Lotus Finance Limited

Annual report and accounts
for the year ended 31 December 2014

Registered office

St William House
Tresillian Terrace
Cardiff
CF10 5BH

Registered number

3266110

Directors

A H Abdullah
C M Adams
I R Durston
A K B Farikullah
R Shafie
C Sutton
M D Whytock

Company Secretary

P Gittins

Directors' report

For the year ended 31 December 2014

The directors present their report and the audited financial statements of Lotus Finance Limited ("the Company") for the year ended 31 December 2014.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 3266110).

The Company provides a range of hire purchase contracts and personal loans, primarily for new and used Lotus vehicles.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Asset Finance ("AF"), which is a part of the Consumer Finance Division of Lloyds Banking Group plc (the "Group"), and are not managed separately for the Company. Further details of the Company's and AF's risk management policy are contained in note 2 to the financial statements.

Key performance indicators ("KPIs")

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

Future outlook

As the Company ceased to write new business with effect from 31 March 2012, the carrying value of Loans and advances to customers and the associated income and expense will reduce until all of the loans have been repaid, at which point the Company will cease to trade.

Dividends

No dividends were paid or proposed during the year ended 31 December 2014 (2013: £nil).

Going concern

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

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on the cover.

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

A H Abdullah	(appointed 9 October 2014)
R Shafie	(appointed 9 October 2014)
C M Adams	(appointed 9 April 2015)
M Rankin	(resigned 17 April 2014)

Directors' indemnities

Lloyds Banking Group plc ("LBG") has granted to Messrs C Sutton, I R Durston, C M Adams and M D Whytock, the directors of the Company appointed by and representing LBG, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the director who joined the board of the Company during the financial year. LBG directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the LBG directors to the maximum extent permitted by law. The deed for existing LBG directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, LBG and Group Lotus plc have in place appropriate directors and Officers Liability Insurance to cover directors appointed by them, which was in place throughout the financial year.

Directors' report (continued)

For the year ended 31 December 2014

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 International Financial Reporting Standards ("IFRSs") as adopted by the European Union have been followed, subject to any material departures disclosed and explained 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.

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 they ought to have taken as a director in order to make themselves 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.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Approved by the board of directors and signed by its order by:

C M Adams
Director
26 June 2015

Independent auditors' report to the members of Lotus Finance Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The Company's financial statements comprise:

- the Balance sheet as at 31 December 2014;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' report; and take advantage of the small companies exemption from preparing a Strategic report. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Lotus Finance Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

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 ISAs (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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

N Rummings

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

26 June 2015

Statement of comprehensive income

For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Interest income	4	**71**	161
Fees and commission income	5	**-**	2
Impairment gains/(losses)		**6**	(3)
Other operating expenses	6	**(43)**	(20)
Profit before tax		**34**	140
Taxation	9	**(7)**	(33)
Profit for the year attributable to equity shareholders, being total comprehensive income		**27**	107

	2014 £'000	2013 £'000
Attributable to:		
Owners of the parent	**14**	54
Non-controlling interest	**13**	53
Total comprehensive income	**27**	107

The accompanying notes to the financial statements are an integral part of these financial statements.

Balance sheet
As at 31 December 2014

	Note	2014 £'000	2013 £'000
ASSETS			
Other current assets	10	**1,381**	925
Loans and advances to customers	11	**206**	793
Deferred tax asset	12	**1**	1
Total assets		**1,588**	1,719
LIABILITIES			
Provision for liabilities and charges	13	**29**	71
Current tax liability		**6**	122
Total liabilities		**35**	193
EQUITY			
Share capital	14	**1**	1
Retained earnings		**1,552**	1,525
Total equity		**1,553**	1,526
Total equity and liabilities		**1,588**	1,719

The accompanying notes to the financial statements are an integral part of these financial statements.

The financial statements were approved by the board of directors and were signed on its behalf by:

C M Adams
Director
26 June 2015

Statement of changes in equity

For the year ended 31 December 2014

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2013	1	1,418	1,419
Total comprehensive income for the year attributable to:			
- Owners of the parent	-	54	54
- Non-controlling interest	-	53	53
At 31 December 2013	**1**	**1,525**	**1,526**
Total comprehensive income for the year attributable to:			
- Owners of the parent	-	14	14
- Non-controlling interest	-	13	13
At 31 December 2014	**1**	**1,552**	**1,553**

The accompanying notes to the financial statements are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2014

	2014 £'000	2013 £'000
Cash flows generated from operating activities		
Profit before tax	**34**	140
Adjustments for:		
- (Decrease)/increase in Provision for liabilities and charges	**(42)**	71
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**587**	1,280
- Net increase in Other current assets	**(456)**	(919)
Cash generated from operations	**123**	572
Group relief paid	**(123)**	(90)
Net cash generated from operating activities	**-**	482
Cash flows used in financing activities		
Repayment of borrowings with group undertakings	**-**	(482)
Net cash used in financing activities	**-**	(482)
Change in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2014

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 in 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 IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

There are no new IFRS pronouncements relevant to the Company requiring adoption in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2014 and which have not been applied in preparing these financial statements are given in note 20. No standards have been early adopted.

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. 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.

1. Accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers, Amounts due from group undertakings, Other asset and Other debtors. The Company has no financial 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 financial 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.

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

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

1.5 Cash and cash equivalents

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

1.6 Taxation, including deferred income taxes

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or 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.

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 in the Company or the Group against which these losses can be utilised.

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

2. Risk management policy

The Company's operations expose it to credit risk and liquidity risk; it is not exposed to any significant interest rate risk, 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 Bank Asset Finance Limited, and the ultimate parent, Lloyds Banking Group plc. 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 AF's credit committee and credit functions. Business risk is managed through regular reporting and oversight.

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 AF'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.

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').

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 Bank plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

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.

Impairment allowances for portfolios of loans that are below the individual assessment thresholds, and for loan losses that have been incurred but not separately identified at the balance sheet date, are determined on a collective basis. Collective impairment allowances are calculated 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

At 31 December 2014, no provision has been recognised in these financial statements against the cost of making redress payments to customers and the related administration costs. The Company has sold Payment Protection Insurance ("PPI") in relation to its personal loan agreements and has received and settled some claims during 2013 and 2014 in respect of past sales of PPI. 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 not be material to the Company.

4. Interest income

	2014	2013
	£'000	£'000
Interest income		
From hire purchase contracts	**34**	140
From personal loans	**1**	1
Group interest income (see note 15)	**36**	20
	71	161

Included within Interest income is £1,000 (2013: £2,000) in respect of impaired financial assets.

5. Fees and commission income

	2014	2013
	£'000	£'000
Loan fees receivable	-	2

6. Other operating expenses

	2014 £'000	2013 £'000
Management fees (see note 15)	**5**	10
Other operating expenses	**38**	10
	43	20

Other operating expenses includes fees payable to the Company's auditors for the audit of the financial statements of £10,000 (2013: £10,000). Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management fees.

7. Staff costs

The Company did not have any employees during the year (2013: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2013: £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 15).

9. Taxation

	2014 £'000	2013 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**7**	31
UK deferred tax:		
- Origination and reversal of timing differences	**-**	2
	7	33

Corporation tax is calculated at a rate of 21.50% (2013: 23.25%) of the taxable profit for the year. There are no reconciling factors on the charge that would result from applying the standard UK corporation tax rate to Profit before tax to the actual tax charge for the year.

10. Other current assets

	2014 £'000	2013 £'000
Amounts due from group undertakings (see note 15)	**1,351**	850
Other asset (see note 13)	**29**	71
Other debtors	**1**	4
	1,381	925

Amounts due from group undertakings are interest bearing at variable rates based on LIBOR, unsecured and repayable on demand.

At 31 December 2014, the Company recognised an asset of £29,000 (2013: £71,000) in respect of indemnities from Black Horse Limited in relation to a compliance issue (see note 13).

11. Loans and advances to customers

	2014 £'000	2013 £'000
Advances under hire purchase contracts	**220**	816
Personal loans to customers	**4**	16
Gross loans and advances to customers	**224**	832
Less: allowance for losses on loans and advances	**(18)**	(39)
Net loans and advances to customers	**206**	793
of which:		
Due within one year	**128**	429
Due after one year	**78**	364
	206	793

Loans and advances to customers include hire purchase receivables:

	2014 £'000	2013 £'000
Gross investment in hire purchase contracts receivable:		
- no later than one year	**144**	478
- later than one year and no later than five years	**80**	394
- later than five years	**8**	10
	232	882
Unearned future finance income on hire purchase contracts	**(12)**	(66)
Net investment in hire purchase contracts	**220**	816

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

	2014 £'000	2013 £'000
- no later than one year	**138**	442
- later than one year and no later than five years	**75**	365
- later than five years	**7**	9
	220	816

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

During the year, no contingent rentals in respect of hire purchase receivables were recognised in the Statement of comprehensive income (2013: £nil).

The allowance for uncollectable hire purchase receivables included in the allowance for impairment losses is £14,000 (2013: £29,000).

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

12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2014	2013
	£'000	£'000
Brought forward	**1**	3
Charge for the year (see note 9)	**-**	(2)
At 31 December	**1**	1

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

	2014	2013
	£'000	£'000
Other temporary differences	**-**	(2)
Deferred tax asset comprises:		
Allowances for impairment losses	**1**	1

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

13. Provision for liabilities and charges

	Total
	£'000
At 1 January 2013	-
Charge for the year	71
At 31 December 2013	71
Utilised during the year	(42)
At 31 December 2014	**29**

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated. The Company has reviewed its documentation and found there to be a compliance issue for which a provision for the cost of redress of £29,000 in 2014 (2013: £71,000) has been made. It is estimated that all claims will be cleared by 2016.

14. Share capital

	2014	2013
	£'000	£'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 2013, 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 "A" ordinary shares are held by Black Horse Group Limited (incorporated in England and Wales), the "B" ordinary shares are held by Group Lotus plc (incorporated in England and Wales).

15. Related party transactions

The Company is controlled by Black Horse Group Limited. A number of transactions are entered into with related parties in the normal course of business. 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.

	2014 £'000	2013 £'000
Amounts due from group undertakings		
Black Horse Limited (see note 10)	**1,351**	850
Interest income		
Black Horse Limited (see note 4)	**36**	20
Management fees		
Black Horse Limited (see note 6)	**5**	10

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 is comprised of 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 Group Lotus plc and consider that their services to the Company are incidental to their other activities within those groups.

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 2014, HM Treasury retained a significant 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 2014.

16. Financial risk management

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

16.1 Credit risk

Credit concentration

The Company lends to customers geographically located in 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 2014	Retail £'000	Wholesale £'000	Total £'000
Neither past due nor impaired	194	-	194
Past due but not impaired	5	-	5
Impaired	25	-	25
Gross exposure – loans and advances	224	-	224
Commitments to lend	-	-	-
Maximum credit exposure	**224**	-	**224**

16. Financial risk management (continued)

16.1 Credit risk (continued)

Credit concentration (continued)

At 31 December 2013	Retail £'000	Wholesale £'000	Total £'000
Neither past due nor impaired	737	-	737
Past due but not impaired	34	-	34
Impaired	61	-	61
Gross exposure – loans and advances	832	-	832
Commitments to lend	-	-	-
Maximum credit exposure	832	-	832

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

At 31 December 2014	Retail £'000	Wholesale £'000
Good quality	147	-
Satisfactory quality	34	-
Lower quality	4	-
Below standard, but not impaired	9	-
Total	**194**	-

At 31 December 2013	Retail £'000	Wholesale £'000
Good quality	534	-
Satisfactory quality	176	-
Lower quality	5	-
Below standard, but not impaired	22	-
Total	**737**	-

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 2014	Retail £'000	Wholesale £'000	Total £'000
Past due up to 30 days	5	-	5
Past due from 30-60 days	-	-	-
Past due from 60-90 days	-	-	-
Total	**5**	-	**5**

16. Financial risk management (continued)

16.1 Credit risk (continued)

Credit concentration (continued)

At 31 December 2013	Retail £'000	Wholesale £'000	Total £'000
Past due up to 30 days	34	-	34
Past due from 30-60 days	-	-	-
Past due from 60-90 days	-	-	-
Total	**34**	**-**	**34**

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

Allowance for loans and advances to customers which are impaired

	2014 £'000	2013 £'000
Brought forward	**39**	65
Advances written off	**(18)**	(33)
(Credit)/Charge for year (including recoveries)	**(6)**	3
Recoveries of prior advances written off	**3**	4
At 31 December	**18**	39

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. All Loans and advances to customers are individually assessed for impairment.

The total impairment gain to the Statement of comprehensive income relates to the Retail business segment.

Repossessed collateral

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

During the year the Company repossessed collateral in respect of defaulted debt with a value of £nil (2013: £nil).

16.2 Liquidity risk

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

16.3 Financial strategy

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

16.4 Fair values of financial assets and liabilities

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

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

The aggregated fair value of Loans and advances to customers is approximately £221,000 (2013: £827,000).

17. Capital disclosures

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

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

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

18. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2013: £nil).

19. Post balance sheet events

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

20. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2014 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued December 2013)	A collection of amendments to IFRSs from the 2010 - 12 and 2011 - 13 cycle of the annual improvements projects.	Annual periods beginning on or after 1 July 2014.
IFRS 9 Financial Instruments: Classification and Measurement [1]	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2018.

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

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that neither of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements.

21. Ultimate parent undertaking and controlling party

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