Lotus Finance Limited

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

Registered office

St William House
Tresillian Terrace
Cardiff
CF10 5BH

Registered number

3266110

Directors

I R Durston
A K B Farikullah
M Rankin
C Sutton
M D Whytock

Company secretary

P Gittins

Member of Lloyds Banking Group

Directors' report
For the year ended 31 December 2012

The dırectors present theır report and the audıted financıal statements of Lotus Fınance Lımıted ("the Company") for the year ended 31 December 2012

Busıness revıew

Prıncıpal actıvıtıes

The Company ıs a lımıted company ıncorporated and domıcıled ın England and Wales (regıstered number 3266110)

The Company provıdes a range of hıre purchase finance and personal loans, prımarıly for new and used Lotus vehıcles

The Company's results for the year show a Profit before tax of £301,000 (2011 £416,000) and Net ınterest ıncome of £315,000 (2011 £499,000)

The Company ıs funded entırely by other companıes wıthın the Lloyds Bankıng Group ("the Group")

Future outlook

The Company ceased to wrıte new busıness wıth effect from 31 March 2012 and wıll manage ıts loan book untıl all the loans have been repaıd, at whıch poınt the Company wıll cease to trade

Prıncıpal rısks and uncertaıntıes

From the perspectıve of the Company, the prıncıpal rısks and uncertaıntıes are ıntegrated wıth the prıncıpal rısks of the Lloyds TSB Asset Fınance Dıvısıon ("the Dıvısıon") and are not managed separately for the Company Further detaıls of the Company's and Dıvısıon's rısk management polıcy are contaıned ın note 2 to the financıal statements

Key performance ındıcators ("KPIs")

Gıven the straıghtforward nature of the busıness, the Company's dırectors are of the opınıon that analysıs usıng KPIs ıs not necessary for an understandıng of the development, performance or posıtıon of the busıness KPIs are monıtored and reported at a dıvısıonal level and are dısclosed ın the financıal statements for Black Horse Lımıted, whıch ıs the maın tradıng company ın the Dıvısıon

Polıcy and practıce on payment of supplıers

The Company follows "The Prompt Payment Code" publıshed by the Department for Busıness Innovatıon and Skılls (BIS) regardıng the makıng of payments to supplıers Informatıon about the "Prompt Payment Code" may be obtaıned by vısıtıng www promptpaymentcode org uk

The Company's polıcy ıs to agree terms of payment wıth supplıers and these normally provıde for settlement wıthın 30 days after the date of the ınvoıce, except where other arrangements have been negotıated

It ıs the polıcy of the Company to abıde by the agreed terms of payment, provıded the supplıer performs accordıng to the terms of the contract

As no amounts are owed to trade credıtors as at 31 December 2012, the number of days requıred to be shown ın thıs report, to comply wıth the provısıons of the Companıes Act 2006, ıs nıl (2011 nıl)

Dıvıdends

No dıvıdends were paıd or proposed durıng the year ended 31 December 2012 (2011 £500,000)

Goıng concern

The dırectors are satısfied that ıt ıs the ıntentıon of Lloyds Bankıng Group plc that ıts subsıdıarıes, ıncludıng the Company, wıll contınue to have access to adequate lıquıdıty and capıtal resources for the foreseeable future and, accordıngly, the financıal statements have been prepared on a goıng concern basıs

Dırectors

The names of the current dırectors are shown on the cover

The followıng changes have taken place durıng the year

D J S Oldfield	(resıgned 12 March 2012)
I R Durston	(appoınted 12 March 2012)
A B Abdullah	(resıgned 13 June 2012)
M E Bell	(resıgned 19 June 2012)
J Che Mat	(resıgned 9 July 2012)
A K B Farıkullah	(appoınted 9 July 2012)

Directors' report (continued)
For the year ended 31 December 2012

Statement of directors' responsibilities

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

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

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

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

Disclosure of information to auditors

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

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

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

Independent auditors

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

On behalf of the board

M Rankin

M Rankin
Director

21 May 2013

Independent auditors' report to the members of Lotus Finance Limited

We have audited the financial statements of Lotus Finance Limited for the year ended 31 December 2012 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit 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

21 May 2013

Statement of comprehensive income
For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Interest income		**411**	728
Interest expense		**(96)**	(229)
Net interest income	4	**315**	499
Fees and commission income	5	**10**	34
Impairment gains/(losses) on Loans and advances to customers	15 1	**12**	(30)
Other operating expenses	6	**(36)**	(87)
Profit before tax		**301**	416
Taxation	9	**(74)**	(111)
Profit for the year attributable to equity shareholders, being total comprehensive income		**227**	305

	2012 £'000	2011 £'000
Attributable to		
Owners of the parent	**114**	153
Non-controlling interest	**113**	152
Total comprehensive income	**227**	305

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

Balance sheet
As at 31 December 2012

	Note	2012 £'000	2011 £'000
ASSETS			
Other current assets		**6**	5
Loans and advances to customers	10	**2,073**	7,397
Deferred tax asset	11	**3**	5
Total assets		**2,082**	7,407
LIABILITIES			
Borrowed funds	12	**482**	6,095
Other current liabilities		**-**	11
Current tax liability		**181**	109
Total liabilities		**663**	6,215
EQUITY			
Share capital	13	**1**	1
Retained profits		**1,418**	1,191
Total equity		**1,419**	1,192
Total equity and liabilities		**2,082**	7,407

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

M. Rankin

M Rankin
Director

21 May 2013

Statement of changes in equity

For the year ended 31 December 2012

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2011	1	1,386	1,387
Total comprehensive income for the year attributable to			
- Owners of the parent	-	153	153
- Non-controlling interest	-	152	152
Dividend paid to equity holders of the Company	-	(500)	(500)
At 31 December 2011	**1**	**1,191**	**1,192**
Total comprehensive income for the year attributable to			
- Owners of the parent	-	114	114
- Non-controlling interest	-	113	113
At 31 December 2012	**1**	**1,418**	**1,419**

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

Cash flow statement

For the year ended 31 December 2012

	2012 £'000	2011 £'000
Cash flows generated from operating activities		
Profit before tax	**301**	416
Adjustments for		
- Interest paid	**96**	229
Changes in operating assets and liabilities		
- Net decrease in Loans and advances to customers	**5,324**	3,356
- Net (increase)/decrease in Other current assets	**(1)**	49
- Net decrease in Other current liabilities	**(11)**	(3)
Cash generated from operations	**5,709**	4,047
Interest paid	**(96)**	(229)
Group relief paid	**-**	(132)
Net cash generated from operating activities	**5,613**	3,686
Cash flows used in financing activities		
Repayment of borrowings with group undertakings	**(5,613)**	(3,186)
Dividends paid	**-**	(500)
Net cash used in financing activities	**(5,613)**	(3,686)
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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

Notes to the financial statements

For the year ended 31 December 2012

1 Accounting policies

1 1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied to both years presented, unless otherwise stated

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body

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

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2012 and which have not been applied in preparing these financial statements are given in note 19

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

1 2 Income recognition

Income from financial assets

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

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

Lease classification

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

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

Finance lease income

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

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

Fees and commission income

Fees and commissions which are not an integral part of the effective interest rate such as commission associated with the sale of insurance underwritten by a third party, are generally recognised in the Statement of comprehensive income on an accruals basis when the service has been provided A provision for the claw back of such commissions in the event of early termination is assessed at least every six months to take account of the most recent trends

Notes to the financial statements (continued)
For the year ended 31 December 2012

1 Accounting policies (continued)

1 3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers and Other current assets Financial liabilities comprise Amounts due to group undertakings and Other current liabilities

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

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

1 4 Impairment

Loans and advances to customers

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

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

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

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

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

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

1 5 Dividends

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

1 6 Cash and cash equivalents

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

1 7 Taxation, including deferred income taxes

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2012

1. Accounting policies (continued)

1 7 Taxation, including deferred income taxes (continued)

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

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

1 8 Retirement benefit obligations

Defined contribution

A defined contribution plan is a pension plan under which the Company pays fixed contributions, there is no legal or constructive obligation to pay further contributions The Company receives recharges in respect of a defined contribution plan operated by the Division based on the level of contributions paid in relation to staff providing services to this Company These are charged to the Statement of comprehensive income in the period in which they fall due

1 9 Share based payments

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 7 Full details of these schemes can be found in the 2012 annual report and accounts of the Company's ultimate parent company, Lloyds Banking Group plc

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, market risk or business risk Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by an intermediate parent company, Lloyds TSB Asset Finance Division Limited, and the ultimate parent, Lloyds Banking Group plc Interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by the Division's credit committee and credit functions

2 1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due The credit risk associated with instalment credit contracts 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

Notes to the financial statements (continued)
For the year ended 31 December 2012

2 Risk management policy (continued)

2 1 Credit risk (continued)

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

- 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 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 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 15 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

Notes to the financial statements (continued)
For the year ended 31 December 2012

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

Impairment of assets accounted for at amortised cost (continued)

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

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 hire purchase 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 2012

4. Net interest income

	2012 £'000	2011 £'000
Interest income		
From hire purchase contracts	342	572
From personal loans	2	4
From other loans and advances	67	152
	411	728
Interest expense		
Group interest expense (see note 14)	(96)	(229)
Net interest income	315	499

Included within Interest income is £3,000 (2011 £7,000) in respect of impaired financial assets

5 Fees and commission income

	2012 £'000	2011 £'000
Loan fees receivable	10	33
Commission receivable (see note 14)	-	1
	10	34

Notes to the financial statements (continued)
For the year ended 31 December 2012

6 Other operating expenses

	2012 £'000	2011 £'000
Staff costs (see note 7)	-	34
Management fees (see note 14)	**20**	38
Other operating expenses	**16**	15
	36	87

Other operating expenses includes fees payable to the Company's auditors for the audit of the financial statements of £10,000 (2011 £10,000) 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

	2012 £'000	2011 £'000
Wages and salaries	-	26
Social security costs	-	3
Share based payments	-	5
	-	34

The staff costs shown above in 2011 were paid by the Company in respect of one member of staff identified as providing services to the Company This employee held a staff contract of service with Lloyds TSB Asset Finance Division Limited The Company ceased to write new business during the year and therefore it was deemed no such services were applicable to be recharged to the Company in 2012

8. Directors' emoluments

No director received any fees or emoluments during the year (2011 £nil) The directors are employed by other companies within the Group or companies controlled by Group Lotus plc and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 14)

9 Taxation

	2012 £'000	2011 £'000
a) Analysis of charge for the year		
UK corporation tax		
- Current tax on taxable profit for the year	**72**	109
Current tax charge	**72**	109
UK deferred tax		
- Origination and reversal of timing differences	**2**	1
- Impact of deferred tax rate change	-	1
Deferred tax charge (see note 11)	**2**	2
	74	111

Corporation tax is calculated at a rate of 24 5% (2011 26 5%) of the taxable profit for the year

9 Taxatıon (contınued)

b) Factors affectıng the tax charge for the year

The tax on the Company's Profit before tax dıffers from the theoretıcal amount that would arıse usıng the weıghted average tax rate applıcable to profits of the Company as follows

	2012 £'000	2011 £'000
Profit before tax	**301**	416
Tax charge thereon at UK corporatıon tax rate of 24 5% (2011 26 5%)	**74**	110
Factors affectıng charge		
- Effect of reductıon ın tax rate	**-**	1
Tax on profit on ordınary actıvıtıes	**74**	111
Effectıve rate	**24 5%**	26 7%

10 Loans and advances to customers

	2012 £'000	2011 £'000
Advances under hıre purchase contracts	**2,117**	4,672
Personal loans to customers	**20**	36
Other loans and advances to customers	**1**	2,810
Gross loans and advances to customers	**2,138**	7,518
Less allowance for losses on loans and advances	**(65)**	(121)
Net loans and advances to customers	**2,073**	7,397
of whıch		
Due wıthın one year	**1,012**	4,770
Due after one year	**1,061**	2,627
	2,073	7,397

Loans and advances to customers ınclude hıre purchase receıvables

	2012 £'000	2011 £'000
Gross ınvestment ın hıre purchase contracts receıvable		
- no later than one year	**1,139**	2,248
- later than one year and no later than five years	**1,184**	2,998
- later than five years	**10**	16
	2,333	5,262
Unearned future finance ıncome on hıre purchase contracts	**(216)**	(590)
Net ınvestment ın hıre purchase contracts	**2,117**	4,672

10 Loans and advances to customers (continued)

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

	2012 £'000	2011 £'000
- no later than one year	**1,033**	1,996
- later than one year and no later than five years	**1,075**	2,662
- later than five years	**9**	14
	2,117	4,672

The Company provides a range of hire purchase products in connection with the financing of motor vehicles and equipment The leases typically run for periods of between 3 and 4 years

During the year, no contingent rentals in respect of hire purchase contracts were recognised in the Statement of comprehensive income (2011 £nil)

The allowance for uncollectable hire purchase receivables included in the allowance for impairment losses is £54,000 (2011 £108,000)

Further analysis of Loans and advances to customers is provided in note 15

11 Deferred tax asset

The movement in the Deferred tax asset is as follows

	2012 £'000	2011 £'000
Brought forward	**5**	7
Charge for the year (see note 9)	**(2)**	(2)
	3	5

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

	2012 £'000	2011 £'000
Allowances for impairment losses	**(1)**	(1)
Other temporary differences	**(1)**	(1)
	(2)	(2)

Deferred tax asset comprises	2012 £'000	2011 £'000
Allowances for impairment losses	**1**	2
Other temporary differences	**2**	3
	3	5

Notes to the financial statements (continued)
For the year ended 31 December 2012

11. Deferred tax asset (continued)

On 21 March 2012, the Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012 This reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012 In addition, the Finance Act 2012, which passed into law on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013 The change in the main rate of corporation tax from 25% to 23% has not resulted in any changes in the Company's Deferred tax asset at 31 December 2012

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

12 Borrowed funds

	2012 **£'000**	2011 £'000
Amounts due to group undertakings (see note 14)	**482**	6,095

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made These amounts are interest bearing at the Finance House Base Rate plus a margin of 0 375% for funding of other loans and advances to customers and at fixed rates for all other borrowings

13 Share capital

	2012 **£'000**	2011 £'000
Allotted, issued and fully paid		
501 "A" ordinary shares of £1 each	**1**	1
499 "B" ordinary shares of £1 each	**-**	-
	1	1

At 31 December 2012, the authorised share capital of the Company was £20,000 divided into 19,000 ordinary shares of £1 each, 501 "A" ordinary shares of £1 each and 499 "B" ordinary shares of £1 each

The "A" ordinary shares carry the right to appoint the chairman of the Company but, in all other respects, rank pari passu with the "B" ordinary shares, including the right to receive all dividends and other distributions hereafter declared, made or paid on the ordinary share capital of the Company

The immediate parent company, and holder of all the "A" ordinary shares, is Black Horse Group Limited (incorporated in England and Wales) The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings Copies of the accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN

Group Lotus plc is the holder of all the "B" ordinary shares

14 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 These include loan and fee transactions A summary of the outstanding balances at the year end and the related income and expense for the year are set out below

	2012 **£'000**	2011 £'000
Amounts due to group undertakings		
Black Horse Limited (see note 12)	**482**	6,095
Interest expense		
Black Horse Limited (see note 4)	**96**	229
Management fees		
Black Horse Limited (see note 6)	**20**	38

14 Related party transactions (continued)

Commission receivable of £nil (2011 £1,000) includes insurance commission income receivable of £nil (2011 £1,000) under the terms of the Company's agreement with Lloyds TSB General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc

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

Key management personnel

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

UK Government

In January 2009, the UK Government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer As at 31 December 2012, HM Treasury held a 39 2 per cent (2011 40 2 per cent) interest in Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of the Company during the year ended 31 December 2012

15 Financial risk management

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

15 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 2012	**Retail £'000**	**Wholesale £'000**	**Total £'000**
Neither past due nor impaired	1,957	1	1,958
Past due but not impaired	85	-	85
Impaired	95	-	95
Gross exposure – loans and advances	2,137	1	2,138
Commitments to lend	-	-	-
Maximum credit exposure	**2,137**	**1**	**2,138**

At 31 December 2011	**Retail £'000**	**Wholesale £'000**	**Total £'000**
Neither past due nor impaired	4,360	2,668	7,028
Past due but not impaired	110	-	110
Impaired	238	142	380
Gross exposure – loans and advances	4,708	2,810	7,518
Commitments to lend	-	3,266	3,266
Maximum credit exposure	**4,708**	**6,076**	**10,784**

15 Financial risk management (continued)

15 1 Credit risk (continued)

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

At 31 December 2012	Retail £'000	Wholesale £'000
Good quality	1,512	1
Satisfactory quality	382	-
Lower quality	-	-
Below standard, but not impaired	63	-
Total	**1,957**	**1**

At 31 December 2011	Retail £'000	Wholesale £'000
Good quality	3,190	1,925
Satisfactory quality	944	743
Lower quality	-	-
Below standard, but not impaired	226	-
Total	**4,360**	**2,668**

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

At 31 December 2012	Retail £'000	Wholesale £'000	Total £'000
Past due up to 30 days	85	-	85
Past due from 30-60 days	-	-	-
Past due from 60-90 days	-	-	-
Total	**85**	**-**	**85**

At 31 December 2011	Retail £'000	Wholesale £'000	Total £'000
Past due up to 30 days	110	-	110
Past due from 30-60 days	-	-	-
Past due from 60-90 days	-	-	-
Total	**110**	**-**	**110**

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

Notes to the financial statements (continued)
For the year ended 31 December 2012

15. Financial risk management (continued)

15 1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2012	2011
	£'000	£'000
Brought forward	121	246
Advances written off	(45)	(159)
(Credit)/charge for year (including recoveries)	(12)	30
Recoveries of prior advances written off	1	4
At 31 December	65	121

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1 4 Included in Loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £nil (2011 £142,000)

The total impairment (credit)/charge to the Statement of comprehensive income has been split by business segment as follows £12,000 (2011 charge of £30,000) relates to Retail and £nil (2011 £nil) 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 £1,000 (2011 £nil)

15 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

15 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 Finance House Base Rate ("FHBR") 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 FHBR

If FHBR increased by 0 5% and all other variables remain constant this would increase Interest expense by £6,000 (2011 £14,000) and accordingly decrease Interest expense by £6,000 (2011 £14,000) if swap rates decreased by the same amount

15 4 Financial strategy

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

15 5 Fair values of financial assets and liabilities

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

Fair values of Loans and advances to customers are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the balance sheet date

The aggregated fair value of Loans and advances to customers is approximately £2,117,000 (2011 £7,446,000) The carrying value of all other financial assets and liabilities is considered an approximation of fair value

Notes to the financial statements (continued)

For the year ended 31 December 2012

16. 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

17. Contingent liabilities and capital commitments

Undrawn formal standby facilities, credit facilities and other commitments to lend were £nil (2011 £3,266,000)

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

18. Post balance sheet events

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

19. Future developments

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

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued May 2012) [1]	Sets out minor amendments to IFRS standards as part of annual improvements process Most amendments clarified existing practice	Annual periods beginning on or after 1 January 2013
IFRS 13 Fair value Measurement	Sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements	Annual periods beginning on or after 1 January 2013
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 none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements