AG Finance Limited

Report and Accounts
31 December 2010

Registered office

116 Cockfosters Road
Barnet, Herffordshıre
EN4 0DY

Registered number

1923956

Directors

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

Company secretary

P Gıttıns

Member of Lloyds Bankıng Group

Directors' report

For the year ended 31 December 2010

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 loss before tax of £195,000 (2009 profit of £687,000) and net interest income of £262,000 (2009 £1,816,000)

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

Future outlook

The Company ceased to write new business in 2008 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 no amounts are owed to trade creditors as at 31 December 2010, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2009 nil)

Dividends

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

Going Concern

The Company is reliant on funding ultimately provided by Lloyds TSB Bank plc Notwithstanding the improvement in market liquidity during 2009 and 2010, 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

Directors' report (continued)

For the year ended 31 December 2010

Directors

The names of the current directors are shown on the cover

The following changes have taken place during the year

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

- select suitable accounting policies and then apply them consistently,

- make judgements and accounting estimates that are reasonable and prudent,

- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and

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

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

Auditors and disclosure of information to auditors

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

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

- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

On behalf of the board

D J S Oldfield
Director

04 April 2011

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 2010 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

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

This report, including the opinions, has been prepared for and only for the Company's 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 2010 and of its loss 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

M A Ellis

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

One Kingsway
Cardiff
CF10 3PW

4th April 2011

Statement of comprehensive income

For the year ended 31 December 2010

	Note	**2010 £'000**	2009 £'000
Interest and similar income		**1,266**	3,578
Interest and similar expenses		**(1,004)**	(1,762)
Net interest income	4	**262**	1,816
Fee and commission income	5	**142**	296
Impairment losses on loans and advances		**(593)**	(1,415)
Other operating expenses	6	**(6)**	(10)
(Loss)/profit before tax		**(195)**	687
Taxation	9	**50**	(187)
(Loss)/profit for the year attributable to equity shareholders, being total comprehensive income		**(145)**	500

The notes on pages 8 to 20 are an integral part of these financial statements

All results derive from continuing operations

Balance sheet

As at 31 December 2010

	Notes	2010 £'000	2009 £'000
ASSETS			
Other current assets	10	**686**	112
Loans and advances to customers	11	**6,990**	22,145
Current tax asset		**80**	-
Deferred tax asset	12	**118**	158
Total assets		**7,874**	22,415
LIABILITIES			
Borrowed funds	13	**-**	14,179
Other current liabilities		**338**	384
Current tax liability		**-**	171
Total liabilities		**338**	14,734
EQUITY			
Share capital	14	**10**	10
Retained profits		**7,526**	7,671
Total equity		**7,536**	7,681
Total equity and liabilities		**7,874**	22,415

The notes on pages 8 to 20 are an integral part of these financial statements

The financial statements on pages 4 to 20 were approved by the board of directors and were signed on its behalf by

D J S Oldfield
Director

04 April 2011

Statement of changes in equity
For the year ended 31 December 2010

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2009	10	7,171	7,181
Profit for the year and total comprehensive income	-	500	500
At 31 December 2009	**10**	**7,671**	**7,681**
Loss for the year and total comprehensive income	-	(145)	(145)
At 31 December 2010	**10**	**7,526**	**7,536**

The notes on pages 8 to 20 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2010

	2010 £'000	2009 £'000
Cash flows generated from operating activities		
(Loss)/profit before tax	**(195)**	687
Adjustments for		
- interest paid	**1,004**	1,762
Changes in operating assets and liabilities		
- net decrease in loans and advances to customers	**15,155**	32,730
- net (increase)/decrease in other debtors and other trade receivables	**(574)**	66
- net decrease in other current liabilities	**(46)**	(216)
Cash generated from operations	**15,344**	35,029
Interest paid	**(1,004)**	(1,762)
Taxes paid via group relief	**(161)**	(740)
Net cash generated from operating activities	**14,179**	32,527
Cash flows used in financing activities		
Repayment of balances with group undertakings	**(14,179)**	(32,527)
Net cash used in financing activities	**(14,179)**	(32,527)
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 20 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2010

1. Accounting policies

1 1 Basis of preparation

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

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs

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

(i) Improvements to IFRSs (issued April 2009) Sets out minor amendments to IFRSs as part of the annual improvements process Most amendments clarified existing practice The application of these new interpretations has not had any impact for amounts recognised in these financial statements

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2010 and which have not been applied in preparing these financial statements are given in note 20

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

1 2 Income recognition

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

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

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

Lease classification

Lease agreements are classified as 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 The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income

Fee and commission income and expense

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

Notes to the financial statements (continued)

For the year ended 31 December 2010

1. Accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets comprise 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

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 Cash and cash equivalents

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

Notes to the financial statements (continued)
For the year ended 31 December 2010

1. Accounting policies (continued)

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

Deferred and current 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

2. Risk management policy

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

2.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due The credit risk associated with instalment credit contracts is managed through the application of strict underwriting criteria, determined by the Division's credit committee and credit functions Significant credit exposures are measured and reported on a regular basis

For loans and advances, credit risk arises from amounts lent to a customer

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

In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see note 1 4)

Credit risk mitigation

- Credit principles and policy Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy Principles and policy are reviewed regularly and any changes are subject to a review and approval process Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions

- 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. Risk management policy (continued)

2 2 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been provided in note 16 3

2 3 Liquidity risk

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

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

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

Impairment on assets under Personal Contract Purchase 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 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

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

Potential claims from the misselling of payment protection insurance product

The Company has sold payment protection insurance to customers in previous years

Motor dealers have also sold payment protection insurance in relation to finance lease and hire purchase contracts written by the Company Claims are made against the party who sold the payment protection insurance product to the individual, hence claims will be made directly against the Company and 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

The Company has received a low level of claims for misselling payment protection insurance during 2010 for policies sold by the Company and by motor dealers and has settled some of the claims during the year Although the Company settled claims during 2010, the level of settlements has been minimal There is also an ongoing judicial review into how payment protection claims should be handled which, if successful, would reduce the likelihood of claims being settled Given these factors, management believe that the settlement of any future claims is not "more likely than not" and no provision has been made in these financial statements A contingent liability has been disclosed in note 18 in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets"

4. Net interest income

	2010 £'000	2009 £'000
Interest income		
From finance lease and hire purchase contracts	**991**	2,932
From personal loans	**275**	646
	1,266	3,578
Interest expense		
Group interest expense (see note 15)	**(1,004)**	(1,762)
Net interest income	**262**	1,816

Included within interest income is £136,000 (2009 £263,000) in respect of impaired financial assets

5. Fee and commission income

	2010 £'000	2009 £'000
Loan fees receivable	**91**	143
Commissions receivable (see note 15)	**51**	153
	142	296

6. Other operating expenses

	2010 £'000	2009 £'000
Other operating expenses	**6**	10

Fees payable to the Company's auditors for the audit of the financial statements of £6,000 (2009 £16,000) are included in other operating expenses

7. Staff costs

The Company did not employ any persons during the year (2009 none) Accounting and administration services were provided by a fellow subsidiary undertaking and were not recharged to the Company

Notes to the financial statements (continued)

For the year ended 31 December 2010

8. Directors' emoluments

No director received any fees or emoluments during the year (2009 £nil) The directors are employed by other companies within the Lloyds Banking Group 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 15)

9. Taxation

a) Analysis of (credit)/charge for the year

	2010 £'000	2009 £'000
UK corporation tax		
- Current tax on taxable (loss)/profit for the year	**(80)**	171
- Adjustments in respect of prior years	**(10)**	(10)
Current tax (credit)/charge	**(90)**	161
Deferred tax charge (see note 12)	**40**	26
	(50)	187

Corporation tax is calculated at a rate of 28 0% (2009 28 0%) of the estimated taxable profit for the year

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

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

	2010 £'000	2009 £'000
(Loss)/profit before tax	**(195)**	687
Tax (credit)/charge thereon at UK corporation tax rate of 28 0% (2009 28 0%)	**(55)**	192
Factors affecting (credit)/charge		
- Adjustments in respect of prior years	**-**	(5)
- Effect of reduction in tax rate	**5**	-
Tax on (loss)/profit on ordinary activities	**(50)**	187
Effective rate	25 6%	27 2%

10. Other current assets

	2010 £'000	2009 £'000
Amounts due from group undertakings (see note 15)	**643**	-
Other debtors	**43**	112
	686	112

Amounts due from group undertakings are unsecured, interest bearing and repayable on demand, although there is no expectation that such a demand would be made Amounts due from Black Horse Limited are net of funding on which interest is payable at fixed rates set at the inception of lease agreements All other amounts are at variable rates based on the Finance House Base Rate plus a margin of 0 5%

Notes to the financial statements (continued)

For the year ended 31 December 2010

11. Loans and advances to customers

	2010 £'000	2009 £'000
Advances under finance lease and hire purchase contracts	**6,493**	19,996
Personal loans to customers	**3,088**	6,636
Other loans and advances to customers	**60**	147
Gross loans and advances to customers	**9,641**	26,779
Less allowance for losses on loans and advances	**(2,651)**	(4,634)
Net loans and advances to customers	**6,990**	22,145
of which		
Due within one year	**5,215**	15,356
Due after one year	**1,775**	6,789
	6,990	22,145

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

	2010 £'000	2009 £'000
Gross investment in hire purchase finance lease contracts, receivable		
- no later than one year	**5,124**	14,946
- later than one year and no later than five years	**1,512**	6,210
- later than five years	**214**	389
	6,850	21,545
Unearned future finance income on hire purchase and finance lease contracts	**(357)**	(1,549)
Net investment in hire purchase and finance lease contracts	**6,493**	19,996

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

	2010 £'000	2009 £'000
- no later than one year	**4,856**	13,872
- later than one year and no later than five years	**1,433**	5,763
- later than five years	**204**	361
	6,493	19,996

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 2010 and 2009, 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 16

Notes to the financial statements (continued)
For the year ended 31 December 2010

12. Deferred tax

The movement ın the deferred tax asset ıs as follows

	2010 £'000	2009 £'000
At 1 January	**158**	184
Charge for the year (see note 9)	**(40)**	(26)
At 31 December	**118**	158

The deferred tax charge ın the statement of comprehensıve ıncome comprıses the followıng temporary dıfferences

	2010 £'000	2009 £'000
Accelerated capıtal allowances	**(15)**	(6)
Allowances for ımpaırment losses	**(7)**	(5)
Other temporary dıfferences	**(18)**	(15)
	(40)	(26)

Deferred tax assets comprıse	2010 £'000	2009 £'000
Accelerated capıtal allowances	**18**	33
Allowances for ımpaırment losses	**25**	32
Other temporary dıfferences	**75**	93
	118	158

Wıthın the deferred tax asset at 31 December 2010 are amounts of approxımately £24,000 (2009 £27,000) that are expected to be settled ın less than twelve months after the balance sheet date

The Fınance (No 2) Act 2010 ıncluded legıslatıon to reduce the maın rate of corporatıon tax from 28% to 27% wıth effect from 1 Aprıl 2011 Accordıngly the deferred tax asset has been recognısed at 27%

In hıs Budget speech on 23 March 2011 the Chancellor announced a further reductıon ın the rate of corporatıon tax to 26% wıth effect from 1 Aprıl 2011 Thıs further reductıon was enacted under the Provısıonal Collectıon of Taxes Act 1968 on 29 March 2011 The addıtıonal reductıon to 26% ıs not estımated to have a sıgnıfıcant effect on deferred tax assets and lıabılıtıes as at 31 December 2010 and wıll be reflected ın the fınancıal statements for the year ended 31 December 2011

The proposed further reductıons ın the rate of corporatıon tax by 1% per annum to 23% from 1 Aprıl 2014 are expected to be enacted separately each year The effect of these further changes upon the Company's deferred tax balances cannot be relıably quantıfıed at thıs stage

13. Borrowed funds

	2010 £'000	2009 £'000
Amounts due to group undertakıngs (see note 15)	**-**	14,179

Amounts due to group undertakıngs are unsecured, ınterest bearıng and repayable on demand, although there ıs no expectatıon that such a demand would be made Amounts due to Black Horse Lımıted are net of fundıng on whıch ınterest ıs payable at fıxed rates set at the ınceptıon of lease agreements All other amounts are at varıable rates based on the Fınance House Base Rate plus a margın of 0 5%

Notes to the financial statements (continued)
For the year ended 31 December 2010

14. Share capital

	2010 £'000	2009 £'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 2010, 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

The immediate parent company and the holder of all the "B" shares, 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 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

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

	2010 £'000	2009 £'000
Amounts due from group undertakings		
Black Horse Limited (see note 10)	**643**	-
Amounts due to group undertakings		
Black Horse Limited (see note 13)	-	14,179
Interest expense		
Black Horse Limited (see note 4)	**1,004**	1,762

Commission receivable of £51,000 (2009 £153,000) 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 £12,000 (2009 £127,000)

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 Limited 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 2010

16. Financial risk management

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

16 1 Credit risk

Credit concentration

The Company lends 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

At 31 December 2010	Retail £'000	Wholesale £'000	Total £'000
Neither past due nor impaired	5,022	-	5,022
Past due but not impaired	375	-	375
Impaired	4,184	60	4,244
Maximum credit exposure	**9,581**	**60**	**9,641**

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

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

At 31 December 2010	Retail £'000	Wholesale £'000
Good quality	3,292	-
Satisfactory quality	1,352	-
Lower quality	-	-
Below standard, but not impaired	378	-
Total	5,022	-

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

Definitions of good quality, satisfactory quality, lower quality and below standard, but not impaired, are not the same across each segment, reflecting different characteristics of these exposures and the way they are managed internally, therefore no totals are provided In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default

Notes to the financial statements (continued)
For the year ended 31 December 2010

16. Financial risk management (continued)

16 1 Credit risk (continued)

Loans and advances to customers which are past due but not impaired

At 31 December 2010	Retail £'000	Wholesale £'000	Total £'000
Past due up to 30 days	375	-	375
Past due from 30-60 days	-	-	-
Past due from 60-90 days	-	-	-
Total	**375**	**-**	**375**

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

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

Allowance for loans and advances to customers which are impaired

	2010 £'000	2009 £'000
Brought forward at 1 January	**4,634**	4,861
Advances written off	**(2,590)**	(1,651)
Charge for year (including recoveries)	**593**	1,415
Recoveries of prior advances written off	**14**	9
At 31 December	**2,651**	4,634

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 £60,000 (2009 £147,000)

The total impairment charge to statement of comprehensive income has been split by business segment as follows £605,000 (2009 £1,410,000) relates to 'Retail' and a credit of £12,000 (2009 charge of £5,000) 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 (2009 £nil)

Repossessed collateral

Collateral held against loans and advances to customers is principally comprised of motor vehicles and other plant and machinery 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 £74,000 (2009 £152,000)

16 Financial risk management (continued)

16 2 Liquidity risk

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

16 3 Interest rate risk

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

Interest rate risk - Sensitivity analysis

The sensitivity analysis is based on the Company's amounts due to group undertakings and takes account of movement in the Finance House Base Rate which is the basis for the interest rate on the variable element of intercompany balances A 0 8% increase or decrease is used to assess the possible change in interest income

If the Finance House Base Rate increased by 0 8% and all other variables remain constant this would increase interest expense by £37,000 (2009 £33,000) and accordingly decrease interest expense by £37,000 (2009 £33,000) if rates decreased by the same amount

16 4 Financial strategy

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

16 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 £9,443,000 (2009 £26,562,000) The carrying value of all other financial assets and liabilities is considered an approximation of fair value

17 Capital disclosures

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

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

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

18. Contingent liabilities and 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 settlement of any future claims being not "more likely than not", no liability has been recognised in these financial statements

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

Notes to the financial statements (continued)

For the year ended 31 December 2010

19. Post balance sheet events

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

20. Future developments

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

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued May 2010)	Sets out minor amendments to IFRSs as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 July 2010
Amendments to IAS 24 Related Party Disclosures	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for related party transactions with government related entities	Annual periods beginning on or after 1 January 2011
IFRS 9 Financial Instruments Classification and Measurement [1 & 2]	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument The available-for sale financial asset and held-to-maturity categories in existing IAS 39 will be removed The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2013

1 IFRS 9 is the initial stage of the project to replace IAS 39 Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting Until all stages of the replacement project are complete it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39 The effective date of the standard is annual periods beginning on or after 1 January 2013

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

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