Lloyds TSB Carselect Limited

Directors' report and financial statements
For the year ended 31 December 2011

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

2849105

Directors

D J S Oldfield
C Sutton

Company secretary

A J Currie

Member of Lloyds Banking Group

Directors' report
For the year ended 31 December 2011

The directors present their report and the audited financial statements of Lloyds TSB Carselect Limited for the year ended 31 December 2011

Business review

Principal activities

Lloyds TSB Carselect Limited ("the Company") is a limited company incorporated and domiciled in England and Wales (registered number 2849105)

The Company provides new motor vehicles and related financial services to Retail customers All vehicles sold by the Company are purchased from a fellow group undertaking

The Company's results for the year show a Profit before tax of £1,352,000 (2010 £1,494,000) and Net interest income of £969,000 (2010 £900,000)

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

Future outlook

The environment within which the Company operates remains competitive The Company has written a satisfactory level of new business in the year and this is expected to continue in the foreseeable 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 ("the Division") and are not managed separately for the Company Further details of the Company's and Division's risk management policy are contained in note 2 to the financial statements

Key performance indicators ("KPIs")

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

Policy and practice on payment of suppliers

The Company follows "The Prompt Payment Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers Information about the "Prompt Payment Code" may be obtained by visiting www promptpaymentcode org uk

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated

It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

As no amounts are owed to trade creditors as at 31 December 2011, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2010 nil)

Dividends

No dividends were paid or proposed during the year ended 31 December 2011 (2010 £nil)

Going Concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis

Directors' report (continued)

For the year ended 31 December 2011

Directors

The names of the current directors are shown on the cover

The following changes have taken place during the year

T M Blackwell	(resigned 21 June 2011)
C Sutton	(appointed 1 September 2011)
A P White	(resigned 19 September 2011)

Directors' indemnities

The directors have the benefit of a deed of indemnity which constitutes a "qualifying third party indemnity provision" These deeds are in force during the whole of the financial year (or from the date of appointment in respect of directors who join the board during the financial year) The indemnities remain in force for the duration of a director's period of office Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

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

Disclosure of information to auditors

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

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

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

Independent auditors

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

On behalf of the board

D J S Oldfield
Director

22 June 2012

Independent auditors' report 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 2011 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Felicity Rees

Felicity Rees (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

22 June 2012

Statement of comprehensive income

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Revenue		**16,076**	18,042
Operating costs		**(14,947)**	(17,154)
Operating profit		**1,129**	888
Interest income		**1,761**	2,209
Interest expense		**(792)**	(1,309)
Net interest income	4	**969**	900
Fees and commission income	5	**12**	34
Impairment (losses)/gains	6	**(121)**	237
Other operating expenses	7	**(637)**	(565)
Profit before tax		**1,352**	1,494
Taxation	10	**(359)**	(1)
Profit for the year attributable to owners of the parent, being total comprehensive income		**993**	1,493

The notes on pages 8 to 23 are an integral part of these financial statements

All results derive from continuing operations

Balance sheet

As at 31 December 2011

	Note	2011 £'000	2010 £'000
ASSETS			
Cash and cash equivalents		**163**	-
Other current assets	11	**1,368**	1,673
Loans and advances to customers	12	**21,552**	25,061
Inventories	13	**845**	14
Property, plant and equipment	14	**6**	14
Deferred tax asset	15	**14**	15
Total assets		**23,948**	26,777
LIABILITIES			
Borrowed funds	16	**15,939**	20,130
Other current liabilities	17	**684**	673
Current tax liability		**358**	-
Total liabilities		**16,981**	20,803
EQUITY			
Share capital	18	**-**	-
Retained profits		**6,967**	5,974
Total equity		**6,967**	5,974
Total equity and liabilities		**23,948**	26,777

The notes on pages 8 to 23 are an integral part of these financial statements

The financial statements on pages 4 to 23 were approved by the board of directors and were signed on its behalf by

D J S Oldfield
Director

22 June 2012

Statement of changes in equity

For the year ended 31 December 2011

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2010	-	4,481	4,481
Total comprehensive income for the year	-	1,493	1,493
At 31 December 2010	-	**5,974**	**5,974**
Total comprehensive income for the year	-	993	993
At 31 December 2011	-	**6,967**	**6,967**

The notes on pages 8 to 23 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2011

	2011 £'000	2010 £'000
Cash flows generated from operating activities		
Profit before tax	1,352	1,494
Adjustments for		
- Interest paid	792	1,309
- Depreciation	8	8
Changes in operating assets and liabilities		
- Net increase in Inventories	(831)	(14)
- Net decrease in Loans and advances to customers	3,509	7,304
- Net decrease/(increase) in Other current assets	305	(273)
- Net increase/(decrease) in Other current liabilities	11	(9)
Cash generated from operations	5,146	9,819
Interest paid	(792)	(1,309)
Taxes received via group relief	-	6
Net cash generated from operating activities	4,354	8,516
Cash flows used in financing activities		
Repayment of balances with group undertakings	(3,141)	(9,709)
Net cash used in financing activities	(3,141)	(9,709)
Net increase / (decrease) in Cash and cash equivalents	1,213	(1,193)
(Bank overdrafts)/Cash and cash equivalents at beginning of year	(1,050)	143
Cash and cash equivalents/(Bank overdrafts) at end of year	163	(1,050)
Cash and cash equivalents/(Bank overdrafts) comprise		
Cash at bank	163	-
Bank overdrafts	-	(1,050)
Cash and cash equivalents/(Bank overdrafts)	163	(1,050)

The notes on pages 8 to 23 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2011

1. Accounting policies

1 1 Basis of preparation

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

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

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

(i) Amendments to IAS 24 Related Party Disclosures Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for related party transactions with government related entities As the amendments only result in reduced disclosures, the amendments have not had any impact for amounts recognised in these financial statements

(ii) Improvements to IFRSs (issued May 2010) Sets out minor amendments to IFRS standards as part of the annual improvements process Most amendments clarified existing practice The application of these new interpretations has not had any impact for amounts recognised in these financial statements

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2011 and which have not been applied in preparing these financial statements are given in note 24

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention

1 2 Income recognition

Revenue

Revenue, which excludes value added tax, represents the invoiced value of vehicles sold during the year and is recognised once the risks and rewards are transferred to the customer

Operating costs represent the cost of vehicles purchased for the purpose of resale during the year

Income from financial assets

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments, including loans and advances, using the effective interest rate method The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account 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

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

Lease classification

Lease agreements are classified as hire purchase contracts 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 The company has not entered into lease agreements classified as operating leases

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

1. Accounting policies (continued)

1 2 Income recognition (continued)

Hire purchase income

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

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

Fees 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 in the Statement of comprehensive income on an accruals basis when the service has been provided

1 3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers, Other current assets and Cash and cash equivalents Financial liabilities comprise Amounts due to group undertakings, Bank overdraft with group undertaking 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 cash flows, or obligations to pay cash flows, have expired

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

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 or the debt being restructured to reduce the burden on the borrower

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2011

1. Accounting policies (continued)

1 4 Impairment (continued)

Loans and advances to customers (continued)

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

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

1 5 Inventories

Inventories are measured at the lower of cost and net realisable value Cost is based on the specific identification method and excludes borrowing costs Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses Inventories include vehicles for resale

1 6 Property, plant and equipment

Property, plant and equipment are included at historical purchase cost less depreciation and any impairment allowance Historical cost includes expenditure that is directly attributable to the acquisition of the items Depreciation is calculated using the straight line method to allocate the difference between the cost and expected residual value over the period of the lease The useful life of all items of Property, plant and equipment is 6 to 7 years

Future rates of depreciation are reassessed each year in light of changes to anticipated residual values, and are amended as required

1 7 Cash and cash equivalents

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

1 8 Taxation, including deferred income taxes

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

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

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

Defined contribution
A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary All active members of the Group's defined benefit pension plans are employed by other companies in the Group Accordingly, the risk associated with the operation of the plans lies with other companies The Company is recharged by a fellow group undertaking an amount equal to the contributions made in respect of the relevant employees included in note 8

Defined benefit
A defined contribution plan is a pension plan under which the Company pays fixed contributions, there is no legal or constructive obligation to pay further contributions The Company receives recharges in respect of a defined contribution plan operated by the Division based on the level of contributions paid in relation to staff providing services to this Company These are charged to the Statement of comprehensive income in the period in which they fall due

Notes to the financial statements (continued)

For the year ended 31 December 2011

2 Risk management policy

The Company's operations expose it to credit risk, liquidity risk, interest rate risk, market risk, and business risk, it is not exposed to any foreign exchange risk Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by an 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 and credit risk is carefully monitored by the Division's credit committee and credit functions Market risk is managed by the Company through the terms negotiated in commercial agreements and management regularly reviewing its portfolio of leases for impairment Business risk is managed through regular reporting and oversight

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 Division's 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

In measuring the credit risk of loans and advances, the Company reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations, (ii) current exposures to the counterparty and their likely future development, from which the Company derives the 'exposure at default', and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default')

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

- 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

- Concentration risk Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors At a divisional level, exposures are monitored to prevent excessive concentration of risk These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements

- Stress testing and scenario analysis at a divisional level The credit portfolio is also subjected to stress-testing and scenario analysis, to simulate outcomes and calculate their associated impact

2 2 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 Group

Liquidity risks are managed as part of the Group by an intermediate parent company, Lloyds TSB Bank plc, in consultation with the board of directors Monthly reviews of funding positions are undertaken to anticipate any shortfalls

2. Risk management policy (continued)

2 3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been provided in note 20

2 4 Market risk

Market risk is the risk that the Company is unable to realise the carrying value of its Inventories and the risk that market factors management have applied in estimating the anticipated residual values on Personal Contract Purchase ("PCP") agreements where the Company retains title of the asset differ from actual trends, as the Company is exposed to fluctuations in the value of second hand motor vehicles

Market risk is managed through a combination of management regularly reviewing the Company's Inventories and residual values on PCP agreements to assess for impairment where the carrying values are not expected to be greater than, or equivalent to, anticipated market values

2 5 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a sub optimal business strategy or the sub optimal implementation of the strategy In assessing business risk, consideration is given to internal and external factors such as products, funding, resource capability, and economic, political and regulatory factors

Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary

3 Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

Impairment of assets accounted for at amortised cost

The Company regularly reviews its portfolio of hire purchase contracts 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 on assets under PCP agreements

Included within Loans and advances to customers are certain hire purchase contracts referred to as 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 current 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

Notes to the financial statements (continued)

For the year ended 31 December 2011

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

Impairment on assets under PCP agreements (continued)

The Company regularly reviews the expected value of all vehicles which it is committed to repurchase at a predetermined price 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 versus the price at which the Company is committed to purchase, such observable data includes whether there has been an adverse change in the current market prices or economic conditions that correlate with shortfalls in market value

The Company reviews the value of the assets that it is committed to purchase on a monthly basis by reference to independent market value data and the prevailing economic conditions The assessment of values is important to the profitability of the Company, with movements over extended periods of time being subject to general fluctuations in used car valuations The adjustment arising from the reviews are dealt with as set out in note 1 4 above

Impairment of Inventories

The Company regularly reviews its inventories 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

Payment protection Insurance

On 20 April 2011 a High Court Judicial Review into the misselling of 'Payment Protection Insurance' ("PPI") ruled in favour of the customer The Company has sold PPI While there are still a number of uncertainties as to the eventual costs from any such contact and/or redress, the Company expects that the level of payments in respect to such claims will be not be significant to the Company No provision has therefore been recognised in these financial statements as at 31 December 2011

4. Net interest income

	2011	2010
	£'000	£'000
Interest Income		
From hire purchase contracts	927	1,250
From personal loans	834	959
	1,761	2,209
Interest expense		
Group interest expense (see note 19)	(792)	(1,309)
Net Interest Income	969	900

Included within Interest income is £24,000 (2010 £37,000) in respect of impaired financial assets

Notes to the financial statements (continued)

For the year ended 31 December 2011

5. Fees and commission income

	2011 £'000	2010 £'000
Fees and commision income		
Loan fees receivable	12	26
Commission receivable (see note 19)	-	8
	12	34

6 Impairment (losses)/gains

	2011 £'000	2010 £'000
Losses on hire purchase contracts and loans (see note 20)	(173)	(198)
Other gains	52	435
	(121)	237

7 Other operating expenses

	2011 £'000	2010 £'000
Staff costs (see note 8)	405	379
Depreciation (see note 14)	8	8
Other operating expenses	224	178
	637	565

Fees payable to the Company's auditors for the audit of the financial statements of £2,000 (2010 £2,000) have been borne by a fellow subsidiary undertaking and are not recharged to the Company

8 Staff costs

	2011 £'000	2010 £'000
Wages and salaries	351	325
Social security costs	30	24
Pension costs	24	30
	405	379

Staff costs represent emoluments recharged by a fellow subsidiary undertaking employed by that subsidiary undertaking

The average monthly number of persons employed during the year was 11 (2010 10) All staff are located in the United Kingdom and provide management, administration and sales support

The Company did not employ any persons during the year (2010 none)

9. Directors' emoluments

No director received any fees or emoluments during the year (2010 £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 19)

Notes to the financial statements (continued)

For the year ended 31 December 2011

10. Taxation

	2011 £'000	2010 £'000
a) Analysis of charge for the year		
UK corporation tax		
- Group relief payable on profits for the year	**358**	-
Current tax charge	**358**	-
UK deferred tax		
- Origination and reversal of timing differences	1	1
Deferred tax charge	1	1
	359	1

Corporation tax is calculated at a rate of 26 5% (2010 28 0%) of the taxable profit for the year

b) Factors affecting the tax charge for the year

The tax on the Company's Profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows

	2011 £'000	2010 £'000
Profit before tax	**1,352**	1,494
Tax charge thereon at UK corporation tax rate of 26 5% (2010 28 0%)	**358**	418
Factors affecting charge		
- Losses claimed for no payment	-	(418)
- Effect of reduction in tax rate	1	1
Tax on profit on ordinary activities	**359**	1
Effective rate	26 6%	0 1%

During the year group relief of £nil (2010 £1,492,000) was surrendered by a fellow group undertakings to the Company for no payment

11. Other current assets

	2011 £'000	2010 £'000
Amounts due from group undertakings (see note 19)	**426**	-
Other debtors	**942**	1,673
	1,368	1,673

Other debtors include other taxes receivable of £545,000

12. Loans and advances to customers

	2011 £'000	2010 £'000
Advances under hire purchase contracts	**10,693**	13,801
Personal loans to customers	**11,592**	12,019
Gross loans and advances to customers	**22,285**	25,820
Less allowance for losses on loans and advances	**(733)**	(759)
Net loans and advances to customers	**21,552**	25,061
of which		
Due within one year	**8,986**	11,608
Due after one year	**12,566**	13,453
	21,552	25,061

Loans and advances to customers include hire purchase receivables

	2011 £'000	2010 £'000
Gross investment in hire purchase contracts, receivable		
- no later than one year	**4,890**	7,000
- later than one year and no later than five years	**6,817**	8,090
- later than five years	**20**	23
	11,727	15,113
Unearned future finance income on hire purchase contracts	**(1,034)**	(1,312)
Net investment in hire purchase contracts	**10,693**	13,801

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

	2011 £'000	2010 £'000
- no later than one year	**4,458**	6,393
- later than one year and no later than five years	**6,217**	7,387
- later than five years	**18**	21
	10,693	13,801

The Company provides a range of hire purchase and loan products in connection with the financing of motor vehicles The leases typically run for periods of 3 years

During the year, no contingent rentals in respect of hire purchase contracts were recognised in the Statement of comprehensive income (2010 £nil)

Further analysis of Loans and advances to customers is provided in note 20

Notes to the financial statements (continued)

For the year ended 31 December 2011

13. Inventories

	2011 £'000	2010 £'000
Cost of vehicles for resale	**845**	14

14. Property, plant and equipment

	Total £'000
Cost	
At 1 January 2010, 31 December 2010 and 31 December 2011	51
Accumulated depreciation	
At 1 January 2010	29
Charge for the year	8
At 31 December 2010	37
Charge for the year	8
At 31 December 2011	45
Balance sheet amount at 31 December 2011	**6**
Balance sheet amount at 31 December 2010	14

Property, plant and equipment represents a vehicle used for demonstration purposes

15. Deferred tax asset

The movement in the Deferred tax asset is as follows

	2011 £'000	2010 £'000
Brought forward	**15**	16
Charge for the year (see note 10)	**(1)**	(1)
At 31 December	**14**	15

The deferred tax charge in the Statement of comprehensive income comprises the following temporary differences

	2011 £'000	2010 £'000
Accelerated capital allowances	**1**	1
Allowances for impairment losses	**(1)**	(1)
Other temporary differences	**(1)**	(1)
	(1)	(1)

Notes to the financial statements (continued)
For the year ended 31 December 2011

15. Deferred tax asset (continued)

Deferred tax asset comprises	**2011** **£'000**	2010 £'000
Accelerated capital allowances	**7**	6
Allowances for impairment losses	**3**	4
Other temporary differences	**4**	5
	14	15

Within the Deferred tax asset at 31 December 2011 are amounts of approximately £nil (2010 £nil) that are expected to be settled in less than twelve months after the balance sheet date

The UK Government announced on 23 March 2011 that the headline rate of corporation tax would be reduced from 28% by 2% on 1 April 2011 and 1% each year thereafter until it reaches 23% On 22 March 2012 the UK Government announced that on 1 April 2012 the headline rate of corporation tax would be reduced by 2% rather than 1% to 24%, and 1% each year thereafter until it reaches 22%

These rate changes will affect the amount of future cash tax payments to be made by the Company and will also reduce the size of the Company's Deferred tax asset in the future

The change to 25% announced on 23 March 2011 was "substantively enacted" on 5 July 2011 and as such, in accordance with accounting standards, deferred tax has been calculated at a rate of 25% The effect of the change in rate to 24% would not significantly affect the Company's Deferred tax asset and will be reflected in the Company's financial statements for the year ending 31 December 2012 The proposed further reductions in the rate of corporation tax by 1% per annum to 22% by 1 April 2014 are expected to be enacted separately each year The effect of these further changes upon the Company's deferred tax balances cannot be reliably quantified at this stage

16 Borrowed funds

	2011 **£'000**	2010 £'000
Amounts due to group undertakings (see note 19)	**15,939**	19,080
Bank overdraft with group undertaking (see note 19)	**-**	1,050
	15,939	20,130

Amounts due to group undertakings and Bank overdraft with group undertaking are interest bearing at fixed rates based on amortising swap rates, unsecured and repayable on demand, although there is no expectation that such a demand would be made

17. Other current liabilities

	2011 **£'000**	2010 £'000
Other creditors	**684**	673

Other creditors include deposits from customers of £491,000

18. Share capital

	2011 **£'000**	2010 £'000
Allotted, issued and fully paid		
100 ordinary shares of £1 each	**-**	-

At 31 December 2011, the authorised share capital of the Company was £100 divided into 100 shares of £1 each

18. Share capital (continued)

All ordinary shares rank pari passu in all respects including the right to receive all dividends and other distributions hereafter declared, made or paid on the ordinary share capital of the Company

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 financial statements 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 financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN

19 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 loan and fee transactions A summary of the outstanding balances at the year end and the related income and expense for the year are set out below

	2011 £'000	2010 £'000
Amounts due from group undertakings		
Lex Autolease Limited (see note 11)	**426**	-
Amounts due to group undertakings		
Black Horse Limited	**15,939**	18,095
Lex Autolease Limited	-	985
Total amounts due to group undertakings (see note 16)	**15,939**	19,080
Bank overdraft held with group undertaking		
Lloyds TSB Bank plc (see note 16)	-	1,050
Interest expense		
Black Horse Limited (see note 4)	**792**	1,309
Purchase of motor vehicles		
Lex Autolease Limited	**15,778**	17,168
Staff costs recharged		
Lloyds TSB Bank plc (see note 8)	**405**	379

Commission receivable of £nil (2010 £8,000) 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 £nil (2010 £2,000)

During the year no group relief (2010 £1,492,000) was surrendered by fellow undertakings to the Company for no payment (see note 10)

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company Accordingly, key management comprise the directors of the Company and the members of the Lloyds Banking Group plc board There were no transactions between the Company and key management personnel during the current or preceding year Key management personnel are employed by other companies within the Lloyds Banking Group and consider that their services to the Company are incidental to their other activities within those groups

Notes to the financial statements (continued)

For the year ended 31 December 2011

20. 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 Company's financial assets/liabilities and associated accounting is provided in note 1

20 1 Credit risk

Credit concentration - Loans and advances to customers

The Company lends predominantly to Retail customers (being private individuals) geographically located in the United Kingdom

Loans and advances to customers – maximum exposure

	2011 £'000	2010 £'000
Neither past due nor impaired	**21,351**	24,339
Past due but not impaired	**149**	325
Impaired	**785**	1,156
Maximum credit exposure	**22,285**	25,820

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

	2011 £'000	2010 £'000
Good quality	**15,636**	15,853
Satisfactory quality	**4,607**	6,664
Lower quality	**-**	-
Below standard, but not impaired	**1,108**	1,822
Total	**21,351**	24,339

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

	2011 £'000	2010 £'000
Past due up to 30 days	**149**	325
Past due from 30-60 days	**-**	-
Past due from 60-180 days	**-**	-
Total	**149**	325

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

20. Financial risk management (continued)

20 1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2011	2010
	£'000	£'000
Brought forward	**759**	876
Advances written off	**(199)**	(315)
Charge for year (including recoveries)	**173**	198
At 31 December	**733**	759

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1 4 All Loans and advances to customers are individually assessed for impairment

Repossessed collateral

Collateral held against Loans and advances to customers is principally comprised of motor vehicles The Company does not take physical posession of any collateral, instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations

During the year the Company repossessed collateral in respect of defaulted debt with a value of £5,000 (2010 £20,000)

20 2 Liquidity risk

The Company is funded entirely by companies within the Group Such funding is repayable on demand, although there is no expectation that such a demand would be made

20 3 Interest rate risk

Interest rate risk is managed at a divisional level The Company funds new business by borrowing funds from group undertakings (see note 19) at the inception of the new business The terms upon which the funds are borrowed from group undertakings are also defined at the inception of the new business

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's Amounts due to group undertakings and takes account of movement in the market swap rates which is the basis for the interest rate on intercompany balances A 0 6% (2010 0 9%) increase or decrease is used to assess the possible change in Interest expense This rate is appropriate as it is the amount by which the market swap rates decreased in the year

If market swap rates increased by 0 6% (2010 0 9%) and all other variables remain constant this would increase Interest expense by £96,000 (2010 £196,000) and accordingly decrease Interest expense by £96,000 (2010 £196,000) if swap rates decreased by the same amount

20 4 Market risk

The hire purchase portfolio includes agreements where the Company has a risk in respect of residual value of the assets This area of credit policy is monitored by a residual value committee which meets on a regular basis to consider the exposure taking into account current and projected industry trends in addition to the Company's own risk management

20 5 Financial strategy

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

Notes to the financial statements (continued)

For the year ended 31 December 2011

20. Financial risk management (continued)

20 6 Fair values of financial assets and liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale

Fair values of Loans and advances to customers are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the balance sheet date

The aggregated fair value of Loans and advances to customers is approximately £21,551,000 (2010 £25,139,000) The carrying value of all other financial assets and liabilities is considered an approximation of fair value

21. 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

22. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2010 £nil)

23. Post balance sheet events

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

24. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2011 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
IFRS 13 Fair value Measurement [1]	Sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements	Annual periods beginning on or after 1 January 2015

24. Future developments (continued)

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments Classification and Measurement [1&2]	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument The available-for-sale financial asset and held-to-maturity categories in the existing IAS 39 will be eliminated The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2015

1 At the date of this report these pronouncements are awaiting EU endorsement

2 IFRS 9 is the initial stage of the project to replace IAS 39 Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting Until all stages of the replacement project are complete it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39

The full impact of these pronouncements is being assessed by the Company However, the initial view is that neither of these pronouncements is expected to cause any material adjustments to the reported numbers in the financial statements