

Lloyds TSB Carselect Limited

Report and Accounts 31 December 2010

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

2849105

Directors

D J S Oldfield
A P White

THURSDAY



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30/06/2011
COMPANIES HOUSE

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2010

Business review and 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 £1,494,000 (2009: loss before tax of £15,000) and net interest income of £900,000 (2009: £976,000).

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. However, the directors remain confident that current levels of performance will be maintained in the future.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Lloyds TSB Asset Finance Division ("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 2010, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2009: nil).

Dividends

No dividends were paid or proposed during the year ended 31 December 2010 (2009: £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 2010

Directors

The names of the current directors are shown on the cover

The following change has taken place since the year end

T M Blackwell (resigned 21 June 2011)

Directors' indemnities

The Directors have the benefit of a contract of indemnity which constitutes a "qualifying third party indemnity provision". This contract came into force during the financial year and remains in force. It is 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.

Auditors and disclosure of information to auditors

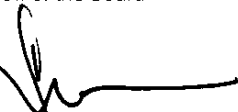
Each director in office at the date of this report confirms that

- 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 418 of the Companies Act 2006.

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

29 June 2011

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 2010 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.

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 2010 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Mark Ellis (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

One Kingsway
Cardiff
CF10 3PW

30th June 2011

Statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Revenue from sale of motor vehicles		18,042	20,026
Cost of sales of motor vehicles		(17,154)	(19,438)
Gross profit on sale of motor vehicles		888	588
Interest and similar income		2,209	3,026
Interest and similar expenses		(1,309)	(2,050)
Net interest income	4	900	976
Fees and commission income	5	34	95
Impairment gains/(losses) on loans and advances		237	(158)
Other operating expenses	6	(565)	(1,516)
Profit/(loss) before tax		1,494	(15)
Taxation	9	(1)	4
Profit/(loss) for the year attributable to equity shareholders, being total comprehensive income		1,493	(11)

The notes on pages 8 to 21 are an integral part of these financial statements

All results derive from continuing operations

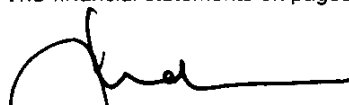
Balance sheet

As at 31 December 2010

	Note	2010 £'000	2009 £'000
ASSETS			
Cash and cash equivalents		-	143
Other current assets		1,673	1,400
Loans and advances to customers	10	25,061	32,365
Inventories		14	-
Property, plant and equipment	11	14	22
Current tax asset		-	6
Deferred tax asset	12	15	16
Total assets		26,777	33,952
LIABILITIES			
Bank overdraft		1,050	-
Borrowed funds	13	19,080	28,789
Other current liabilities		673	682
Total liabilities		20,803	29,471
EQUITY			
Share capital	14	-	-
Retained profits		5,974	4,481
Total equity		5,974	4,481
Total equity and liabilities		26,777	33,952

The notes on pages 8 to 21 are an integral part of these financial statements

The financial statements on pages 4 to 21 were approved by the board of directors and were signed on its behalf by


D J S Oldfield
Director

29 June

2011

Statement of changes in equity

For the year ended 31 December 2010

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2009	-	4,492	4,492
Loss for the year and total comprehensive income	-	(11)	(11)
At 31 December 2009	-	4,481	4,481
Profit for the year and total comprehensive income	-	1,493	1,493
At 31 December 2010	-	5,974	5,974

The notes on pages 8 to 21 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2010

	2010 £'000	2009 £'000
Cash flows generated from operating activities		
Profit/(loss) before tax	1,494	(15)
Adjustments for		
- interest paid	1,309	2,050
- depreciation	8	8
Changes in operating assets and liabilities		
- net decrease in loans and advances to customers	7,304	11,960
- net (increase)/decrease in inventories	(14)	160
- net increase in other current assets	(273)	(313)
- net decrease in other current liabilities	(9)	(1,149)
Cash generated from operations	9,819	12,701
Interest paid	(1,309)	(2,050)
Taxes received/(paid) via group relief	6	(50)
Net cash generated from operating activities	8,516	10,601
Cash flows used in financing activities		
Repayment of balances with group undertakings	(9,709)	(10,952)
Net cash used in financing activities	(9,709)	(10,952)
Net decrease in cash and cash equivalents	(1,193)	(351)
Cash and cash equivalents at beginning of year	143	494
(Net bank overdrafts)/cash and cash equivalents at end of year	(1,050)	143
(Net bank overdrafts)/cash and cash equivalents comprise		
Cash at bank	-	143
Bank overdrafts	(1,050)	-
(Net bank overdrafts)/cash and cash equivalents	(1,050)	143

The notes on pages 8 to 21 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2010

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.

The following new IFRS pronouncement is relevant to the Company and has been adopted in these financial statements:

- (i) Improvements to IFRSs (issued April 2009) Sets out minor amendments to IFRSs 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 2010 and which have not been applied in preparing these financial statements are given in note 20.

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 from sale 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.

Income from financial assets

Interest income and expenses 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.

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 finance lease receivable thus reducing the amount of income recognised over the lease term.

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

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 agreements transfer substantially all of the risks and rewards of ownership to the lessee.

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

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. A provision for the claw back of such commissions in the event of early termination is assessed at least every six months to take account of the most recent trends.

Notes to the financial statements (continued)

For the year ended 31 December 2010

1. Accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets comprise Cash and cash equivalents, Loans and advances to customers and Other current assets
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 cash flows, or obligations to pay cash flows, have expired.

Interest bearing financial assets and liabilities are recognised 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.

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 stated at the lower of cost and net realisable value. Cost 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. Depreciation is calculated using the straight-line method to allocate the difference between the cost and expected residual value over their estimated useful lives as follows:

Vehicles used for demonstration purposes - between 6 and 7 years

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Notes to the financial statements (continued)

For the year ended 31 December 2010

1 Accounting policies (continued)

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

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 substantially enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

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

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

1.9 Pensions

Defined contribution

The Company receives recharges in respect of a defined contribution plan operated by the Division based on the level of contributions paid in relation to staff providing services to this Company

Defined benefit

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

2. Risk management policy

The Company's operations expose it to credit risk, interest rate risk, liquidity risk and market risk, it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the intermediate parent, Lloyds TSB Asset Finance Division Limited, and the ultimate parent, Lloyds Banking Group plc. Interest rate and liquidity risk faced by the Company are 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

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

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

In measuring the credit risk of Loans and advances to customers, 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')

Notes to the financial statements (continued)

For the year ended 31 December 2010

2. Risk management policy (continued)

2.1 Credit risk (continued)

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.

In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see note 1.4).

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 our 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 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 16.3.

2.3 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Lloyds Banking Group.

Liquidity risks are managed as part of the Lloyds Banking Group by an intermediate parent company, Lloyds TSB Bank plc, in consultation with the board of directors.

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 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 market value of second hand motor vehicles.

Market risk that cannot be managed is monitored through management regularly reviewing residual values on PCP agreements for impairment where the values are not expected to be greater than, or equivalent to, anticipated market values.

Notes to the financial statements (continued)

For the year ended 31 December 2010

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 of assets under Personal Contract Purchase 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 assets at the agreed residual value. At each balance sheet date, an assessment is made of the expected proceeds from the sale of returned vehicles compared with their pre-agreed residual values and a provision is established for any expected shortfall.

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

Payment protection insurance

The Company has sold 'Payment Protection Insurance' ("PPI") in relation to finance lease and hire purchase contracts written by the Company directly to the customer. On 20 April 2011 a High Court Judicial Review into the mis-selling of PPI ruled in favour of the customer therefore uncertainty exists as to the level of claims that will be made against the Company in the future.

Claims in relation to the mis-selling of PPI are made against the party which sold the product to the individual, hence claims will be made directly against the Company.

Management have assessed the potential impact of future claims based on the level of PPI product sold by the company on the basis of the factors outlined above and believe that the financial impact of settling future claims is unlikely to be sufficiently material to warrant provision in the current financial statements. The costs of settling claims will be recognised as incurred. A contingent liability has been disclosed in note 18 in accordance with IAS37 "Provisions, contingent liabilities and contingent assets".

Notes to the financial statements (continued)

For the year ended 31 December 2010

4. Net interest income

	2010 £'000	2009 £'000
Interest and similar income		
From hire purchase contracts	1,250	1,715
From personal loans	959	1,311
	2,209	3,026
Interest and similar expenses		
Group interest expense (see note 15)	(1,309)	(2,050)
Net interest income	900	976

Included within interest income is £37,000 (2009 £39,000) in respect of impaired financial assets

5. Fees and commission income

	2010 £'000	2009 £'000
Loan fees receivable	26	24
Commission receivable (see note 15)	8	71
	34	95

6. Other operating expenses

	2010 £'000	2009 £'000
Staff costs (see note 7)	379	887
Depreciation (see note 11)	8	8
Other operating expenses	178	621
	565	1,516

Fees payable to the Company's auditors for the audit of the financial statements of £2,000 (2009 £2,000) have been borne by a fellow subsidiary undertaking and are not recharged to the Company

7. Staff costs

	2010 £'000	2009 £'000
Wages and salaries	325	754
Social security costs	24	55
Pension costs	30	78
	379	887

The Company did not employ any persons during the year (2009 none)

Staff costs represent emoluments recharged by a fellow subsidiary undertaking for 10 employees (2009 27) employed by that subsidiary undertaking

Notes to the financial statements (continued)

For the year ended 31 December 2010

8 Directors' emoluments

No director received any fees or emoluments during the year (2009 £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 15).

9. Taxation

	2010 £'000	2009 £'000
a) Analysis of charge/(credit) for the year		
UK corporation tax		
- Current tax on taxable profit/(loss) for the year	-	(5)
Current tax credit	-	(5)
Deferred tax charge (see note 12)	1	1
	1	(4)

Corporation tax is calculated at a rate of 28.0% (2009 28.0%) of the estimated taxable profit/(loss) for the year.

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

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

	2010 £'000	2009 £'000
Profit/(loss) before tax	1,494	(15)
Tax charge/(credit) thereon at UK corporation tax rate of 28.0% (2009 28.0%)	418	(4)
Factors affecting charge/(credit)		
- Losses claimed for no payment	(418)	-
- Effect of reduction in tax rate	1	-
Tax on profit/(loss) on ordinary activities	1	(4)
Effective rate	0.1%	28.0%

During the year group relief of £1,492,000 was surrendered by fellow group undertakings to the Company for no payment.

Notes to the financial statements (continued)

For the year ended 31 December 2010

10. Loans and advances to customers

	2010 £'000	2009 £'000
Advances under hire purchase contracts	13,801	18,472
Personal loans to customers	12,019	14,769
Gross loans and advances to customers	25,820	33,241
Less allowance for losses on loans and advances	(585)	(676)
Less provision for impairment	(174)	(200)
Net loans and advances to customers	25,061	32,365
of which		
Due within one year	11,608	17,718
Due after one year	13,453	14,647
	25,061	32,365

Loans and advances to customers include hire purchase receivables

	2010 £'000	2009 £'000
Gross investment in hire purchase contracts, receivable		
- no later than one year	7,000	11,062
- later than one year and no later than five years	8,090	9,119
- later than five years	23	24
	15,113	20,205
Unearned future finance income on hire purchase contracts	(1,312)	(1,733)
Net investment in hire purchase contracts	13,801	18,472

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

	2010 £'000	2009 £'000
- no later than one year	6,393	10,113
- later than one year and no later than five years	7,387	8,337
- later than five years	21	22
	13,801	18,472

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

During 2010 and 2009, no contingent rentals in respect of hire purchases were recognised in the Statement of comprehensive income.

Further analysis of Loans and advances to customers is provided in note 16.

Notes to the financial statements (continued)

For the year ended 31 December 2010

11 Property, plant and equipment

	Total £'000
Cost	
At 1 January 2009, 31 December 2009 and 31 December 2010	51
Accumulated depreciation	
At 1 January 2009	21
Charge for the year	8
At 31 December 2009	29
Charge for the year	8
At 31 December 2010	37
Balance sheet amount at 31 December 2010	14
Balance sheet amount at 31 December 2009	22

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

12. Deferred tax

The movement in the Deferred tax asset is as follows

	2010 £'000	2009 £'000
At 1 January	16	17
Charge for the year (see note 9)	(1)	(1)
At 31 December	15	16

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

	2010 £'000	2009 £'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 2010

12. Deferred tax (continued)

Deferred tax asset comprises	2010 £'000	2009 £'000
Accelerated capital allowances	6	5
Allowances for impairment losses	4	5
Other temporary differences	5	6
	15	16

Within the Deferred tax asset at 31 December 2010 are amounts of approximately £nil (2009 £9,000) that are expected to be settled in less than twelve months after the balance sheet date

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28 per cent to 27 per cent with effect from 1 April 2011. As a result the Company's Deferred tax asset reduced by £565 resulting in a charge to the Statement of comprehensive income of £565

In his Budget speech on 23 March 2011 the Chancellor announced a further reduction in the rate of corporation tax to 26 per cent with effect from 1 April 2011. This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 29 March 2011. The additional reduction to 26 per cent is not estimated to have a significant effect on Deferred tax asset as at 31 December 2010 and will be reflected in the financial statements for the year ending 31 December 2011

The proposed further reductions in the rate of corporation tax by 1 per cent per annum to 23 per cent from 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

13. Borrowed funds

	2010 £'000	2009 £'000
Amounts due to group undertakings (see note 15)	19,080	28,789

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made

Amounts due to Black Horse Limited are interest bearing at fixed rates based on amortising swap rates. All other amounts are non-interest bearing

14. Share capital

	2010 £'000	2009 £'000
Allotted, issued and fully paid		
100 ordinary shares of £1 each	-	-

At 31 December 2010, the authorised share capital of the Company was £100 divided into 100 ordinary shares of £1 each

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

Notes to the financial statements (continued)

For the year ended 31 December 2010

15. 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. A summary of the outstanding balances at the year end and the related income and expenses for the year are set out below:

	2010 £'000	2009 £'000
Amounts due to group undertakings		
Black Horse Limited	18,095	24,825
Lex Autolease Limited	985	3,964
Total amounts due to group undertakings (see note 13)	19,080	28,789
Interest expense		
Black Horse Limited (see note 4)	1,309	2,050
Purchase of motor vehicles		
Lex Autolease Limited	17,168	19,438
Staff and other costs recharged		
Black Horse Limited	379	969
Bank account held with parent companies		
Lloyds TSB Bank plc	(1,050)	143

Commission receivable of £8,000 (2009: £71,000) 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 £2,000 (2009: £10,000).

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 the Group.

16. 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.

16.1 Credit risk

Credit concentration

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

Loans and advances to customers – maximum exposure

	2010 £'000	2009 £'000
Neither past due nor impaired	24,339	31,438
Past due but not impaired	325	496
Impaired	1,156	1,307
Maximum exposure – loans and advances	25,820	33,241

Notes to the financial statements (continued)

For the year ended 31 December 2010

16. Financial risk management (continued)

16.1 Credit risk (continued)

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

	2010 £'000	2009 £'000
Good quality	15,853	20,512
Satisfactory quality	6,664	8,378
Lower quality	-	-
Below standard, but not impaired	1,822	2,548
Total	24,339	31,438

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

	2010 £'000	2009 £'000
Past due up to 30 days	325	496
Past due from 30-60 days	-	-
Past due from 60-180 days	-	-
Total	325	496

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

Allowance for Loans and advances to customers which are impaired

	2010 Total £'000	2009 Total £'000
Brought forward at 1 January	676	576
Advances written off	(218)	(58)
Charge for year (including recoveries)	127	158
At 31 December	585	676

The criteria used to determine that there is objective evidence of an impairment are disclosed in note 14. No Loans and advances to customers were individually determined to be impaired

Renegotiated loans and advances to customers

During the year the Company did not renegotiate any Loans and advances to customers which would otherwise have been past due or impaired (2009: £nil)

Repossessed collateral

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

Due to the nature and volume of the assets held as collateral it is impracticable to estimate the fair value of collateral held at the year end in respect of loans and advances to customers.

During the year the Company repossessed collateral in respect of defaulted debt with a value of £20,000 (2009: £22,000)

Notes to the financial statements (continued)

For the year ended 31 December 2010

16. Financial risk management (continued)

16.2 Liquidity risk

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

16.3 Interest rate risk

Interest rate risk is managed at a divisional level. As the Company is exposed to interest rate fluctuations a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

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 0.9% increase or decrease is used to assess the possible change in interest expense.

If market swap rates increased by 0.9% and all other variables remain constant this would increase interest expense by £196,000 (2009: £282,000) and accordingly decrease interest expense by £196,000 (2009: £282,000) if swap rates decreased by the same amount.

16.4 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 data.

16.5 Financial strategy

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

16.6 Fair values of financial assets and liabilities

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 £25,139,000 (2009: £32,685,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

17. Capital disclosures

The Company's objectives when managing capital are to safeguard its 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.

18. Contingent liabilities and capital commitments

As described in note 3 an assessment has been made of the potential future transfer of economic benefits from claims made against the Company in relation to single premium payment protection insurance. There is uncertainty as to the level of claims that will be made against the Company in future. As such, management have assessed the financial impact of settling future claims is unlikely to be sufficiently material and therefore no liability has been recognised in these financial statements.

There were no other contingent liabilities or contracted capital commitments at the balance sheet date (2009: £nil).

Notes to the financial statements (continued)

For the year ended 31 December 2010

19. Post balance sheet events

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

20. Future developments

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

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued May 2010)	Sets out minor amendments to IFRSs as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 July 2010
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	Annual periods beginning on or after 1 January 2011
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 existing IAS 39 will be removed. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2013

1 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 effective date of the standard is annual periods beginning on or after 1 January 2013.

2 At the date of this report, this pronouncement is awaiting EU endorsement.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements.