Lloyds TSB Carselect Limited

Registered number 2849105

Report and Accounts
31 December 2007

Member of Lloyds TSB Group

Company information

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

Registered office

25 Gresham Street
London
EC2V 7HN

Directors' report
For the year ended 31 December 2007

Business review and principal activities

The principal activity of Lloyds TSB Carselect Limited ("the Company") is the sale of new motor vehicles and related financial services All vehicles are purchased from a fellow group company 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 loss before tax of £484,418 (2006 profit before tax £1,381,996), gross profit on sale of motor vehicles of £1,708,856 (2006 £1,766,633) and net interest income of £1,201,766 (2006 £1,226,546)

The Company is funded entirely by other companies within the Lloyds TSB Group

Future outlook

The environment within which the Company operates remains competitive and the business has performed in line with expectations during the year

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 Further details of the Company's and Division's risk management policy are contained in note 2 to the financial statements

Key performance indicators ('KPIs')

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

Policy and practice on payment of suppliers

The Company follows "The Better Payment Practice Code" published by the Department for Business, Enterprise and Regulatory Reform (BERR), regarding the making of payments to suppliers A copy of the code and information about it may be obtained from the DERR 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 suppliers as at 31 December 2007, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985 is nil (2006 nil)

Dividends

No dividend was paid in the year ended 31 December 2007 (2006 £nil)

Directors

The names of the current directors are shown on page 1

The following changes have taken place during the year and subsequent to the year end

T M Blackwell	(appointed 28 September 2007)
D K Potts	(resigned 28 September 2007)
M P Kilbee	(resigned 30 April 2008)
A P White	(appointed 30 April 2008)

Directors' report
For the year ended 31 December 2007

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,
- 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

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

By order of the Board

T M Blackwell
Director
30 October 2008

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

We have audited the financial statements of Lloyds TSB Carselect Limited for the year ended 31 December 2007 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 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 directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

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 2007 and of its loss 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

31 October 2008

Income statement

For the year ended 31 December 2007

	Note	2007 £	Reclassified 2006 £
Revenue from sales of motor vehicles		**47,264,464**	49,944,822
Cost of sales of motor vehicles		**(45,555,608)**	(48,178,189)
Gross profit on sales of motor vehicles		**1,708,856**	1,766,633
Interest and similar income		**3,800,498**	3,347,213
Interest expense and similar charges		**(2,598,732)**	(2,120,667)
Net interest income	4	**1,201,766**	1,226,546
Fee and commission income	5	**134,707**	101,092
Impairment loss on loans and advances		**(231,352)**	(90,584)
Operating lease rentals		**11**	4,378
Other operating expenses	6	**(3,298,406)**	(1,626,069)
(Loss)/profit before tax		**(484,418)**	1,381,996
Taxation credit / (charge)	9	**125,799**	(414,599)
(Loss)/profit for the year attributable to equity shareholders		**(358,619)**	967,397

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

The reclassification of comparatives is explained in note 1 1 and the impact of the reclassification is summarised in note 22

Balance sheet
At 31 December 2007

	Note	2007 £	2006 £
ASSETS			
Cash and cash equivalents		**1,287,973**	188,505
Inventories	10	**789,619**	1,401,818
Loans and advances to customers	11	**54,687,418**	53,464,730
Other current assets	12	**3,269,748**	1,347,327
Property, plant and equipment	13	**37,737**	164,347
Current tax assets		**123,050**	-
Deferred tax assets	16	**17,060**	5,153
Total assets		**60,212,605**	56,571,880
LIABILITIES			
Borrowed funds	14	**49,267,396**	47,400,904
Other current liabilities	15	**6,584,113**	4,043,569
Current tax liabilities		**-**	407,692
Total liabilities		**55,851,509**	51,852,165
EQUITY			
Share capital	17	**100**	100
Retained earnings		**4,360,996**	4,719,615
Total equity		**4,361,096**	4,719,715
Total equity and liabilities		**60,212,605**	56,571,880

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

30 October 2008

Statement of changes in equity

For the year ended 31 December 2007

	Share capital £	Retained earnings £	Total £
At 1 January 2006	100	3,752,218	3,752,318
Profit for the year	-	967,397	967,397
At 31 December 2006	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

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

Cash flow statement

For the year ended 31 December 2007

	2007 £	2006 £
Cash flows from operating activities		
(Loss)/profit before tax	**(484,418)**	1,381,996
Adjustments for		
- interest payable	**2,598,732**	2,120,667
- depreciation	**8,211**	9,208
- profit on sale of property, plant and equipment	**(169)**	(410)
Changes in operating assets and liabilities		
- net increase in loans and advances to customers	**(1,222,688)**	(15,559,922)
- net increase in other debtors and other taxes	**(1,192,613)**	(789,446)
- net decrease/(increase) in inventories	**612,199**	(694,406)
- net increase in other liabilities	**2,540,544**	1,606,881
Cash generated from/(used in) operations	**2,859,798**	(11,925,432)
Interest paid	**(2,598,732)**	(2,120,667)
Taxes paid via group relief	**(416,850)**	(305,137)
Net cash outflow from operating activities	**(155,784)**	(14,351,236)
Cash flows from investing activities		
Purchase of property, plant and equipment	**-**	(51,422)
Proceeds from sale of property, plant and equipment	**118,568**	58,935
Net cash inflow from investing activities	**118,568**	7,513
Cash flows from financing activities		
Advances of net group funding	**1,136,684**	14,121,861
Net cash flows from financing activities	**1,136,684**	14,121,861
Net increase/(decrease) in cash and cash equivalents	**1,099,468**	(221,862)
Cash and cash equivalents at beginning of year	**188,505**	410,367
Cash and cash equivalents at end of year	**1,287,973**	188,505

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

Notes to the financial statements
31 December 2007

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 Lloyds TSB Carselect Limited is a limited company incorporated and domiciled in England

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

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

i) IFRS 7 Financial Instruments Disclosures This standard, which was effective from 1 January 2007, requires more detailed qualitative and quantitative disclosures about exposure to risks arising from financial instruments As a disclosure standard, the application of this new standard has not had any impact on amounts recognised in the financial statements IFRS 7 supersedes IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements previously contained in IAS 32 'Financial Instruments Presentation' The IFRS 7 disclosures are set out in notes 2 and 18

ii) Amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures' This standard, which was effective from 1 January 2007, requires additional disclosures of the objectives, policies and processes for managing capital These new capital disclosures are set out in note 18

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2007 and which have not been applied in preparing these financial statements are given in note 22

Restatement of comparatives

Errors in the classification of certain accounting transactions for the year ended 31 December 2006 have been identified during the preparation of the 2007 financial statements, resulting in reclassification of certain items in the income statement for 2006 The reclassifications have £nil impact on profit before and after tax and £nil impact on net assets Details of amounts and account items affected are provided in note 22

The financial statements have been prepared on a going concern basis under the historical cost convention

1 2 Income recognition

Interest income

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

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

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

Once a financial asset, a group of similar financial assets, or the net investment in a finance lease has been written down as a result of an impairment loss, interest income is recognised for the remainder of the contract using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

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

1. Accounting policies (continued)

Operating lease rental income

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

1 3 Fee and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate are generally recognised on an accruals basis when the service has been provided

1 4 Financial assets, liabilities and operating leases

Financial assets comprise amounts due from group companies, 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

All 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 held subject to a finance lease or hire purchase contract, the present value of the lease payments is recognised as a receivable within loans and advances to customers

Operating lease assets are included within fixed assets at cost and depreciated over the life of the lease after taking into account anticipated residual values (see note 1 8)

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, 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, whether or not foreclosure is probable

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 decrease the amount of impairment losses in the income statement

1. Accounting policies (continued)

1 5 Impairment (continued)

Property, plant and equipment

Impairment of property, plant and equipment is assessed by comparing the net present value of the expected future cash flows with the carrying value Any impairment identified in this way is charged immediately to the income statement

1 6 Inventories

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

1 7 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 inception

1 8 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 residual value over the period of the lease

1 9 Taxation, including deferred income taxes

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 realise the asset and settle the liability simultaneously

1 10 Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are paid

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 TSB Group plc The interest rate and liquidity risk faced by the Company is in substance managed by other group companies which fund the Company and 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 Limited credit committee and credit functions Significant credit exposures are measured and reported on a regular basis Impairment provisions are provided for losses that have been incurred at the balance sheet date

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

2. Rısk management polıcy (contınued)

In measurıng the credıt rısk of loans and advances to customers, the Company reflects three components (ı) the 'probabılıty of default' by the clıent on ıts contractual oblıgatıons, (ıı) current exposures to the clıent and theır lıkely future development, from whıch the Company derıves the 'exposure at default', and (ııı) the lıkely recovery ratıo on the defaulted oblıgatıons (the 'loss gıven default')

The Company assesses the probabılıty of default of ındıvıdual clıents usıng ınternal ratıng models taılored to the varıous categorıes of clıent Exposure at default and loss gıven default models are also ın use All ratıng models, whıch are authorısed by executıve management, comply wıth the Group's standard methodology and are subject to a rıgorous valıdatıon process

Credıt Rısk Mıtıgatıon

- Credıt prıncıples and polıcy Group rısk sets out the group credıt prıncıples and polıcy accordıng to whıch credıt rısk ıs managed, whıch ın turn ıs the basıs for dıvısıonal and busıness unıt credıt polıcy Prıncıples and polıcy are revıewed regularly and any changes are subject to a revıew and approval process Busıness unıt polıcy ıncludes lendıng guıdelınes, whıch define the responsıbılıtıes of lendıng officers and provıde a dıscıplıned and focused benchmark for credıt decısıons
- Stress testıng and scenarıo analysıs The credıt portfolıo ıs also subjected to stress-testıng and scenarıo analysıs, to sımulate outcomes and calculate theır assocıated ımpact
- Credıt scorıng In ıts prıncıpal retaıl portfolıos, the Group uses statıstıcally-based decısıon technıques (prımarıly credıt scorıng) Dıvısıonal rısk departments revıew scorecard effectıveness and approve changes, wıth materıal changes subject to group rısk approval

2 2 Interest rate risk

Interest rate rısk ıs the rısk of financıal loss as a result of adverse movements ın ınterest rates, and arıses largely because of tımıng dıfferences between the re-prıcıng of financıal assets and lıabılıtıes

Whıle the Company ıs exposed to ınterest rate rısk, the Group has varıous hedgıng strategıes ın place to mıtıgate the ınterest rate rısk at a Group level

2 3 Lıquıdıty rısk

Lıquıdıty rısk ıs the rısk that the Company ıs unable to meet ıts oblıgatıons as they fall due To manage thıs rısk extensıve borrowıng facılıtıes are avaılable from wıthın the Lloyds TSB Group

Lıquıdıty rısks are managed as part of the Lloyds TSB Group by the ıntermedıate parent company, Lloyds TSB Bank plc, ın consultatıon wıth the board of dırectors

3. Critıcal accountıng estımates and judgements in applying accountıng policies

The preparatıon of financıal statements ın conformıty wıth generally accepted accountıng prıncıples requıres the use of estımates and assumptıons that affect the reported amounts of assets and lıabılıtıes at the date of the fınancıal statements and the reported amounts of revenues and expenses durıng the reportıng perıod Although those estımates are based on management's best knowledge of the amount, event or actıons, actual results ultımately may dıffer from those estımates

Impaırment of Inventory

The Company regularly revıews ıts ınventory of vehıcles to assess for ımpaırment In determınıng whether an ımpaırment has occurred, the Company consıders whether there ıs any observable data ındıcatıng that there has been a measurable decrease ın the estımated future proceeds from sale of the vehıcles compared to the purchase cost, such observable data ıncludes whether there has been an adverse change ın the current market prıces or economıc condıtıons

The varıables used ın the evaluatıon are kept under regular revıew to ensure that as far as possıble they reflect the current economıc cırcumstances, although actual experıence may dıffer from that assumed

Impaırment on assets accounted for at amortısed cost

The Company regularly revıews ıts loan and lease portfolıo to assess for ımpaırment, further detaıls of whıch are gıven ın note 1 5

4 Net interest income

	2007 £	Reclassified 2006 £
Interest income		
From finance lease and hire purchase contracts	**2,048,672**	1,832,220
From personal loans	**1,751,826**	1,514,993
	3,800,498	3,347,213
Interest expense		
Group interest expense (see note 19)	**(2,598,732)**	(2,120,667)
Net interest income	**1,201,766**	1,226,546

Included within interest income is £28,795 (2006 £25,124) in respect of impaired financial assets

The average effective interest rate in 2007 was 7 0% (2006 7 2%) for finance lease and hire purchase contracts, and 7 0% (2006 7 3%) for personal loans

The reclassification of comparatives is explained in note 1 1 and the impact of the reclassification is summarised in note 22

5. Fee and commission income

	2007 £	Reclassified 2006 £
Commission receivable	**47,855**	1,231
Loan fees receivable	**86,852**	99,861
Fee and commission income	**134,707**	101,092

The reclassification of comparatives is explained in note 1 1 and the impact of the reclassification is summarised in note 22

6. Other operating expenses

	2007 £	2006 £
Staff costs (see note 7)	**1,435,865**	-
Marketing	**1,003,264**	796,709
Management fees (see note 19)	**568,000**	795,939
Other expenses	**283,235**	24,623
Depreciation (see note 13)	**8,211**	9,208
Profit on disposal of property, plant and equipment	**(169)**	(410)
	3,298,406	1,626,069

Auditors' remuneration of £2,100 (2006 £2,000) has been borne by a fellow subsidiary

7. Staff costs

	2007 £	2006 £
Wages and salaries	**1,211,924**	-
Social security costs	**89,546**	-
Pension costs	**134,395**	-
	1,435,865	-

The Company did not directly employ any person during the year ended 31 December 2007 (2006 none) During 2006, staff costs were included in the management fee charged by Black Horse Limited

8. Directors' emoluments

No director received any fees or emoluments during the year (2006 £nil)

The directors are employed by other companies within the Lloyds TSB Asset Finance Division Limited sub group Lloyds TSB Asset Finance Division Limited is the parent company of a sub group which comprises several trading companies engaged in a wide range of lending activities The directors' duties to this Company are considered to be incidental to their other responsibilities within these organisations (see note 19)

9. Taxation

	2007 £	2006 £
a) Analysis of charge for the year		
UK corporation tax		
- current tax credit / (charge) on loss / profit for the year	**123,050**	(410,775)
- adjustment in respect of prior years	**(9,158)**	-
Total current tax credit / (charge)	**113,892**	(410,775)
Deferred tax (note 16)	**11,907**	(3,824)
Tax credit / (charge) for the year	**125,799**	(414,599)

The credit/(charge) for tax on the (loss)/profit for the year is based on a UK corporation tax rate of 30% (2006 30%)

9. Taxation (continued)

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 (loss)/profit before tax to the tax charge for the year is given below

	2007 £	2006 £
(Loss) / profit before tax	**(484,418)**	1,381,996
Tax credit / (charge) thereon at UK corporation tax rate of 30%	**145,325**	(414,599)
Effects of		
Adjustment in respect of prior years	**(9,158)**	-
Impact of adjustment in deferred tax rate	**(1,218)**	-
Non-allowable items	**(9,150)**	-
Tax on (loss)/ profit on ordinary activities	**125,799**	(414,599)
Effective rate	**26%**	30%

10 Inventories

	2007 £	2006 £
Vehicles for resale	**789,619**	1,401,818

11. Loans and advances to customers

	2007 £	2006 £
Advances under finance lease and hire purchase contracts	**29,963,132**	28,673,114
Personal loans to customers	**25,252,391**	25,176,104
Gross loans and advances	**55,215,523**	53,849,218
Less allowance for losses on loans and advances	**(528,105)**	(384,488)
Loans and advances to customers, net	**54,687,418**	53,464,730
of which		
due within one year	**24,976,716**	20,751,182
due after more than one year	**29,710,702**	32,713,548
	54,687,418	53,464,730

11. Loans and advances to customers (continued)

Loans and advances to customers include hire purchase and finance lease receivable

	2007 £	2006 £
Gross investment in hire purchase and finance lease contracts, receivable		
- no later than one year	**15,128,425**	12,276,027
- later than one year and no later than five years	**17,995,806**	19,352,752
	33,124,231	31,628,779
Unearned future finance income on hire purchase and finance lease contracts	**(3,161,099)**	(2,955,665)
Net investment in hire purchase and finance lease contracts	**29,963,132**	28,673,114

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

	2007 £	2006 £
- no later than one year	**13,684,695**	11,128,850
- later than one year and no later than five years	**16,278,437**	17,544,264
	29,963,132	28,673,114

During 2007 and 2006, no contingent rentals in respect of finance leases were recognised in the income statement Further analysis of loans and advances to customers is provided in note 18

12. Other current assets

	2007 £	2006 £
Amounts due from group undertakings (see note 19)	**729,808**	-
Other debtors	**2,539,940**	872,633
Other taxes	**-**	474,694
	3,269,748	1,347,327

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

13. Property, plant and equipment

	Operating lease assets £	Other motor vehicles £	Total £
Cost			
At 1 January 2006	403,365	-	403,365
Additions	-	51,422	51,422
Disposals	(141,447)	-	(141,447)
At 31 December 2006	261,918	51,422	313,340
Disposals	(261,918)	-	(261,918)
Cost at 31 December 2007	**-**	**51,422**	**51,422**

13. Property, plant and equipment (continued)

	Operating lease assets £	Other motor vehicles £	Total £
Accumulated depreciation			
At 1 January 2006	222,707	-	222,707
Charge for the year	3,734	5,474	9,208
Disposals	(82,922)	-	(82,922)
At 31 December 2006	143,519	5,474	148,993
Charge for the year	-	8,211	8,211
Disposals	(143,519)	-	(143,519)
Accumulated depreciation at 31 December 2007	**-**	**13,685**	**13,685**
Balance sheet amount at 31 December 2007	**-**	**37,737**	**37,737**
Balance sheet amount at 31 December 2006	118,399	45,948	164,347

At 31 December the future minimum rentals receivable under operating leases were as follows

	2007 **£**	2006 £
Receivable within 1 year	-	118,399
	-	118,399

14. Borrowed funds

	2007 **Due within one year** **£**	2006 Due within one year £
Borrowings from group undertakings (see note 19)	**49,267,396**	47,400,904

Amounts due to group undertakings are unsecured and technically repayable within three months, although there is no expectation that such a demand would be made Variable rates, based on LIBOR were charged

15 Other current liabilities

	2007 **£**	2006 £
Accruals and other creditors	**6,584,113**	4,043,569

16. Deferred tax

The movement in the net deferred tax asset is as follows

	2007 £	2006 £
At 1 January	**5,153**	8,977
Income statement credit / (charge)	**11,907**	(3,824)
At 31 December	**17,060**	5,153

The deferred tax credit / (charge) in the profit and loss account comprises the following temporary differences

	2007 £	2006 £
Accelerated capital allowances	**14,968**	(4,908)
Allowances for impairment losses	**(1,397)**	(8,363)
Other temporary differences	**(1,664)**	9,447
	11,907	(3,824)

Deferred tax assets are comprised as follows

	2007 £	2006 £
Accelerated capital allowances	**2,152**	(12,816)
Allowance for impairment losses	**6,801**	8,198
Other temporary differences	**8,107**	9,771
	17,060	5,153

With effect from 1 April 2008 profits will be charged to corporation tax at the rate of 28% (currently 30%) Accordingly deferred tax has been calculated at 28%

17 Share capital

	2007 £	2006 £
Authorised, allotted, issued and fully paid		
100 ordinary shares of £1 each	**100**	100

The immediate parent company is ACL Autolease Holdings Limited The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, 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 both sets of accounts may be obtained from the Company Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN

18. Financial Risk Management

A description of the nature and mitigation of key risks facing the Company is provided in note 2 A description of the financial assets / liabilities and associated accounting is provided in note 1

18 1 Credit risk

Credit concentration

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

Lending is mainly to private individuals in connection with financing motor vehicle

Loans and advances to customers – maximum exposure

	2007 £	2006 £
Neither past due nor impaired	53,224,692	52,471,034
Past due but not impaired	967,261	708,517
Impaired	1,023,570	669,667
Maximum exposure – Loans and advances	55,215,523	53,849,218

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

	2007 £	2006 £
Good quality	22,077,025	21,582,079
Satisfactory quality	17,698,236	17,741,048
Lower quality	9,067,840	8,864,547
Below standard, but not impaired	4,381,591	4,283,360
Total	53,224,692	52,471,034

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

	2007 £	2006 £
Past due up to 30 days	967,261	708,517
Past due up to 30-60 days	-	-
Past due up to 60-90 days	-	-
Total	967,261	708,517

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

18 Financial Risk Management (continued)

Allowance for loans and advances to customers which are impaired

	2007 Total £	2006 Total £
Brought forward at 1 January	**(384,488)**	(334,814)
Advances written off	**87,735**	40,910
Charge for year (including recoveries and unwind of discount)	**(231,352)**	(90,584)
At 31 December	**(528,105)**	(384,488)

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 (2006 £nil)

Renegotiated loans and advances to customers

During the year the Company renegotiated the loans and advances to customers, which would otherwise have been past due or impaired, totalling £139,499 (2006 £24,069)

Repossessed collateral

At year end the Company held repossessed collateral of £10,235 (2006 £7,969) in respect of defaulted debt 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

18 2 Liquidity risk

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

18 3 Financial strategy

The Company's activities are principally related to the use of financial instruments However, the Company does not trade in financial instruments, nor does it use derivatives

18 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 which are at a fixed rate are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates at the year end for similar loans and advances

The aggregate fair value of loans and advances to customers is approximately £54,954,000 (2006 £54,190,000) before impairment The carrying value of all other assets and liabilities is considered an approximation of fair value

18 5 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

18. Financial Risk Management (continued)

18 6 Capital disclosures (continued)

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 companies and does not raise funding externally

19 Related party transactions

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

	Group and associated companies	
	2007	2006
	£	£
Outstanding at 31 December		
Amounts due to Black Horse Limited (see note 14)	**(49,267,396)**	(47,400,904)
Amounts due from Lloyds TSB Autolease Limited (see note 12)	**729,808**	-
Purchase of motor vehicles		
Lloyds TSB Autolease Limited	**45,555,608**	48,178,189
Interest payable		
Black Horse Limited (see note 4)	**2,598,732**	2,120,667
Management charges		
Black Horse Limited (see note 6)	**568,000**	795,939
Staff and other costs recharged from fellow subsidiary company	**1,553,465**	-

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 Limited 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 Key management personnel are employed by other companies within the Lloyds TSB Asset Finance Division Limited sub-group and consider that their services to the Company are incidental to their other activities within that sub-group

Commission receivable of £47,855 (2006 £1,231) substantially comprises insurance commission income receivable under the terms of the Company's agreement with Lloyds TSB General Insurance Limited, a fellow subsidiary of Lloyds TSB Group plc

20 Contingent liabilities and commitments

There were no contingencies or contracted capital commitments at the balance sheet date (2006 £nil)

21. Post balance sheet events

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

22. Reclassification of comparatives

Errors in the classification of certain accounting transactions for the year ended 31 December 2006 have been identified during the preparation of the 2007 financial statements, resulting in reclassification of certain items in the income statement for 2006

Reclassifications from fee and commission income and expense to interest income have been made in cases where fees and commission are included in the loans' effective yield calculations

The reclassifications have £nil impact on profit before or after tax, and £nil impact on net assets Details of amounts and account items affected are provided below

	2006 Restated £	2006 Previously reported £
Income statement		
Interest and similar income	3,347,213	3,281,410
Fees and commission income	101,092	166,895

23 Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2007 and has not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
IAS 1 Presentation of Financial Statements [1 2]	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

[1] At the date of this report, this pronouncement is awaiting EU endorsement
[2] Subject to any EU endorsement, the Company has not yet made a final decision as to whether it will apply this pronouncement in the 2008 financial statements

The Company's view is that this pronouncement is not expected to cause any material adjustments to the reported numbers in the financial statements