group undertakings		
United Dominions Trust Limited	**5,610**	5,227
Lloyds Bank plc	**1,748**	2,709
Black Horse Limited	**206**	206
Total Amounts due to group undertakings (see note 11)	**7,564**	8,142
Derivative financial instruments		
Lloyds Bank plc	**162**	250
Interest expense		
Lloyds Bank plc	**159**	201
United Dominions Trust Limited	**71**	111
Total Interest expense (see note 3)	**230**	312

13. 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 is comprised of the directors of the Company, the directors of Black Horse Finance Holdings Limited and the Consumer Finance Division of the Lloyds Banking Group plc board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

14. Financial risk management

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

14.1 Credit risk

Credit concentration - Loans and advances to customers

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

Loans and advances to customers – maximum exposure

	2016 £'000	2015 £'000
Neither past due nor impaired	**2,894**	4,179
Past due but not impaired	**-**	5
Maximum exposure – loans and advances	**2,894**	4,184
Maximum credit exposure	**2,894**	4,184

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

	2016 £'000	2015 £'000
Good quality	**-**	-
Satisfactory quality	**2,883**	4,168
Lower quality	**11**	11
Below standard, but not impaired	**-**	-
Total	**2,894**	4,179

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

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

	2016 £'000	2015 £'000
Past due up to 30 days	**-**	5
Past due from 30-60 days	**-**	-
Past due from 60-180 days	**-**	-
Total	**-**	5

14. Financial risk management (continued)

14 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2016	2015
	£'000	£'000
Brought forward	-	-
Advances written off	(355)	(6)
Charge for year (including recoveries)	355	6
At 30 September	-	-

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.5. Included in Loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £nil (2015: £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.

During the year the Company repossessed collateral in respect of defaulted debt with a value of £nil (2015: £nil).

14.2 Liquidity risk

The Company is funded entirely by companies within the Group. Such funding is repayable on demand, although there is no expectation that such a demand would be made. With the exception of derivative financial instruments (see note 14.6), all other financial liabilities are repayable on demand.

14.3 Interest rate risk

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

In respect of a particular portfolio of larger leases, however, the Company has managed interest rate risk through use of interest rate swaps held with Group companies 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.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's Amounts due to group undertakings and takes account of movement in market swap rates which is the basis for the interest rate on intercompany balances. A 0.37% increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as it is the amount by which the market swap rates increased in the year.

If market swap rates increased by 0.37% and all other variables remain constant this would increase Interest expense by £21,000 (2015: £12,000) and accordingly decrease Interest expense by £21,000 (2015: £12,000) if market swap rates decreased by the same amount.

14.4 Financial strategy

The Company uses financial instruments to mitigate interest rate risk. However, the Company does not trade in financial instruments.

14. Financial risk management (continued)

14.5 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 considered to be level 2 in the valuation hierarchy as their fair value is 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 £3,411,000 (2015: £4,429,000). Derivative financial instruments are carried at fair value (see note 14.6). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

14.6 Derivative financial instruments

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

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

The notional principal amounts of the outstanding interest rate swap contracts are £2,135,000 (2015: £2,928,000). These notional amounts will reduce to £nil in 2019 in line with the reduction in the hedged borrowings. The interest terms on the derivatives provide for net settlement of fixed rates payable between 4.200% and 5.113% and floating rates receivable based on LIBOR.

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

In 2016, all hedged cash flows are expected to occur so there is no ineffectiveness recognised in the Income statement (2015: £nil). Due to the contractual arrangements in place between the Company and its customers, the Company does not have any exposure to future losses should a customer settle a loan before its contractual term.

The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using interest rate yield curves which are developed from publicly quoted rates.

The decrease in the fair value liability, net of tax, of £85,000 (2015: £47,000) has been recognised in the Statement of comprehensive income. The table below analyses the fixed interest payable on the swaps by due date.

	Contractual cash flows	
	2016	2015
	£'000	£'000
0 to 1 month	**-**	-
0 to 3 months	**26**	36
3 to 12 months	**49**	80
1 to 2 years	**33**	75
2 to 5 years	**6**	40
5 years +	**-**	-
	114	231

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.

15. 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.

16. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2015: £nil).

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £1,518k (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

17. Post balance sheet events

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

18. Reclassification of comparatives

The increase in Other current assets has been reclassified in the Cash flow statement in the 2015 comparatives. Previously this was reported within cash generated from operations and is now reported within cash used in financing activities.

The reclassification has had £nil impact on the profit before or after tax, £nil impact on net assets and has increased cash generated from operations and cash used in financing activities by £11,000.

19. Future developments

The following pronouncements will be relevant to the Company but were not effective at 30 September 2016 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued September 2014)	A collection of amendments to IFRSs from the 2012 - 2014 cycle of the annual improvements projects.	Annual periods beginning on or after 1 January 2016
IFRS 9 'Financial Instruments'	Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income 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 instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.	Annual periods beginning on or after 1 January 2018

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

20. Ultimate parent undertaking and controlling party

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