

Proton Finance Limited

Registered number 519068

Report and Accounts 31 December 2007



Member of Lloyds TSB Group

Company information

Directors

Directors	B J Collier S W Green (alternate to SC Ng) S C Ng D J S Oldfield A S Park (alternate to BJ Collier and SZA Syed Mohamed Tahir) D J Stehr C Sutton S Z A Syed Mohamed Tahir T M Wylie
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Secretary	P Richardson
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Proton Finance Limited is a company registered in England No 519068 and is both incorporated and domiciled in England and Wales

Registered office

116 Cockfosters Road
Barnet
Hertfordshire
EN4 0DY

Directors' report

For the year ended 31 December 2007

Business review and principal activities

The Company provides a range of hire purchase and finance lease products and personal loans, generally in connection with the financing of Proton motor cars. The results for the Company show a profit before tax of £757,149 (2006 £617,973) for the year and net interest income of £1,830,491 (2006 £1,951,189).

Future outlook

The environment within which the Company operates remains competitive. However the directors are confident that current levels of performance will be maintained in the future.

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 Limited sub group ("the Division") and are not managed separately. Further details of the Company's and Division's risk management policy are contained in note 2 to the financial statements.

Key performance indicators ('KPIs')

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

Policy and practice on payment of suppliers

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

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the Company owed immaterial amounts to trade suppliers as at 31 December 2007, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is nil (2006 nil).

Dividends

No dividend was paid in 2007 (2006 nil).

Directors

The names of the current directors are shown on page 1.

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

J Woolley	(resigned 31 March 2008)
C Sutton	(appointed 30 April 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 the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

Directors' report

For the year ended 31 December 2007

Statement of directors' responsibilities (continued)

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

Auditors and disclosure of information to auditors

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

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

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

On behalf of the Board



P Richardson
Company Secretary

12 AUGUST 2008

Report of the independent auditors to the members of Proton Finance Limited

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

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

One Kingsway
Cardiff
CF10 3PW

26 August 2008

Income statement

For the year ended 31 December 2007

	Note	2007 £	*Restated 2006 £
Interest and similar income		3,232,799	3,306,577
Interest expense and similar charges		(1,402,308)	(1,355,388)
Net interest income	4	1,830,491	1,951,189
Fee and commission income	5	340,903	297,312
Impairment losses		(368,041)	(599,136)
Other operating expenses	6	(1,046,204)	(1,031,392)
Profit before tax	7	757,149	617,973
Taxation	10	(241,990)	(196,641)
Profit for the year attributable to equity shareholders		515,159	421,332

The notes on pages 9 to 22 are an integral part of these financial statements

*The restatement of comparatives is explained in note 1 1 and 20

Balance sheet

As at 31 December 2007

	Note	2007 £	2006 £
ASSETS			
Other current assets	11	78,321	132,354
Loans and advances to customers	12	32,470,500	33,163,189
Deferred tax asset	15	76,404	93,376
Total assets		32,625,225	33,388,919
LIABILITIES			
Borrowed funds	13	24,292,683	25,647,556
Other current liabilities	14	184,352	145,882
Current tax liabilities		225,049	187,499
Total liabilities		24,702,084	25,980,937
EQUITY			
Share capital	16	20,000	20,000
Retained profits		7,903,141	7,387,982
Total equity		7,923,141	7,407,982
Total equity and liabilities		32,625,225	33,388,919

The notes on pages 9 to 22 are an integral part of these financial statements

The financial statements on pages 5 to 22 were approved by the Board of Directors on **24 JULY** 2008 and were signed on its behalf by



D J Stehr
Director

11 AUGUST 2008

Statement of changes in equity

For the year ended 31 December 2007

	Share capital £	Retained profit £	Total £
At 1 January 2006	20,000	6,966,650	6,986,650
Profit for the year	-	421,332	421,332
At 31 December 2006	20,000	7,387,982	7,407,982
Profit for the year	-	515,159	515,159
At 31 December 2007	20,000	7,903,141	7,923,141

The minority shareholder has a 49.99% interest in total gains in the year

The notes on pages 9 to 22 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2007

	2007 £	2006 £
Cash flows from operating activities		
Profit before tax	757,149	617,973
Adjustments for		
- interest paid	1,402,308	1,355,388
Changes in operating assets and liabilities		
- net decrease in loans and advances to customers	692,689	2,571,036
- net decrease in other debtors	54,033	107,217
- net increase/(decrease) in other liabilities	38,470	(62,483)
Cash generated from operations	2,944,649	4,589,131
Interest paid	(1,402,308)	(1,355,388)
Tax paid	(187,468)	(303,097)
Net cash from operating activities	1,354,873	2,930,646
Cash flows from financing activities		
Repayment of net amounts due to other group companies	(1,354,873)	(2,923,351)
Net cash used in financing activities	(1,354,873)	(2,923,351)
Net increase in cash and cash equivalents	-	7,295
Cash and cash equivalents at beginning of year	-	(7,295)
Cash and cash equivalents at end of year	-	-

The notes on pages 9 to 22 are an integral part of these financial statements

Notes to the financial statements

31 December 2007

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. Proton Finance Limited is a company incorporated in the United Kingdom.

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

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

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

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2007 and which have not been applied in preparing these financial statements are given in note 21.

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

Restatement of comparatives

Errors in the classification of certain accounting transactions for the year ended 31 December 2006 have been identified during the preparation of the 2007 financial statements, resulting in the reclassification of certain items in the income statement and notes for 2006. The restated comparatives reflect these reclassifications. The reclassifications have £nil impact on profit before or after tax, and £nil impact on net assets. Details of amounts and account items affected are provided in note 20.

1.2 Income recognition

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments, including loans and advances, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. For leasing contracts the effective interest rate is the rate that discounts the estimated future cash payments or receipts over the contractual period of the lease agreement. For personal loans the interest income is recognised over the expected life of the agreement.

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.

Once a financial asset or 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 are generally recognised on an accruals basis when the service has been provided.

Notes to the financial statements

31 December 2007

1. Accounting policy (continued)

1.3 Financial assets and liabilities

Financial assets comprise of balances with group companies, other debtors and loans and advances to customers. Financial liabilities comprise of borrowed funds, accruals and other creditors.

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

Balances with group companies, borrowed funds and other creditors are initially recognised at amortised cost inclusive of transaction costs using the effective interest rate method.

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

1.4 Impairment

Loans and advances to customers and finance leases

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

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate. If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset or group of assets reflects the cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

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

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

Notes to the financial statements

31 December 2007

1. Accounting policy (continued)

1.6 Taxation, including deferred income taxes (continued)

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 a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.7 Dividends

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

1.8 Pensions

Defined contribution

The Company receives recharges in respect of a defined contribution plan operated by Lloyds TSB Asset Finance Division Limited. Contributions payable to the plan in respect of the Company are recharged to the Company when they become payable.

Defined benefit

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

2. Risk management policy

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

2.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with instalment credit contracts is managed through the application of strict underwriting criteria, determined by the Lloyds TSB Asset Finance Division Limited credit committee and credit functions. Significant credit exposures 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').

Notes to the financial statements

31 December 2007

2. Risk management policy (continued)

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

Credit Risk Mitigation

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

2.3 Liquidity risk

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

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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.

Notes to the financial statements

31 December 2007

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

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

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

4. Net interest income

	2007 £	*Restated 2006 £
Interest income		
From finance lease and hire purchase contracts	1,952,374	1,908,209
From personal loans	808,890	993,074
From other loans and advances to customers	471,535	405,294
	3,232,799	3,306,577
Interest expense		
Group interest expense (see note 17)	(1,402,308)	(1,355,388)
Net interest income	1,830,491	1,951,189

Included within interest income in 2007 is £86,588 (2006: £100,434) in respect of impaired financial assets.

The average effective interest rate in 2007 was 9.15% (2006: 9.03%) for lease and hire purchase, 10.42% (2006: 10.63%) for personal loans and 8.59% (2006: 7.16%) for other loans and advances, which substantially comprises funding provided to commercial motor vehicle retailers.

* The restatement of comparatives is explained in note 1.1 and 2.0.

5. Net fee and commission income

	2007 £	*Restated 2006 £
Net fee and commission income	340,903	297,312

*The restatement of comparatives is explained in note 1.1 and 2.0.

6. Other operating expenses

	2007 £	2006 £
Staff costs (see note 8)	361,466	396,784
Other administrative expenses	257,194	194,614
Management charges (see note 17)	427,544	439,994
	1,046,204	1,031,392

Notes to the financial statements

31 December 2007

7. Profit before tax

The following item has been included in arriving at operating profit

	2007 £	2006 £
Expenses		
Audit services		
- statutory audit	11,388	11,052

8. Staff costs

	2007 £	2006 £
Wages and salaries	290,326	314,786
Social security costs	22,579	24,064
Pension costs	48,561	57,934
Total staff costs (see note 6)	361,466	396,784

Staff costs represent emoluments recharged by a fellow subsidiary for 7 employees (2006 8) employed by that fellow subsidiary

9 Directors' emoluments

No director received any fees or emoluments during the year (2006 nil) The Directors are employed by other companies within the Lloyds TSB Group or the Proton Group and consider that their services to the Company are incidental to their other activities within these organisations (see also note 17)

10 Taxation

	2007 £	2006 £
a) Analysis of charge for the year		
UK corporation tax		
- current tax on profits for the year	225,049	197,900
- adjustments in respect of prior years	(31)	317
Current tax charge	225,018	198,217
Deferred tax (see note 15)	16,972	(1,576)
	241,990	196,641

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

Notes to the financial statements

31 December 2007

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

	2007 £	2006 £
Profit before tax	757,149	617,973
Tax charge thereon at UK corporation tax rate of 30%	227,145	185,392
Factors affecting charge		
- non-allowable items	9,416	10,932
- adjustment in respect of prior years	(31)	317
- effect of reduction in tax rate to 28%	5,460	-
Tax on profit on ordinary activities	241,990	196,641
Effective rate	32.0%	31.8%

11. Other current assets

	2007 £	2006 £
Other debtors	78,321	132,354

12. Loans and advances to customers

	2007 £	2006 £
Advances under finance lease and hire purchase contracts	22,338,874	20,327,738
Personal loans to customers	6,901,553	8,617,001
Other loans and advances to customers	5,032,068	5,952,415
Gross loans and advances to customers	34,272,495	34,897,154
Less allowance for losses on loans and advances	(1,801,995)	(1,733,965)
Loans and advances to customers, net	32,470,500	33,163,189
of which		
due within one year	17,283,886	18,490,905
due after more than one year	15,186,614	14,672,284
	32,470,500	33,163,189

Notes to the financial statements

31 December 2007

12 Loans and advances to customers (continued)

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

	2007 £	2006 £
Gross investment in hire purchase and finance lease contracts, receivable		
- no later than one year	11,544,170	10,596,823
- later than one year and no later than five years	14,038,562	12,202,550
- later than five years	251,084	197,564
	25,833,816	22,996,937
Unearned future finance income on hire purchase and finance lease contracts	(3,494,942)	(2,669,199)
Net investment in hire purchase and finance lease contracts	22,338,874	20,327,738
The net investment in hire purchase and finance lease contracts may be analysed as follows		
- no later than one year	9,982,411	9,366,875
- later than one year and no later than five years	12,139,347	10,786,229
- later than five years	217,116	174,634
	22,338,874	20,327,738

The un-guaranteed residual values accruing to the benefit of the lessor for the year ended 31 December 2007 are nil (2006 nil)

13 Borrowed funds

	2007 £	2006 £
Borrowings from group undertakings (see note 17)	24,292,683	25,647,556

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

14 Other current liabilities

	2007 £	2006 £
Other creditors	116,357	119,346
Accruals	67,995	26,536
	184,352	145,882

Notes to the financial statements

31 December 2007

15. Deferred tax

The movement in the net deferred tax asset is as follows	2007 £	2006 £
At 1 January	93,376	91,800
Income statement (charge)/credit	(16,972)	1,576
At 31 December	76,404	93,376

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

	2007 £	2006 £
Accelerated capital allowances	(5,590)	(1,402)
Allowances for impairment losses	(3,591)	(20,945)
Other temporary differences	(7,791)	23,923
	(16,972)	1,576

Deferred tax assets are comprised as follows

	2007 £	2006 £
Accelerated capital allowances	20,976	26,566
Allowance for impairment losses	17,486	21,077
Other temporary differences	37,942	45,733
	76,404	93,376

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

16. Share capital

	2007 £	2006 £
Authorised, allotted, issued and fully paid		
9,999 "A" ordinary shares of £1 each	9,999	9,999
10,001 "B" ordinary shares of £1 each	10,001	10,001
	20,000	20,000

The "A" ordinary shares carry the right to appoint the chairman and secretary of the Company but, in all other respects, rank par passu with the "B" ordinary shares

The immediate parent company is Black Horse Group Limited (incorporated in England and Wales) The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings Copies of both sets of accounts may be obtained from the Company Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN

Notes to the financial statements

31 December 2007

17. Related party transactions

The Company is a 50.01% owned subsidiary of Black Horse Group Limited. A number of transactions are entered into with related parties in the normal course of business. These include loans and management charges. The outstanding balances at the year end and related expense for the year are as follows:

	Group company	
	2007	2006
	£	£
Outstanding at 31 December		
Amounts due to Black Horse Limited (see note 13)	24,292,683	25,647,556
Interest payable		
Black Horse Limited (see note 4)	1,402,308	1,355,388
Management charges		
Black Horse Limited (see note 6)	427,544	439,994

Key management personnel

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

Commission receivable of £340,903 (2006: £297,312) substantially comprises insurance commission income receivable under the terms of the Company's agreement with Lloyds TSB General Insurance Limited, a fellow subsidiary of Lloyds TSB Group plc.

18. Contingent liabilities and commitments

There were no contingencies at the balance sheet date (2006: nil).

Undrawn formal standby facilities, credit facilities and other commitments to lend were £10,190,359 at 31 December 2007 (2006: £9,628,452).

19. Financial risk management

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

19.1 Credit risk

Credit concentration

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

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

Notes to the financial statements

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19. Financial risk management (continued)

Loans and advances to customers – maximum exposure

31 December 2007	Retail - other £	Wholesale £	Total £
Neither past due nor impaired	25,543,389	4,774,959	30,318,348
Past due but not impaired	681,023	220,426	901,449
Impaired	3,016,015	36,683	3,052,698
Gross exposure – Loans and advances	29,240,427	5,032,068	34,272,495
Commitments to lend	-	10,190,359	10,190,359
Maximum credit exposure	29,240,427	15,222,427	44,462,854

31 December 2006	Retail - other £	Wholesale £	Total £
Neither past due nor impaired	25,166,849	5,945,521	31,112,370
Past due but not impaired	670,827	5,923	676,750
Impaired	3,107,063	971	3,108,034
Gross exposure – Loans and advances	28,944,739	5,952,415	34,897,154
Commitments to lend	-	9,628,452	9,628,452
Maximum credit exposure	28,944,739	15,580,867	44,525,606

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

31 December 2007	Retail - other £	Wholesale £
Good quality	10,607,151	244,673
Satisfactory quality	8,474,310	3,218,869
Lower quality	4,356,744	1,125,481
Below standard, but not impaired	2,105,184	185,936
Total	25,543,389	4,774,959

31 December 2006	Retail - other £	Wholesale £
Good quality	10,473,463	403,233
Satisfactory quality	8,313,512	4,525,974
Lower quality	4,301,422	1,010,581
Below standard, but not impaired	2,078,452	5,733
Total	25,166,849	5,945,521

Notes to the financial statements

31 December 2007

19. Financial risk management (continued)

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

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

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

31 December 2007	Retail - other £	Wholesale £
Past due up to 30 days	681,023	220,426
Past due up to 30-60 days	-	-
Past due up to 60-90 days	-	-
Total	681,023	220,426

31 December 2006	Retail - other £	Wholesale £
Past due up to 30 days	670,827	5,923
Past due up to 30-60 days	-	-
Past due up to 60-90 days	-	-
Total	670,827	5,923

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

Allowance for loans and advances to customers which are impaired

	2007 Total £	2006 Total £
Brought forward at 1 January	(1,733,965)	(1,624,035)
Advances written off	320,470	518,081
Charge for year (including recoveries and unwind of discount)	(368,041)	(599,136)
Add back amounts not included in opening balance		
Recoveries of prior advances written off	(20,459)	(28,875)
At 31 December	(1,801,995)	(1,733,965)

The criteria used to determine whether there is objective evidence of impairment is disclosed in note 14. Included in loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £36,683 (2006: £971).

The total impairment charge to income statement has been split by business segment as follows: £332,329 relates to Retail – other and £35,712 relates to 'wholesale' (2006: £598,949 'retail – other', £187 'wholesale').

Renegotiated loans and advances to customers

During the year the Company renegotiated loans and advances to customers, which would otherwise have been past due or impaired, totalling £138,000 (2006: £111,000).

Notes to the financial statements

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19 Financial risk management (continued)

Reposessed collateral

At the year end the Company held reposessed collateral of £31,000 (2006 £37,000) in respect of defaulted debt. The Company does not take physical possession of any collateral, instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness. Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

19.2 Liquidity risk

The Company is funded on an ongoing basis entirely by companies within Lloyds TSB Group. Such funding is technically repayable within three months, although there is no expectation that such a demand would be made. All other financial liabilities are repayable on demand.

19.3 Financial strategy

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

19.4 Fair values of financial assets and liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair values of loans and advances to customers are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the year end.

The aggregate fair value of loans and advances to customers is approximately £33,511,000 (2006 £34,523,000) before impairment. The carrying value of all other assets and liabilities is considered an approximation of fair value.

19.5 Capital disclosures

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

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

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

20. Reclassification of comparatives

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

Reclassifications from interest income to fees and commission income and expense reflect instances where fees and commissions, previously recognised as interest income, are not considered to be integral to loans and advances, hence do not form part of the effective yield calculations.

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

	2006 Restated £'000	2006 Previously reported £'000
Income statement		
Interest and similar income	3,306,577	3,926,632
Fees and commission income	297,312	135,464
Fees and commission expense	-	(458,207)

Notes to the financial statements

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21. Future IFRS developments

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

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

¹ At the date of this report, this pronouncement is awaiting EU endorsement

² Subject to any EU endorsement, the Company has not yet made a final decision as to whether it will apply this pronouncement in the 2008 financial statements

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

22 Post balance sheet events

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