AG Finance Limited

Registered number 1923956

Report and Accounts 2007

Member of Lloyds TSB Group

Company information

Directors

Directors	T Katano K Murai D J S Oldfield D J Stehr P R Varney T M Wylie C Sutton
Secretary	P J Richardson

AG Finance Limited is registered in England and Wales No 1923956 and is both incorporated and domiciled in England and Wales

Registered office

116 Cockfosters Road,
Barnet,
Hertfordshire,
EN4 0DY

Directors' report
For the year ended 31 December 2007

The directors present their report and the audited financial statements for the year ended 31 December 2007

Business review and principal activities

AG Finance Limited ("the Company") provides a range of hire purchase and finance lease options as well as personal loans, generally in connection with the financing of motor cars The Company ceased to write new operating lease business in December 2002 and by 31 December 2007 all operating leases had ended

The results for the Company show a profit before tax of £1,883,000 (2006 £2,446,000) for the year and net interest income of £5,408,000 (2006 £6,283,000)

The Company is funded entirely by other companies within the LTSB Group

Future outlook

With effect from 1 January 2008 the Kia car company revised its distribution arrangements and, as a result, the Company will no longer provide new finance for cars sold via the Kia dealer network As a result, the Company's loan book will decline as individual agreements expire

Principal risks and uncertainties

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

Key performance indicators ('KPIs')

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Policy and practice on payment of creditors

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

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 2007, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is nil (2006 nil)

Dividends

No dividend has been paid in 2007 (2006 £nil)

Directors

The names of the current directors are shown on page 1

The following changes have taken place during the year and since the year end

J Woolley	(resigned 30 April 2008)
C Sutton	(appointed 30 April 2008)

Statement of directors' responsibilities (continued)

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing those financial statements the directors are required to

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

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

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

On behalf of the Board

P J Richardson
Company Secretary

18 September 2008

Report of the independent auditor to the members of AG Finance Limited

We have audited the financial statements of AG Finance Limited for the year ended 31 December 2007 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities

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

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

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

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

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

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

Opinion
In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

One Kingsway
Cardiff
CF10 3PW

18 September 2008

Income statement

For the year ended 31 December 2007

	Note	2007 £'000	*Restated 2006 £'000
Interest and similar income		**13,892**	14,573
Interest expense and similar charges		**(8,484)**	(8,290)
Net interest income	4	**5,408**	6,283
Fees and commission income		**599**	684
Fees and commission expense		**(306)**	(261)
Net fee and commission income	5	**293**	423
Other operating income		**-**	5
Impairment losses		**(1,769)**	(2,072)
Other operating expenses	6	**(2,049)**	(2,193)
Profit before tax	7	**1,883**	2,446
Taxation	10	**(583)**	(738)
Profit for the year attributable to equity shareholders		1,300	1,708

The notes on pages 9 to 23 are an integral part of these financial statements

*The restatement of comparatives is explained in note 1 1 and 21

Balance sheet
As at 31 December 2007

	Note	2007 £'000	2006 £'000
ASSETS			
Other current assets	11	**133**	912
Loans and advances to customers	12	**118,994**	159,073
Property, plant and equipment	13	**-**	11
Deferred tax assets	16	**207**	262
Total assets		**119,334**	160,258
LIABILITIES			
Borrowed funds	14	**108,914**	150,883
Other current liabilities	15	**666**	770
Current tax liabilities		**527**	678
Total liabilities		**110,107**	152,331
EQUITY			
Share capital	17	**10**	10
Retained profits		**9,217**	7,917
Total equity		**9,227**	7,927
Total equity and liabilities		**119,334**	160,258

The notes on pages 9 to 23 are an integral part of these financial statements

The financial statements on pages 5 to 23 were approved by the Board of Directors on 18 September 2008 and were signed on its behalf by

D J Stehr
Director

18 September 2008

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

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2006	10	6,209	6,219
Profit for the year	-	1,708	1,708
At 31 December 2006	10	7,917	7,927
Profit for the year	-	1,300	1,300
At 31 December 2007	**10**	**9,217**	**9,227**

The notes on pages 9 to 23 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2007

	2007 £'000	2006 £'000
Cash flows from operating activities		
Profit before tax	**1,883**	2,446
Adjustments for		
- Interest payable	**8,484**	8,290
- Depreciation	**-**	19
- Profit on sale of property, plant and equipment	**(2)**	(72)
Changes in operating assets and liabilities		
- Net decrease in loans and advances to customers	**40,079**	15,084
- Net decrease /(increase) in other assets	**779**	(388)
- Net decrease in other liabilities	**(104)**	(574)
Cash generated from operations	**51,119**	24,805
Interest paid	**(8,484)**	(8,290)
Tax paid	**(679)**	(973)
Net cash from operating activities	**41,956**	15,542
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**13**	440
Net cash inflow from investing activities	**13**	440
Cash flows from financing activities		
Repayment of net amounts due to other group companies	**(41,969)**	(19,937)
Net cash used in financing activities	**(41,969)**	(19,937)
Net decrease in cash and cash equivalents	**-**	(3,955)
Cash and cash equivalents at beginning of year	**-**	3,955
Cash and cash equivalents at end of year	**-**	-

The notes on pages 9 to 23 are an integral part of these financial statements

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 all years presented unless otherwise stated AG Finance Limited is a limited company incorporated and domiciled in the United Kingdom

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

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

i) IFRS 7 Financial Instruments Disclosures This standard, which was effective from 1 January 2007, requires more detailed qualitative and quantitative disclosures about exposure to risks arising from financial instruments As a disclosure standard, the application of this new standard has not had any impact on amounts recognised in the financial statements IFRS 7 supersedes IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements previously contained in IAS 32 'Financial Instruments Presentation' The IFRS 7 disclosures are set out in notes 2 and 19

ii) Amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures' This standard, which was effective from 1 January 2007, requires additional disclosures of the objectives, policies and processes for managing capital These new capital disclosures are set out in note 19

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2007 and which have not been applied in preparing these financial statements are given in note 22

Restatement of comparatives

Errors in the classification of certain accounting transactions for the year ended 31 December 2006 have been identified during the preparation of the 2007 financial statements, resulting in reclassification of certain items in the income statement and notes for 2006 The restated comparatives reflect these reclassifications The reclassifications have £nil impact on profit before or after tax, and £nil impact on net assets Details of amounts and account items affected are provided in note 21

The financial information has been prepared under the historical cost convention

1 2 Income recognition

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments, including loans and advances, using the effective interest method The effective interest 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

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 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

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 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

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

Operating lease rental income is recognised on a straight line basis over the life of the lease

Commission and other fee income and expense which does not form part of the interest income, is recognised in the income statement on a receivable or payable basis

1 Accounting policies (continued)

1 3 Financial assets, liabilities and leases

Financial assets comprise loans and advances to customers and other debtors Financial liabilities comprise borrowed funds and other creditors

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

Other debtors, customer lending, borrowed funds and other creditors are recognised at amortised cost inclusive of transaction costs, using the effective interest rate method

When assets are leased under a finance lease, the amount due from the lessee is recorded as a receivable at the net present value of the lease payments plus any guaranteed residual value payments, where applicable, being the Company's net investment in the lease

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 loan or advance 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, whether or not foreclosure is probable

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

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

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 income statement on a cash receipts basis

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

Property, plant and equipment

Property, plant and equipment comprises assets provided to customers under operating leases, and are included at cost less depreciation Depreciation is calculated using the straight-line method to allocate the difference between the cost and residual value over the assets' estimated useful lives

Impairment of property, plant and equipment is assessed by comparing the net present value of the expected future cash flows with the assets' carrying value Any impairment identified in this way is charged immediately to the income statement

1 Accounting policy (continued)

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 from the date of acquisition

1 6 Taxation, including deferred income taxes

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

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised 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 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 Lloyds TSB Asset Finance Division Limited Contributions payable to the plan in respect of the Company are recharged to the Company when they become payable

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

1 8 Share based payments

Full details for the share based payment schemes operated by the Company's ultimate parent company, including the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and number of options outstanding, can be found in the 2007 annual report and accounts of the Company's ultimate parent company

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 TSB Group plc The interest rate and liquidity risk faced by the Company is in substance managed and borne by other group companies which fund the Company and credit risk is carefully monitored by Asset Finance Division credit committees 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 Lloyds TSB Asset Finance Division Limited credit committee and credit functions Significant credit exposures

2. Risk management policy (continued)

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, exposure at default and loss given default models are also in use All rating models, which are authorised by executive management, comply with the Group's standard methodology and are subject to a rigorous validation process The Company assesses the probability of default of individual counterparties using internal rating models tailored to the various categories of counterparty

Credit Risk Mitigation

• Credit principles and policy Group risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy Principles and policy are reviewed regularly and any changes are subject to a review and approval process Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions
• Credit scoring In its principal retail portfolios, the Group uses statistically-based decision techniques (primarily credit scoring) Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to group risk approval
• Concentration risk Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level Credit policy is aligned to our risk appetite and restricts exposure to certain high risk and more vulnerable sectors At a divisional level, exposures are monitored to prevent excessive concentration of risk These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements
• Stress testing and scenario analysis at a divisional level The credit portfolio is also subjected to stress-testing and scenario analysis, to simulate outcomes and calculate their associated impact
• 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

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 re-pricing of financial assets and liabilities

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

2 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 TSB Group

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

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

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

Impairment on assets accounted for at amortised cost
The Company regularly reviews its loan and finance lease portfolio 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 required impairment provision applies formulae which take into account factors such as the length of time that customers' accounts have 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

4. Net interest income

	2007 £'000	*Restated 2006 £'000
Interest income		
From finance lease and hire purchase contracts	**9,441**	9,087
From personal loans	**2,403**	3,019
From other loans and advances to customers	**2,048**	2,467
	13,892	14,573
Interest expense		
Group interest expense (note 18)	**(8,484)**	(8,290)
Net interest income	**5,408**	6,283

Included within interest income in 2007 is £325,420 (2006 £308,957) in respect of impaired financial assets

The average effective interest rate in 2007 was 9 96% (2006 9 06%) for lease and hire purchase, 9 94% (2006 10 01%) for personal loans and 6 29% (2006 6 19%) for other loans and advances, which substantially comprise funding provided to commercial motor vehicle retailers

*The restatement of comparatives is explained in note 1 1 and 21

5 Net fee and commission income

	2007 £'000	*Restated 2006 £'000
Fee and commission income		
Commission receivable	**334**	404
Loan fees receivable	**265**	280
Fee and commission expense		
Fees and commissions payable	**(306)**	(261)
Net fee and commission income	**293**	423

*The restatement of comparatives is explained in note 1 1 and 21

6. Other operating expenses

	2007 £'000	2006 £'000
Staff costs (see note 8)	**644**	842
Other administrative expenses	**319**	170
Management fee (see note 18)	**1,086**	1,162
Depreciation	**-**	19
	2,049	2,193

7. Profit before tax

The following items have been included in arriving at operating profit

	2007 £'000	2006 £'000
Income		
- Profit on disposal of property, plant and equipment	**2**	72
Expenses		
- Release of maintenance provision	**-**	(241)
- Auditors remuneration		
- Statutory audit	**16**	15

8 Staff costs

	2007 £'000	2006 £'000
Wages and salaries	**542**	713
Free shares	**3**	-
Social security costs	**26**	29
Pension costs	**73**	100
	644	842

Staff costs represent emoluments recharged by a fellow subsidiary for 10 employees (2006 11) employed by that fellow subsidiary

9 Directors' emoluments

No director received any fees or emoluments during the year (2006 £nil) The directors are employed by other companies within the Lloyds TSB Asset Finance Division Limited sub group or companies controlled by MCL Group Limited (the Amethyst Group) Lloyds TSB Asset Finance Division Limited is the parent company of a sub group which comprises several trading companies engaged in a wide range of lending activities The directors' services to the Company are considered to be incidental to their other responsibilities within these organisations (see also note 18)

10 Taxation

a) Analysis of charge for the year	2007 £'000	2006 £'000
UK corporation tax		
- Current tax on profits for the year	527	807
- Adjustments in respect of prior years	1	(1)
Current tax charge	528	806
Deferred tax charge / (credit) (see note 16)	55	(68)
	583	738

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

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

	2007 £'000	2006 £'000
Profit before tax	1,883	2,446
Tax charge thereon at UK corporation tax rate of 30%	565	734
Factors affecting charge		
- Non-allowable items	2	5
- Prior year charge/(credit)	1	(1)
- Effect of reduction in tax rate to 28%	15	-
Tax on profit on ordinary activities	583	738
Effective rate	31 0%	30 2%

11 Other current assets

	2007 £'000	2006 £'000
Other debtors	131	377
Amounts due from associated undertakings (see note 18)	2	535
	133	912

12. Loans and advances to customers

	2007 £'000	2006 £'000
Advances under finance lease and hire purchase contracts	**92,343**	97,168
Personal loans to customers	**20,282**	28,073
Other loans and advances to customers	**10,889**	37,947
Gross loans and advances to customers	**123,514**	163,188
Less allowance for losses on loans and advances	**(4,520)**	(4,115)
Loans and advances to customers, net	**118,994**	159,073
of which		
due within one year	**60,432**	88,381
due after one year	**58,562**	70,692
	118,994	159,073

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

	2007 £'000	2006 £'000
Gross investment in hire purchase and finance lease contracts, receivable		
- no later than one year	**48,480**	46,723
- later than one year and no later than five years	**56,728**	64,503
- later than five years	**395**	234
	105,603	111,460
Unearned future finance income on hire purchase and finance lease contracts	**(13,260)**	(14,292)
Net investment in hire purchase and finance lease contracts	**92,343**	97,168

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

	2007 £'000	2006 £'000
- no later than one year	**42,393**	40,732
- later than one year and no later than five years	**49,605**	56,232
- later than five years	**345**	204
	92,343	97,168

Further analysis of Loans and advances to customers is provided in note 19

13 Property, plant and equipment

	£'000
Cost	
At 1 January 2006	1,086
Disposals	(1,054)
At 31 December 2006	32
Disposals	(32)
Cost at 31 December 2007	-
Accumulated depreciation	
At 1 January 2006	688
Charge for the year	19
Disposals	(686)
At 31 December 2006	21
Disposals	(21)
Accumulated depreciation at 31 December 2007	-
Balance sheet amount at 31 December 2007	-
Balance sheet amount at 31 December 2006	11

Property, plant and equipment comprises assets leased to customers under operating leases

14 Borrowed funds

	2007 £'000	2006 £'000
Amounts due to group undertakings (see note 18)	**108,914**	150,883

Amounts due to group undertakings are unsecured and technically repayable on demand, although there is no expectation that such a demand would be made Variable rates, based on LIBOR, were charged on interest bearing elements prevailing during the year

15 Other current liabilities

	2007 £'000	2006 £'000
Other creditors	**666**	770

16 Deferred tax

The movement in the net deferred tax asset is as follows

	2007 £'000	2006 £'000
At 1 January	**262**	194
Income statement (charge) / credit	**(55)**	68
At 31 December	**207**	262

The deferred tax (charge) / credit in the income statement comprises the following temporary differences

	2007 £'000	2006 £'000
Accelerated capital allowances	**(21)**	(39)
Allowance for impairment losses	**(9)**	(38)
Other temporary differences	**(25)**	145
	(55)	68

Deferred tax assets are comprised as follows

	2007 £'000	2006 £'000
- Accelerated capital allowances	**41**	62
- Allowance for impairment losses	**42**	51
- Other temporary differences	**124**	149
	207	262

With effect from 1 April 2008 profits will be charged to corporation tax at the rate of 28% (currently 30%) Accordingly deferred tax has been calculated at 28%

17 Share capital

	2007 £'000	2006 £'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 Amethyst Group Limited

The immediate parent company and 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 TSB Group plc, 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 the Company Secretary's Office, located at Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN

18. Related party transactions

Black Horse Group Ltd and Amethyst Group Limited hold 50 01% and 49 99% of the shares in the Company respectively The ultimate parent of the Company is Lloyds TSB Group plc (incorporated in Scotland)

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

	Group and associated companies	
	2007	2006
	£'000	£'000
Outstanding at 31 December		
Due to Black Horse Limited (see note 14)	**(108,914)**	(150,883)
Due from Kia Motors (UK) Limited (see note 11)	**2**	535
Interest payable		
Black Horse Limited (see note 4)	**8,484**	8,290
Management charges		
Black Horse Limited	**835**	904
Amethyst Group Limited	**251**	258
Total Management charges (see note 6)	**1,086**	1,162

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company Accordingly, key management comprise the directors of the Company and the members of the Lloyds TSB Asset Finance Division board which comprises the statutory directors of that company and certain other senior management There were no transactions between the Company and key management personnel during the current or preceding year Key management personnel are employed either by other Companies within the Lloyds TSB Asset Finance Division Limited sub group or the Amethyst Group and consider that their services to the Company are incidental to their other activities within these groups

Commission fees receivable of £334,000 (2006 £404,000) substantially comprises insurance commission income receivable under the terms of the Company's agreement with Lloyds TSB General Insurance Limited, a fellow subsidiary of Lloyds TSB Group plc

19 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

19 1 Credit risk

Credit concentration

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

Customers within the 'retail – other' segment are mainly private individuals and the 'wholesale' segment comprises financing for motor traders

Loans and advances to customers – maximum exposure

31 December 2007	Retail - other £'000	Wholesale £'000	Total £'000
Neither past due nor impaired	101,582	9,150	110,732
Past due but not impaired	3,157	-	3,157
Impaired	7,886	1,739	9,625
Maximum exposure – loans and advances	**112,625**	**10,889**	**123,514**

31 December 2006	Retail - other £'000	Wholesale £'000	Total £'000
Neither past due nor impaired	114,997	37,296	152,293
Past due but not impaired	3,473	-	3,473
Impaired	6,771	651	7,422
Maximum exposure – loans and advances	125,241	37,947	163,188

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

31 December 2007	Retail - other £'000	Wholesale £'000
Good quality	41,943	4,218
Satisfactory quality	34,088	3,436
Lower quality	17,227	1,155
Below standard, but not impaired	8,324	341
Total	**101,582**	**9,150**

19 Financial risk management (continued)

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

31 December 2006	**Retail - other £'000**	**Wholesale £'000**
Good quality	47,537	11,593
Satisfactory quality	38,500	16,451
Lower quality	19,525	8,597
Below standard, but not impaired	9,435	655
Total	114,997	37,296

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

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

31 December 2007	**Retail - other £'000**	**Wholesale £'000**
Past due up to 30 days	3,157	-
Past due up to 30-60 days	-	-
Past due up to 60-90 days	-	-
Total	3,157	-

31 December 2006	**Retail - other £'000**	**Wholesale £'000**
Past due up to 30 days	3,473	-
Past due up to 30-60 days	-	-
Past due up to 60-90 days	-	-
Total	3,473	-

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

Allowance for loans and advances to customers which are impaired

	2007 Total £'000	2006 Total £'000
Brought forward at 1 January	**(4,115)**	(3,029)
Advances written off	**1,379**	1,011
Charge for year (including recoveries and unwind of discount)	**(1,769)**	(2,072)
Add back amounts not included in opening balance		
- recoveries of prior advances written off	**(15)**	(25)
At 31 December	**(4,520)**	(4,115)

19. Financial risk management (continued)

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 £1,739,000 (2006 £651,000)

The total impairment charge to income statement has been split by business segment as follows £1,556,000 relates to 'retail – other', and £213,000 relates to 'wholesale' (2006 £1,890,000 'retail – other' £182,000 Wholesale)

Renegotiated loans and advances to customers

During the year the Company renegotiated the loans and advances to customers, which would otherwise have been past due or impaired, totalling £779,000 (2006 £431,000)

Repossessed collateral

At year end the Company held repossessed collateral of £96,000 (2006 £88,000) in respect of defaulted debt The Company does not take physical possession of any collateral, instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations

19 2 Liquidity risk

The Company is funded on an ongoing basis entirely by companies within Lloyds TSB Group All other financial liabilities are repayable on demand

19 3 Financial strategy

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

19 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 aggregate fair value of loans and advances to customers is approximately £127,949,000 (2006 £170,515,000) before impairment The carrying value of all other assets and liabilities is considered an approximation of fair value

19 5 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 most of its funding requirements from its fellow Group Companies and does not raise funding externally

20 Contingent liabilities and commitments

There were no contingencies or commitments at the balance sheet date (2006 £nil)

21. Reclassification of comparatives

Errors in the classification of certain accounting transactions for the year ended 31 December 2006 have been identified during the preparation of the 2007 financial statements, resulting in reclassification of certain items in the income statement and notes for 2006

Reclassifications from fee and commission income and expense to interest income have been made in cases where fees and commission are included in the loans' effective yield calculations Reclassifications from interest income to fees and commission income and expense reflect instances where fees and commissions, previously recognised as interest rate income, are not considered to be integral to loans and advances, hence do not form part of the effective yield calculations

The reclassifications have £nil impact on profit before or after tax, and £nil impact on net assets Details of amounts and account items affected are provided below

	2006 Restated. £'000	2006 Previously reported £'000
Income statement		
Interest and similar income	**14,573**	16,492
Fees and commission income	**684**	270
Fees and commission expense	**(261)**	(1,766)

22 Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2007 and has not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
IAS 1 Presentation of Financial Statements [1 2]	Revises the overall requirements for the presentation of financial statements, guidance for their structure and minimum content requirements The revised standard requires the presentation of all non-owner changes in equity within a statement of comprehensive income	Annual periods beginning on or after 1 January 2009

[1] At the date of this report, this pronouncement was awaiting EU endorsement
[2] Subject to EU endorsement, the Company has not yet made a final decision as to whether it will apply this pronouncement in the 2008 financial statements

The full impact of this pronouncement is being assessed by the Company However, the initial view is that it is not expected to cause any material adjustments to the reported numbers in the financial statements

23 Post balance sheet events

With effect from 1 January 2008, the Company no longer provides new finance for cars sold via the Kia dealer network

With effect from 11 August 2008, all of the "A" ordinary shares held by Amethyst Group Limited were transferred to MCL Group Limited