Lotus Finance Limited

Annual report and accounts
for the year ended 31 December 2017

Registered office

St William House
Tresillian Terrace
Cardiff
CF10 5BH

Registered number

03266110

Current directors

C M Adams
R A Jones
A F M Kenali

Company Secretary

D D Hennessey

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2017

The directors present their report and the audited financial statements of Lotus Finance Limited ("the Company") for the year ended 31 December 2017.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 03266110).

The Company provided 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 the Retail Finance Division, which is part of the Lloyds Banking Group. While these risks are not managed separately for the Company, Retail Finance is a portfolio of businesses and operates in a number of specialist markets providing consumer lending and contract hire to personal and corporate customers. Further details of the Company's and Group's risk management policy are contained in note 15 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.

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.

The Company is part of the wider Lloyds Banking Group, and, at that level, consideration of many of the potential implications following the UK's vote to leave the European Union ("EU") has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Dividends

A dividend of £20,000, representing a dividend of £20 per share, was declared and paid during the year (2016: £1,500,000).

Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to 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 current directors of the Company are shown on the front cover.

The following change has taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

A K B Farikullah	(resigned 29 September 2017)

Company Secretary

The following change has taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

D D Hennessey	(appointed 8 February 2017)
P Gittins	(resigned 8 February 2017)

Directors' indemnities

Lloyds Banking Group plc ("LBG") has granted to Messrs C M Adams and R A Jones, the LBG directors of the Company appointed by and representing the Group, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force during the whole of the financial year and at the date of approval of the financial statements. LBG directors no longer in office but who served on the board of the Company at any time in the financial year have 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 current LBG directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate LBG directors and officers liability insurance cover which was in place throughout the financial year.

Lotus Cars Limited has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year and at the date of approval of the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts in accordance with applicable law and regulation.

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

In the case of each director in office at the date the Directors' report is approved:

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

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 on its behalf by:

C M Adams

C M Adams
Director
19th September 2018

Statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Interest income	3	-	36
Payment protection insurance charge	12	(22)	-
Impairment gains		2	3
Other operating expenses	4	(1)	(10)
(Loss)/profit before tax		(21)	29
Taxation	7	4	(6)
Profit for the year		(17)	23

	2017 £'000	2016 £'000
Attributable to:		
Owners of the parent	(9)	12
Non-controlling interest	(8)	11
Loss for the year being total comprehensive (expense)/income	(17)	23

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

Balance sheet

As at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Trade and other receivables	9	**108**	109
Loans and advances to customers	10	**1**	15
Current tax asset		**4**	-
Total assets		**113**	124
LIABILITIES			
Borrowed funds	11	**10**	-
Provision for liabilities and charges	12	**22**	-
Current tax liability		**-**	6
Total liabilities		**32**	6
EQUITY			
Share capital	13	**1**	1
Retained earnings		**80**	117
Total equity		**81**	118
Total equity and liabilities		**113**	124

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:

CM Adams

C M Adams
Director
19th September 2018

Statement of changes in equity

For the year ended 31 December 2017

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2016	1	1,594	1,595
Total comprehensive income for the year attributable to:			
- Owners of the parent	-	12	12
- Non-controlling interest	-	11	11
Dividend paid to equity holders of the Company	-	(1,500)	(1,500)
At 31 December 2016	1	117	118
Total comprehensive expense for the year attributable to:			
- Owners of the parent	-	(9)	(9)
- Non-controlling interest	-	(8)	(8)
Dividend paid to equity holders of the Company	-	(20)	(20)
At 31 December 2017	1	80	81

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

Cash flow statement

For the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows generated from operating activities		
(Loss)/profit before tax	**(21)**	29
Adjustments for:		
- Increase in Provision for liabilities and charges	**22**	-
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**14**	39
- Net increase in Other assets	**(4)**	-
Cash generated from operations	**11**	68
Taxation payments	**(6)**	(13)
Net cash generated from operating activities	**5**	55
Cash flows used in financing activities		
Dividends paid	**(20)**	(1,500)
Proceeds from borrowings with group undertakings	**15**	1,445
Net cash used in financing activities	**(5)**	(55)
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 2017

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.

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

(i) Amendments to IAS 7: Disclosure Initiative (issued January 2016). The amendments are intended to clarify IAS 7 'Statement of Cash Flows' to improve information provided to users of financial statements about an entity's financing activities.

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 2017 and which have not been applied in preparing these financial statements are given in note 19. 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 is 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; all other leases are classified as operating leases.

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

1. Accounting policies (continued)

1.2 Income recognition (continued)

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.

1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings, Other assets and Loans and advances to customers. Financial liabilities comprise Borrowed funds.

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 uncollectable, 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.

Notes to the financial statements (continued)

For the year ended 31 December 2017

1. Accounting policies (continued)

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

1.7 Taxation

Tax expense comprises current tax. Current tax is charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

1.8 Provision for liabilities and charges

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.

2. Critical accounting estimates and judgements in applying accounting policies

At 31 December 2017, the Company carried a provision of £18,000 (2016: £nil) against the cost of making redress payments to customers and the related administration costs in relation to the misselling of Payment Protection Insurance ("PPI"). Determining the amount of the provision, which represent management's best estimate of the cost of settling these issues, requires the exercise of significant judgement. It will often be necessary to form a view on matters which are inherently uncertain, such as the number of future complaints, the extent to which they will be upheld and the average cost of redress. Consequently the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate.

3. Interest income

	2017 £'000	2016 £'000
From hire purchase contracts	-	2
Group interest income (see note 14)	-	34
	-	36

Included within Interest income is £nil (2016: £nil) in respect of impaired financial assets.

Notes to the financial statements (continued)
For the year ended 31 December 2017

4. Other operating expenses

	2017 £'000	2016 £'000
Management fees (see note 14)	-	1
Other operating expenses	1	9
	1	10

Fees payable to the Company's auditors for the audit of the financial statements were £10,000 (2016: £9,000). Since this company is in an advanced stage of run off, these are now borne by a fellow group undertaking and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management fees.

5. Staff costs

The Company did not have any employees during the year (2016: none).

6. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2016: £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).

7. Taxation

	2017 £'000	2016 £'000
Analysis of (credit)/charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	-	6

Corporation tax is calculated at a rate of 19.25% (2016: 20.00%) of the taxable profit for the year. There is no difference in either the current or prior year between the tax charge that would result from applying the standard UK corporation tax rate to the profit before tax and the actual tax charge for the year.

b) Factors affecting the tax (credit)/charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

	2017 £'000	2016 £'000
(Loss)/profit before tax	(21)	29
Tax (credit)/charge thereon at UK corporation tax rate of 19.25% (2016: 20.00%)	(4)	6
Tax (credit)/charge on (loss)/profit on ordinary activities	(4)	6
Effective rate	19.25%	20.00%

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

The Finance Act 2016 further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

Notes to the financial statements (continued)
For the year ended 31 December 2017

8. Dividends

In 2017, dividends totalling £20 per share were paid, representing a total dividend of £20,000 (2016: £1,500,000).

9. Trade and other receivables

	2017 £'000	2016 £'000
Amounts due from group undertakings (see note 14)	104	109
Other assets (see note 12)	4	-
	108	109

Amounts due from group undertakings were interest bearing at variable rates based on LIBOR until September 2017 but are now non-interest bearing. They are unsecured and repayable on demand.

At 31 December 2017, the Company recognised an asset of £4,000 (2016: £nil) in respect of indemnities from Black Horse Limited in relation to a specific provision (see note 12).

10. Loans and advances to customers

	2017 £'000	2016 £'000
Advances under hire purchase contracts	1	16
Personal loans to customers	-	3
Gross loans and advances to customers	1	19
Less: allowance for losses on loans and advances	-	(4)
Net loans and advances to customers	1	15
of which:		
Due within one year	1	12
Due after one year	-	3
	1	15

Loans and advances to customers include hire purchase receivables:

	2017 £'000	2016 £'000
Gross investment in hire purchase contracts receivable:		
- no later than one year	1	15
- later than one year and no later than five years	-	1
- later than five years	-	-
	1	16
Unearned future finance income on hire purchase contracts	-	-
Net investment in hire purchase contracts	1	16

10 Loans and advances to customers (continued)

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

	2017 £'000	2016 £'000
- no later than one year	1	15
- later than one year and no later than five years	-	1
- later than five years	-	-
	1	16

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 finance leases were recognised in the Statement of comprehensive income (2016: £nil).

The allowance for uncollectable finance lease and hire purchase receivables included in the allowance for impairment losses is £nil (2016: £4,000).

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

11. Borrowed funds

	2017 £'000	2016 £'000
Amounts due to group undertakings (see note 14)	10	-

Amounts due to group undertakings are non-interest bearing, unsecured and repayable on demand, although there is no expectation that such a demand would be made.

12. Provision for liabilities and charges

	PPI £'000	Other conduct risk £'000	Total £'000
At 1 January and 31 December 2016	-	-	-
Recognised in the year	-	4	4
Charge for the year	22	-	22
Utilised during the year	(4)	-	(4)
At 31 December 2017	**18**	**4**	**22**

As described in note 2, an assessment has been made of the potential future transfer of economic benefits from claims made against the Company in relation to PPI. Whilst the provision represents the Company's best estimate of the likely future outflows to settle claims against the Company, a number of risks and uncertainties remain. These include the impact of regulatory changes; FCA media campaign, Claims Management Company and customer activity; and potential additional remediation arising from continual improvement of the Lloyds Banking Group's operational practices. The assessment of the exposure in relation to PPI reflects the most recent experience in 2018. The ultimate cost could differ from those estimated by the Company, requiring a further provision. There is an industry deadline of the end of August 2019 for PPI complaints.

During the year, Lloyds Banking Group undertook an exercise relating to potential retrospective rectification activity to provide redress to affected customers in relation to arrears management. The Company has provided for £4,000 (2016: £nil) relating to these redress claims. Black Horse Limited will indemnify the Company against all actions arising from this issue (see note 9).

13. Share capital

	2017 £'000	2016 £'000
Allotted, issued and fully paid		
501 "A" ordinary shares of £1 each	1	1
499 "B" ordinary shares of £1 each	-	-
	1	1

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 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).

14. Related party transactions

The Company is controlled by the Retail Finance Division. 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 is set out below.

	2017 £'000	2016 £'000
Amounts due from group undertakings		
Black Horse Limited (see note 9)	104	109
Amounts due to group undertakings		
Black Horse Group Limited (see note 11)	10	-
Interest income		
Black Horse Limited (see note 3)	-	34
Management fees		
Black Horse Limited (see note 4)	-	1

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, the directors of the Retail Finance Division 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 the Group Lotus plc and consider that their services to the Company are incidental to their other activities within those groups.

Notes to the financial statements (continued)
For the year ended 31 December 2017

15. Financial risk management

The Company's operations expose it to credit risk and business risk; it is not exposed to any significant interest rate risk, liquidity risk, market risk or foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the Retail Finance Division, and the ultimate parent, Lloyds Banking Group plc.

A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

15.1 Credit risk

Credit risk management

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 and operating leases is managed through the application of strict underwriting criteria, determined by Retail Finance'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.

Credit concentration

The Company lends to customers in the Retail segment, who geographically located within the United Kingdom and mainly private individuals.

Loans and advances to customers – maximum exposure

	2017 £'000	2016 £'000
Neither past due nor impaired	1	15
Past due but not impaired	-	-
Impaired	-	4
Maximum exposure – loans and advances	1	19
Commitments to lend	-	-
Maximum credit exposure	1	19

15. Financial risk management (continued)

15.1 Credit risk (continued)

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

	2017 £'000	2016 £'000
Good quality	1	13
Satisfactory quality	-	2
Total	1	15

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.

Allowance for loans and advances to customers which are impaired

	2017 £'000	2016 £'000
Brought forward	4	5
Advances written off	(5)	-
Credit for year (including recoveries)	(2)	(3)
Recoveries of prior advances written off	3	2
At 31 December	-	4

All Loans and advances to customers are individually assessed for impairment.

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 (2016: £nil).

15.2 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy. In assessing business risk consideration is given to internal and external factors such as products, funding, resource capability and economic, political and regulatory factors.

Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary.

15.3 Financial strategy

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

15.4 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 considered to be level 2 in the valuation hierarchy as their fair value is 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 £1,000 (2016: £17,000).

Notes to the financial statements (continued)

For the year ended 31 December 2017

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

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2016: £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 2017 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 9 'Financial Instruments'	Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income 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 instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.	Annual periods beginning on or after 1 January 2018
Amendments to other accounting standards	The IASB has issued amendments to IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments.	Annual periods beginning on or after 1 January 2019

The full impact of these pronouncements is being assessed by the Company. However, the initial view is they are not expected to cause any material adjustments to the reported numbers in the financial statements.

20. Ultimate parent undertaking and controlling party

The immediate parent company is Black Horse Group Limited (incorporated in England and Wales). The company regarded by the directors as the ultimate parent company 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. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

Independent Auditors' report to the members of Lotus Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Lotus Finance Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2017; the Statement of comprehensive income, the Cash flow statement and the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on these responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

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.

Mark Ellis

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

13th September 2018