AG Finance Limited

Registered number 1923956

Report and Accounts
31 December 2008

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COMPANIES HOUSE

Member of Lloyds Banking Group

Company information

Directors

Directors	T Katano D J S Oldfield R D Sisley C Sutton P R Varney M Whytock
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 2008

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 sold through the Kia dealer network. The Company ceased to write new operating lease business in December 2002 and by 31 December 2007 all operating leases had ended.

With effect from 1 January 2008 the Kia car company revised its distribution arrangements in the United Kingdom and, as a result, the Company no longer provides new finance for cars sold through the Kia dealer network or dealer support funding to individual dealerships to enable them to purchase showroom stock.

The results for the Company show a profit before tax of £2,735,000 (2007: £1,883,000) for the year and net interest income of £3,925,000 (2007: £5,408,000).

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

Future outlook

The Company earns interest income from its existing loan book and pays interest to other Lloyds Banking Group companies. The company will manage its loan book until all the loans have been repaid, at which point it will cease to trade.

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 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 that the Company is no longer writing new business, the 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, Innovation and Skills (BIS) regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-015-010 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 2008, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is nil (2007: nil).

Dividends

A dividend of £4,000,000 in respect of the year to 31 December 2008 was declared and paid in 2008 (2007: £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 31 March 2008)
C Sutton	(appointed 30 April 2008)
D J Stehr	(resigned 5 December 2008)
W J Hamer	(appointed 5 January 2009, resigned 6 July 2009)
K Murai	(resigned 15 May 2009)
R D Sisley	(appointed 15 May 2009)
T Wylie	(resigned 30 June 2009)
M Whytock	(appointed 6 July 2009)

Directors' report (continued)
For the year ended 31 December 2008

Statement of directors' responsibilities

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.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

Auditors and disclosure of information to auditors

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

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

This confirmation is given, and should be interpreted, in accordance with the provisions of section 234ZA of the Companies Act 1985.

By order of the Board

P Richardson
Company Secretary

30 September 2009

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 2008 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 annual report and 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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report and the Company information on page 1. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 2008 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

30 September 2009

Income statement
For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Interest and similar income		**8,001**	13,892
Interest expense and similar charges		**(4,076)**	(8,484)
Net interest income	4	**3,925**	5,408
Fees and commission income		**326**	599
Fees and commission expense		**-**	(306)
Net fee and commission income	5	**326**	293
Impairment losses on loans and advances		**(1,420)**	(1,769)
Other operating expenses	6	**(96)**	(2,049)
Profit before tax	7	**2,735**	1,883
Taxation	10	**(781)**	(583)
Profit for the year attributable to equity shareholders		**1,954**	1,300

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

Balance sheet
As at 31 December 2008

	Note	2008 £'000	2007 £'000
ASSETS			
Other current assets	12	**1,635**	133
Loans and advances to customers	13	**54,875**	118,994
Property, plant and equipment	14	**-**	-
Deferred tax	15	**184**	207
Total assets		**56,694**	119,334
LIABILITIES			
Borrowed funds	16	**48,163**	108,914
Other current liabilities		**600**	666
Current tax liabilities		**750**	527
Total liabilities		**49,513**	110,107
EQUITY			
Share capital	17	**10**	10
Retained profits		**7,171**	9,217
Total equity		**7,181**	9,227
Total equity and liabilities		**56,694**	119,334

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 and were signed on its behalf by:

D J S Oldfield
Director

30 September 2009

Statement of changes in equity
For the year ended 31 December 2008

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2007	10	7,917	7,927
Profit for the year	-	1,300	1,300
At 31 December 2007	10	9,217	9,227
Profit for the year	-	1,954	1,954
Dividends paid (see note 11)	-	(4,000)	(4,000)
At 31 December 2008	**10**	**7,171**	**7,181**

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

Cash flow statement

For the year ended 31 December 2008

	2008 £'000	2007 £'000
Cash flows from operating activities		
Profit before tax	**2,735**	1,883
Adjustments for:		
- Interest payable	**4,076**	8,484
- Profit on sale of property, plant and equipment	**-**	(2)
Changes in operating assets and liabilities:		
- Net decrease in loans and advances to customers	**64,119**	40,079
- Net (increase)/decrease in other debtors	**(45)**	779
- Net decrease in other current liabilities	**(66)**	(104)
Cash generated from operations	**70,819**	51,119
Interest paid	**(4,076)**	(8,484)
Taxes paid	**(535)**	(679)
Net cash from operating activities	**66,208**	41,956
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**-**	13
Net cash inflow from investing activities	**-**	13
Cash flows used in financing activities		
Repayment of balances with group undertakings	**(62,208)**	(41,969)
Dividends paid	**(4,000)**	-
Net cash used in financing activities	**(66,208)**	(41,969)
Net movement in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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

Notes to the financial statements
For the year ended 31 December 2008

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.

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2008 and which have not been applied in preparing these financial statements are given in note 23.

The financial information has been prepared under the historical cost convention.

The Company is reliant on funding ultimately provided by Lloyds TSB Bank plc. Owing to uncertainty in financial markets, Lloyds TSB Bank plc participates in government sponsored measures to improve funding and liquidity. The directors are satisfied that it is the intention of Lloyds TSB Bank plc that its subsidiaries, including the Company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

1.2 Income recognition

Interest income from financial assets

Interest income and expense are recognised in the 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.

Fee 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 on an accruals basis when the service has been provided. A provision for the claw back of such commissions in the event of early termination is assessed at least every six months to take account of the most recent trends.

1.3 Financial assets, 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 cash flows, or obligations to pay cash flows, have expired.

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

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee.

Accounting policies (continued)

1.3 Financial assets, liabilities and leases (continued)

When assets are leased under a finance lease, the net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable within loans and advances to customers.

1.4 Impairment

Loans and advances to customers and finance leases

At each balance sheet date, the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a 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.

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 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.

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.

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

1. Accounting policies (continued)

1.7 Pensions

Defined contribution
The Company receives recharges in respect of a defined contribution plan operated by Lloyds TSB Asset Finance Division Limited based on the level of contributions paid in relation to staff providing services to this Company.

Defined benefit
All active members of the Lloyds TSB Asset Finance Division Pension Scheme ("the Scheme") are employed by other companies in the Group. Accordingly, the risk associated with the operation of the Scheme lies with other companies. The Company is recharged by a fellow subsidiary an amount equal to the contributions made in respect of the relevant employees included in note 8.

1.8 Share based payments

The Company receives recharges in respect of share based payment schemes operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 8. Full details of these schemes can be found in the 2008 annual report and accounts of the Company's ultimate parent company, Lloyds Banking Group plc (formerly Lloyds TSB Group plc).

1. Risk management policy

The Company's operations expose it to credit risk, liquidity risk and interest rate risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the Board of Directors, operating within a management framework established by the intermediate parent, Lloyds TSB Asset Finance Division Limited, and the ultimate parent, Lloyds Banking Group plc. 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 credit committees and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

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

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

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

Credit Risk Mitigation

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

- 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.

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

2. Risk management policy (continued)

2.1 Credit risk (continued)

Credit Risk Mitigation (continued)

- Counterparty limits: Credit risk in wholesale portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Divisional exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

2.2 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the re-pricing of financial assets and liabilities.

Through intercompany funding arrangements, the Company has effectively transferred its exposure to changes in interest rates to other companies within the Lloyds Banking Group.

2.3 Liquidity risk

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

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

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

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

Impairment on assets under Personal Contract Purchase (PCP) Agreements

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

Vehicles returned to the Company at the end of the lease term are initially held within other 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.

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

Impairment on assets under Personal Contract Purchase (PCP) Agreements (continued)

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

3. Net interest income

	2008 £'000	2007 £'000
Interest income		
From finance lease and hire purchase contracts	**6,564**	9,441
From personal loans	**1,308**	2,403
Other loans and advances to customers	**129**	2,048
	8,001	13,892
Interest expense		
Group interest expense (note 18)	**(4,076)**	(8,484)
Net interest income	**3,925**	5,408

Included within interest income in 2008 is £313,000 (2007: £325,000) in respect of impaired financial assets.

4. Net fee and commission income

	2008 £'000	2007 £'000
Fee and commission income		
Commission receivable (note 18)	**145**	334
Loan fees receivable	**181**	265
	326	599
Fee and commission expense		
Fees and commissions payable	**-**	(306)
Net fee and commission income	**326**	293

5. Other operating expenses

	2008 £'000	2007 £'000
Staff costs (see note 8)	**53**	644
Other administrative expenses	**38**	319
Management fees (see note 18)	**5**	1,086
	96	2,049

6. Profit before tax

The following items have been included in arriving at profit before tax:

	2008 £'000	2007 £'000
Income		
- Profit on disposal of property, plant and equipment	-	2
Expenses		
- Fees payable to the Company's Auditor		
- Audit of the financial statements	16	16

7. Staff costs

	2008 £'000	2007 £'000
Wages and salaries	45	545
Social security costs	3	26
Pension costs	5	73
Total staff costs (see note 18)	53	644

Staff costs represent emoluments recharged by a fellow subsidiary for 1 employee (2007: 10) employed by that fellow subsidiary.

8. Directors' emoluments

No director received any fees or emoluments during the year (2007: £nil). The directors are employed by other companies within the Lloyds Banking Group or companies controlled by MCL Group Limited and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 18).

9. Taxation

	2008 £'000	2007 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on profits for the year	750	527
- Adjustments in respect of prior years	8	1
Current tax charge	758	528
Deferred tax charge (see note 15)	23	55
	781	583

The charge for tax on the profit for the year is based on an effective United Kingdom corporation taxation rate of 28.5% (2007: 30%), as the standard corporation tax rate changed from 30% to 28%, effective 1 April 2008.

10. Taxation (continued)

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:

	2008	2007
	£'000	£'000
Profit before tax	**2,735**	1,883
Tax charge thereon at UK corporation tax rate of 28.5% (2007: 30%)	**779**	565
Factors affecting charge:		
- Non-allowable items	**1**	2
- Prior year adjustment	**2**	1
- Effect of reduction in tax rate	**(1)**	15
Tax on profit on ordinary activities	**781**	583
Effective rate	**28.6%**	31.0%

10. Dividends

In 2008, a dividend of £399.20 per A share (2007: £nil) and £400.80 per B share (2007: £nil) was paid, representing a total dividend of £4,000,000 (2007: £nil).

11. Other current assets

	2008	2007
	£'000	£'000
Amounts due from group undertakings (see note 18)	**1,457**	-
Other debtors	**178**	133
	1,635	133

12. Loans and advances to customers

	2008 £'000	2007 £'000
Advances under finance lease and hire purchase contracts	**47,929**	92,343
Personal loans to customers	**11,660**	20,282
Other loans and advances to customers	**147**	10,889
Gross loans and advances to customers	**59,736**	123,514
Less: allowance for losses on loans and advances	**(4,861)**	(4,520)
Loans and advances to customers, net	**54,875**	118,994
of which:		
due within one year	**31,994**	60,432
due after one year	**22,881**	58,562
	54,875	118,994

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

	2008 £'000	2007 £'000
Gross investment in hire purchase and finance lease contracts, receivable:		
- no later than one year	**30,952**	48,480
- later than one year and no later than five years	**21,673**	56,728
- later than five years	**445**	395
	53,070	105,603
Unearned future finance income on hire purchase and finance lease contracts	**(5,141)**	(13,260)
Net investment in hire purchase and finance lease contracts	**47,929**	92,343

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

	2008	2007
- no later than one year	**27,954**	42,393
- later than one year and no later than five years	**19,573**	49,605
- later than five years	**402**	345
	47,929	92,343

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

13. Property, plant and equipment

	£'000
Cost	
At 1 January 2007	32
Disposals in 2007	(32)
At 31 December 2007 and 31 December 2008	-
Accumulated depreciation	
At 1 January 2007	21
Disposals in 2007	(21)
At 31 December 2007 and 31 December 2008	-
Balance sheet amount at 31 December 2007 and 31 December 2008	-

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

14. Deferred tax

The movement in the net deferred tax asset is as follows:

	2008 £'000	2007 £'000
At 1 January	**207**	262
Income statement charge (see note 10)	**(23)**	(55)
At 31 December	**184**	207

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

	2008 £'000	2007 £'000
Accelerated capital allowances	**(2)**	(21)
Allowance for impairment losses	**(5)**	(9)
Other temporary differences	**(16)**	(25)
	(23)	(55)

15. Deferred tax (continued)

Deferred tax assets comprise:

	2008 £'000	2007 £'000
Accelerated capital allowances	**39**	41
Allowance for impairment losses	**37**	42
Other temporary differences	**108**	124
	184	207

With effect from 1 April 2008 profits have been charged to corporation tax at the rate of 28%. Accordingly deferred tax has been calculated at 28%.

Within the deferred tax asset at 31 December 2008 are amounts of approximately £28,000 (2007: £23,000) that are expected to be settled in no more than twelve months after the balance sheet date.

15. Borrowed funds

	2008 £'000	2007 £'000
Amounts due to group undertakings (see note 18)	**48,163**	108,914

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

16. Share capital

	2008 £'000	2007 £'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 now held by MCL Group Limited (transferred from its subsidiary Amethyst Group Limited on 11 August 2008).

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 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 the Company Secretary's Office, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

17. Related party transactions

Black Horse Group Limited and MCL Group Limited hold 50.01% and 49.99% of the shares in the Company respectively.

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:

	2008 £'000	2007 £'000
Amounts due from group undertakings		
Lloyds UDT Limited (see note 12)	**1,457**	-
Amounts due to group undertakings		
Black Horse Limited (see note 16)	**(48,163)**	(108,914)
Interest payable		
Black Horse Limited (see note 4)	**4,076**	8,484
Management fees		
Black Horse Limited	**5**	835
Amethyst Group Limited	**-**	251
Total management fees (see note 6)	**5**	1,086
Staff costs recharge		
Black Horse Limited (see note 8)	**53**	644

Commission fees receivable of £145,000 (2007: £334,000) include insurance commission income receivable under the terms of the Company's agreement with Lloyds TSB General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc, of £106,000 (2007: £294,000).

Key management personnel
Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprise the directors of the Company and the members of the Lloyds TSB Asset Finance Division board which comprises the statutory directors of Lloyds TSB Asset Finance Division Limited 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 Banking Group or the MCL Group Limited and consider that their services to the Company are incidental to their other activities within those groups.

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

19.1 Credit risk

Credit concentration

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

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

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

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

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)

19.1 Credit risk (continued)

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

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

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

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

Allowance for loans and advances to customers which are impaired

	2008 £'000	2007 £'000
Brought forward at 1 January	**(4,520)**	(4,115)
Advances written off	**1,091**	1,379
Charge for year (including recoveries and unwind of discount)	**(1,420)**	(1,769)
Add back: amounts not included in opening balance:		
- recoveries of prior advances written off	**(12)**	(15)
At 31 December	**(4,861)**	(4,520)

The criteria used to determine that there is objective evidence of impairment are disclosed in Note 1.4. Included in loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £147,000 (2007: £1,739,000).

The total impairment charge to income statement has been split by business segment, as follows: £1,166,000 relates to 'retail – other'; and £254,000 relates to 'wholesale' (2007: £1,556,000 'retail – other'; £213,000 wholesale).

19. Financial risk management (continued)

19.1 Credit risk (continued)

Renegotiated loans and advances to customers

During the year the Company did not renegotiate any loans and advances to customers, which would otherwise have been past due or impaired (2007: £nil).

Repossessed collateral

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

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

During the year the Company repossessed collateral in respect of defaulted debt with a value of £281,000 (2007: £96,000).

19.2 Liquidity risk

The Company is funded on an ongoing basis entirely by companies within the Lloyds Banking Group. All 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 £59,630,000 (2007: £127,949,000) before impairment. The carrying value of all other assets and liabilities is considered an approximation of fair value.

20. 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.

21. Contingent liabilities and commitments

There were no contingencies or commitments at the balance sheet date (2007: £nil).

22. Post balance sheet events

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

23. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2008 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IAS 1 *Presentation of Financial Statements*	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.
Improvements to IFRSs	Sets out minor amendments to IFRS standards as part of annual improvements process.	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2009.

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.