1923956

A G Finance Limited

Directors' report and financial statements
For the year ended 31 December 2011

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

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2011

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2011

Business review

Principal activities

A G Finance Limited ("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 £28,000 (2010 £195,000) and Net interest income of £66,000 (2010 £262,000)

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

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 2011, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2010 nil)

Dividends

No dividends were paid or proposed during the year ended 31 December 2011 (2010 £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 receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis

Directors' report (continued)

For the year ended 31 December 2011

Directors

The names of the current directors are shown on the cover

The following changes have taken place during the year

P R Varney	(resigned 31 March 2011)
R D Kemp	(appointed 1 April 2011)
T Nakao	(resigned 30 September 2011)
H Hosoya	(appointed 1 October 2011)
D J S Oldfield	(resigned 12 March 2012)
P A Williams	(appointed 12 March 2012)
Y Yamashiro	(appointed 16 April 2012)

Directors' indemnities

The directors have the benefit of a deed of indemnity which constitutes a "qualifying third party indemnity provision" These deeds are in force during the whole of the financial year (or from the date of appointment in respect of the directors who join the board during the financial year) The indemnities remain in force at the date of signing these financial statements Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and 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

31 May 2012

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 2011 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 2011 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

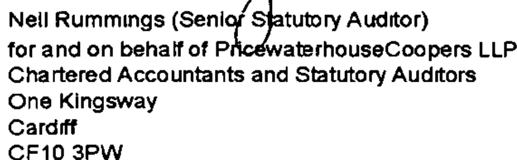
Opinion on other matter prescribed by the Companies Act 2006

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

31 May 2012

Statement of comprehensive income

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Interest income		378	1,266
Interest expense		(312)	(1,004)
Net interest income	4	66	262
Fees and commission income	5	47	142
Impairment losses on loans and advances		(115)	(593)
Other operating expenses	6	(26)	(6)
Loss before tax		(28)	(195)
Taxation	9	(1)	50
Loss for the year attributable to equity shareholders, being total comprehensive expense		(29)	(145)
Attributable to			
Owners of the parent		(15)	(73)
Non-controlling interest		(14)	(72)
Loss for the year attributable to equity shareholders, being total comprehensive expense		(29)	(145)

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

All results derive from continuing operations

Balance sheet
As at 31 December 2011

	Note	2011 £'000	2010 £'000
ASSETS			
Other current assets	10	**5,686**	686
Loans and advances to customers	11	**2,023**	6,990
Current tax asset		**31**	80
Deferred tax asset	12	**90**	118
Total assets		**7,830**	7,874
LIABILITIES			
Other current liabilities	13	**323**	338
Total liabilities		**323**	338
EQUITY			
Share capital	14	**10**	10
Retained profits		**7,497**	7,526
Total equity		**7,507**	7,536
Total equity and liabilities		**7,830**	7,874

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

31 May 2012

Statement of changes in equity

For the year ended 31 December 2011

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2010	10	7,671	7,681
Total comprehensive expense for the year	-	(145)	(145)
At 31 December 2010	**10**	**7,526**	**7,536**
Total comprehensive expense for the year	-	(29)	(29)
At 31 December 2011	**10**	**7,497**	**7,507**

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

Cash flow statement

For the year ended 31 December 2011

	2011 £'000	2010 £'000
Cash flows generated from operating activities		
Loss before tax	**(28)**	(195)
Adjustments for		
- interest paid	**312**	1,004
Changes in operating assets and liabilities		
- net decrease in Loans and advances to customers	**4,967**	15,155
- net increase in Other current assets	**(5,000)**	(574)
- net decrease in Other current liabilities	**(15)**	(46)
Cash generated from operations	**236**	15,344
Interest paid	**(312)**	(1,004)
Taxes received/(paid) via group relief	**76**	(161)
Net cash generated from operating activities	**-**	14,179
Cash flows used in financing activities		
Repayment of balances with group undertakings	**-**	(14,179)
Net cash used in financing activities	**-**	(14,179)
Net movement in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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

Notes to the financial statements
For the year ended 31 December 2011

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

(i) Amendments to IAS 24 Related Party Disclosures Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for related party transactions with government related entities As the amendments only result in reduced disclosures, the amendments have not had any impact for amounts recognised in these financial statements

(ii) Improvements to IFRSs (issued May 2010) Sets out minor amendments to IFRS standards as part of annual improvements process Most amendments clarified existing practice The application of these new interpretations has not had any impact for amounts recognised in these financial statements

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2011 and which have not been applied in preparing these financial statements are given in note 20

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

1 2 Income recognition

Income from financial assets

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

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

Lease classification

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

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

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 2011

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 Cash and cash equivalents

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

1. Accounting policies (continued)

1 6 Taxation, including deferred income taxes

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

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

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

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

2.1 Credit risk

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

Notes to the financial statements (continued)
For the year ended 31 December 2011

2. Risk management policy (continued)

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

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 16 3

3. Critical accounting estimates and judgements in applying accounting policies

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

Impairment of assets accounted for at amortised cost

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

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

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

Impairment on assets under Personal Contract Purchase Agreements

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

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

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

Payment protection insurance

On 20 April 2011 a High Court Judicial Review into the misselling of 'Payment Protection Insurance' ("PPI") ruled in favour of the customer The Company has sold PPI in relation to its finance loans and hire purchase contract agreements While there are still a number of uncertainties as to the eventual costs from any such contact and/or redress, the Company expects that the level of payments in respect to such claims will be not be material to the Company No provision has therefore been recognised in these financial statements as at 31 December 2011

4. Net interest income

	2011 £'000	2010 £'000
Interest income		
From hire purchase contracts	**285**	991
From personal loans	**93**	275
	378	1,266
Interest expense		
Group interest expense (see note 15)	**(312)**	(1,004)
Net interest income	**66**	262

Included within interest income is £49,000 (2010 £136,000) in respect of impaired financial assets

5. Fees and commission income

	2011 £'000	2010 £'000
Fees and commision income		
Loan fees receivable	**45**	91
Commission receivable (see note 15)	**2**	51
Fees and commission income	**47**	142

6. Other operating expenses

	2011 £'000	2010 £'000
Other operating expenses	**26**	6

Fees payable to the Company's auditors for the audit of the financial statements of £4,000 (2010 £6,000) have been borne by a fellow subsidiary undertaking and are not recharged to the Company Accounting and administration services are provided by a fellow subsidiary undertaking and are recharged to the Company as part of management fees

7. Staff costs

The Company did not employ any persons during the year (2010 none) Accounting and administration services were provided by fellow subsidiary undertaking and were not recharged to the Company

Notes to the financial statements (continued)

For the year ended 31 December 2011

8. Directors' emoluments

No director received any fees or emoluments during the year (2010 £nil) The directors' are employed by other companies within the Lloyds Banking Group or companies controlled by MCL Group Limited and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 15)

9. Taxation

	2011 £'000	2010 £'000
a) Analysis of charge/(credit) for the year		
UK corporation tax		
- Current tax on taxable loss for the year	**(31)**	(80)
- Adjustments in respect of prior years	**4**	(10)
Current tax credit	**(27)**	(90)
UK deferred tax		
- Origination and reversal of timing differences	**31**	40
- Adjustments in respect of prior years	**(3)**	-
	1	**(50)**

Corporation tax is calculated at a rate of 26 5% (2010 28 0%) of the taxable loss for the year

b) Factors affecting the tax charge/(credit) 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

	2011 £'000	2010 £'000
Loss before tax	**(28)**	(195)
Tax credit thereon at UK corporation tax rate of 26 5% (2010 28 0%)	**(7)**	(55)
Factors affecting credit		
- Effect of reduction in tax rate	**8**	5
Tax on loss on ordinary activities	**1**	(50)
Effective rate	(3 6%)	25 6%

10. Other current assets

	2011 £'000	2010 £'000
Amounts due from group undertakings (see note 15)	**5,656**	643
Other debtors	**30**	43
	5,686	686

Amounts due from group undertakings are unsecured, interest bearing and repayable on demand, although there is no expectation that such a demand would be made Amounts due from Black Horse Limited are net of funding on which interest is payable at fixed rates set at the inception of lease agreements All other amounts are at variable rates based on the Finance House Base Rate plus a margin of 0 375%

11. Loans and advances to customers

	2011 £'000	2010 £'000
Advances under hire purchase contracts	**2,132**	6,493
Personal loans to customers	**1,645**	3,088
Other loans and advances to customers	**-**	60
Gross loans and advances to customers	**3,777**	9,641
Less allowance for losses on loans and advances	**(1,754)**	(2,651)
Net loans and advances to customers	**2,023**	6,990
of which		
Due within one year	**1,582**	5,215
Due after one year	**441**	1,775
	2,023	6,990

Loans and advances to customers include hire purchase receivables

	2011 £'000	2010 £'000
Gross investment in hire purchase contracts receivable		
- no later than one year	**1,720**	5,124
- later than one year and no later than five years	**316**	1,512
- later than five years	**164**	214
	2,200	6,850
Unearned future finance income on hire purchase contracts	**(68)**	(357)
Net investment in hire purchase contracts	**2,132**	6,493

The net investment in hire purchase may be analysed as follows

	2011 £'000	2010 £'000
- no later than one year	**1,667**	4,856
- later than one year and no later than five years	**306**	1,433
- later than five years	**159**	204
	2,132	6,493

Further analysis of Loans and advances to customers is provided in note 16

12. Deferred tax asset

The movement in the Deferred tax asset is as follows

	2011 £'000	2010 £'000
At 1 January	**118**	158
Credit for the year (see note 9)	**(28)**	(40)
At 31 December	**90**	118

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

	2011 £'000	2010 £'000
Accelerated capital allowances	**(2)**	(15)
Allowances for impairment losses	**(6)**	(7)
Other temporary differences	**(20)**	(18)
	(28)	(40)

Deferred tax asset comprises	2011 £'000	2010 £'000
Accelerated capital allowances	**16**	18
Allowances for impairment losses	**19**	25
Other temporary differences	**55**	75
	90	118

Within the Deferred tax asset at 31 December 2011 are amounts of approximately £29,000 (2010 £24,000) that are expected to be settled in less than twelve months after the balance sheet date

The UK Government announced on 23 March 2011 that the headline rate of corporation tax would be reduced from 28% by 2% on 1 April 2011 and 1% each year thereafter until it reaches 23% On 22 March 2012 the UK Government announced that on 1 April 2012 the headline rate of corporation tax would be reduced by 2% rather than 1% to 24%, and 1% each year thereafter until it reaches 22%

These rate changes will affect the amount of future cash tax payments to be made by the Company and will also reduce the size of the Company's Deferred tax asset in the future

The change to 25% announced on 23 March 2011 was "substantively enacted" on 5 July 2011 and as such, in accordance with accounting standards, deferred tax has been calculated at a rate of 25% The effect of the change in rate to 24% would not significantly affect the Company's Deferred tax asset and will be reflected in the Company's financial statements for the year ending 31 December 2012 The proposed further reductions in the rate of corporation tax by 1% per annum to 22% by 1 April 2014 are expected to be enacted separately each year The effect of these further changes upon the Company's deferred tax balances cannot be reliably quantified at this stage

13. Other current liabilities

	2011 £'000	2010 £'000
Other creditors	**301**	302
Other tax payable	**6**	18
Accruals	**16**	18
	323	338

14. Share capital

	2011 £'000	2010 £'000
Allotted, issued and fully paid		
4,999 "A" ordinary shares of £1 each	5	5
5,001 "B" ordinary shares of £1 each	5	5
	10	10

At 31 December 2011, the authorised share capital of the Company was £10,000 divided into 4,999 "A" ordinary shares of £1 each and 5,001 "B" ordinary shares of £1 each

The "A" ordinary shares of £1 each rank pari passu with the "B" ordinary shares of £1 each in terms of voting, dividends and rights upon winding up All of the "A" ordinary shares of £1 each are held by MCL Group Limited

The immediate parent company and the holder of all the "B" shares, is Black Horse Group Limited The company regarded by the directors as the ultimate parent company 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

15. Related party transactions

The Company is controlled by Black Horse Group Limited A number of transactions are entered into with related parties in the normal course of business A summary of the outstanding balances at the year end and the related income and expense for the year are set out below

	2011 £'000	2010 £'000
Amounts due from group undertakings		
Black Horse Limited (see note 10)	**5,656**	643
Interest expense		
Black Horse Limited (see note 4)	**312**	1,004

Commission receivable £2,000 (2010 £51,000) includes insurance commission income receivable under the terms of the Company's agreement with Lloyds TSB General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc, of £2,000 (2010 £12,000)

Key management personnel

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

Notes to the financial statements (continued)

For the year ended 31 December 2011

16. Financial risk management

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

16 1 Credit risk

Credit concentration

The Company lends to customers geographically located within the United Kingdom

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

Loans and advances to customers – maximum exposure

At 31 December 2011	Retail £'000	Wholesale £'000	Total £'000
Neither past due nor impaired	1,116	-	1,116
Past due but not impaired	119	-	119
Impaired	2,542	-	2,542
Maximum credit exposure	**3,777**	**-**	**3,777**

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

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

At 31 December 2011	Retail £'000	Wholesale £'000
Good quality	821	-
Satisfactory quality	237	-
Lower quality	-	-
Below standard, but not impaired	58	-
Total	1,116	-

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

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.

16. Financial risk management (continued)

16 1 Credit risk (continued)

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

At 31 December 2011	Retail £'000	Wholesale £'000	Total £'000
Past due up to 30 days	119	-	119
Past due from 30-60 days	-	-	-
Past due from 60-90 days	-	-	-
Total	**119**	-	**119**

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

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

Allowance for loans and advances to customers which are impaired

	2011 £'000	2010 £'000
Brought forward at 1 January	**2,651**	4,634
Advances written off	**(1,071)**	(2,590)
Charge for year (including recoveries)	**115**	593
Recoveries of prior advances written off	**59**	14
At 31 December	**1,754**	2,651

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 (2010 £60,000)

The total impairment charge to Statement of comprehensive income has been split by business segment as follows £123,000 (2010 £605,000) relates to 'Retail' and credit of £8,000 (2010 credit £12,000) relates to 'Wholesale'

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 posession 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 £nil (2010 £74,000)

Notes to the financial statements (continued)

For the year ended 31 December 2011

16. Financial risk management (continued)

16 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 other financial liabilities are repayable on demand

16 3 Interest rate risk

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

Interest rate risk - Sensitivity analysis

The sensitivity analysis is based on the Company's Amounts due to group undertakings and takes account of movement in the market 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 expense This rate is appropriate as it is a customary standard step change in the Finance House Base Rate

If market swap rates increased by 0 5% and all other variables remain constant this would increase Interest expense by £23,000 (2010 £37,000) and accordingly decrease Interest expense by £23,000 (2010 £37,000) if swap rates decreased by the same amount

16 4 Financial strategy

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

16 5 Fair values of financial assets and liabilities

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 £3,580,000 (2010 £9,443,000) The carrying value of all other financial assets and liabilities is considered an approximation of fair value

17. Capital disclosures

The Company's objectives when managing capital are to safeguard 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

18. Contingent liabilities and commitments

There were no contingencies or contracted capital commitments at the balance sheet date (2010 £nil)

Notes to the financial statements (continued)

For the year ended 31 December 2011

19. Post balance sheet events

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

20. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2011 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
IFRS 13 Fair value Measurement[1]	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
IFRS 9 Financial Instruments Classification and Measurement [1&2]	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument The available-for-sale financial asset and held-to-maturity categories in existing IAS 39 will be 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 neither of these pronouncements is expected to cause any material adjustments to the reported numbers in the financial statements