Lloyds TSB Carselect Limited

Registered number 2849105

Report and Accounts
31 December 2008

Member of Lloyds Banking Group

Company information

Directors

Directors	T M Blackwell D J S Oldfield A P White
Secretary	D A Saunders

Lloyds TSB Carselect Limited is a limited company registered in England No: 2849105 and is both incorporated and domiciled in England and Wales.

Registered office

25 Gresham Street
London
EC2V 7HN

Directors' report

For the year ended 31 December 2008

Business review and principal activities

Lloyds TSB Carselect Limited ("the Company") provides new motor vehicles and related financial services. All vehicles are purchased from a fellow group undertaking. The Company ceased to write new operating lease business in 2003 and the operating lease business came to an end during 2007.

The results for the Company show a profit before tax of £172,128 (2007: loss before tax of £484,418), gross profit on sale of motor vehicles of £1,207,008 (2007: £1,708,856) and net interest income of £1,226,690 (2007: £1,225,133).

Future outlook

The environment within which the Company operates remains competitive. However the directors remain confident that current levels of performance will be maintained in the future.

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 Limited sub group ("the Division") and are not managed separately for the Company. Further details of the Company's and the 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.

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 the Company owed no amounts to trade creditors as at 31 December 2008, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985 is nil (2007: nil).

Dividends

No dividend was paid during the year ended 31 December 2008 (2007: £nil).

Directors

The names of the current directors are shown on page 1.

The following changes have taken place during the year:

M P Kilbee	(resigned 30 April 2008)
A P White	(appointed 30 April 2008)

Directors' report (continued)

For the year ended 31 December 2008

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

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 234ZA of the Companies Act 1985.

On behalf of the Board

T M Blackwell
Director
28/8 2009

Report of the independent auditors to the member of Lloyds TSB Carselect Limited

We have audited the financial statements of Lloyds TSB Carselect Limited for the year ended 31 December 2008 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report and the Company information on page 1. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

One Kingsway
Cardiff
CF10 3PW

28 August 2009

Income statement

For the year ended 31 December 2008

	Note	2008 £	2007 £
Revenue from sales of motor vehicles		**27,980,965**	47,264,464
Cost of sales of motor vehicles		**(26,773,957)**	(45,555,608)
Gross profit on sales of motor vehicles		**1,207,008**	1,708,856
Interest and similar income		**3,711,330**	3,823,865
Interest and similar expenses		**(2,484,640)**	(2,598,732)
Net interest income	4	**1,226,690**	1,225,133
Fee and commission income	5	**44,836**	86,746
Impairment losses on loans and advances		**(157,570)**	(231,352)
Operating lease rental income		**-**	11
Other operating expenses	6	**(2,148,836)**	(3,273,812)
Profit/(loss) before tax		**172,128**	(484,418)
Taxation	9	**(40,940)**	125,799
Profit/(loss) for the year attributable to equity shareholders		**131,188**	(358,619)

The notes on pages 9 to 22 are an integral part of these financial statements.

Balance sheet
As at 31 December 2008

	Note	2008 £	2007 £
ASSETS			
Cash and cash equivalents		**494,563**	1,287,973
Inventories	10	**159,892**	789,619
Loans and advances to customers	11	**44,325,434**	54,687,418
Other current assets	12	**1,087,404**	3,269,748
Property, plant and equipment	13	**29,526**	37,737
Current tax assets		**-**	123,050
Deferred tax assets	16	**16,656**	17,060
Total assets		**46,113,475**	60,212,605
LIABILITIES			
Borrowed funds	14	**39,740,977**	49,267,396
Other current liabilities	15	**1,831,382**	6,584,113
Current tax liabilities		**48,832**	-
Total liabilities		**41,621,191**	55,851,509
EQUITY			
Share capital	17	**100**	100
Retained earnings		**4,492,184**	4,360,996
Total equity		**4,492,284**	4,361,096
Total equity and liabilities		**46,113,475**	60,212,605

The notes on pages 9 to 22 are an integral part of these financial statements.

The financial statements on pages 5 to 22 were approved by the Board of Directors and were signed on its behalf by:

T M Blackwell
Director

28/8 2009

Statement of changes in equity

For the year ended 31 December 2008

	Share capital	Retained profits	Total
	£	£	£
At 1 January 2007	**100**	**4,719,615**	**4,719,715**
Loss for the year	-	(358,619)	(358,619)
At 31 December 2007	**100**	**4,360,996**	**4,361,096**
Profit for the year	-	131,188	131,188
At 31 December 2008	**100**	**4,492,184**	**4,492,284**

The notes on pages 9 to 22 are an integral part of these financial statements.

Cash flow statement
For the year ended 31 December 2008

	2008 £	2007 £
Cash flows from operating activities		
Profit/(loss) before tax	**172,128**	(484,418)
Adjustments for:		
- interest payable	**2,484,640**	2,598,732
- depreciation	**8,211**	8,211
- profit on sale of property, plant and equipment	**-**	(169)
Changes in operating assets and liabilities:		
- net decrease/(increase) in loans and advances to customers	**10,361,984**	(1,222,688)
- net decrease/(increase) in other debtors	**1,452,536**	(1,192,613)
- net decrease in inventories	**629,727**	612,199
- net (decrease)/increase in other current liabilities	**(4,752,731)**	2,540,544
Cash generated from operations	**10,356,495**	2,859,798
Interest paid	**(2,484,640)**	(2,598,732)
Taxes paid via group relief	**131,346**	(416,850)
Net cash from/(used in) operating activities	**8,003,201**	(155,784)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**-**	118,568
Net cash inflow from investing activities	**-**	118,568
Cash flows from financing activities		
(Repayment of)/proceeds from balances with group undertakings	**(8,796,611)**	1,136,684
Net cash (used in)/from financing activities	**(8,796,611)**	1,136,684
Net (decrease)/increase in cash and cash equivalents	**(793,410)**	1,099,468
Cash and cash equivalents at beginning of year	**1,287,973**	188,505
Cash and cash equivalents at end of year	**494,563**	1,287,973

The notes on pages 9 to 22 are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2008

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 all years presented unless otherwise stated.

These financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2008 and which have not been applied in preparing these financial statements are given in note 23.

The financial statements have been prepared under the historical cost convention.

The Company is reliant on funding ultimately provided by Lloyds TSB Bank plc. Owing to uncertainty in financial markets, Lloyds TSB Bank plc participates in government sponsored measures to improve funding and liquidity. The directors are satisfied that it is the intention of Lloyds TSB Bank 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.

1.2 Income recognition

Sales of motor vehicles

Revenue, which excludes value added tax, represents the invoiced value of vehicles sold during the year.

Cost of sales represents the cost of vehicles purchased for the purpose of resale during the year.

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 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 to a period of account. For loan products, 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 received or paid by the Company that are an integral part of the overall return such as acceptance 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.

Fee and commission income

Fees and commissions which are not an integral part of the effective interest rate, such as commission associated with the sale of insurance underwritten by a third party, are generally recognised on an accruals basis when the service has been provided. A provision for the claw back of such commissions in the event of early termination is assessed at least every six months to take account of the most recent trends.

1. Accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets comprise amounts due from group undertakings, loans and advances to customers and other debtors. Financial liabilities comprise borrowed funds and other current 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 cashflows, or obligations to pay cashflows, have expired.

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

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.

1.4 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 of the debt being restructured to reduce the burden on the borrower.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate. If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset or group of assets reflects the cash flows that may result from foreclosure, less the costs of obtaining and selling the collateral.

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

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

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 uncollectable, 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.

1.5 Inventories

Inventories represent vehicles for resale which are carried at the lower of cost and net realisable value.

1.6 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

1. Accounting policies (continued)

1.7 Property, plant and equipment

Property, plant and equipment is 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.

1.8 Taxation

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.

1.9 Pensions

Defined contribution
The Company receives recharges in respect of a defined contribution plan operated by Lloyds TSB Asset Finance Division Limited. Contributions payable to the plan in respect of the Company are recharged to the Company when they become payable.

Defined benefit
All active members of the Lloyds TSB Asset Finance Division Pension Scheme ("the Scheme") are employed by other companies in the Group. Accordingly, the risk associated with the operation of the Scheme lies with other companies. The Company is recharged by a fellow subsidiary an amount equal to the contributions made in respect of relevant employees included in note 7.

1.10 Share based payments

The Company receives recharges in respect of share based payment schemes operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 7. Full details of these schemes can be found in the 2008 annual report and accounts of the Company's ultimate parent company, Lloyds Banking Group plc (formerly Lloyds TSB Group plc).

2. Risk management policy

The Company's operations expose it to credit risk, liquidity risk and interest rate 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. The interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company. Credit risk is carefully monitored by Asset Finance Division credit committees and credit functions.

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 is managed through the application of strict underwriting criteria, determined by the Lloyds TSB Asset Finance Division credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

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

2. Risk management policy (continued)

2.1 Credit risk (continued)

In measuring the credit risk of loans and advances to customers, the Company reflects three components: (i) the 'probability of default' by the client on its contractual obligations; (ii) current exposures to the client 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').

For its retail lending, credit risk is assessed using 'exposure at default' and 'loss given default' models. The Company assesses the probability of default of individual counterparties using internal rating models tailored to the various categories of counterparty. All rating models, which are authorised by executive management, comply with the Group's standard methodology and are subject to a rigorous validation process.

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: The credit portfolio is also subjected to stress-testing and scenario analysis, to simulate outcomes and calculate their associated impact.
- Credit scoring: In its principal retail portfolios, the Company uses statistically-based decision techniques (primarily credit scoring). Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to Group risk approval.

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 re-pricing of financial assets and liabilities.

Through inter-company funding arrangements, the Company has effectively transferred its exposure to changes in interest rates to other companies within the Lloyds Banking Group.

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.

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 inventory

The Company regularly reviews its inventory of vehicles 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 proceeds from sale of the vehicles compared to the purchase cost; such observable data includes whether there has been an adverse change in the current market prices or economic conditions.

The variables used in the evaluation are kept under regular review to ensure that as far as possible they reflect the current economic circumstances, although actual experience may differ from that assumed.

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

Impairment of assets accounted for at amortised cost

The Company regularly reviews its portfolio of loans and finance 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 used to calculate the required impairment provisions are calculated collectively using formulae which take into account factors such as the length of time that the customer's account has been delinquent, historical loss rates and the value of any collateral held in order to determine expected future cash flows. The variables used in the formulae are kept under regular review to ensure that as far as possible they reflect the current economic circumstances, although actual experience may differ from that assumed.

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

Impairment of assets under Personal Contract Purchase (PCP) Agreements

Included within loans and advances to customers are certain hire purchase contracts referred to as Personal Contract Purchase (PCP) agreements. Under the terms of these agreements, customers have the option to either purchase the leased vehicle at the end of the lease term for a pre-agreed sum (the "pre-agreed residual value") or to return the vehicle for sale by the Company at auction.

Vehicles returned to the Company at the end of the lease term are initially held within other assets at the agreed residual value. At each balance sheet date, an assessment is made of the expected proceeds from the sale of returned vehicles compared with their pre-agreed residual values and a provision is established for any expected shortfall.

In addition the Company's impairment assessment process for its finance lease portfolio takes account of any expected shortfall between the pre-agreed residual values and anticipated sales proceeds relating to vehicles expected to be returned at the end of PCP contracts. Key estimates underlying this assessment are the proportion of vehicles expected to be returned and the expected proceeds arising from the sale of those vehicles.

4. Net Interest income

	2008	2007
	£	£
Interest income		
From finance lease and hire purchase contracts	**2,080,349**	2,071,666
From personal loans	**1,630,981**	1,752,199
	3,711,330	3,823,865
Interest expense		
Group interest expense (see note 18)	**(2,484,640)**	(2,598,732)
Net interest income	**1,226,690**	1,225,133

Included within interest income is £34,985 (2007: £28,795) in respect of impaired financial assets.

5. Fee and commission income

	2008 £	2007 £
Commission receivable (see note 18)	**30,726**	51,946
Loan fees receivable	**14,110**	34,800
Fee and commission income	**44,836**	86,746

6. Other operating expenses

	2008 £	2007 £
Staff costs (see note 7)	**1,080,424**	1,435,865
Other expenses	**1,060,201**	1,261,894
Management fees (see note 18)	**-**	568,000
Depreciation	**8,211**	8,211
Profit on disposal of property, plant and equipment	**-**	(158)
	2,148,836	3,273,812

Fees payable to the Company's Auditor for the audit of the financial statements of £2,500 (2007: £2,100) have been borne by a fellow subsidiary.

7. Staff costs

	2008 £	2007 £
Wages and salaries	**902,243**	1,211,924
Social security costs	**68,947**	89,546
Pension costs	**109,234**	134,395
	1,080,424	1,435,865

Staff costs represents emoluments recharged by a fellow subsidiary for 34 employees (2007: 46) employed by that fellow subsidiary.

8. Directors' emoluments

No director received any fees or emoluments during the year (2007: £nil). The directors are employed by other companies within the Lloyds Banking Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 18).

9. Taxation

	2008 £	2007 £
a) Analysis of charge/(credit) for the year		
UK corporation tax:		
- Current tax charge/(credit) on profit/(loss) for the year	**48,833**	(123,050)
- Adjustment in respect of prior years	**(8,297)**	9,158
Current tax charge/(credit)	**40,536**	(113,892)
Deferred tax charge/(credit) (see note 16)	**404**	(11,907)
	40,940	(125,799)

The charge/(credit) for tax on the profit/(loss) for the year is based on an effective UK corporation tax rate of 28.5% (2007: 30%) as the standard corporation tax rate changed from 30% to 28%, effective 1 April 2008.

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

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

	2008 £	2007 £
Profit/(loss) before tax	**172,128**	(484,418)
Tax charge/(credit) thereon at UK corporation tax rate of 28.5% (2007: 30%)	**49,056**	(145,325)
Factors affecting charge:		
- Adjustment in respect of prior years	**(8,297)**	9,158
- Effect of reduction in tax rate	**(7)**	1,218
- Non-allowable items	**188**	9,150
Tax on profit/(loss) on ordinary activities	**40,940**	(125,799)
Effective rate	**24%**	26%

10. Inventories

	2008 £	2007 £
Vehicles for resale	**159,892**	789,619

11. Loans and advances to customers

	2008 £	2007 £
Advances under finance lease and hire purchase contracts	**25,690,008**	29,963,132
Personal loans to customers	**19,427,942**	25,252,391
Gross loans and advances	**45,117,950**	55,215,523
Less: allowance for losses on loans and advances	**(575,209)**	(528,105)
Less: provision for impairment	**(217,307)**	-
Loans and advances to customers, net	**44,325,434**	54,687,418
of which:		
due within one year	**22,685,193**	24,976,716
due after more than one year	**21,640,241**	29,710,702
	44,325,434	54,687,418

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

	2008 £	2007 £
Gross investment in hire purchase and finance lease contracts, receivable:		
- no later than one year	**14,410,476**	15,128,425
- later than one year and no later than five years	**13,746,684**	17,995,806
	28,157,160	33,124,231
Unearned future finance income on hire purchase and finance lease contracts	**(2,467,152)**	(3,161,099)
Net investment in hire purchase and finance lease contracts	**25,690,008**	29,963,132

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

	2008 £	2007 £
- no later than one year	**13,147,819**	13,684,695
- later than one year and no later than five years	**12,542,189**	16,278,437
	25,690,008	29,963,132

The Company provides a range of finance lease options in connection with the financing of motor vehicles. The leases typically run up to 3 years.

During 2008 and 2007, 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 19.

12. Other current assets

	2008	2007
	£	£
Amounts due from group undertakings (see note 18)	**-**	729,808
Other debtors	**1,087,404**	2,539,940
	1,087,404	3,269,748

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

13. Property, plant and equipment

	Operating lease assets	**Other motor vehicles**	**Total**
	£	**£**	**£**
Cost			
At 1 January 2007	261,918	51,422	313,340
Disposals in 2007	(261,918)	-	(261,918)
At 31 December 2007 and 31 December 2008	**-**	**51,422**	**51,422**
Accumulated depreciation			
At 1 January 2007	143,519	5,474	148,993
Charge for the year	-	8,211	8,211
Disposals	(143,519)	-	(143,519)
At 31 December 2007	-	13,685	13,685
Charge for the year	-	8,211	8,211
At 31 December 2008	**-**	**21,896**	**21,896**
Balance sheet amount at 31 December 2008	**-**	**29,526**	**29,526**
Balance sheet amount at 31 December 2007	-	37,737	37,737

14. Borrowed funds

	2008	2007
	£	£
Borrowings from group undertakings (see note 18)	**39,740,977**	49,267,396

Amounts due to group undertakings are unsecured, interest bearing at variable rates based on LIBOR and repayable within three months, although there is no expectation that such a demand would be made.

15. Other current liabilities

	2008	2007
	£	£
Accruals and other creditors	**1,831,382**	6,584,113

16. Deferred tax

The movement in the deferred tax asset is as follows:

	2008 £	2007 £
At 1 January	**17,060**	5,153
Income statement (charge)/credit (see note 9)	**(404)**	11,907
At 31 December	**16,656**	17,060

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

	2008 £	2007 £
Accelerated capital allowances	**(1,459)**	(14,968)
Allowances for impairment losses	**850**	1,397
Other temporary differences	**1,013**	1,664
	404	(11,907)

Deferred tax assets comprise:

Accelerated capital allowances	**3,611**	2,152
Allowance for impairment losses	**5,951**	6,801
Other temporary differences	**7,094**	8,107
	16,656	17,060

With effect from 1 April 2008 profits have been charged to corporation tax at the rate of 28% (previously 30%). Accordingly, deferred tax has been calculated at 28%.

Within the deferred tax asset at 31 December 2008 are net deferred tax liabilities of approximately £8,524 (2007: £7,792) that are expected to be settled in no more than twelve months after the balance sheet date.

17. Share capital

	2008 £	2007 £
Authorised, allotted, issued and fully paid		
100 ordinary shares of £1 each	**100**	100

The immediate parent company is ACL Autolease 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 the Company Secretary's Department, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

18. Related party transactions

The Company is controlled by ACL Autolease Holdings Limited.

A number of transactions are entered into with related parties in the normal course of business. These include vehicle purchases, loans and fees transactions. The outstanding balances at the year end and related expense and income for the year are as follows:

	2008 £	2007 £
Amounts due from group undertakings		
Lloyds TSB Autolease Limited (see note 12)	-	729,808
Amounts due to group undertakings		
Black Horse Limited	**38,677,344**	49,267,396
Lloyds TSB Autolease Limited	**1,063,633**	-
Total amount due to related parties (see note 14)	**39,740,977**	49,267,396
Purchase of motor vehicles		
Lloyds TSB Autolease Limited	**26,773,957**	45,555,608
Interest payable		
Black Horse Limited (see note 4)	**2,484,640**	2,598,732
Management fees		
Black Horse Limited (see note 6)	-	568,000
Staff and other costs recharge		
Black Horse Limited	**1,195,624**	1,553,465

Commission receivable of £30,726 (2007: £51,946) includes insurance commission income receivable under the terms of the Company's agreement with Lloyds TSB General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc, of £28,952 (2007: £48,164).

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 Asset Finance Division board which comprises the statutory directors of Lloyds TSB Asset Finance Division Limited and certain other senior management. 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.

19. 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.

19. Financial risk management (continued)

19.1 Credit risk

Credit concentration

The Company lends to customers geographically located within the United Kingdom.

The Company's finance lease and loan portfolio comprises retail lending only; mainly to private individuals in connection with the financing of motor vehicles.

Loans and advances to customers – maximum exposure

	2008 £	2007 £
Neither past due nor impaired	**43,409,976**	53,224,692
Past due but not impaired	**542,646**	967,261
Impaired	**1,165,328**	1,023,570
Maximum exposure – loans and advances	**45,117,950**	55,215,523

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

	2008 £	2007 £
Good quality	**32,433,907**	22,077,025
Satisfactory quality	**8,224,048**	17,698,236
Lower quality	**-**	9,067,840
Below standard, but not impaired	**2,752,021**	4,381,591
Total	**43,409,976**	53,224,692

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

	2008 £	2007 £
Past due up to 30 days	**542,646**	967,261
Past due up from 30-60 days	**-**	-
Past due up from 60-90 days	**-**	-
Total	**542,646**	967,261

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

19. Financial risk management (continued)

19.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2008 Total £	2007 Total £
Brought forward at 1 January	**(528,105)**	(384,488)
Advances written off	**110,466**	87,735
Charge for year (including recoveries and unwind of discount)	**(157,570)**	(231,352)
At 31 December	**(575,209)**	(528,105)

The criteria used to determine that there is objective evidence of an impairment is disclosed in Note 1.4. Included in loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £nil (2007: £nil).

Renegotiated loans and advances to customers

During the year the Company did not renegotiate loans and advances to customers, which would otherwise have been past due or impaired (2007: £139,499).

Repossessed collateral

Collateral held against loans and advances to customers is principally comprised of motor vehicles. 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 £31,602 (2007: £10,235).

19.2 Liquidity risk

The Company is funded on an ongoing basis entirely by companies within the Lloyds Banking Group. Such funding is repayable within three months, although there is no expectation that such a demand would be made. All other financial liabilities are repayable on demand.

19.3 Financial strategy

The Company does not trade in financial instruments, nor does it use derivatives.

19.4 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 aggregate fair value of loans and advances to customers is approximately £43,542,349 (2007: £54,954,000) before impairment. The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

20. 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.

21. Contingent liabilities and commitments

There were no contingencies or contracted capital commitments at the balance sheet date (2007: £nil).

22. Post balance sheet events

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

23. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2008 and have not been applied in preparing these financial statements.

IAS 1 *Presentation of Financial Statements*	Revises the overall requirements for the presentation of financial statements, guidance for their structure and minimum content requirements. The revised standard requires the presentation of all non-owner changes in equity within a statement of comprehensive income.	Annual periods beginning on or after 1 January 2009.
Improvements to IFRSs	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 2009.

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.