LLOYDS TSB COMMERCIAL FINANCE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

FRIDAY

ADWKT398
A08 19/09/2008 241
COMPANIES HOUSE

Registered Office

Boston House
The Little Green
Richmond
Surrey
TW9 1QE

Registered in England number 00733011
Member of Lloyds TSB Group

CONTENTS

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Report of the directors

The directors present the financial statements for the year ended 31 December 2007

Principal activities, business review and future developments
The principal activity of the company is, and will continue to be, the provision of asset based lending which includes receivables finance and hire purchase of plant and equipment

The Company's operations continue to expand in mainland Europe through Lloyds TSB Bank Plc with a presence in France and Spain The directors expect further expansion in Europe over the next 12 months The Company also continued to invest in its existing operations in Germany and Ireland

In the USA the Company continues to participate in deals syndicated with other Asset Based Lenders, circa $190m was advanced at the end of the year

Lloyds TSB Commercial Finance continues to play a pioneering role in developing the syndication market in the UK and leading and participating in a number of syndicated deals. £74m had been advanced as at 31 December 2007

In 2008 the financial performance of a number of customers has suffered due to more difficult trading conditions. The consequence of this for Commercial Finance has been an increase in the levels of bad debts, particularly in relation to one significant case, detailed in Note 32 of these accounts The Commercial Finance management team continues to closely monitor the level of debt exposures

Results and dividends
The Company made a profit before taxation for the year of £70,147,000 (2006 £67,330,000) which represents a 4 2% increase on the prior year Turnover in the year amounted to £247,177,000 (2006· £198,228,000) representing an increase of 24 7% on the prior year

The directors recommend the payment of a first and final dividend of £48,000,000 (2006 £45,600,000)

Key performance indicators (KPI's)
The directors consider that the key driver of performance for the Company is the levels of new business achieved and market share based on client numbers.

At the end of 2007 with 10,034 (2006 9,114) clients Lloyds TSB Commercial Finance increased its market share to 19 9% (2006: 19 4%) based on client numbers

The Company increased the rate of client acquisition and improved retention levels despite an increase in the number of client failures and poor trading conditions for the lower turnover bands within its client base

Policy and practice on payment of suppliers
The Company follows "The Better Payment Practice Code" published by the Department for Business, Enterprise and Regulatory Reform (BERR), regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BERR Publications Order Line 0845-0150-010 quoting ref URN 04/606.

Report of the directors (continued)

Policy and practice on payment of suppliers (continued)
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

The average time to pay trade suppliers as at 31 December 2007 is 53 days (2006 42 days)

Employees
The company is committed to employment policies that follow best practice, based on equal opportunities for all employees irrespective of sex, race, national origin, religion, colour, disability, sexual orientation, age or marital status.

The Lloyds TSB Group is a member of the Employers' Forum on Disability in support of employment of people with disabilities This recognises the need for ensuring fair employment practices in recruitment and selection, and the retention, training and career development of disabled staff

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings and internal communications There are well-established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions.

Schemes offering share options for the acquisition of shares in the Lloyds TSB Group are available for most staff, to encourage their financial involvement in the group

Directors
The directors during the period were as follows

E M G Ettershank	
P J Newman	Company Secretary
R J Eddowes	
M J Cooper	
I D Lomas	
P K Saunders	
G T Tate	
D J Postings	(resigned on 6 July 2007)
J Maltby	(appointed on 7 January 2008)

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Report of the directors (continued)

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent,

- state whether applicable International Financial Reporting Standards (IFRS's) as adopted by the European Union have been followed, subject to any material departures disclosed in the financial statements, and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors confirm that these financial statements comply with the aforementioned requirements

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the United Kingdom Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors
Each person who was a director at the date of approval 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

- each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself 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 section 234ZA of the Companies Act 1985

Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the annual general meeting

On behalf of the board

P J Newman – Company Secretary
Date 22nd July 2008

P. Newman

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Independent auditors' report to the members of Lloyds TSB Commercial Finance Limited

We have audited the financial statements of Lloyds TSB Commercial Finance Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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

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

We read the Directors' report and consider the implications for our report if we become aware of any apparent mis-statements within it

Basis of audit opinion

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

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

Independent auditors' report to the members of Lloyds TSB Commercial Finance Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS's as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
31 Great George Street
Bristol BS1 5QD

Date 24 July .2008

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Income statement
For the year ended 31 December 2007

	Note	2007	2006
		£'000	£'000
Revenue	4	**247,177**	198,228
Staff costs	5	**(44,345)**	(35,454)
Other operating expenses	6	**(37,040)**	(37,112)
Other operating income	7	**1,614**	10,421
Depreciation and amortisation		**(2,141)**	(2,006)
Interest expense	8	**(95,118)**	(66,747)
Profit before tax	9	**70,147**	67,330
Taxation	10	**(21,011)**	(19,449)
Profit for the year attributable to equity shareholders		**49,136**	47,881

The notes on pages 12 to 46 form part of these accounts.

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Balance sheet
As at 31 December 2007

	Note	2007 £'000	2006 £'000 Reclassified
ASSETS			
Non-current assets			
Intangible assets	11	**8,722**	8,413
Property, plant and equipment	12	**2,729**	3,494
Investments	13	**16,583**	16,583
Deferred tax assets	17	**6,695**	7,464
		34,729	35,954
Current assets			
Trade and other receivables	14	**2,143,324**	1,923,798
Other current assets	15	**13,713**	6,706
Cash at bank and in hand	16	**66,887**	95,557
		2,223,924	2,026,061
Total assets		**2,258,653**	2,062,015
Equity and Liabilities			
Current liabilities			
Trade and other payables	18	**139,765**	262,081
Short term borrowings	18	**2,043,862**	1,724,778
Current tax payable		**9,123**	7,005
		2,192,750	1,993,864
Non-current liabilities			
Retirement benefit obligations	21	**13,301**	19,080
Equity			
Called up share capital	19	**1,011**	1,011
Revaluation reserve		**2,399**	2,399
Retained earnings		**49,192**	45,661
Total equity		**52,602**	49,071
Total equity and liabilities		**2,258,653**	2,062,015

Approved by the board on 22nd July 2008 and signed on its behalf by·

P. Newman

P J Newman
Director

The notes on pages 12 to 46 form part of these accounts

The reclassification of the 2006 balances referred to above is explained in note 18

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Statement of changes in equity
For the year ended 31 December 2007

	Note	Share capital £'000	Revaluation reserve £'000	Retained profits £'000	Total equity £'000
Balance at 1 January 2006		1,011	2,399	33,750	37,160
Net profit arising in the year		-	-	47,881	47,881
Currency translation differences-recognised directly in equity				(35)	(35)
Dividend paid relating to 2005	27	-	-	(35,935)	(35,935)
Balance at 1 January 2007		1,011	2,399	45,661	49,071
Net profit arising in the year		-	-	49,136	49,136
Currency translation differences-recognised directly in equity				(5)	(5)
Dividend paid relating to 2006	27	-	-	(45,600)	(45,600)
Balance at 31 December 2007		1,011	2,399	49,192	52,602

All amounts are attributable to equity holders

The notes on pages 12 to 46 form part of these accounts

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Cash flow statement
For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000 Reclassified
Cash expended on operations	20	**(181,378)**	(149,771)
Interest paid		**(100,971)**	(65,513)
Tax paid		**(18,124)**	(17,577)
Net cash from operating activities		**(300,473)**	(232,861)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**149**	18
Purchase of property, plant and equipment	12	**(1,081)**	(1,232)
Purchase of intangible assets	11	**(744)**	(865)
Net cash used from investing activities		**(1,676)**	(2,079)
Cash flows from financing activities			
Dividends paid to shareholders	27	**(45,600)**	(35,935)
Advances of net amounts from Group undertakings		**299,958**	252,392
Net cash from financing activities		**254,358**	216,457
Effects of exchange rates on cash and cash equivalents		**(5)**	(35)
Net decrease in cash and cash equivalents		**(47,796)**	(18,518)
Cash and cash equivalents at beginning of year		**(3,390)**	15,128
Cash and cash equivalents at end of year	16	**(51,186)**	(3,390)

The notes on pages 12 to 46 form part of these accounts

The reclassification of the 2006 balances referred to above is explained in note 18

Notes to the financial statements

1. Accounting policies

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

a) Basis of accounting

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union The principal accounting policies applied are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

These separate financial statements contain information about the Company and do not contain consolidated financial information as the parent of a group The Company has taken advantage of the exemption under IAS 27 Consolidated and Separate Financial Statements and Section 228 of Companies Act 1985 from the requirement to prepare consolidated financial statements The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company

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

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

i) IFRS 7 Financial Instruments. Disclosures This standard, which was effective from 1 January 2007, requires more detailed qualitative and quantitative disclosures about exposure to risks arising from financial instruments As a disclosure standard, the application of this new standard has not had any impact on amounts recognised in the financial statements IFRS 7 supersedes IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements previously contained in IAS 32 'Financial Instruments. Presentation' The IFRS 7 disclosures are set out in notes 2 and 29

ii) Amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures' This standard, which was effective from 1 January 2007, requires additional disclosures of the objectives, policies and processes for managing capital These new capital disclosures are set out in note 29

1. <u>Accounting policies (continued)</u>

b) Financial assets and financial liabilities

Financial assets and financial liabilities comprise trade and other receivables, amounts due to group undertakings, amounts due to clients and other creditors. All of these are accounted for at amortised cost inclusive of transaction costs, and are amortised using the effective interest rate method.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument Financial assets and liabilities are derecognised when the rights to receive cashflows, or obligations to pay cashflows, have expired

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee, all other leases are classified as operating leases When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable within loans and advances to customers

c) Investments in subsidiary undertakings

Investments in subsidiaries are shown within non current assets, at cost less a provision for any impairment The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange, plus costs directly attributable to the acquisition

d) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognised impairment loss Historical cost includes expenditure that is directly attributable to the acquisition of the items

Depreciation is provided on assets so as to write off their cost less residual value on a straight line basis over their expected useful lives as follows·

- Furniture, fittings and equipment	3-8 years
- Motor vehicles	4-5 years

e) Intangible assets

<u>Computer software</u>

Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets Direct costs include software development, employee costs and an appropriate portion of relevant overheads Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (not exceeding 5 years)

1. Accounting policies (continued)

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings represents the excess of cost over the fair value of net identifiable assets acquired Goodwill arising on acquisitions is capitalised within intangible assets and carried at cost less accumulated impairment losses Goodwill is assessed annually for impairment

f) Taxation

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

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised

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

g) Employee benefits

Pensions

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the Lloyds TSB Group 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 compensation A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity.

The liability recognised in the balance sheet in respect of defined benefit pension plan is the Company's share of the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability

1. Accounting policies (continued)

Actuarial gains and losses arising from experience, adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives Past-service costs are charged immediately to the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period) In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Company pays contributions into publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis The Company has no further payment obligation once the contributions have been paid The contributions are recognised as employee benefit expense when they are due Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available

Share based payments

The Company's ultimate parent company operates a number of group-wide equity-settled, share-based compensation plans The Company's share of the value of Lloyds TSB Commercial Finance Limited employees' services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest The fair value of equity instruments granted is based on market prices, if available, at the date of grant In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique, such as a Black-Scholes option pricing model The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest At each balance sheet date, this estimate is reassessed and if necessary revised Any revision of the original estimate is recognised in the income statement over the remaining vesting period

h) Leases

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term, unless another systematic basis is more appropriate

i) Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements relating to overseas branches are measured using the currency of the primary economic environment in which the branch operates (the functional currency) The financial statements are presented in sterling, which is the Company's presentation and primary functional currency

1. **Accounting policies (continued)**

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement On consolidation of the results of the foreign operations exchange differences arising from the translation of the net investment are taken to shareholders' equity

j) Impairment of financial assets

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation or the debt being restructured to reduce the burden on the borrower

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable

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

The method and assumptions used for estimating future cash flows are reviewed regularly by the company to reduce any differences between the loss estimates and actual loss experience. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the provision is adjusted and the amount of the reversal is recognised in the income statement

1. Accounting policies (continued)

k) Cash and cash equivalents

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

l) Revenue recognition

Factoring and discounting income and expenses are recognised in the income statement using the effective interest method The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the interest but not future credit losses The calculation includes all amounts paid or received by the company that are an integral part of the overall return, direct incremental transaction costs (including commissions payable on new business) related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts

Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the lease Initial direct 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.

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

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.

m) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are paid by the board Dividends for the year that are declared and paid after the balance sheet date are disclosed within Note 27

n) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

2. Risk management policy

The Company's policies expose it to a variety of financial risks credit risk, liquidity risk and interest-rate risk The company is also exposed to foreign currency risk arising from the investment in its overseas operations. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance

Responsibility for the control of overall risk within the Company lies with the Board of Directors, however as the Company's funding is provided and managed on behalf of the Company by its parent Lloyds TSB Group plc, the interest rate and the liquidity risk faced by the company is in substance managed and borne by its parent

2.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due Impairment provisions are provided for losses that have been incurred at the balance sheet date

Credit risk is managed through the application of strict underwriting criteria. Significant credit exposures are measured and reported on a regular basis

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 Lloyds TSB Group

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

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 re-pricing of financial assets and liabilities

Through intercompany funding arrangements, the Company has effectively transferred its exposure to changes in interest rates to Lloyds TSB Group plc

2.4 Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk of financial loss as a result of adverse movements in foreign exchange rates when translating financial assets and liabilities denominated in foreign currencies into sterling

The Company manages foreign currency exchange rate risk by borrowing in the same currency that it lends to its customers to minimise exposure (i e it matches currency assets and liabilities) Foreign currency balances are monitored closely and currency exposures eliminated regularly to minimise foreign exchange risk

3. Critical accounting estimates, and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year The resulting accounting estimates will, by definition, seldom equal the related actual results

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

Impairment losses on loans and advances

The company reviews its loans and advances portfolios to assess impairment on a monthly basis In determining whether an impairment loss should be recorded in the income statement, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows

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

4. Revenue

Turnover represents fees earned from services provided and interest income on prepayments to clients, and is analysed as follows:

	2007	2006
	£'000	£'000
United Kingdom	**239,738**	193,304
Germany	**3,847**	3,614
Ireland	**1,234**	211
United States of America	**2,358**	1,099
	247,177	198,228
Invoice factoring	**80,301**	68,218
Asset based lending	**150,898**	119,530
Hire purchase	**9,906**	5,076
Payroll services	**6,072**	5,404
	247,177	198,228

The average effective interest rate in the year was 12 1% for receivables finance (2006 11 4% revised)

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

5. Directors and employees

a) Staff costs

The average number of persons employed by the company during the year was as follows:

	2007	2006
Invoice factoring	**514**	431
Asset based lending	**260**	226
Payroll services	**29**	32
Support services	**151**	137
Hire purchase	**4**	-
	958	826

Staff costs include:

Wages and salaries	**35,236**	30,291
Social security costs	**3,204**	2,766
Share-based payments	**1,423**	830
Pension costs -Defined benefit schemes	**3,720**	1,042
Pension costs -Defined contribution schemes	**762**	525
	44,345	35,454

b) Directors' emoluments

	2007 £000	2006 £000
Aggregate emoluments	**1,223**	1,106
Highest paid director		
- Emoluments	**415**	371
- Accrued pension at end of year - based on pensionable service to the company to 31 December but payable at normal retirement age	**136**	121
	551	492

5. Directors and employees (continued)

The highest paid director exercised 8,000 shares in respect of qualifying services under a long-term incentive scheme during the year

Key management comprise only the directors of the company (see note 28)

The emoluments of the directors have been apportioned between Lloyds TSB Bank plc, and the Lloyds TSB Commercial Finance Limited Group according to their services as directors or officers of those companies

Retirement benefits in respect of services to Lloyds TSB Commercial Finance Limited are accruing to six (2006: six) directors under defined benefit pension schemes None of the directors have any benefits accruing under money purchase schemes

None of the directors had a material interest, directly or indirectly, at any time during the year in any significant contract, transaction or arrangement with the company or its subsidiaries

6. Other operating expenses

	2007	2006
	£'000	£'000
Impairment on loans and advances	**7,514**	7,307
Premises costs	**4,336**	4,635
Travel and motor expenses	**4,876**	4,741
Printing, postage and stationery	**3,996**	3,161
Agents' commission	**3,016**	3,894
Credit information	**753**	2,431
Consultancy and professional fees	**1,173**	1,427
Indirect staff costs	**1,520**	1,490
Marketing fees	**1,418**	1,184
Management fees (see note 28)	**2,360**	1,506
Other administrative expenses	**6,078**	5,336
	37,040	37,112

7. Other operating income

	2007	2006
	£'000	£'000
Recharge of costs to other Group companies	**1,614**	10,421

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

8. Interest expense

	2007	2006
	£'000	£'000
On balances with Group undertakings	**95,118**	66,747

9. Profit before tax

Profit before tax is stated after charging / (crediting)

		2007	2006
		£'000	£'000
Operating lease rentals on land and buildings		**2,524**	2,718
Depreciation and amortisation		**2,141**	2,006
Auditors' remuneration	- audit fees	**129**	118
	- fees for non-audit services	**64**	12
Profit on sale of property, plant & equipment		**(9)**	(14)

10. Taxation

	2007 £'000	2006 £'000
UK corporation tax		
Current tax on profits for the year	**19,256**	17,128
Adjustments in respect of prior years	**986**	(202)
Current tax charge	**20,242**	16,926
Deferred tax (see note 17)	**769**	2,523
Charge for taxation	**21,011**	19,449

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

A reconciliation of the current tax charge for the year to the charge that would result from applying the standard UK corporation tax rate to profit before tax is given below

	2007 £'000	2006 £'000
Profit before tax	**70,147**	67,330
Tax charge at UK corporation tax rate of 30%	**21,044**	20,199
Factors affecting charge		
Expenses not deductible for tax purposes	**355**	171
Adjustment to tax in respect of previous periods	**(858)**	(78)
Other items	**(8)**	(843)
Impact on deferred tax assets of reduction in tax rate to 28%	**478**	-
Tax charge for the year	**21,011**	19,449
Effective rate	**30%**	29%

11. Intangible assets

Cost	Software £'000	Goodwill £'000	Total £'000
At 1 January 2006	711	8,529	9,240
Additions	865	-	865
At 31 December 2006	1,576	8,529	10,105
Additions	744	-	744
At 31 December 2007	2,320	8,529	10,849
Aggregate amortisation and impairment			
At 1 January 2006	569	901	1,470
Charge for the year	222	-	222
At 31 December 2006	791	901	1,692
Charge for the year	435	-	435
At 31 December 2007	1,226	901	2,127
Net book value:			
At 31 December 2007	1,094	7,628	8,722
At 31 December 2006	785	7,628	8,413

Goodwill held in the Company's balance sheet is tested at least annually for impairment. For the purposes of impairment testing goodwill is allocated to the appropriate cash generating unit which is Cash Friday

The recoverable amount has been based on a value in use calculation The calculation uses projections of future cash flows based upon budgets and plans approved by management covering a four-year period, and a discount rate of 9 per cent (gross of tax) The budgets and plans are based upon past experience adjusted to take into account anticipated changes in assignments and fee rates having regard to expected market conditions and competitor activity The discount rate is determined with reference to internal measures and available industry information Cash flows have been extrapolated using a steady 2 25 per cent growth rate Management believes that any reasonably possible change in the key assumptions would not cause the recoverable amount to fall below its balance sheet carrying value

12. Property, plant and equipment

	Computer and Office Equipment	Motor Vehicles	Total
	£'000	£'000	£'000
Cost			
At 1 January 2006	10,279	153	10,432
Additions	1,232	-	1,232
Disposals	-	(54)	(54)
At 31 December 2006	11,511	99	11,610
Additions	1,081	-	1,081
Disposals	(146)	(22)	(168)
At 31 December 2007	12,446	77	12,523
Depreciation			
At 1 January 2006	6,271	111	6,382
Charge for the year	1,763	21	1,784
Disposals	-	(50)	(50)
At 31 December 2006	8,034	82	8,116
Charge for the year	1,693	13	1,706
Disposals	(8)	(20)	(28)
At 31 December 2007	9,719	75	9,794
Net book value:			
At 31 December 2007	2,727	2	2,729
At 31 December 2006	3,477	17	3,494

13. Investments

	2007 £'000	2006 £'000
Investment in Group undertakings	**16,566**	16,566
Trade investments	**17**	17
At the beginning and end of the year	**16,583**	16,583

The subsidiaries, all of which are wholly owned and registered in England and Wales, were as follows

Name	Profit for the year £'000	Assets £'000	Liabilities £'000	Capital and Reserves £'000
Eurolead Services Holdings Limited	180	4,568	-	4,568
Alex Lawrie Factors Limited	-	-	(5)	(5)
Alex Lawrie Receivables Financing Ltd	-	200	-	200
Chancery Factors Limited	-	-	-	-
LTSBCF Limited	-	11,978	-	11,978

The above subsidiaries are dormant with the exception of Eurolead Services Holdings Limited, which is an investment company.

The directors confirm that there has been no impairment in the carrying value of the investments

14. Trade and other receivables

	2007 £'000	2006 £'000
Loans and advances	**2,031,849**	1,821,438
Amounts receivable under non-recourse factoring agreements	**125,075**	116,227
	2,156,924	1,937,665
Impairment losses on loans and advances	**(13,600)**	(13,867)
	2,143,324	1,923,798

14. Trade and other receivables (continued)

Loans and advances to customers include hire purchase

	2007 £000	2006 £000
Gross investment in hire purchase contracts, receivable:		
- no later than one year	**62,089**	33,030
- later than one year and no later than five years	**125,801**	57,948
	187,890	90,978
Unearned future finance income on hire purchase contracts	**(19,559)**	(9,535)
Net investment in hire purchase contracts	**168,331**	81,443

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

	2007 £000	2006 £000
- no later than one year	**56,867**	32,113
- later than one year and no later than five years	**111,464**	49,330
	168,331	81,443

The Company provides hire purchase in connection with the financing of vehicles, plant and equipment There are no un-guaranteed residual values accruing to the benefit of the lessor and no contingent rents recognised as income in the period The accumulated allowance for uncollectible hire purchase agreements is £927,000 (2006 £637,000)

15. Other current assets

	2007 £'000	2006 £'000
Prepayments	**5,193**	4,141
Other debtors	**8,520**	2,565
	13,713	6,706

16. Cash and cash equivalents

	2007 £'000	2006 £'000
Cash at bank and in hand	**66,887**	95,557
Overdrafts (Note 18)	**(118,073)**	(98,947)
Cash and cash equivalents	**(51,186)**	(3,390)

Cash and cash equivalents comprise cash and balances held at banks with a maturity of less than 3 months

17. Deferred taxation

	2007 £'000	2006 £'000
At 1 January	**7,464**	9,987
Income statement charge	**(769)**	(2,523)
At 31 December	**6,695**	7,464

The deferred tax charge in the income statement comprises

	2007 £'000	2006 £'000
Pensions	**(1,334)**	(3,168)
Share based payments	**(126)**	895
Accelerated capital allowances	**81**	(53)
Other temporary differences	**610**	(197)
	(769)	(2,523)

The deferred tax asset at 31 December comprises·

	2007 £'000	2006 £'000
Pensions	**4,390**	5,724
Share based payments	**1,057**	1,183
Accelerated capital allowances	**417**	336
Other temporary differences	**831**	221
	6,695	7,464

Deferred income tax asset is recoverable as follows

	2007 £'000	2006 £'000
After more than 12 months	**5,889**	6,695
Within 12 months	**806**	769

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

18. Trade and other payables

	2007 £'000	2006 £'000 Reclassified
Amounts due to clients on collections	**67,328**	185,164
Due to clients on collection under non-recourse factoring agreements	**39,066**	54,472
Trade creditors	**6,265**	268
Taxation and social security	**6,604**	4,558
Accruals and deferred income	**20,243**	17,603
Other creditors	**259**	16
	139,765	262,081
Amounts owed to Group undertakings (see note 28)		
- Bank overdraft balances	**118,073**	98,947
- Other funding balances	**1,925,789**	1,625,831
	2,043,862	1,724,778

Amounts owed to Group undertakings are unsecured, repayable on demand and generally interest bearing Variable rates based on LIBOR were charged during the year

In prior years, a number of bank accounts had been included as intercompany balances and netted against short-term borrowings These have now been reclassified as either cash & cash equivalents or overdraft balances (see note 16)

19. Called up share capital

	2007 £'000	2006 £'000
Authorised, issued and fully paid:		
1,011,002 ordinary shares of £1 each	**1,011**	1,011

20 Cash flow from operating activities

	2007 £'000	2006 £'000
Profit on ordinary activities before taxation	**70,147**	67,330
Adjustments for:		
Depreciation and amortisation	**2,141**	2,006
Profit on disposal of plant and equipment	**(9)**	(14)
Interest expense	**95,118**	66,747
Increase in trade and other receivables	**(226,532)**	(393,033)
(Decrease) / increase in trade payables	**(122,243)**	107,193
Cash expended on operations	**(181,378)**	(149,771)

21. Retirement benefit obligations

Defined contribution schemes

The Bank's ultimate parent company operates a number of defined contribution pension schemes, principally the defined contribution sections of the Lloyds TSB Group Pension Scheme nos 1 and 2; new employees of the Bank are offered membership of the defined contribution section of the Lloyds TSB Group Pension Scheme No. 1 During the year ended 31 December 2007 the charge to the income statement in respect of this scheme was £762,000 (2006 £525,000), representing the contributions payable by the employer in accordance with the scheme rules. There are no outstanding or prepaid contributions at 31 December 2007

Defined benefit schemes

The Bank's ultimate parent company has established a number of defined benefit pension schemes in the UK and overseas The majority of the Bank's employees are members of the defined benefit sections of the Lloyds TSB Group Pension Schemes nos 1 and 2 These are funded schemes providing retirement benefits calculated as a percentage of final salary depending upon the length of service, the minimum retirement age under the rules of the schemes is 50

The latest full valuations of the schemes were carried out as at 30 June 2005; these have been updated to 31 December 2007 by qualified independent actuaries.

The amounts shown below relate to the Bank's share of obligations arising from membership by the Bank's employees of the defined benefit schemes operated by the Bank's ultimate parent company

21. Retirement benefit obligations (continued)

Amounts included in the balance sheet

	2007 £'000	2006 £'000
Defined benefit pension schemes	**13,301**	19,080

The amounts recognised in the balance sheet are represented as follows:

	2007 £'000	2006 £'000
Company's share of present value of funded obligations	**186,820**	194,910
Company's share of fair value of scheme assets	**(212,057)**	(187,000)
	(25,237)	7,910
Company's share of unrecognised actuarial gains	**38,538**	11,170
	13,301	19,080

The movements in the amounts recognised in the balance sheet are as follows	2007 £'000	2006 £'000
At 1 January	**19,080**	29,639
Net charge to the income statement	**3,720**	1,042
Contributions paid	**(9,499)**	(11,601)
At 31 December	**13,301**	19,080

The expense recognised in the income statement comprises:

	2007 £'000	2006 £'000
Current service cost	**7,948**	7,258
Interest cost	**20,681**	19,195
Expected return on plan assets	**(24,909)**	(22,144)
Curtailment	**-**	(3,267)
	3,720	1,042

21. Retirement benefit obligations (continued)

Movements in the defined benefit obligation

	2007 £'000	2006 £'000
At 1 January	**194,910**	195,126
Current service cost	**7,948**	7,258
Interest cost	**20,681**	19,195
Actuarial gains	**(23,786)**	(10,409)
Benefits paid	**(12,933)**	(12,993)
Curtailment	**-**	(3,267)
At 31 December	**186,820**	194,910

Changes in the fair value of scheme assets:

	2007 £'000	2006 £'000
At 1 January	**187,000**	158,482
Expected return	**24,909**	22,144
Employer contributions	**9,499**	11,601
Actuarial gains	**3,582**	7,766
Benefits paid	**(12,933)**	(12,993)
At 31 December	**212,057**	187,000
Actual return on scheme assets	**28,491**	29,910

The Company expects to pay contributions of £4,160,000 to defined benefit pension schemes in 2008

21. Retirement benefit obligations (continued)

The pnncipal actuanal and financial assumptions used were as follows

	2007 %	2006 %
Discount rate	**5.80**	5 10
Rate of inflation	**3.30**	2 90
Rate of salary increases	**4.00**	3 93
Rate of increase for pensions in payment and deferred pensions	**3.10**	2 70

	2007 Years	2006 Years
Life expectancy for member aged 60, on the valuation date		
- Men	**25.9**	25.8
- Women	**27.9**	27.8
Life expectancy for member aged 60, 15 years after the valuation date:		
- Men	**27.1**	27 0
- Women	**29.0**	28 9

The mortality assumptions used in the scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with both current industry experience and the actual experience of the relevant schemes

Composition of scheme assets

	2007 %	2006 %
Equities	**53**	64
UK fixed interest gilts	**13**	7
UK index linked gilts	**9**	6
Sterling non-government bonds	**12**	10
Property	**11**	9
Other	**2**	4
At 31 December	**100**	100

The assets of all the funded plans are held independently of the Group's assets in separate trustee administered funds

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets

21. Retirement benefit obligations (continued)

Experience adjustments history

	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Present value of defined benefit obligation	**186,820**	194,910	195,126	167,798
Fair value of scheme assets	**(212,057)**	(187,000)	(158,482)	(129,307)
	(25,237)	7,910	36,644	38,491
Unrecognised actuarial gains/(losses)	**38,538**	11,170	(7,005)	(4,054)
Liability in the balance sheet	**13,301**	19,080	29,639	34,437
Experience losses on scheme liabilities	**(5,290)**	(780)	(280)	(3,145)
Experience gains on scheme assets	**3,582**	7,766	17,630	4,000

22. Share based payments

During the year ended 31 December 2007, the Company's ultimate parent company operated the following share based payment schemes, all of which are equity settled

Executive schemes

The Executive share option schemes are long-term incentive schemes and are available to certain senior executives of the Group, with grants usually made annually Options are granted within limits set by the rules of the schemes These limits relate to the number of shares under option and the price payable on the exercise of options The last grant of executive options was made in August 2005. These options were granted without a performance multiplier and the maximum limit for the grant of options in normal circumstances was three times annual salary Between April 2001 and August 2004, the aggregate value of the award based upon the market price at the date of grant could not exceed four times the executive's annual remuneration and, normally, the limit for the grant of options to an executive in any one year would be equal to 1.5 times annual salary with a maximum performance multiplier of 3.5 Prior to 18 April 2001, the normal limit was equal to one year's remuneration and no performance multiplier was applied.

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

22 Share based payments (continued)

Performance conditions for executive options

For options granted up to March 2001

Options granted	Performance conditions
March 1997 – August 1999	As for March 1996, plus a further condition that Lloyds TSB Group plc's ranking based on shareholder return (calculated by reference to both dividends and growth in share price) over the relevant period should be in the top fifty companies of the FTSE 100
March 2000 – March 2001	As for March 1997 – August 1999 except that there must have been growth in the earnings per share equal to the change in the Retail Price Index plus three percentage points for each complete year of the relevant period

In respect of options granted between March 1997 and March 2001, the relevant period for the performance conditions begins at the end of the financial year preceding the date of grant and will continue until the end of the third subsequent year or, if not met, the end of such later year in which the conditions are met Once the conditions have been satisfied the options will remain exercisable without further conditions If they are not satisfied by the tenth anniversary of the grant the option will lapse

For options granted from August 2001 to August 2004

The performance condition is linked to the performance of Lloyds TSB Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 17 companies including Lloyds TSB Group plc

The performance condition is measured over a three year period commencing at the end of the financial year preceding the grant of the option and continuing until the end of the third subsequent year. If the performance condition is not then met, it will be measured at the end of the fourth financial year If the condition has not then been met, the options will lapse

To meet the performance conditions, the Group's ranking against the comparator group must be at least ninth The full grant of options will only become exercisable if the Group is ranked first A performance multiplier (of between nil and 100 per cent) will be applied below this level to calculate the number of shares in respect of which options granted to executive directors will become exercisable, and will be calculated on a sliding scale If Lloyds TSB Group plc is ranked below median the options will not be exercisable

Options granted to senior executives other than executive directors are not so highly leveraged and as a result, different performance multipliers are applied to their options For the majority of executives, options are granted with the performance condition but no performance multiplier

22 Share based payments (continued)

For options granted in 2005

The same conditions apply as for grants made up to August 2004, except that.

- The performance condition is linked to the performance of Lloyds TSB Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 15 companies including Lloyds TSB Group plc,
- if the performance condition has not been met at the end of the third subsequent year, the options will lapse, and
- the full grant of options becomes exercisable only if the Group is ranked in the top four places of the comparator group. A sliding scale applies between fourth and eighth positions If Lloyds TSB Group is ranked below the median (ninth or below) the options will not be exercisable and will lapse

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn (SAYE) schemes to save up to £250 per month and, at the expiry of a fixed term of three or five years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in Lloyds TSB Group plc at a discount, which is currently 20 per cent of the market price at the date the options were granted Grants in periods up to 31 December 2001 also had options exercising after seven years

Other share option plans

Long-Term Incentive Plan

The Long-Term Incentive Plan introduced in 2006 is a long-term incentive scheme aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of the Group over a 3 year period Awards are made within limits set by the rules of the plan, with the limits determining the maximum number of shares that can be awarded equating to 3 times annual salary, in exceptional circumstances this may increase up to 4 times annual salary

The performance conditions for awards made in May and August 2006 are as follows.

(i) For 50 per cent of the award (the 'EPS Award') – the percentage increase in earnings per share of the Group (on a compound annualised basis) over the relevant period must be at least an average of 6 percentage points per annum greater than the percentage increase (if any) in the Retail Price Index over the same period If it is less than 3 per cent per annum the EPS Award will lapse If the increase is more than 3 per cent but less than 6 per cent per annum then the proportion of shares released will be on a straight line basis between 17 5 per cent and 100 per cent The relevant period commenced on 1 January 2006 and ends on 31 December 2008

22. <u>Share based payments (continued)</u>

(ii) For the other 50 per cent of the award (the 'TSR Award') – it will be necessary for the Group's total shareholder return (calculated by reference to both dividends and growth in share price) to exceed the median of a comparator group (14 companies) over the relevant period by an average of 7 5 per cent per annum for the TSR Award to vest in full 17.5 per cent of the TSR Award will vest where the Group's total shareholder return is equal to median and vesting will occur on a straight line basis in between these points. Where the Group's total shareholder return is below the median of the comparator group, the TSR Award will lapse. The relevant period commenced on 1 January 2006 and ends on 31 December 2008

The performance conditions for awards made in March and August 2007 are as follows.

(i) For 50 per cent of the award (the 'EPS Award') – the performance condition is as described for May 2006 with the relevant performance period commencing on 1 January 2007 and ending on 31 December 2009.

(ii) For the other 50 per cent of the award (the 'TSR Award') – the performance condition is as described for May 2006 with the relevant performance period commencing on 8 March 2007 (the date of award) and ending on 7 March 2010

Performance share plan

Under the performance share plan, introduced during 2005, [executive] directors will be eligible for an award of free shares, known as performance shares, to match the bonus shares awarded as part of their 2004 and 2005 bonus The maximum match will be two performance shares for each bonus share, awarded at the end of a three year period The actual number of shares awarded will depend on the Group's total shareholder return performance measured over a three year period, compared to other companies in the comparator group The maximum of two performance shares for each bonus share will be awarded only if the Group's total shareholder return performance places it first in the comparator group, one performance share for each bonus share will be granted if the Group is placed fifth; and one performance share for every two bonus shares if the Group is placed eighth (median) Between first and fifth, and fifth and eighth, sliding scales will apply. If the total shareholder return performance is below median, no performance shares will be awarded There will be no retest Whilst income tax is deducted from the bonus before deferral into the plan, where a match of performance shares is justified, these shares will be awarded as if income tax had not been deducted

Share incentive plan

Free shares

An award of shares may be made annually to employees based on a percentage of the employees' salary in the preceding year up to maximum of £3,000; any excess is awarded as cash. The percentage is normally announced concurrently with the Group's annual results and the price of the shares awarded in announced at the time of grant. The shares awarded are held in trust for a mandatory period of three years on the employees' behalf The award is subject to a non-market based condition. if an employee leaves the Group within this three year period for other than a 'good' reason, a portion of the shares awarded will be forfeited (for awards made up to April 2005, only a portion of the shares would be forfeited 75% within one year of the award, 50% within two years and 25% within three years)

22 Share based payments (continued)

Matching shares

The Group undertakes to match shares purchased by employees up to the value of £30 per month These shares are held in trust for a mandatory period of three years on the employees' behalf The award is subject to a non-market based condition, if an employee leaves within this three year period for other than a 'good' reason or the accompanying partnership shares are sold within that time, 100% of the matching shares are forfeited (or the portion relating to the shares sold)

The number of shares awarded relating to free shares in 2007 had an average fair value of £5 82 (2006 £5 28), based on the market price at the date of award The number of shares awarded relating to matching shares in 2007 had an average fair value of £5.49 (2006 £5 40), based on market prices at the date of award.

Other information

The charge made to the income statement represents the Company's share of the cost of the above schemes This charge has been allocated to the Company based on the number of the Company's employees who participate in the above schemes It is not practicable for the Company to provide information regarding the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and the number of options outstanding that is specific to the Company's employees without incurring significant additional cost

Full details of the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and number of options outstanding for the above schemes overall can be found in the 2007 annual report and accounts of the Company's ultimate parent company. Copies of the ultimate parent company's 2007 annual report and accounts may be obtained from the Company Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN

23. Operating lease commitments

Total commitments, all of which relate to buildings, under operating leases:

	2007	2006
	£'000	£'000
Due within one year	**2,331**	2,416
Due between one and five years	**7,201**	7,942
Due beyond five years	**10,026**	11,595
	19,558	21,953

Operating lease payments made during the year amount to £2,524,000 (2006 £2,718,000), sublease payments receivable during the year amount to £118,000 (2006 £53,000)

Total future sublease payments receivable relating to the above operating leases amounted to £595,000 (2006. £676,000)

LLOYDS TSB COMMERCIAL FINANCE LIMITED

Notes to the financial statements (continued)

24. Capital commitments

Capıtal expendıture not provıded for ın these accounts comprıses

	2007 £'000 Intangıble	2007 £'000 Other	2006 £'000 Intangıble	2006 £'000 Other
Authorısed and contracted	**369**	**80**	1,463	42

Other capıtal expendıture contracted relates to computer and office equıpment

25. Contingent liabilities

The Company has contıngent lıabılıtıes ın respect of the followıng

	2007 £'000	2006 £'000
Guarantees to Group undertakıngs	**43,162**	28,515
Other thırd party guarantees	**29,688**	2,850
	72,850	31,365

In addıtıon, the Company has contıngent lıabılıtıes ın respect of holdıng certaın non-recourse debts of £86m (2006 £62m) beıng the dıfference between non recourse assets and lıabılıtıes

26. Ultimate parent undertaking

The ultımate parent company and controllıng party ıs Lloyds TSB Group plc, whıch ıs also the parent undertakıng of the largest group of the undertakıngs for whıch group accounts are drawn up and of whıch the company ıs a member. Lloyds TSB Bank plc ıs the parent undertakıng of the smallest such group of undertakıngs Lloyds TSB Group plc ıs regıstered ın Scotland and Lloyds TSB Bank plc ıs regıstered ın England and Wales Copıes of the Group accounts of both may be obtaıned from the Company Secretary's Office, Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN

27. Dividends per share

Fınal dıvıdends are not accounted for until they have been paid or ratified at the Annual General Meetıng At the meetıng on 30 Aprıl 2008, a dıvıdend ın respect of 2007 of 47 48p (2006 45 10p) per share amountıng to a total of £48,000,000 (2006 paıd ın 2007- actual dıvıdend of £45,600,000) was proposed The fınancıal statements for the year ended 31 December 2007 do not reflect thıs dıvıdend, whıch wıll be accounted for ın shareholders' equıty as an appropnatıon of retaıned profits ın the year ended 31 December 2008

28. Related party transactions

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

	2007 £000	2006 £000
Balance outstanding at 31 December (see Note 18)		
Lloyds TSB Bank plc	**(1,836,021)**	(1,625,357)
Lloyds TSB Commercial Finance Scotland Limited	**(38,545)**	(21,341)
Blackhorse Limited	**-**	(60,037)
Lloyds UDT Limited	**(169,296)**	(18,043)
	(2,043,862)	(1,724,778)
Interest payable (see Note 8)		
Lloyds TSB Bank plc	**90,341**	66,073
Lloyds TSB Commercial Finance Scotland Limited	**1,281**	674
Lloyds UDT Limited	**3,496**	-
	95,118	66,747
Management fees payable (see Note 6)		
Lloyds TSB Commercial Finance Scotland Limited	**2,360**	1,506
Recharge of Costs (see Note 7)		
Lloyds TSB Commercial Finance Scotland Limited	**1,614**	-
Lloyds UDT Limited	**-**	10,086
Eurolead Services Holdings Ltd	**-**	335
	1,614	10,421

Included in other administrative expenses is an amount of £1,115,000 (2006 £1,685,000) relating to costs recharged by Lloyds TSB Bank plc to the Company in relation to shared services There were no other related-party transactions with the ultimate parent company or with the parent company, Lloyds TSB Bank plc, other than the payment of dividends on ordinary shares

Directors and key management personnel

The remuneration of directors is set out in note 5 The directors consider that there are no other key management personnel Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the company. Accordingly, key management comprise the directors of the company and the members of the Lloyds TSB Group plc board which comprises the statutory directors of that company and certain other senior management There were no transactions between the company and key management personnel during the current or preceding year.

29. Financial Risk Management

The Company's activities are principally related to the use of financial instruments However, the Company does not trade in financial instruments, nor does it use derivatives Lending activity is largely in the form of advances to customers The Company seeks to maximise margins on all products whilst maintaining its long-standing commitment of interest rate consistency to customers The Company's other financial instruments are amounts to and from Group companies, which are used to finance the Company's lending business

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

29.1 Credit risk

Credit concentration

The Company lends to commercial customers geographically located within the United Kingdom, Eire and Germany.

Loans and advances to customers – maximum exposure

31 December 2007	**£'000**
Neither past due nor impaired	2,143,324
Past due but not impaired	-
Impaired	13,600
Gross exposure – loans and advances	2,156,924
Commitments to lend	72,850
Maximum credit exposure	2,229,774

31 December 2006	**£'000**
Neither past due nor impaired	1,923,798
Past due but not impaired	-
Impaired	13,867
Gross exposure – loans and advances	1,937,665
Commitments to lend	31,365
Maximum credit exposure	1,969,030

29. Financial Risk Management (continued)

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

31 December 2007	**£'000**
Good quality	-
Satisfactory quality	1,411,196
Lower quality	686,038
Below standard, but not impaired	46,090
Total	2,143,324

31 December 2006	**£'000**
Good quality	-
Satisfactory quality	1,272,649
Lower quality	499,233
Below standard, but not impaired	151,916
Total	1,923,798

Definitions of good quality, satisfactory quality, lower quality and below standard, but not impaired, are not the same across each segment, reflecting different characteristics of these exposures and the way they are managed internally, therefore no totals are provided 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

29. Financial Risk Management (continued)

Allowance for loans and advances to customers which are impaired:

	2007 Total £'000	2006 Total £'000
Balance at 1 January	**(13,867)**	(12,025)
Exchange and other adjustments	**10**	-
Advances written off	**7,988**	8,510
Recoveries of prior advances written off	**(217)**	(3,045)
Charge to income statement	**(7,514)**	(7,307)
At 31 December	**(13,600)**	(13,867)

The criteria used to determine whether there is objective evidence of impairment is disclosed in Note 1j)

Renegotiated loans and advances to customers

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

Repossessed collateral

At year end the Company held repossessed collateral of £4,096,000 (2006: £16,283,000) in respect of defaulted debt The Company does not take physical possession of any collateral, instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations

29. Financial Risk Management (continued)

29.2 Liquidity risk

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

29.3 Fair values of financial assets and liabilities

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

Financial Instruments in this context are loans and advances to customers and borrowed funds from Group companies. The accounting policy for such financial instruments is explained at note 1. These products are accounted for on an amortised cost basis and no Financial Instruments use fair value accounting

The Company provides loans and advances to commercial and corporate customers at both fixed and variable rates. The carrying value of the variable rate loans and those relating to hire purchase financing is assumed to be their fair value For fixed rate lending, several different techniques are used to estimate fair value, as considered appropriate Fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by other financial institutions

The aggregated fair value of loans and advances to customers is approximately £2 2 billion (2006 £1.9 billion)

29.4 Capital management

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 Lloyds TSB Group's regulatory capital requirements

The Company's parent manages the Company's capital structure and advises the board to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets In order to maintain or adjust the capital structure, the Company's parent may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets

The Company's capital comprises all components of equity, movements in which appear in the statement of changes in equity on page 10 The Company receives most of its funding requirements from its parent and does not raise funding externally

30. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2007 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
IAS 1 Presentation of Financial Statements 1,2	Revises the overall requirements for the presentation of financial statements, guidance for their structure and minimum content requirements The revised standard requires the presentation of all non-owner changes in equity within a statement of comprehensive income	Annual periods beginning on or after 1 January 2009
IFRS 2 Share-based Payment – Vesting Conditions and Cancellations1,2	The amendment restricts the definition of vesting conditions to include only service conditions and performance conditions and deals with the accounting consequences of a failure to meet a condition other than a vesting condition including how to deal with cancellations by the counterparty and circumstances where neither the entity nor the counterparty is in a position to choose whether or not to meet a vesting condition	Annual periods beginning on or after 1 January 2009

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

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

31. Ultimate parent company

The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, a limited liability company incorporated and resident 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 Group accounts of both companies may be obtained from the company secretary's office, Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN

32. Post balance sheet events

Market conditions have toughened in 2008 and an increasing number of customers are experiencing worsening financial performance Consequently, loan losses have increased In particular, a one-off bad debt provision of £23 5 million was established in June 2008 relating to one customer The Commercial Finance management team continues to keep a close watch on the level of debt exposures