

AG Finance Limited

Report and Accounts 31 December 2009

Registered office

116 Cockfosters Road
Barnet
Hertfordshire
EN4 0DY

Registered number

1923956

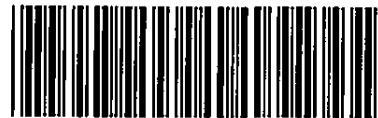
Directors

T Nakao
D J S Oldfield
R D Sisley
C Sutton
P R Varney
M D Whytock

Company Secretary

P J Richardson

WEDNESDAY



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Directors' report

For the year ended 31 December 2009

Business review and principal activities

AG Finance Limited ("the Company") is a limited company incorporated and domiciled in England and Wales (registered number 1923956)

The Company provides a range of finance lease and hire purchase options as well as personal loans, generally in connection with the financing of motor cars sold through the Kia dealer network

The Company's results for the year show a profit before tax of £687,000 (2008 £2,735,000) and net interest income of £1,816,000 (2008 £3,925,000)

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

Future outlook

The Company ceased to write new business in 2008, therefore 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

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Lloyds TSB Asset Finance Division ("the Division") and are not managed separately for the Company. Further details of the Company's and Division's risk management policy are contained in note 2 to the financial statements

Key performance indicators ('KPIs')

As the Company is no longer writing new business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Policy and practice on payment of suppliers

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

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

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

As the Company owed no amounts to trade creditors as at 31 December 2009, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2008 nil)

Dividends

No dividends were paid during the year ending 31 December 2009 (2008 £4,000,000)

Directors' report (continued)

For the year ended 31 December 2009

Directors

The names of the current directors are shown on the cover

The following changes have taken place during the year

W J Hamer	(appointed 5 January 2009 and resigned 6 July 2009)
K Murai	(resigned 15 May 2009)
R D Sisley	(appointed 15 May 2009)
T M Wylie	(resigned 30 June 2009)
M D Whytock	(appointed 6 July 2009)
T Katano	(resigned 1 April 2010)
T Nakao	(appointed 16 April 2010)

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 elected to prepare 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 estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

Auditors and disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware,
- 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.

On behalf of the Board



D J S Oldfield
Director

30 April 2010

Independent auditors' report to the members of AG Finance Limited

We have audited the financial statements of AG Finance Limited for the year ended 31 December 2009 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Mark Ellis

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

One Kingsway
Cardiff
CF10 3PW

30 April 2010

Statement of comprehensive income

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Interest and similar income		3,578	8,001
Interest and similar expenses		(1,762)	(4,076)
Net interest income	4	1,816	3,925
Fee and commission income		296	326
Impairment losses on loans and advances		(1,415)	(1,420)
Other operating expenses	6	(10)	(96)
Profit before tax		687	2,735
Taxation	9	(187)	(781)
Profit for the year attributable to equity shareholders, being total comprehensive income		500	1,954

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


Balance sheet

As at 31 December 2009

	Note	2009 £'000	2008 £'000
ASSETS			
Other current assets	11	112	1,635
Loans and advances to customers	12	22,145	54,875
Deferred tax asset	14	158	184
Total assets		22,415	56,694
LIABILITIES			
Borrowed funds	13	14,179	48,163
Other current liabilities		384	600
Current tax liabilities		171	750
Total liabilities		14,734	49,513
EQUITY			
Share capital	15	10	10
Retained profits		7,671	7,171
Total equity		7,681	7,181
Total equity and liabilities		22,415	56,694

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

The financial statements on pages 4 to 21 were approved by the Board of Directors and were signed on its behalf by:


D J S Oldfield
Director
30 April 2010

Statement of changes in equity

For the year ended 31 December 2009

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2008	10	9,217	9,227
Total comprehensive income for the year	-	1,954	1,954
Dividend paid (see note 10)	-	(4,000)	(4,000)
<hr/>			
At 31 December 2008	10	7,171	7,181
Total comprehensive income for the year	-	500	500
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At 31 December 2009	10	7,671	7,681

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

Cash flow statement

For the year ended 31 December 2009

	2009 £'000	2008 £'000
Cash flows from operating activities		
Profit before tax	687	2,735
Adjustments for		
- interest paid	1,762	4,076
Changes in operating assets and liabilities		
- net decrease in loans and advances to customers	32,730	64,119
- net decrease/(increase) in other debtors	66	(45)
- net decrease in other current liabilities	(216)	(66)
Cash generated from operations	35,029	70,819
Interest paid	(1,762)	(4,076)
Taxes paid via group relief	(740)	(535)
Net cash generated from operating activities	32,527	66,208
Cash flows used in financing activities		
Repayment of balances with group undertakings	(32,527)	(62,208)
Dividends paid	-	(4,000)
Net cash used in financing activities	(32,527)	(66,208)
Net movement 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 8 to 21 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2009

1. Accounting policies

1.1 Basis of preparation

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

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

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

- (i) IAS 1 (revised) 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Company has elected to present one statement, a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements, the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements.
- (ii) Amendments to IFRS 7 'Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the amendments only result in additional disclosures, the amendments have not had any impact for amounts recognised in these financial statements.
- (iii) Improvements to IFRSs (issued May 2008). Sets out minor amendments to IFRS standards as part of annual improvements process. Most amendments clarified existing practice. The application of these new interpretations has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2009 and which have not been applied in preparing these financial statements are given in note 21.

The financial statements have been prepared under the historical cost convention.

The Company is reliant on funding ultimately provided by Lloyds TSB Bank plc. Notwithstanding the improvement in market liquidity during 2009, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

1.2 Income recognition

Interest income from financial assets

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

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.

Notes to the financial statements (continued)

For the year ended 31 December 2009

1 Accounting policies (continued)

1.2 Income recognition (continued)

Interest income from financial assets (continued)

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

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

Fee and commission income

Fees and commissions which are not an integral part of the effective interest rate, such as commission associated with the sale of insurance underwritten by a third party, are generally recognised on an accruals basis when the service has been provided. A provision for the claw back of such commissions in the event of early termination is assessed at least every six months to take account of the most recent trends.

1.3 Financial assets and liabilities

Financial assets comprise amounts due from group undertakings, loans and advances to customers and other debtors. Financial liabilities comprise borrowed funds and other current liabilities.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired. Interest bearing financial assets and liabilities are recognised at amortised cost inclusive of transaction costs, using the effective interest rate method.

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 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.

1.4 Impairment

Loans and advances to customers and finance leases

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2009

1.4 Impairment (continued)

Loans and advances to customers and finance leases (continued)

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

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

1.5 Cash and cash equivalents

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

1.6 Taxation, including deferred income taxes

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

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

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

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

1.7 Pensions

Defined contribution

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

Defined benefit

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

1.8 Share based payments

The Company receives recharges in respect of share based payment schemes operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 7. Full details of these schemes can be found in the 2009 annual report and accounts of the Company's ultimate parent company, Lloyds Banking Group plc

1.9 Dividends

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

Notes to the financial statements (continued)

For the year ended 31 December 2009

2 Risk management policy

The Company's operations expose it to credit risk, liquidity risk and interest rate risk, it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the intermediate parent, Lloyds TSB Asset Finance Division Limited, and the ultimate parent, Lloyds Banking Group plc. Interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by the Division's credit committee and credit functions.

2.1 Credit risk

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

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

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

For its retail lending, credit risk is assessed using 'exposure at default' and 'loss given default' models. The Company assesses the probability of default of individual counterparties using internal rating models tailored to the various categories of counterparty. All rating models, which are authorised by executive management, comply with the Group's standard methodology and are subject to a rigorous validation process.

Credit risk mitigation

- Credit principles and policy. Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.
- 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.
- Counterparty limits. Credit risk in wholesale portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Divisional exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

2.2 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Through intercompany funding arrangements, the Company has effectively transferred its exposure to changes in interest rates to other companies within the Lloyds Banking Group.

2.3 Liquidity risk

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2009

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

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

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

Impairment of assets under Personal Contract Purchase (PCP) Agreements

Included within loans and advances to customers are certain hire purchase contracts referred to as Personal Contract Purchase (PCP) agreements. Under the terms of these agreements, customers have the option to either purchase the leased vehicle at the end of the lease term for a pre-agreed sum (the "pre-agreed residual value") or to return the vehicle for sale by the Company at auction.

Vehicles returned to the Company at the end of the lease term are initially held within other current assets at the agreed residual value. At each balance sheet date, an assessment is made of the expected proceeds from the sale of returned vehicles compared with their pre-agreed residual values and a provision is established for any expected shortfall.

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

Payment protection insurance product

Motor dealers have sold payment protection insurance in relation to finance lease and hire purchase contracts written by the Company. A fellow subsidiary undertaking has received claims during 2009 in respect of past sales of single premium payment protection insurance and has settled some of these claims during the year. Claims are made against the party who sold the payment protection insurance product to the individual, hence claims will be made initially against the motor dealer who sold the payment protection insurance product. However the Company may be liable where the motor dealer who sold the payment protection insurance product no longer exists.

There is uncertainty as to whether any claims will be made against the Company in the future. As the transfer of future economic benefit cannot be reliably measured no provision has been made in these financial statements. A contingent liability has been disclosed in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets."

Notes to the financial statements (continued)

For the year ended 31 December 2009

4 Net interest income

	2009 £'000	2008 £'000
Interest income		
From finance lease and hire purchase contracts	2,932	6,564
From personal loans	646	1,308
From other loans and advances	-	129
	3,578	8,001
Interest expense		
Group interest expense (see note 16)	(1,762)	(4,076)
Net interest income	1,816	3,925

Included within interest income is £263,000 (2008 £313,000) in respect of impaired financial assets

5. Fee and commission income

	2009 £'000	2008 £'000
Commission receivable (see note 16)	153	145
Loan fees receivable	143	181
	296	326

6. Other operating expenses

	2009 £'000	2008 £'000
Staff costs (see note 7)	-	53
Management fees (see note 16)	-	5
Other administrative expenses	10	38
	10	96

Fees payable to the Company's Auditors for the audit of the financial statements of £16,000 (2008 £16,000) are included in other administrative expenses

7. Staff costs

	2009 £'000	2008 £'000
Wages and salaries	-	45
Social security costs	-	3
Pension costs	-	5
	-	53

The Company did not directly employ any persons during 2009 (2008 none). In 2009, accounting and administration services were provided by a fellow subsidiary undertaking and were not recharged to the Company. Staff costs in 2008 represent emoluments recharged by a fellow subsidiary undertaking for 1 employee employed by that fellow subsidiary undertaking.

Notes to the financial statements (continued)

For the year ended 31 December 2009

8 Directors' emoluments

No director received any fees or emoluments during the year (2008 £nil). The directors' are employed by other companies within the Lloyds Banking 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

	2009 £'000	2008 £'000
a) Analysis of charge for the year		
UK corporation tax		
- Current tax on profit for the year	171	750
- Adjustments in respect of prior years	(10)	8
<hr/>		
Current tax charge	161	758
Deferred tax charge (see note 14)	26	23
<hr/>		
	187	781

The charge for tax on the profit for the year is based on an effective UK corporation tax rate of 28.0% (2008 28.5%)

b) Factors affecting the tax charge for the year

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

	2009 £'000	2008 £'000
Profit before tax	687	2,735
Tax charge thereon at UK corporation tax rate of 28.0% (2008 28.5%)	192	779
Factors affecting charge		
- Non-allowable and non-taxable items	-	1
- Adjustments in respect of prior years	(5)	2
- UK corporation tax change	-	(1)
<hr/>		
Tax on profit on ordinary activities	187	781
<hr/>		
Effective rate	27.2%	28.6%

10. Dividends

No dividends were paid during the year ended 31 December 2009 (2008 £400 per share totalling £4,000,000)

11. Other current assets

	2009 £'000	2008 £'000
Amounts due from group undertakings (see note 16)	-	1,457
Other debtors	112	178
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	112	1,635

Notes to the financial statements (continued)

For the year ended 31 December 2009

12 Loans and advances to customers

	2009 £'000	2008 £'000
Advances under finance lease and hire purchase contracts	19,996	47,929
Personal loans to customers	6,636	11,660
Other loans and advances to customers	147	147
<hr/>		
Gross loans and advances to customers	26,779	59,736
Less allowance for losses on loans and advances	(4,634)	(4,861)
<hr/>		
Net loans and advances to customers	22,145	54,875
<hr/>		
of which		
Due within one year	15,356	31,994
Due after one year	6,789	22,881
<hr/>		
	22,145	54,875

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

	2009 £'000	2008 £'000
Gross investment in finance lease and hire purchase contracts, receivable		
- no later than one year	14,946	30,952
- later than one year and no later than five years	6,210	21,673
- later than five years	389	445
<hr/>		
	21,545	53,070
Unearned future finance income on finance lease and hire purchase contracts	(1,549)	(5,141)
<hr/>		
Net investment in finance lease and hire purchase contracts	19,996	47,929

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

	2009 £'000	2008 £'000
- no later than one year	13,872	27,954
- later than one year and no later than five years	5,763	19,573
- later than five years	361	402
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	19,996	47,929

The Company provides a range of finance lease options in connection with the financing of motor vehicles. The leases typically run for periods of between 3 and 5 years.

During 2009 and 2008, no contingent rentals in respect of finance leases were recognised in the statement of comprehensive income.

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

Notes to the financial statements (continued)

For the year ended 31 December 2009

13 Borrowed funds

	2009	2008
	£'000	£'000
Amounts due to group undertakings (see note 16)	14,179	48,163

Amounts due to group undertakings are unsecured, interest bearing at variable rates based on the Finance House Base Rate plus a margin of 0.5% and repayable on demand, although there is no expectation that such a demand would be made

14. Deferred tax

The movement in the deferred tax asset is as follows

	2009	2008
	£'000	£'000
At 1 January	184	207
Charge for the year (see note 9)	(26)	(23)
At 31 December	158	184

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

	2009	2008
	£'000	£'000
Accelerated capital allowances	(6)	(2)
Allowance for impairment losses	(5)	(5)
Other temporary differences	(15)	(16)
	(26)	(23)

Deferred tax assets comprise	2009	2008
	£'000	£'000
Accelerated capital allowances	33	39
Allowance for impairment losses	32	37
Other temporary differences	93	108
	158	184

Within the deferred tax asset at 31 December 2009 are amounts of approximately £27,000 (2008 £28,000) that are expected to be settled in less than twelve months after the balance sheet date

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

Notes to the financial statements (continued)

For the year ended 31 December 2009

15 Share capital

	2009 £'000	2008 £'000
Authorised, 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

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.

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

16 Related party transactions

The Company is controlled by Black Horse Group Limited.

A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end, and the related expense for the year,

	2009 £'000	2008 £'000
Amounts due from group undertakings		
Lloyds UDT Limited (see note 11)	-	1,457
Amounts due to group undertakings		
Black Horse Limited (see note 13)	14,179	48,163
Interest payable		
Black Horse Limited (see note 4)	1,762	4,076
Management fees		
Black Horse Limited (see note 6)	-	5
Staff costs recharge		
Black Horse Limited (see note 7)	-	53

Commission receivable of £153,000 (2008: £145,000) includes insurance commission income receivable under the terms of the Company's agreement with Lloyds TSB General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc, of £127,000 (2008: £106,000).

Key management personnel

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

Notes to the financial statements (continued)

For the year ended 31 December 2009

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 financial assets/liabilities and associated accounting is provided in note 1.

17.1 Credit risk

Credit concentration

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

Customers for products in the 'Retail' segment are mainly private individuals. The 'Wholesale' segment comprises financing for motor dealers.

Loans and advances to customers – maximum exposure

	Retail £'000	Wholesale £'000	Total £'000
31 December 2009			
Neither past due nor impaired	18,466	-	18,466
Past due but not impaired	945	-	945
Impaired	7,221	147	7,368
Maximum exposure - loans and advances	26,632	147	26,779

	Retail £'000	Wholesale £'000	Total £'000
31 December 2008			
Neither past due nor impaired	49,351	-	49,351
Past due but not impaired	2,061	-	2,061
Impaired	8,177	147	8,324
Maximum exposure - loans and advances	59,589	147	59,736

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

	Retail £'000	Wholesale £'000
31 December 2009		
Good quality	12,137	-
Satisfactory quality	4,822	-
Lower quality	-	-
Below standard, but not impaired	1,507	-
Total	18,466	-

Notes to the financial statements (continued)

For the year ended 31 December 2009

17. Financial risk management (continued)

17.1 Credit risk (continued)

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

	Retail £'000	Wholesale £'000
31 December 2008		
Good quality	37,044	-
Satisfactory quality	9,164	-
Lower quality	-	-
Below standard, but not impaired	3,143	-
Total	49,351	-

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

	Retail £'000	Wholesale £'000
31 December 2009		
Past due up to 30 days	945	-
Past due from 30-60 days	-	-
Past due from 60-90 days	-	-
Total	945	-

	Retail £'000	Wholesale £'000
31 December 2008		
Past due up to 30 days	2,061	-
Past due from 30-60 days	-	-
Past due from 60-90 days	-	-
Total	2,061	-

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

Notes to the financial statements (continued)

For the year ended 31 December 2009

17 Financial risk management (continued)

17.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2009 Total £'000	2008 Total £'000
Brought forward at 1 January	4,861	4,520
Advances written off	(1,651)	(1,091)
Charge for year (including recoveries)	1,415	1,420
Recoveries of prior advances written off	9	12
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At 31 December	4,634	4,861

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 £147,000 (2008 £147,000)

The total impairment charge to the statement of comprehensive income has been split by business segment as follows: £1,415,000 (2008 £1,166,000) relates to 'Retail', and £nil (2008 £254,000) relates to 'Wholesale'

Renegotiated loans and advances to customers

During the year the Company did not renegotiate any loans and advances to customers which would otherwise have been past due or impaired (2008 £nil)

Repossessed collateral

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

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

During the year the Company repossessed collateral in respect of defaulted debt with a value of £152,000 (2008 £281,000)

17.2 Liquidity risk

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

17.3 Financial strategy

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

17.4 Fair values of financial assets and liabilities

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

Fair values of loans and advances to customers 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 before impairment is approximately £26,562,000 (2008 £59,630,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

Notes to the financial statements (continued)

For the year ended 31 December 2009

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 commitments

As described in note 3 an assessment has been made of the potential future transfer of economic benefits from claims made against the Company in relation to single premium payment protection insurance. Due to the uncertainty as to whether claims will be made against the Company no liability has been recognised in these financial statements

There were no other contingencies or contracted capital commitments at the balance sheet date (2008: £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 2009 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued April 2009)	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010
IAS24 Related Party Disclosures	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011

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