EVANSVILLE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
31 MAY 2010

Registered office

25 Gresham Street
London EC2V 7HN

Registered number

1598402

Directors

R J Eddowes
I Lomas
G Ferguson

Company Secretary

P Gittins

Member of Lloyds Banking Group

CONTENTS

EVANSVILLE LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 May 2010

Business review and principal activities

The principal activity of the company is the leasing of vehicles, plant and equipment by way of finance leases

The directors consider the level of performance to be in line with expectations The company ceased writing new lease business in January 2008 and is running off the existing book

The profit before tax for the year ended 31 May 2010 amounted to £9,553 (2009 £19,520) as set out in the statement of comprehensive income on page 8

No ordinary dividends have been paid in the year (2009 £nil)

Ownership of the ordinary share capital of the company was transferred from Lloyds TSB Scotland plc to Lloyds TSB Commercial Finance Limited on 26 March 2010

Principal risks

The principal risks and uncertainties of the company are closely aligned to those of the Lloyds Banking Group (formerly Lloyds TSB Group) and are not managed separately Further information is given in note 16 to the financial statements

Financial risk management

Disclosure of the company's financial risk management objectives and policies is given in note 16 to the financial statements

Key performance indicators (KPI's)

Given the straightforward nature of the business, the directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the company's business

Directors

The names of the directors at the date of signing these accounts are shown on page 1 The following changes to directors have taken place during the year

Directors	Resigned	Appointed
P J Newman	26th January 2010	
S Rice	26th January 2010	
I Lomas		26th January 2010
G Ferguson		26th January 2010
Secretary		
R A Connor	15th October 2010	
P Gittins		15th October 2010

EVANSVILLE LIMITED

REPORT OF THE DIRECTORS (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and audited 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 elected to prepare the company's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company, and of the profit or loss of the company, for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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

Auditor and disclosure of information to auditor

In the case of each director in office at the date the director's report is approved, the following applies

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- he 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

Policy and practice on payment of suppliers

The company has no dealings with trade suppliers, hence no disclosure is required under this heading

Post balance sheet events

The company has not written any new business for several years and, in order to take advantage of operational and financial benefits, has decided to transfer all trade and assets at net book value to its parent company, Lloyds TSB Commercial Finance Scotland Ltd (see notes 11 and 12) The assignment was dated 28 July 2010

On the 20th August 2010, a resolution was approved for the company to make an ordinary interim dividend payment of £550,000 to Lloyds TSB Commercial Finance Limited, and this amount has since been paid

By order of the board

30/11/10

I Lomas
Director

EVANSVILLE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EVANSVILLE LIMITED

We have audited the financial statements of Evansville Limited for the year ended 31 May 2010 which comprise the Balance Sheet, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity 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 4, 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 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 31 May 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EVANSVILLE LIMITED (continued)

Matters on which we are required to report by exception (continued)

- we have not received all the information and explanations we require for our audit

M Newman

Michael Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

2 December 2010

EVANSVILLE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MAY 2010

	Note	2010 £	2009 £
Interest and similar income		**19,610**	36,993
Interest expense and similar charges		**(6,457)**	(13,873)
Net interest income	4	**13,153**	23,120
Other operating expenses		**(3,600)**	(3,600)
Profit before tax	5	**9,553**	19,520
Tax	6	**(2,675)**	(6,072)
Profit for the year attributable to equity shareholders being total comprehensive income		**6,878**	13,448

The notes on pages 12 to 23 are an integral part of these financial statements

EVANSVILLE LIMITED

BALANCE SHEET AS AT 31 MAY 2010

	Note	2010 £	2009 £
ASSETS			
Non current assets			
Deferred tax	9	**133,925**	86,189
Trade and other receivables	8	-	69,124
		133,925	155,313
Current assets			
Trade and other receivables	8	**490,453**	414,215
Group relief receivable	13	-	30,505
		490,453	444,720
Total assets		**624,378**	600,033
LIABILITIES			
Current liabilities			
Trade and other payables	10	**4,484**	6,923
Group relief payable	13	**19,906**	-
Total liabilities		**24,390**	6,923
EQUITY			
Share capital	11	**50**	50
Retained profits		**599,938**	593,060
Total equity		**599,988**	593,110
Total equity and liabilities		**624,378**	600,033

The notes on pages 12 to 23 are an integral part of these financial statements

The financial statements on pages 8 to 23 were approved by the directors on 2010 and signed on their behalf by

30/11/10

I Lomas
Director

Company number 1598402

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2010

	Share Capital £	Retained profits £	Total £
At 31 May 2008	50	579,612	579,662
Profit for the year ended 31 May 2009	-	13,448	13,448
At 31 May 2009	50	593,060	593,110
Profit for the year ended 31 May 2010	-	6,878	6,878
At 31 May 2010	**50**	**599,938**	**599,988**

The notes on pages 12 to 23 are an integral part of these financial statements

EVANSVILLE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MAY 2010

	2010	2009
	£	£
Cash flows from operating activities		
Profit on ordinary activities before tax	**9,553**	19,520
Adjustments for		
Interest expense	**6,457**	13,873
Increase in trade and other receivables	**(7,114)**	(12,379)
Decrease in trade payables	**(2,439)**	(6,368)
Cash generated from operating activities	**6,457**	14,646
Interest paid	**(6,454)**	(13,870)
Group relief paid	**-**	(773)
Net cash from operating activities	**3**	3
Cash flows from financing activities		
Dividends paid to shareholders	**(3)**	(3)
Net cash reduction from financing activities	**(3)**	(3)
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

The notes on pages 12 to 23 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The company is incorporated and domiciled in Great Britain

2. Accounting policies

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

2.1 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union The financial statements have been prepared under the historical cost convention

Details of standards and interpretations relevant to the Company but not effective at 31 May 2010 and not applied in preparing these financial statements are set out in note 15

The financial statements have been prepared under the revised disclosure requirements of IAS 1 (revised) "Presentation of financial statements" The application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements

2.2 Income recognition

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments, using the effective interest method The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability

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 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 paid or received by the company that are an integral part of the overall return, 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

2.3 Financial assets and liabilities

Financial assets comprise amounts due from other group entities and trade and other receivables Financial liabilities comprise other creditors and preference shares

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences any residual interest in the assets of the entity after deducting all of its financial liabilities

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

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

When assets are leased under a finance lease the amount due from a lessee is recorded at the present value of the lease payments as a receivable within loans and advances to customers

2.4 Impairment of financial assets

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, whether or not foreclosure is probable

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 statement of comprehensive income

2.5 Tax

Current tax which is payable on taxable profits is recognised as an expense in the period in which the profits 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 a legal right of offset and the intention to settle on a net basis or to release the asset and settle the liability simultaneously

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

The company regularly reviews its loan portfolio 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

4. Net interest income

	2010	2009
	£	£
Interest and similar income		
Finance lease interest - primary	**8,910**	24,358
Finance lease interest - secondary	**10,010**	10,765
Profit on disposal of leased assets	**27,650**	121,549
Rebate of rentals less settlement fee	**(26,960)**	(119,679)
	19,610	36,993
Interest and similar charges (note 13)		
Group interest expense	**(6,454)**	(13,870)
Preference share interest (notes 7, 11)	**(3)**	(3)
	(6,457)	(13,873)
Net interest income	**13,153**	23,120

Rebate of rentals less settlement fee relates partly to assets with a net book value of £9,632 (2009 £13,506) where the lease was settled early, with the remainder relating to sales profits distributed to customers at the end of the lease term

5. Profit before tax

The profit before tax is stated after charging

	2010	2009
	£	£
Management charges payable to group company (note 13)	**3,600**	3,600

Audit fees of £3,000 (2009 £3,550) are borne by the parent company and are recovered as part of the management charge noted above

There were no employees (2009 nil) Employees' contracts of service are with Lloyds TSB Commercial Finance Limited and their remuneration is included in this company's financial statements The management charge includes the cost of these employees but it is not possible to ascertain separately the element that relates to employees' benefits and expenses

No remuneration was paid or is payable by the company to the directors The directors are employed by other companies in the Lloyds Banking Group and consider their services to this company as incidental to their other activities within the group

6. Tax

	2010	2009
	£	£
a) Analysis of charge for the year		
UK corporation tax		
- Current tax payable / (receivable) for the year	**16,537**	(30,505)
- Adjustment in respect of prior years	**33,874**	-
Current tax charge / (credit)	**50,411**	(30,505)
Deferred tax		
- Deferred tax in respect of current year	**(13,862)**	35,972
- Adjustment in respect of prior years	**(33,874)**	605
Deferred tax (credit) / charge for the year (note 9)	**(47,736)**	36,577
Total	**2,675**	6,072

The charge for tax on the profit for the year is based on a UK corporation tax rate of 28% (2009 28%)

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 £	2009 £
Profit before tax	**9,553**	19,520
Tax charge thereon at UK corporation tax rate of 28% (2009 28%)	**2,675**	5,466
Factors affecting charge		
- Adjustment in respect of prior years	-	605
- Other	-	1
Tax on profit on ordinary activities	**2,675**	6,072
Effective rate	**28.0%**	31 1%

7. Preference share dividends

	2010 £	2009 £
Non-equity – Preference		
Paid 1 5p (2009 1 5p) per share	**3**	3

8. Trade and other receivables

	2010 £	2009 £
Amounts falling due within one year		
Advances to customers under finance lease agreements	**69,871**	110,623
Amounts due from immediate parent company (note 13)	**420,582**	303,592
	490,453	414,215
Amounts falling due after more than one year		
Advances to customers under finance lease agreements	-	69,124
	490,453	483,339

Advances to customers under finance lease agreements

	2010 £	2009 £
Gross investment in finance lease receivables		
- No later than one year	**72,127**	119,636
- Later than one year and no later than five years	-	71,379
	72,127	191,015
Unearned future finance income on finance lease agreements	**(2,256)**	(11,268)
Net investment in finance lease contracts	**69,871**	179,747

Amounts due from immediate parent company are unsecured, repayable on demand and non-interest bearing

The cost of assets acquired during the year for the purpose of letting under finance leases amounted to £nil (2009 £nil) There are no unguaranteed residual values accruing to the benefit of the lessor and no contingent rents recognised as income in the period

9. Deferred tax

The movement in the net deferred tax asset is as follows

	2010 £	2009 £
At 1 June	**86,189**	122,766
Income statement credit / (charge) (note 6a)	**47,736**	(36,577)
At 31 May	**133,925**	86,189

The deferred tax credit / (charge) in the Statement of Comprehensive Income and deferred income tax asset relate to accelerated capital allowances in each year

Deferred income tax assets are recoverable as follows

	2010 £	2009 £
After more than 12 months	-	49,612
Within 12 months	**133,925**	36,577
	133,925	86,189

10. Trade and other payables

	2010	2009
	£	£
Amounts falling due within one year		
Accruals and deferred income	**1,407**	2,724
Other creditors	**3,027**	4,149
Preference shares (note 11)	**50**	50
	4,484	6,923

11. Called up Share Capital

	2010	2009
	£	£
Ordinary shares of 25p each (non-voting)		
Authorised	**950**	950
Allotted, called up, fully paid	**50**	50
6% non-cumulative preference shares of 25p each		
Authorised, allotted, called up, fully paid (note 10)	**50**	50

The irredeemable preference shares carry a dividend of 6% per annum, payable half yearly on 20 May and 20 November The dividend rights are non-cumulative On a return of assets, whether in a winding up or otherwise, there is a right to a return of capital paid up on the 6% preference shares in priority over the holders of the non-voting ordinary shares, but no further right to participate in profits or assets The preference shares carry the right to receive notice of and to attend and vote in person on a show of hands at every general meeting and the right to one vote per 6% preference share on a poll thereafter

Preference shares are classed as liabilities and included within trade and other payables Preference dividends are recognised as interest expense

Ownership of the ordinary share capital of the company was transferred from Lloyds TSB Scotland plc to Lloyds TSB Commercial Finance Limited on 26 March 2010

12. Ultimate parent company

Lloyds TSB Commercial Finance Scotland Limited is the immediate parent undertaking The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc (formerly Lloyds TSB Group plc), 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 TSB Commercial Finance Limited was at the balance sheet date the parent undertaking of the smallest such group of undertakings

Copies of the financial statements of Lloyds TSB Commercial Finance Limited are available from the Secretary, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH

Copies of the financial statements of Lloyds Banking Group plc are available from the Secretary, 25 Gresham Street, London EC2V 7HN

13. Related party transactions

A number of transactions are entered into with related parties in the normal course of business These include loans, recharges and expense transactions The outstanding balances at the year end and related expense and income for the year are set out below

	2010	2009
	£	£
Lloyds TSB Commercial Finance Scotland Limited		
Balance outstanding at 31 May		
Amounts due from immediate parent company (note 8)	**420,582**	303,592
Group relief (payable) / receivable	**(19,906)**	30,505
Transactions for the year ended 31 May		
Interest payable and similar charges (note 4)	**6,457**	13,873
Management charges (note 5)	**3,600**	3,600

Preference dividends payable to Lloyds TSB Commercial Finance Scotland Limited are disclosed in note 7

The amount of interest payable to Lloyds TSB Commercial Finance Scotland Limited is based on the number of lease agreements in existence during the financial year, rather than on the basis of the outstanding intercompany balance
Lloyds TSB Commercial Finance Scotland Limited owns all 200 voting preference shares On 26th March 2010, ownership of the 200 issued non voting ordinary shares passed from Lloyds TSB Scotland plc to Lloyds TSB Commercial Finance Ltd

Directors and 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 TSB Scotland plc board which comprises the statutory directors of that company and certain other senior management There were no transactions between the company and key management personnel during the current or preceding year

14. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 31 May 2010 (2009 nil)

15. Future accounting developments

The following pronouncements will be relevant to the company but were not effective at 31 May 2010 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Improvements to IFRS (issued April 2009)	Sets out minor amendments to IFRS standards 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 January 2010
IAS24 Related Party Disclosures	Simplifies the definition of a related party	Annual periods beginning on or after 1 January 2011
IFRS 9 Financial Instruments Classification and Measurement	Simplifies the way entities will classify financial assets and reduces the number of classification categories to two, fair value and amortised cost 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

At the date of this report, these pronouncements are awaiting EU endorsement The expected impact to the accounts will be minimal, with small changes to presentation

16. Financial Risk Management

The company's activities are principally related to the use of financial instruments through the leasing of vehicles, plant and equipment to its customers The company does not trade in financial instruments, nor does it use derivatives Lending activity is largely in the form of advances to customers The company's other financial instruments are amounts from Group companies

The company's operations expose it to credit risk, liquidity risk and interest rate risk, it is not exposed to any foreign exchange risk Responsibility for the control of overall risk lies with the Board of Directors, operating within a management framework established by Lloyds TSB Commercial Finance Ltd

A description of the financial assets and liabilities and associated accounting is provided in note 2 3

16 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 is managed through the application of strict underwriting criteria, determined by Lloyds TSB Commercial Finance Limited Significant credit exposures are measured and reported on a regular basis

Credit risk associated with amounts due from the immediate parent company is considered minimal

Credit concentration

The company lends to commercial customers geographically located within the United Kingdom

Loans and advances to customers – maximum exposure

	2010	2009
	£	£
Neither past due nor impaired	**69,428**	179,671
Past due but not impaired	**443**	76
Impaired	-	-
Gross exposure – loans and advances	**69,871**	179,747
Commitments to lend	-	-
Maximum credit exposure	**69,871**	179,747

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

	2010	2009
	£	£
Good quality	-	38,037
Satisfactory quality	-	125,927
Lower quality	**69,428**	15,109
Below standard but not impaired	-	598
Total	**69,428**	179,671

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

There were loans and advances to customers which were past due but not impaired of £443 as at 31 May 2010 (2009 £76) All were past due up to 30 days

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

Repossessed collateral

The fair value of collateral held against impaired debt is £nil (2009 £nil) 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

Renegotiated loans and advances to customers

During the year the company renegotiated no loans and advances to customers, which would otherwise have been past due or impaired

16.2 Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations as they fall due

Significant cash deposits relating to this company are held by Lloyds TSB Commercial Finance Scotland Limited (who collect customer rentals) and these intercompany debtors are all repayable on demand As such, liquidity risks are minimal All financial liabilities are repayable on demand

16.3 Interest rate risk

Interest rate risk is the risk of financial loss as the result of movements in interest rates and arises largely because of timing differences between the re-pricing of financial assets and liabilities

Rates of interest payable to Lloyds TSB Commercial Finance Scotland Limited are matched to rates receivable from customers, so that the interest rate risk faced by the company is limited

16.4 Fair values of financial assets and liabilities

Financial instruments include financial assets and financial 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

Financial assets in this context are advances to customers under finance lease agreements and amounts due from immediate parent company The accounting policy for such financial instruments is explained in note 2 3

Finance leases are initially recognised at fair value and subsequently amortised using the effective interest rate method Fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by other financial institutions When valued at fair value, advances to customers under finance lease agreements would equate approximately to £69,000 (2009 £183,000)

17. Capital management

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, and indirectly, to support the Lloyds Banking Group's regulatory capital requirements
The company's parent manages the company's capital structure and advises the board 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 company's parent

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 on page 10

18. Post Balance Sheet Events

The company has not written any new business for several years and in order to take advantage of operational and financial benefits has decided to assign all remaining lease agreements to its parent company, Lloyds TSB Commercial Finance Scotland Ltd The assignment was dated 28 July 2010

On the 20th August 2010, a resolution was approved for the Company to make an ordinary interim dividend payment of £550,000 to Lloyds TSB Commercial Finance Limited, and this amount has since been paid