A G Finance Limited

Directors' report and financial statements
For the year ended 31 December 2013

Registered office

116 Cockfosters Road
Barnet
Hertfordshire
EN4 0DY

Registered number

1923956

Directors

R D Kemp
R D Sisley
C Sutton
M D Whytock
P A Williams
Y Yamashiro

Company Secretary

P Gittins

TUESDAY
A3G1CPI1
A30 09/09/2014 #268
COMPANIES HOUSE

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2013

The directors present their report and the audited financial statements of A G Finance Limited ("the Company") for the year ended 31 December 2013.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 1923956).

The Company provided a range of hire purchase products and personal loans, generally in connection with the financing of motor cars sold through the Kia dealer network.

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

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Asset Finance ("AF"), which is a part of the Consumer Finance Division, and are not managed separately for the Company. Further details of the Company's and AF'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. KPIs are monitored and reported at a divisional level and are disclosed in the financial statements for Black Horse Limited, which is the main trading company in AF.

Future outlook

The Company ceased to write new business in 2008. The Company will manage its loan book until all the loans have been repaid, at which point it will cease to trade. The carrying value of Loans and advances to customers and the associated income will continue to reduce as individual lease agreements expire.

Dividends

No dividends were paid or proposed during the year ended 31 December 2013 (2012: £6,500,000 representing £650 per share).

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 have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on the cover.

There have been no changes to directors during the year or since the year end.

Directors' indemnities

Lloyds Banking Group plc has granted to Messrs M D Whytock, P A Williams and C Sutton, the directors of the Company appointed by and representing Lloyds Banking Group plc, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force at the date of approval of the financial statements and throughout the financial year ended 31 December 2013. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, Lloyds Banking Group plc has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

Directors' report (continued)
For the year ended 31 December 2013

Statement of directors' responsibilities

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

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

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

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

Disclosure of information to auditors

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

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

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditors

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

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

On behalf of the board

C Sutton
Director

8 August 2014

Independent auditors' report to the members of A G Finance Limited

Report on the financial statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by A G Finance Limited, comprise:

- the Balance sheet as at 31 December 2013;
- the Statement of comprehensive income for the year then ended;
- the Cash flow statement for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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.

Independent auditors' report to the members of A G Finance Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

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 ISAs (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 members 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.

N Rummings

Neil Rummings (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
One Kingsway
Cardiff
CF10 3PW

8 August 2014

Statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Interest income	4	**297**	106
Fees and commission (expense)/income	5	**(63)**	18
Payment Protection Insurance credit / (charge)		**11**	(154)
Impairment gains/(losses) on Loans and advances to customers		**174**	(85)
Other operating expenses	6	**(6)**	(4)
Profit/(loss) before tax		**413**	(119)
Taxation	9	**(23)**	(49)
Profit/(loss) for the year attributable to owners of the parent, being total comprehensive income/(expense)		**390**	(168)

	2013 £'000	2012 £'000
Attributable to:		
Owners of the parent	**195**	(84)
Non-controlling interest	**195**	(84)
Total comprehensive income/(expense)	**390**	(168)

The notes on pages 9 to 20 are an integral part of these financial statements.

Balance sheet

As at 31 December 2013

	Note	2013 £'000	2012 £'000
ASSETS			
Other assets	10	**1,287**	626
Loans and advances to customers	11	**12**	558
Current tax asset		**-**	37
Deferred tax asset	12	**22**	35
Total assets		**1,321**	1,256
LIABILITIES			
Other current liabilities	13	**15**	318
Provision for liabilities and charges	14	**68**	99
Current tax liability		**9**	-
Total liabilities		**92**	417
EQUITY			
Share capital	15	**10**	10
Retained profits		**1,219**	829
Total equity		**1,229**	839
Total equity and liabilities		**1,321**	1,256

The notes on pages 9 to 20 are an integral part of these financial statements.

The financial statements on pages 5 to 20 were approved by the board of directors and were signed on its behalf by:

C Sutton
Director

8 August 2014

Statement of changes in equity
For the year ended 31 December 2013

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2012	10	7,497	7,507
Total comprehensive income for the year attributable to:			
- Owners of the parent	-	(84)	(84)
- Non-controlling interest	-	(84)	(84)
Dividend paid to equity holders of the Company			
- Owners of the parent	-	(3,251)	(3,251)
- Non-controlling interest	-	(3,249)	(3,249)
At 31 December 2012	**10**	**829**	**839**
Total comprehensive income for the year attributable to:			
- Owners of the parent	-	195	195
- Non-controlling interest	-	195	195
At 31 December 2013	**10**	**1,219**	**1,229**

The notes on pages 9 to 20 are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2013

	2013 £'000	2012 £'000
Cash flows generated from operating activities		
Profit/(loss) before tax	**413**	(119)
Adjustments for:		
- (Decrease)/increase in Provision for liabilities and charges	**(31)**	99
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**546**	1,465
- Net (increase)/decrease in Other assets	**(661)**	5,060
- Net decrease in Other current liabilities	**(303)**	(5)
Cash (used in)/generated from operations	**(36)**	6,500
Group relief received	**36**	-
Net cash generated from operating activities	**-**	6,500
Cash flows used in financing activities		
Dividends paid	**-**	(6,500)
Net cash used in financing activities	**-**	(6,500)
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

The notes on pages 9 to 20 are an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2013

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 in both years presented, unless otherwise stated.

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

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

(i) Improvements to IFRSs (issued May 2012). These amendments include minor amendments to IFRSs as part of the annual improvements process. Most amendments clarify existing practice. The application of this pronouncement has not had any impact for amounts recognised in these financial statements.

(ii) IFRS 13 Fair value measurement. The amendment sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements. The application of this pronouncement 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 2013 and which have not been applied in preparing these financial statements are given in note 21.

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

Income from financial assets

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments, including loans and advances, using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance 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 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. The Company has no operating leases.

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

Finance lease income

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.

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.

1. Accounting policies (continued)

1.2 Income recognition (continued)

Fees and commission income and expense

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 accrual basis when the service has been provided.

1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings and Loans and advances to customers. Financial liabilities comprise Other creditors.

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

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

1.4 Impairment

Loans and advances to customers

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

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

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

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

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 Dividends

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

1.6 Cash and cash equivalents

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

1. Accounting policies (continued)

1.7 Taxation, including deferred income taxes

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

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

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

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

1.8 Provision for liabilities and charges

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

2. Risk management policy

The Company's operations expose it to credit risk, liquidity risk, interest rate risk and business risk; it is not exposed to any significant market risk or foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by an intermediate parent company, Lloyds Bank Asset Finance Limited, and the ultimate parent, Lloyds Banking Group plc. The remaining interest rate and liquidity risk faced by the Company is in substance managed by other group undertakings which fund the Company and credit risk is carefully monitored by AF's credit committee and credit functions. Business risk is managed through regular reporting and oversight.

2.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with instalment credit contracts and operating leases is managed through the application of strict underwriting criteria, determined by the Division's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

For loans and advances, credit risk arises from amounts lent.

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

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: the Company uses statistically based decision techniques (primarily credit scoring). Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to Group Risk approval.

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

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

2. Risk management policy (continued)

2.2 Liquidity risk

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

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

2.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been provided in note 17.3.

2.4 Business risk

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

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

3. Critical accounting estimates and judgements in applying accounting policies

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

Impairment of assets accounted for at amortised cost

The Company regularly reviews its portfolio of leases to assess for impairment. In determining whether an impairment has occurred the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows and their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on assets in the Company.

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

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

Deferred tax

The Deferred tax asset has been recognised on the basis that tax losses arising in the future will be surrendered as group relief which will be paid for by the recipient company.

Payment Protection Insurance

At 31 December 2013, the Company carried a provision of £38,000 (2012: £99,000) against the cost of making redress payments to customers and the related administration costs. Determining the amount of the provisions, which represent management's best estimate of the cost of settling these issues, requires the exercise of significant judgement. It will often be necessary to form a view on matters which are inherently uncertain, such as the number of future complaints, the extent to which they will be upheld and the average cost of redress. Consequently the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate.

4. Interest income

	2013 £'000	2012 £'000
Interest income		
From hire purchase contracts	**(22)**	35
From personal loans	**7**	22
Group interest income (see note 16)	**11**	49
From other loans and advances	**301**	-
	297	106

Included within Interest income is £7,000 (2012: £14,000) in respect of impaired financial assets.

Included within Interest income is a charge of £36,000 (2012: £18,000) in respect of write offs of interest income on customer fees.

5. Fees and commission (expense)/income

	2013 £'000	2012 £'000
Loan fees (payable)/receivable	**(63)**	13
Commission receivable	**-**	5
	(63)	18

Included within Loan fees (payable)/receivable is a charge of £85,000 (2012: £nil) in respect of write offs of customer fees.

6. Other operating expenses

Fees payable to the Company's auditors for the audit of the financial statements of £6,000 (2012: £4,000) are included in Other operating expenses. Accounting and administration services are provided by a fellow group undertaking and are not recharged to the Company.

7. Staff costs

The Company did not have any employees during the year (2012: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2012: £nil). The directors are employed by other companies within the Group or companies controlled by MCL Group Limited and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 16).

9. Taxation

	2013 £'000	2012 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit/(loss) for the year	10	(24)
- Adjustments in respect of prior years	-	18
Current tax charge/(credit)	10	(6)
UK deferred tax:		
- Origination and reversal of timing differences	10	9
- Adjustments in respect of prior years	-	43
- Impact of deferred tax rate change	3	3
Deferred tax charge (see note 12)	13	55
	23	49

Corporation tax is calculated at a rate of 23.25% (2012: 24.50%) of the taxable profit/(loss) for the year.

b) Factors affecting the tax charge for the year

Where taxation on the Company's profit/(loss) for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 23.25% (2012: 24.50%), the differences are explained below:

	2013 £'000	2012 £'000
Profit/(loss) before tax	413	(119)
Tax charge/(credit) thereon at UK corporation tax rate of 23.25% (2012: 24.50%)	96	(29)
Factors affecting charge/(credit):		
- Adjustments in respect of prior years	-	61
- Effect of reduction in tax rate	3	3
- Timing differences not recognised	(76)	14
Tax on profit/(loss) on ordinary activities	23	49
Effective rate	5.6%	(41.2%)

10. Other assets

	2013 £'000	2012 £'000
Amounts due from group undertakings (see note 16)	1,248	618
Other assets	30	-
Other debtors	9	8
	1,287	626

Amounts due from group undertakings are unsecured and repayable on demand. Amounts due from Black Horse Limited are interest bearing either at fixed rates set at the inception of lease agreements or at variable rates based on the Finance House Base Rate plus a margin of 0.375%.

At 31 December 2013, the Company recognised an asset of £30,000 in respect of indemnities from Black Horse Limited in relation to a compliance issue (see note 14).

11. Loans and advances to customers

	2013 £'000	2012 £'000
Advances under hire purchase contracts	21	617
Personal loans to customers	6	978
Gross loans and advances to customers	27	1,595
Less: allowance for losses on loans and advances	(15)	(1,037)
Net loans and advances to customers	12	558
of which:		
Due within one year	10	424
Due after one year	2	134
	12	558

Loans and advances to customers include hire purchase receivables:

	2013 £'000	2012 £'000
Gross investment in hire purchase contracts:		
- no later than one year	17	481
- later than one year and no later than five years	4	101
- later than five years	-	52
	21	634
Unearned future finance income on hire purchase contracts	-	(17)
Net investment in hire purchase contracts	21	617

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

	2013 £'000	2012 £'000
- no later than one year	17	468
- later than one year and no later than five years	4	98
- later than five years	-	51
	21	617

The unguaranteed residual value is £nil (2012: £nil).

The Company provides a range of hire purchase products in connection with the financing of motor vehicles. The leases typically run for periods of between 3 and 10 years.

During the year, no contingent rentals in respect of hire purchase products were recognised in the Statement of comprehensive income (2012: £nil).

Further analysis of Loans and advances to customers is provided in note 17.

12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2013 £'000	2012 £'000
Brought forward	**35**	90
Charge for the year (see note 9)	**(13)**	(55)
At 31 December	**22**	35

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

	2013 £'000	2012 £'000
Accelerated capital allowances	**2**	7
Allowances for impairment losses	**3**	12
Other temporary differences	**8**	36
	13	55

Deferred tax asset comprises:	2013 £'000	2012 £'000
Accelerated capital allowances	**7**	9
Allowances for impairment losses	**4**	7
Other temporary differences	**11**	19
	22	35

The Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013. In addition, the Finance Act 2013, which was substantively enacted on 2 July 2013, included legislation to reduce the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The change in the main rate of corporation tax from 23% to 21% and 20% has resulted in a reduction in the Company's net Deferred tax asset at 31 December 2013 of £3,000 and a £3,000 charge included in the Statement of comprehensive income.

The Company has an unrecognised deferred tax asset of £22,000 (2012: £100,000) in respect of tax losses carried forward which are not expected to be recoverable in the foreseeable future and other timing differences.

13. Other current liabilities

	2013 £'000	2012 £'000
Other creditors	**-**	301
Other tax and social security payable	**-**	1
Accruals	**15**	16
	15	318

14. Provision for liabilities and charges

	Other provision £'000	PPI provision £'000	Total £'000
At 1 January 2012	-	-	-
Charge for the year	-	154	154
Utilised during the year	-	(55)	(55)
At 31 December 2012	-	99	99
Charge for the year	30	-	30
Reversal of unused provision	-	(11)	(11)
Utilised during the year	-	(50)	(50)
At 31 December 2013	**30**	**38**	**68**

An assessment has been made of the potential future transfer of economic benefits from claims made against the Company in relation to PPI. The provision represents an estimate of the likely future outflows to settle claims against the Company.

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated. The Company has reviewed its documentation and found there to be a compliance issue for which a provision for the cost of redress of £30,000 in 2013 has been made. It is estimated that all claims will be cleared by 2016.

The Company has been indemnified by Black Horse Limited for this cost (see note 10).

15. Share capital

	2013 £'000	2012 £'000
Allotted, issued and fully paid		
4,999 "A" ordinary shares of £1 each	**5**	5
5,001 "B" ordinary shares of £1 each	**5**	5
	10	10

At 31 December 2013, the authorised share capital of the Company was £10,000 divided into 4,999 "A" ordinary shares of £1 each and 5,001 "B" ordinary shares of £1 each.

The "A" ordinary shares of £1 each rank pari passu with the "B" ordinary shares of £1 each, in terms of voting, dividends and rights upon winding up. All of the "A" ordinary shares of £1 each are held by MCL Group Limited.

16. Related party transactions

The Company is controlled by Black Horse Group Limited (incorporated in England and Wales). A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income for the year are set out below.

	2013 £'000	2012 £'000
Amounts due from group undertakings		
Black Horse Limited (see note 10)	**1,248**	618
Interest income		
Black Horse Limited (see note 4)	**11**	49

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Statement of comprehensive income.

As described in notes 10 and 14, the Company has been indemnified by Black Horse Limited in respect of remediation costs relating to a compliance issue. Black Horse Limited is a 100% owned subsidiary of Black Horse Group Limited.

16. Related party transactions (continued)

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 Group or the MCL Group Limited and consider that their services to the Company are incidental to their other activities within those groups.

UK Government

In January 2009, the UK Government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. As at 31 December 2013, HM Treasury retained a significant interest in Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of the Company during the year ended 31 December 2013.

17. Financial risk management

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

17.1 Credit risk

Credit concentration - Loans and advances to customers

The Company lends predominantly to individual customers geographically located in the United Kingdom.

Loans and advances to customers – maximum exposure

	2013 £'000	2012 £'000
Neither past due nor impaired	**2**	164
Past due but not impaired	**3**	33
Impaired	**22**	1,398
Maximum credit exposure	**27**	1,595

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

	2013 £'000	2012 £'000
Good quality	**2**	129
Satisfactory quality	**-**	30
Lower quality	**-**	-
Below standard, but not impaired	**-**	5
Total	**2**	164

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

	2013 £'000	2012 £'000
Past due up to 30 days	**3**	33
Past due from 30-60 days	**-**	-
Past due from 60-180 days	**-**	-
Total	**3**	33

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

17. Financial risk management (continued)

17.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2013	2012
	£'000	£'000
Brought forward	**1,037**	1,754
Advances written off	**(912)**	(820)
(Credit)/charge for year (including recoveries)	**(174)**	80
Recoveries of prior advances written off	**64**	23
At 31 December	**15**	1,037

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. Included in Loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £nil (2012: £nil).

Repossessed collateral

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

During the year the Company repossessed collateral in respect of defaulted debt with a value of £nil (2012: £10,000).

17.2 Liquidity risk

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

17.3 Interest rate risk

As the Company is exposed to interest rate fluctuations on its Amounts due from group undertakings interest bearing at variable rates, a sensitivity analysis has been prepared to illustrate the impact of a change in the rates. Amounts due from group undertakings interest bearing at fixed rates are not exposed to interest rate fluctuations.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's variable rate intercompany balances and takes account of movement in the Finance House Base Rate which is the basis for the interest rate. A 0.50% increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as it is a customary standard step change in the Finance House Base Rate.

If the Finance House Base Rate increased by 0.50% and all other variables remain constant this would increase Interest income by £2,000 (2012: £12,000) and accordingly decrease Interest income by £2,000 (2012: £12,000) if the Finance House Base Rate decreased by the same amount.

17.4 Financial strategy

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

17.5 Fair values of financial assets and liabilities

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

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

The aggregated fair value of Loans and advances to customers is approximately £12,000 (2012: £1,505,000). The Carrying value of all other financial assets and liabilities is considerred an approximation of fair value.

18. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

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

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity. The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally.

19. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2012: £nil).

20. Post balance sheet events

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

21. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2013 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued December 2013) [1]	A collection of amendments to IFRSs from the 2010 - 12 and 2011 - 13 cycle of the annual improvements projects.	Annual periods beginning on or after 1 July 2014.
IFRS 9 Financial Instruments: Classification and Measurement [1&2]	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2015.

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

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

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

22. Other information

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