

A G Finance Limited

Directors' report and financial statements For the year ended 31 December 2012

Registered office

116 Cockfosters Road
Barnet
Hertfordshire
EN4 0DY

Registered number

1923956

Directors

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

Company secretary

P Gittins

SATURDAY



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COMPANIES HOUSE

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2012

The directors present their report and the audited financial statements of A G Finance Limited ("the Company") for the year ended 31 December 2012

Business review

Principal activities

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

The Company provides a range of 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 £119,000 (2011 £28,000) and Net interest income of £106,000 (2011 £66,000)

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

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. KPIs are monitored and reported at a divisional level and are disclosed in the financial statements for Black Horse Limited, which is the main trading company in the Division.

Policy and practice on payment of suppliers

The Company follows "The Prompt Payment Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers. Information about the "Prompt Payment Code" may be obtained by visiting www.promptpaymentcode.org.uk

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 2012, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2011 nil).

Dividends

An interim dividend of £6,500,000, representing a dividend of £650 per share, in respect of the year to 31 December 2012 was declared and paid during the year (2011 £nil).

Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors' report (continued)

For the year ended 31 December 2012

Directors

The names of the current directors are shown on the cover

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

D J S Oldfield	(resigned 12 March 2012)
P A Williams	(appointed 12 March 2012)
H Hosoya	(resigned 16 April 2012)
Y Yamashiro	(appointed 16 April 2012)

Statement of directors' responsibilities

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

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

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

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

Disclosure of information to auditors

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

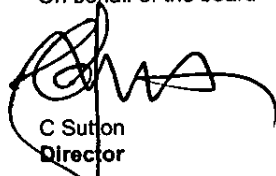
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's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

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

Independent auditors

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

On behalf of the board


C Sutton
Director
24 May

2013

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

We have audited the financial statements of A G Finance Limited for the year ended 31 December 2012 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 Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and 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. In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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.

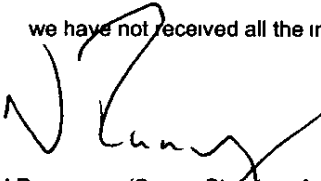
Opinion on other matter prescribed by the Companies Act 2006

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.


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

24 May 2013

Statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Interest income		106	378
Interest expense		-	(312)
Net interest income	4	106	66
Net fees and commission income	5	18	47
Impairment losses		(85)	(115)
Payment Protection Insurance movement	15	(154)	(21)
Other operating expenses	6	(4)	(5)
Loss before tax		(119)	(28)
Taxation	9	(49)	(1)
Loss for the year attributable to equity shareholders, being total comprehensive expense		(168)	(29)
Attributable to:			
Owners of the parent		(84)	(15)
Non-controlling interest		(84)	(14)
Total comprehensive expense		(168)	(29)

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

Balance sheet

As at 31 December 2012

	Note	2012 £'000	2011 £'000
ASSETS			
Other current assets	11	626	5,686
Loans and advances to customers	12	558	2,023
Current tax asset		37	31
Deferred tax asset	13	35	90
Total assets		1,256	7,830
LIABILITIES			
Other current liabilities	14	318	323
Provision for liabilities and charges	15	99	-
Total liabilities		417	323
EQUITY			
Share capital	16	10	10
Retained profits		829	7,497
Total equity		839	7,507
Total equity and liabilities		1,256	7,830

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



C Sutton
Director

24 May 2013

Statement of changes in equity

For the year ended 31 December 2012

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2011	10	7,526	7,536
Total comprehensive expense for the year attributable to			
- Owners of the parent	-	(15)	(15)
- Non-controlling interest	-	(14)	(14)
At 31 December 2011	10	7,497	7,507
Total comprehensive expense for the year attributable to			
- Owners of the parent	-	(84)	(84)
- Non-controlling interest	-	(84)	(84)
Dividend paid to			
- Owners of the parent	-	(3,251)	(3,251)
- Non-controlling interest	-	(3,249)	(3,249)
At 31 December 2012	10	829	839

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

Cash flow statement

For the year ended 31 December 2012

	2012 £'000	2011 £'000
Cash flows generated from operating activities		
Loss before tax	(119)	(28)
- Interest paid	-	312
- Increase in Provision for liabilities and charges	99	-
Changes in operating assets and liabilities		
- Net decrease in Loans and advances to customers	1,465	4,967
- Net decrease/(increase) in Other current assets	5,060	(5,000)
- Net decrease in Other current liabilities	(5)	(15)
Cash generated from operations	6,500	236
Interest paid	-	(312)
Group relief received	-	76
Net cash generated from operating activities	6,500	-
Cash flows used in financing activities		
Dividends paid	(6,500)	-
Net cash used in financing activities	(6,500)	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

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

Notes to the financial statements

For the year ended 31 December 2012

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. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

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

- Amendments to IFRS 7 Financial Instruments: Disclosures. The amendments will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets. The application of this pronouncement has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2012 and which have not been applied in preparing these financial statements are given in note 22.

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.

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

Lease classification

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee. The Company has no operating leases.

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

Finance lease income

Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the lease. Initial direct incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term.

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

Fees and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate such as commission associated with the sale of insurance underwritten by a third party, are generally recognised in the Statement of comprehensive income on an 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 2012

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 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 and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

1.4 Impairment

Loans and advances to customers

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

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

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

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

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

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

1.5 Dividends

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

1.6 Cash and cash equivalents

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

1.7 Taxation, including deferred income taxes

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2012

1. Accounting policies (continued)

1.7 Taxation, including deferred income taxes (continued)

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

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

2. Risk management policy

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

2.1 Credit risk

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

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

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

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

Credit risk mitigation

- Credit principles and policy. Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.
- Credit scoring. In its principal Retail portfolios, the Company uses statistically based decision techniques (primarily credit scoring). Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to Group risk approval.
- Stress testing and scenario analysis at a divisional level. The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.
- Counterparty limits. Credit risk in wholesale portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Divisional exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

2.2 Liquidity risk

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2012

2. Risk management policy (continued)

2.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been provided in note 18.3.

2.4 Business risk

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

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

3. Critical accounting estimates and judgements in applying accounting policies

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

Impairment of assets accounted for at amortised cost

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

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

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

Impairment of 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 current assets at the agreed residual value. At each balance sheet date, an assessment is made of the expected proceeds from the sale of returned vehicles compared with their pre-agreed residual values and a provision is established for any expected shortfall.

Deferred tax

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

Notes to the financial statements (continued)

For the year ended 31 December 2012

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

Payment Protection Insurance

The Company has sold Payment Protection Insurance ("PPI") in relation to its personal loan agreements and credit cards. The Company has received claims during 2011 and 2012 in respect of past sales of PPI and has settled some of the claims during the year.

The FSA published its Policy Statement on 10 August 2010, setting out evidential provisions and guidance on the fair assessment of a complaint and the calculation of redress. Since publication of the judgment, the Group has been in discussions with the FSA with a view to seeking clarity around the detailed implementation of the Policy Statement, and has concluded that there are certain circumstances where customer contact and/or redress is appropriate. While there are still a number of uncertainties as to the eventual costs from any such contact and/or redress, the Company has now made a provision in these financial statements of £99,000 for the year ended 31 December 2012 (2011: £nil). During 2012, the Company made redress payments of £55,000 to customers (2011: £21,000). The Company anticipates that all claims will have been settled by 2015.

The provision represents management's best estimate of the anticipated costs of related customer contact and/or redress, including administration expenses. However, there are still a number of uncertainties as to the eventual costs from any such contact and/or redress given the inherent difficulties of assessing the impact of detailed implementation of the Policy Statement for all PPI complaints, uncertainties around the ultimate emergence period for complaints, the availability of supporting evidence and the activities of claims management companies, all of which will significantly affect complaints volumes, uphold rates and redress costs. The extent of the possible effects of the uncertainties cannot be fully estimated as of 31 December 2012, therefore future redress costs could materially affect the provision in subsequent periods.

4. Net interest income

	2012 £'000	2011 £'000
Interest income		
From hire purchase contracts	35	285
From personal loans	22	93
Group interest income (see note 17)	49	-
	106	378
Interest expense		
Group interest expense (see note 17)	-	(312)
	106	66

Included within Interest income is £14,000 (2011: £49,000) in respect of impaired financial assets.

5. Net fees and commission income

	2012 £'000	2011 £'000
Fees and commission income		
Loan fees receivable	13	45
Commission receivable (see note 17)	5	2
	18	47

6. Other operating expenses

Fees payable to the Company's auditors for the audit of the financial statements of £4,000 (2011: £4,000) have been borne by a fellow subsidiary undertaking and are not recharged to the Company. Accounting and administration services were provided by a fellow subsidiary undertaking and were not recharged to the Company.

7. Staff costs

The Company did not employ any persons during the year (2011: none).

8. Directors' emoluments

No director received any fees or emoluments during the year (2011: £nil). The directors are employed by other companies within the Group or companies controlled by MCL Group Limited and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 17).

Notes to the financial statements (continued)

For the year ended 31 December 2012

9. Taxation

	2012 £'000	2011 £'000
a) Analysis of charge for the year		
UK corporation tax		
- Current tax on taxable loss for the year	(24)	(31)
- Adjustments in respect of prior years	18	4
Current tax credit	(6)	(27)
UK deferred tax		
- Origination and reversal of timing differences	9	31
- Adjustments in respect of prior years	43	(3)
- Impact of deferred tax rate change	3	-
Deferred tax charge (see note 13)	55	28
Taxation charge	49	1

Corporation tax is calculated at a rate of 24.5% (2011: 26.5%) of the taxable loss for the year

b) Factors affecting the tax charge for the year

The tax on the Company's Loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the Company as follows

	2012 £'000	2011 £'000
Loss before tax	(119)	(28)
Tax credit thereon at UK corporation tax rate of 24.5% (2011: 26.5%)	(29)	(7)
Factors affecting credit		
- Adjustments in respect of prior years	61	-
- Effect of reduction in tax rate	3	8
- Other items	14	-
Tax on loss on ordinary activities	49	1
Effective rate	(41.2%)	(3.6%)

10. Dividends

In 2012, dividends totalling £650 per share were paid, representing a total dividend of £6,500,000 (2011: £nil)

11. Other current assets

	2012 £'000	2011 £'000
Amounts due from group undertakings (see note 17)	618	5,656
Other debtors	8	30
	626	5,686

Amounts due from group undertakings are unsecured, interest bearing and repayable on demand. 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 0.375%

Notes to the financial statements (continued)

For the year ended 31 December 2012

12. Loans and advances to customers

	2012 £'000	2011 £'000
Advances under hire purchase contracts	617	2,132
Personal loans to customers	978	1,645
<hr/>		
Gross loans and advances to customers	1,595	3,777
Less allowance for losses on loans and advances	(1,037)	(1,754)
<hr/>		
Net loans and advances to customers	558	2,023
<hr/>		
of which		
Due within one year	424	1,582
Due after one year	134	441
<hr/>		
	558	2,023

Loans and advances to customers include hire purchase receivables

	2012 £'000	2011 £'000
Gross investment in hire purchase contracts receivable		
- no later than one year	481	1,720
- later than one year and no later than five years	101	316
- later than five years	52	164
<hr/>		
	634	2,200
Unearned future finance income on hire purchase contracts	(17)	(68)
<hr/>		
Net investment in hire purchase contracts	617	2,132

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

	2012 £'000	2011 £'000
- no later than one year	468	1,667
- later than one year and no later than five years	98	306
- later than five years	51	159
<hr/>		
	617	2,132

Further analysis of Loans and advances to customers is provided in note 18

Notes to the financial statements (continued)

For the year ended 31 December 2012

13. Deferred tax asset

The movement in the Deferred tax asset is as follows

	2012 £'000	2011 £'000
Brought forward	90	118
Charge for the year (see note 9)	(55)	(28)
	35	90

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

	2012 £'000	2011 £'000
Accelerated capital allowances	(7)	(2)
Allowances for impairment losses	(12)	(6)
Other temporary differences	(36)	(20)
	(55)	(28)

Deferred tax asset comprises	2012 £'000	2011 £'000
Accelerated capital allowances	9	16
Allowances for impairment losses	7	19
Other temporary differences	19	55
	35	90

Deferred tax assets of £100,155 (2011 £nil) have not been recognised due to the uncertainty as to whether they can be settled in the foreseeable future

On 21 March 2012, the Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012. This reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012. In addition, the Finance Act 2012, which passed into law on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013. The change in the main rate of corporation tax from 25% to 23% has resulted in a reduction in the Company's net Deferred tax asset at 31 December 2012 of £3,000 comprising a £3,000 charge included in the Statement of comprehensive income.

On 5 December 2012, the Government announced a further reduction in the main rate of corporation tax to 21% from 1 April 2014. In addition, on 20 March 2013 the Government announced a further reduction in the main rate of corporation tax to 20% from 1 April 2015. The effect of these changes upon the Company's deferred tax balances cannot be quantified at this stage.

14. Other current liabilities

	2012 £'000	2011 £'000
Other creditors	301	301
Other tax and social security payable	1	6
Accruals	16	16
	318	323

Notes to the financial statements (continued)

For the year ended 31 December 2012

15. Provision for liabilities and charges

	Total
	£'000
At 1 January 2011	-
Charge for the year	21
Utilised during the year	(21)
<hr/>	
At 31 December 2011	-
Charge for the year	154
Utilised during the year	(55)
<hr/>	
At 31 December 2012	99

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 PPI. The provision represents an estimate of the likely future outflows to settle claims against the Company. The Company anticipates that all claims will have been settled by 2015.

16. Share capital

	£'000	£'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
<hr/>		
	10	10

The "A" ordinary shares of £1 each rank par 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 holder of all the "B" shares, is Black Horse Group Limited. The company regarded by the directors as the ultimate parent company and controlling party 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.

17. 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.

	2012	2011
	£'000	£'000
Amounts due from group undertakings		
Black Horse Limited (see note 11)	618	5,656
<hr/>		
Interest expense		
Black Horse Limited (see note 4)	-	312
<hr/>		
Interest income		
Black Horse Limited (see note 4)	49	-

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

Notes to the financial statements (continued)

For the year ended 31 December 2012

17. Related party transactions

Commission receivable of £5,000 (2011 £2,000) includes insurance commission income payable under the terms of the Company's agreement with Lloyds TSB General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc, of £4,000 (2011 £nil)

Key management personnel

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

UK Government

In January 2009, the UK Government through HM Treasury became a related party of the Company following its subscription for ordinary shares issued under a placing and open offer. At 31 December 2012, HM Treasury held a 39.2 per cent (2011 40.2 per cent) interest in the ordinary share capital of Lloyds Banking Group plc and consequently HM Treasury remained a related party of the Company during the year ended 31 December 2012.

18. Financial risk management

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

18.1 Credit risk

Credit concentration - Loans and advances to customers

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

Loans and advances to customers – maximum exposure

	2012 £'000	2011 £'000
Neither past due nor impaired	164	1,116
Past due but not impaired	33	119
Impaired	1,398	2,542

Maximum exposure – loans and advances

1,595 3,777

Commitments to lend

- -

Maximum credit exposure

1,595 3,777

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

	2012 £'000	2011 £'000
Good quality	129	821
Satisfactory quality	30	237
Lower quality	-	-
Below standard, but not impaired	5	58

Total

164 1,116

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 2012

18. Financial risk management (continued)

18.1 Credit risk (continued)

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

	2012 £'000	2011 £'000
Past due up to 30 days	33	119
Past due from 30-60 days	-	-
Past due from 60-180 days	-	-
Total	33	119

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

Allowance for loans and advances to customers which are impaired

	2012 £'000	2011 £'000
Brought forward	1,754	2,651
Advances written off	(820)	(1,071)
Charge for year (including recoveries)	80	115
Recoveries of prior advances written off	23	59
At 31 December	1,037	1,754

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. Included in Loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £nil (2011 £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.

During the year the Company repossessed collateral in respect of defaulted debt with a value of £10,000 (2011 £nil)

18.2 Liquidity risk

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

18.3 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 from group undertakings and takes account of movement in the Finance House Base Rate ("FHBR") swap rates which is the basis for the interest rate on intercompany balances. A 0.5% increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as it is a customary standard step change in the FHBR.

If FHBR increased by 0.5% and all other variables remain constant this would increase Interest income by £12,000 (2011 interest expense by £23,000) and accordingly decrease Interest income by £12,000 (2011 interest expense by £23,000) if FHBR decreased by the same amount.

Notes to the financial statements (continued)

For the year ended 31 December 2012

18. Financial risk management (continued)

18.4 Financial strategy

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

18.5 Fair values of financial assets and liabilities

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 £1,505,000 (2011 £3,580,000) The carrying value of all other financial assets and liabilities is considered an approximation of fair value

19. Capital disclosures

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

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

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

20. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2011 £nil)

21. Post balance sheet events

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

22. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2012 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued May 2012) ¹	Sets out minor amendments to IFRS standards as part of annual improvements process. Most amendments clarified existing practice	Annual periods beginning on or after 1 January 2013
IFRS 13 Fair value Measurement	Sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements	Annual periods beginning on or after 1 January 2013

Notes to the financial statements (continued)

For the year ended 31 December 2012

22. Future developments (continued)

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments Classification and Measurement ^{1&2}	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2015

1 At the date of this report, these pronouncements are awaiting EU endorsement

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

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