

# **Shogun Finance Limited**

Report and Accounts

**2021**

Member of Lloyds Banking Group

## Strategic report

For the year ended 31 December 2021

The directors present their Strategic report and the audited financial statements of Shogun Finance Limited (the "Company") for the year ended 31 December 2021.

### Business overview

The Company's result for the year shows a Profit before tax of £8,593,000 (2020: £7,055,000) and Net interest income of £9,571,000 (2020: £10,035,000).

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

### Future outlook

In July 2020 Mitsubishi Motors informed The Colt Car Company Limited (importer of Mitsubishi vehicles) of their intention to exit the new car market in the UK in 2021. Consequently, the Company has now ceased to on-board new retail finance agreements and provide dealer finance facilities. No changes have been made to the existing portfolio of retail customers, however, the value of the loans and advances to customers will reduce over time as a result of this decision.

Up until 12 October 2021, the Company was a joint venture arrangement between Spitalgate Dealer Services Limited and Black Horse Group Limited, a member of the Group. The joint venture shareholders' agreement between these two companies was terminated on 12 October 2021 and Black Horse Group Limited purchased the remaining shares of the Company. As a result, the Company became a wholly owned subsidiary of the Group.

Any adverse changes affecting the UK economy may have direct and indirect credit and operational exposures. Any further deterioration in global macroeconomic conditions, including as a result of geopolitical events, global health issues, including the COVID-19 pandemic or acts of war or terrorism, could have a material adverse effect on the Company's results.

The geopolitical implications of the conflict between Russia and Ukraine including the imposition of sanctions, could continue to have significant adverse economic effects on financial markets and on energy costs further exacerbating the cost of living crisis, all of which could have a material adverse effect on the Company's operations, financial condition or prospects.

### Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Lloyds Banking Group plc ("LBG"). While these risks are not managed separately for the Company, the Company is a main trading company of the Motor Finance business within the Retail Division. The Retail Division is a portfolio of businesses and operates in a number of specialist markets providing both consumer lending and contract hire to personal and corporate customers. Further details of these risks and the risk management policy are contained in note 19 to the financial statements.

Given the Company ceased to sell new business in September 2021, the Company has limited exposure to the global economic risks affecting other parts of the motor industry such as supply shortages.

The global pandemic from the outbreak of COVID-19 has caused disruption to financial markets and normal patterns of business activity across the world, including in the UK. Measures taken to contain the health impacts of the COVID-19 pandemic have resulted in adverse impacts on economic activity. These measures have now largely ended and the economic impact of the COVID-19 pandemic is not expected to have a material impact on the going concern of the Company.

### Key performance indicators ("KPIs")

The key performance metrics considered for the company are listed below:

KPI	2021	2020	Analysis
Net interest income (£'000)	9,571	10,035	The decrease in Net interest income continues to decline in line with the reducing loan book following the decision to cease selling new business during 2021.
Profit before tax (£'000)	8,593	7,055	The increase in Profit before tax is due to current year impairment gains compared with prior year losses associated with COVID-19 pandemic, partly offset by decreased Net interest income.
Loans and advances to customers (£'000)	135,914	215,066	The decrease in Loans and advances to customers is due to the Company ceasing to sell new business during 2021.
ECL coverage	1.22%	1.33%	ECL coverage represents both the Retail and Wholesale financing parts of the business. The Retail ECL coverage shows a decrease from prior year associated with 2021 improvement in impairment, but this is masked by the sharp reduction in Wholesale stocking balances from prior year relating to Company's decision to cease to sell new business during 2021.

## **Strategic report (continued)**

For the year ended 31 December 2021

### **Section 172(1) statement**

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2021, the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

### **Statement of engagement with employees and other stakeholders**

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the directors have engaged with, and had regard to, the interest of key stakeholders and employees. Black Horse Group Limited, a wholly owned subsidiary of LBG, holds all of the issued share capital. As such, the Company is controlled by the Retail Division and follows many of the processes and practices of the Group.

### **Customers**

The directors ensure the Company, as part of the Group, works toward achieving LBG's customer ambitions and is focussed on treating customers fairly. The Company is one of a number of companies within the Retail Division of the Group providing customers with motor vehicle finance and the directors work with colleagues within the division to understand areas where improvements to customer experience can be made. During the Public Health Crisis caused by the global pandemic, the Company has been able to support its customers by providing payment holidays for up to six months if requested, as well as providing dedicated phone lines with extended hours for customers over 70 years old and NHS workers.

The Company was an active participant in the broader Motor Finance initiatives. One of the enhancements in the digital journey for customers implemented enabled dealerships to continue to sell vehicles to customers during periods of lockdown, through the use of the SignAnywhere application which supported the 'Click and Collect' services that dealers were able to offer, by allowing customers to review and sign finance agreements anywhere at anytime.

### **Employees**

As part of the Group, the Company's approach to employee matters and employee engagement is aligned to that of the Group, where colleagues take pride in working for an inclusive and diverse organisation which continues to work towards building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. In 2019, the LBG Board agreed how LBG, including the Company, would engage the workforce, this has remained unchanged during the year. The definition of 'workforce', as agreed by the LBG Board is permanent employees, contingent workers and third-party suppliers that work on LBG premises delivering services to customers and supporting key business operations.

### **Shareholders**

Since the 12 October 2021, the Company is wholly owned by Black Horse Group Limited, a wholly owned subsidiary of LBG. The directors ensure that the strategy, priorities, processes and practices of the Company are aligned to the requirements of the Group. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic report within the LBG Annual Report and Accounts for 2020, which does not form part of this report, available on the LBG website.

### **Communities and the environment**

Whilst the Company has limited physical presence, the financing of motor vehicles impacts on both the community and the environment. The Company continues to explore ways to contribute to the LBG target of reducing carbon emissions financed by the Group by 50% by 2030. In addition, the Company continues to support LBG's initiatives, including Helping Britain Recover by actively managing its current loan book.

### **Regulators**

The Company is regulated by the Financial Conduct Authority ("FCA") as part of its regulation of the broader activity of the Group. As set out within the customer section above, a key focus for the Company is treating customers fairly. The approach of the Group, including that of the Company, to managing regulatory change is detailed within the LBG Annual Report and Accounts for 2020, which does not form part of this report, available on the LBG website.

## **Strategic report (continued)**

For the year ended 31 December 2021

### **Section 172(1) statement (continued)**

#### ***How stakeholder interest has influenced decision making***

The directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to the shareholders' agreement, is to effectively manage its customer base to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct.

During 2020 an area of particular focus for the directors has been to steer through the challenges we have faced into as a result of the COVID-19 pandemic, from both an operational and customer perspective, ensuring alignment with guidance from Lloyds Banking Group plc and Regulators. Further to this, in July 2020 Mitsubishi Motors informed The Colt Car Company Limited (importer of Mitsubishi vehicles) of their intention to exit the new car market in the UK in 2021. Consequently, the Company will cease to on-board new retail finance agreements and provide dealer finance facilities past an agreed date in 2021, no changes will be made to the existing portfolio of retail customers.

#### ***Emerging risks***

The key emerging risks for the Company relates to how the economy recovers from the ongoing uncertainty from the global pandemic as outlined above coupled with the political and economic fall out from the crisis in the Ukraine, leading to inflationary pressures within the UK. There continues to be the potential for operational risk to develop in the areas of cyber fraud, people, technology and operational resilience, and where there is reliance on third-party suppliers. The Company has developed increased agility and resiliency to ensure the continued support of colleagues and customers.

#### ***General***

The directors do not consider there to be any further material issues which need to be included in the Strategic report.

Approved by the board of directors and signed on its behalf by:



R A Jones  
**Director**

7 June 2022

## Directors' report

For the year ended 31 December 2021

The directors present their report for the year ended 31 December 2021.

### General information and Business overview

The Company is a private company, limited by shares, incorporated in the United Kingdom and registered and domiciled in England and Wales (registered number: 01963821). The directors in office are listed further in this report and the Company Secretary is D D Hennessey.

The Company provided a range of hire purchase and finance lease products and short term finance for forecourt and consignment stock, generally in connection with financing of Mitsubishi motor cars. New business ceased in September 2021 and so the Company continues to manage all existing customer agreements only. Historically the Company also offered personal loans.

The Company was set up as a joint arrangement ("the Joint Arrangement") between Black Horse Group Limited and Spitalgate Dealer Services Limited, which is a subsidiary of Mitsubishi Corporation ("the Mitsubishi Group"). On 12 October 2021, the shareholders elected to terminate the joint arrangement and Black Horse Group Limited purchased all other shares in the Company. As such, the Company is wholly owned by Black Horse Group Limited.

### Dividends

A dividend of £10,122,016 (2020: £5,400,000), representing a dividend of £1,012 per share (2020: £540), was declared and paid during the year (2020: declared during the year and paid after the year end).

### Going concern

The Directors are satisfied that the financial statements have been prepared on a going concern basis taking into account the following:

- Although the Company ceased to sell new business during the year, it is in a net asset position and will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on further funding as required from its parent, Black Horse Group Limited.
- That it is the intention of Black Horse Group Limited, to continue to provide adequate access to liquidity for the foreseeable future.

### Directors

The current directors of the Company are listed below.

R A Jones  
J McCaffrey  
I S Perez

The following changes have also taken place between the beginning of the reporting period and the approval of the Report and accounts:

P A Brigden	(resigned 30 September 2021)
H Machimura	(resigned 12 October 2021)
D W Ramsey	(resigned 12 October 2021)

### Registered office

The Company's registered office is St William House, Tresillian Terrace, Cardiff, CF10 5BH.

### Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report.

### Statement of engagement with employees and other stakeholders

A statement of Engagement with Employees and other Stakeholders is included in the Strategic report page 2.

## Directors' report (continued)

For the year ended 31 December 2021

### Directors' indemnities

LBG has granted to the directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed were 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. 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 deed 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 Group directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of the LBG. In addition, the Group has in place appropriate Group Directors and Officers Liability Insurance cover which was in place throughout the financial year.

### Climate change

The Company is out of scope of the Streamlined Energy and Carbon Reporting ("SECR"), as it does not have to report on SECR in its own Directors' report where included in the Group SECR statement of a UK Group report. Further information in respect of SECR is included within the LBG Annual Report and Accounts for 2021, which does not form part of this report, available on the LBG website.

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and the financial statements 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 Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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;
- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 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.

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.

### Auditors and disclosure of information to auditor

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the 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
- they have 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.

### Independent auditor

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

Approved by the board of directors and signed on its behalf by:



R A Jones  
Director

7 June 2022

## Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest income		11,235	13,272
Interest expense		(1,664)	(3,237)
<b>Net interest income</b>	3	<b>9,571</b>	10,035
Fee and commission income	4	312	412
Credit impairment gains/(losses)	5	1,187	(1,353)
Market impairment gains/(losses)	6	(122)	174
Other operating expenses	7	(2,355)	(2,213)
<b>Profit before tax</b>		<b>8,593</b>	7,055
Taxation	10	(1,599)	(1,323)
<b>Profit for the year, being total comprehensive income</b>		<b>6,994</b>	5,732

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

## Balance sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
<b>ASSETS</b>			
Trade and other receivables	12	4,500	1,715
Loans and advances to customers	13	135,914	215,066
Deferred tax asset	14	172	161
<b>Total assets</b>		<b>140,586</b>	216,942
<b>LIABILITIES</b>			
Borrowed funds	15	133,309	201,116
Trade and other payables	16	22	1,588
Current tax liability		2,927	1,317
Provision for liabilities and charges	17	170	235
<b>Total liabilities</b>		<b>136,428</b>	204,256
<b>EQUITY</b>			
Share capital	18	10	10
Retained earnings		4,148	12,676
<b>Total equity</b>		<b>4,158</b>	12,686
<b>Total equity and liabilities</b>		<b>140,586</b>	216,942

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:



R A Jones  
Director

7 June 2022

## Statement of changes in equity

For the year ended 31 December 2021

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
<b>At 1 January 2020</b>	10	6,944	6,954
Profit for the year, being total comprehensive income		5,732	5,732
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<b>At 31 December 2020</b>	<b>10</b>	<b>12,676</b>	<b>12,686</b>
Profit for the year, being total comprehensive income		6,994	6,994
Dividend paid to equity holders of the Company (see note 11)	-	(15,522)	(15,522)
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<b>At 31 December 2021</b>	<b>10</b>	<b>4,148</b>	<b>4,158</b>

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

## Cash flow statement

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
<b>Cash flows generated from operating activities</b>			
Profit before tax		8,593	7,055
Adjustments for:			
- Interest expense	3	1,664	3,237
- Decrease in Provision for liabilities and charges	-	(65)	(115)
Changes in operating assets and liabilities:			
- Net decrease in Loans and advances to customers	13	79,152	28,517
- Net (increase)/decrease in Trade and other receivables	12	(2,785)	1,181
- Net (decrease)/increase in Trade and other payables	16	(1,566)	1,549
<hr/>			
<b>Cash generated from operations</b>		<b>84,993</b>	<b>41,424</b>
Tax paid		-	(1,548)
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Net cash generated from operating activities		<b>84,993</b>	<b>39,876</b>
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<b>Cash flows used in financing activities</b>			
Repayment of net borrowings with group undertakings	15	(67,807)	(36,639)
Dividends paid	11	(15,522)	-
Interest paid	3	(1,664)	(3,237)
<hr/>			
Net cash used in financing activities		<b>(84,993)</b>	<b>(39,876)</b>
<hr/>			
<b>Change in Cash and cash equivalents</b>		-	-
Cash and cash equivalents at beginning of year		-	-
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<b>Cash and cash equivalents at end of year</b>		-	-

There are no cash flow movements going through investing activities.

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 2021

### 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.

The financial statements of the Company comply with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board. IFRS comprises 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 and its predecessor body.

In preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

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

- (i) Minor amendments to other accounting standards: The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

The application of this pronouncement has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2021 and which have not been applied in preparing these financial statements are given in note 24. No standards have been early adopted.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in pounds sterling, which is the Company's functional and presentational currency.

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

##### Interest income and expense 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 gross carrying amount of the financial asset (before accounting for expected credit losses) or the amortised cost of the financial liability.

Once a financial asset or a group of similar financial assets has become credit impaired, interest income is recognised on the net lending balance (after deducting the allowance for expected credit losses) 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.

Assets leased to customers under Personal Contract Purchase ("PCP") agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 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.

##### Fees and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate are generally recognised in the Statement of comprehensive income on an accruals basis when the service has been provided.

#### 1.3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers, Amounts due from related undertakings, Amounts due from group undertakings, Other debtors and Other assets. Financial liabilities comprise Amounts due to group undertakings and Trade and other payables.

On initial recognition, financial assets are classified and measured at amortised cost.

The Company initially recognises financial assets and liabilities when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Payment holidays of up to six months were offered to customers up until 31 March 2021 as a response to the COVID-19 pandemic. Interest accumulated during this period is charged at the end of the contract.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

#### 1.4 Impairment

##### (i) Impairment of financial assets

###### Credit losses

###### Loans and advances to customers

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses and certain fraud write offs and recoveries. Expected credit losses are recognised for loans and advances to customers and other financial assets held at amortised cost, together with any loan commitments. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default ("PD"), adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any repayments and including the impact of discounting using the effective interest rate.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 1. Accounting policies (continued)

#### 1.4 Impairment (continued)

##### (i) Impairment of financial assets (continued)

###### Credit losses (continued)

###### Impairment of loans and advances

At initial recognition, allowance (or provision) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. The collective assessment of impairment aggregates financial instruments with similar risk characteristics.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators and other indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensure alignment between the assessment of staging and the Company's management of credit risk which utilises these internal metrics within risk management practices. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due.

The use of a payment holiday in itself has not been judged to indicate a significant increase in credit risk, with the underlying long-term credit risk deemed to be driven by economic conditions and captured through the use of forward-looking models. These portfolio level models are capturing the anticipated volume of increased defaults and therefore an appropriate assessment of staging and expected credit loss. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. The Company uses the IFRS 9 rebuttable presumption that default occurs no later than when a payment is 90 days past due. The use of payment holidays is not considered to be an automatic trigger of regulatory default and therefore does not automatically trigger Stage 3. Days past due will not accumulate on any accounts that have taken a payment holiday including those already past due.

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit impaired (for a return to Stage 2). On renegotiation the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate. Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

The probability of default ("PD") of an exposure, both over a 12 month period or over its lifetime is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The Company has adopted the following definition of default for all its retail products:

- factors indicating an unwillingness to pay, such as bankruptcy or other financial hardship support, e.g. individual voluntary arrangements; or
- a payment is past due by 90 days.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of credit impairment losses recorded in the Statement of comprehensive income. The write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 1. Accounting policies (continued)

#### 1.4 Impairment (continued)

##### (i) Impairment of financial assets (continued)

###### Credit losses (continued)

###### Impairment of other financial assets

Under IFRS 9 at initial recognition, allowance is made for expected losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected losses resulting from all possible default events over the expected life of the asset.

Other financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; other financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and other financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

##### (ii) Market losses

Included within Loans and advances to customers are certain hire purchase contracts referred to as PCP) agreements. Under the terms of these agreements, customers have the option to either purchase the leased vehicle at the end of the lease term for a pre-agreed sum (the "pre-agreed residual value") or to return the vehicle for sale by the Company at auction. As a result the Company is exposed to market risk arising from changes in the residual value of the vehicles financed under the terms of PCP arrangements.

Voluntary Terminations ("VTs") are a right of customers of PCP and hire purchase agreements under the Consumer Credit Act 1974, section 99 to end an agreement early and return the asset. A VT may occur at any time after 50% of the total amount payable has been paid by the customer. A VT is subject to market losses.

If there is objective evidence that a market 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 recovery and sale of collateral, less any costs incurred. The provision calculation also considers the likelihood that a customer may voluntarily terminate based on the predicted level of loss during the period of eligibility.

##### (iii) Allowance for Credit impairment losses

The calculation of the Group's expected credit loss ("ECL") allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. Key judgements include determining an appropriate definition of default against which a probability of default, exposure at default and loss given default parameter can be evaluated, the appropriate life time of an exposure to credit risk for the assessment of lifetime losses, the use of management judgements alongside impairment modelling processes to adjust inputs, parameters and outputs to reflect risks not captured by models; and key estimates include base case and multiple economic scenarios ("MES") assumptions, including the rate of unemployment. The most significant are set out below.

###### Definition of default

The probability of default ("PD") of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in note 1.4 (i) Impairment.

###### Lifetime of an exposure

The PD of a financial asset is dependent on its expected life using the full contractual life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. For Loans and advances to customers, the Company has assumed the expected life for each product to be the time taken for all losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company. The assessment of significant increase in credit risk ("SICR") and corresponding lifetime loss, and the PD, of a financial asset designated as Stage 2, or Stage 3, is dependent on its expected life.

In addition, for non-retail ("wholesale") lending, the Company has considered the losses beyond the contractual term over which the Company is exposed to credit risk.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 1. Accounting policies (continued)

#### 1.4 Impairment (continued)

##### (iii) Allowance for Credit impairment losses

Significant increase in credit risk - retail

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition. Credit impaired assets are transferred to Stage 3 with a lifetime expected losses allowance.

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. For retail loans, either (i) a deterioration of three PD grades from the grade in which the account was originated, or (ii) a deterioration of three PD grades within the last twelve months, is considered a SICR. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due. Financial assets are classified as credit-impaired if they are 90 days past due.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.

The use of a payment holiday in and of itself has not been judged to indicate a significant increase in credit risk, nor forbearance, with the underlying long-term credit risk deemed to be driven by economic conditions and captured through the use of forward-looking models. These portfolio level models are capturing the anticipated volume of increased defaults and therefore an appropriate assessment of staging and expected credit loss.

Significant increase in credit risk - non-retail

The Company monitors a series of account flags which may indicate whether the asset has suffered a SICR which, for non-retail loans, are aligned to operational credit risk management strategies.

All financial assets are assumed to have suffered a SICR if they are more than 30 days past due. Financial assets are classified as credit-impaired if they are 90 days past due.

Staging rules

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's individual characteristics and performance. Management used various information sources, including observed account performance and other credit data available for the lifetime of the asset. The use of proxies and simplifications is not considered to materially impact the ECL allowance.

Generation of Multiple Economic Scenarios ("MES")

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In addition to a defined base case, as used for planning, the Company's approach relies on model-generated scenarios, reducing scope for bias in the selection of scenarios and their weightings. The assumptions underpinning the base case scenario reflect the Company's best view of future events. The base case is therefore central to the range of outcomes created as no alternative assumptions are factored into the model-generated scenarios.

The Company models a full distribution of economic scenarios around this base case, ranking them using estimated relationships with industry-wide historical loss data. The full distribution is summarised by a practical number of scenarios to run through ECL models representing four sections: an upside, the base case, and a downside scenario weighted at 30 per cent each, with a severe downside scenario weighted at 10 per cent. With the base case already pre-defined, the other three scenarios are constructed as averages of constituent modelled scenarios around the 15th, 75th and 95th percentiles of the distribution. The scenario weights therefore represent the allocation to each summary segment of the distribution and not a subjective view on likelihood.

Base Case and MES Economic Assumptions

The Company's base case economic scenario has continued to be revised in light of the impact of the COVID-19 pandemic in the UK and globally. The scenario reflects judgements of the net effect of government-mandated restrictions on economic activity, large-scale government interventions, and behavioural changes by households and businesses that may persist beyond the rollout of vaccination programmes.

Application of adjustment in adjustments to modelled ECL

Limitations in the Company's impairment models or data inputs, may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Company's allowance for impairment losses to ensure that the overall provision adequately reflects all material risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model overlays.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 1. Accounting policies (continued)

#### 1.4 Impairment (continued)

##### (iii) Allowance for Credit impairment losses (continued)

Judgements are not typically assessed under each distinct economic scenario used to generate ECL, but instead are applied on the basis of final modelled ECL which reflects the probability weighted view of all scenarios. All adjustments are reviewed quarterly and are subject to internal review and challenge to ensure that amounts are appropriately calculated.

#### 1.5 Dividends paid

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

#### 1.6 Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Statement of comprehensive income 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 Statement of comprehensive income (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.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the Balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 1. Accounting policies (continued)

#### 1.7 Retirement benefit obligations

##### Defined contribution

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

##### Defined benefit

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. All active members of the Group's defined benefit pension plans are employed by other companies in the Group. Accordingly, the risk associated with the operation of the plans lies with other companies. The Company is recharged by a fellow group undertaking an amount equal to the cash contributions made in respect of the relevant employees included within the LBG Annual Report and Accounts for 2020, which does not form part of this report, available on the LBG website.

#### 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 judgements and key sources of estimation uncertainty

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.

The following are the critical accounting judgements and key sources of estimation uncertainty that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

##### Allowance for Market impairment losses

As set out in note 20.3 the Company's leasing arrangements expose it to market risk in the form of motor vehicle residual value primarily relating to the PCP product and to customer voluntary termination. In order to assess an impairment loss relating to these risks the directors use assumptions to reassess the likely future value of the vehicles financed. The used car market in the UK is mature with prices dependent upon a broad range of economic and vehicle specific factors. These factors are taken into consideration by means of the data provided by market specialists, overlaid with adjustment to reflect Company specific knowledge and experience. The expected market price determined in this manner impacts upon the extent to which customers are expected to return vehicles either at the end of the contract or, in the case of voluntary terminations, during the term of the contract. In order to assess the level of expected returns associated with the assessed future value of the vehicles financed, the Company references historic experience of actual returns.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 2. Critical accounting judgements and key sources of estimation uncertainty (continued)

#### Allowance for Market impairment losses (continued)

Whilst the likely future used car prices are determined based on management's best estimate, it is possible that the actual outcome will be different therefore this is considered to be a key source of estimation uncertainty. The market risk provision included within the accounts is £722,000 (2020: £716,000).

The relationship between used car prices and the level of provision required is non-linear, due to the impact of a customer's assessment of the options available in the context of an assessment of the outstanding finance on a vehicle compared with its market value. Accordingly, set out below is an indication of the sensitivity of the market risk provision to a number of potential changes in the average future price of used cars:

	1pp		2pp		5pp	
	Increase £'000	Decrease £'000	Increase £'000	Decrease £'000	Increase £'000	Decrease £'000
Allowance for market losses	(72)	76	(138)	158	(298)	435

Market risk provision is sensitive to movements in the used car market, impacting both the likelihood of the customer returning the vehicle and the potential loss on the vehicles once sold. As part of the year-end provision review a number of sensitivities were considered for the forward view of the used car market, with a blended view of these sensitivities generating the current provision requirement. This was done to protect against the expected future volatility in the used car market and more specifically if values fall quicker/further than the current expectation.

#### ECL sensitivity to economic assumptions

The table below shows the Company's Allowance for Loans and advances to customers for the upside, base case, downside and severe downside scenarios. The table includes both allowance for credit risk and market risk, but this analysis is to evaluate the ECL sensitivity in each economic scenario. The stage allocation for an asset is based on the overall scenario probability-weighted PD and, hence, the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments and post-model adjustments is constant reflecting the basis on which they are evaluated. Judgements applied through changes to inputs are reflected in the scenario sensitivities. The probability-weighted view shows the extent to which a higher ECL has been recognised to take account of multiple economic scenarios relative to the base case.

Allowance for Loans and advances to customers

	Probability-weighted £'000	Upside £'000	Base £'000	Downside £'000	Severe downside £'000
<b>2021</b>	<b>2,402</b>	<b>2,332</b>	<b>2,382</b>	<b>2,441</b>	<b>2,554</b>
2020	2,965	2,903	2,945	3,003	3,097

### 3. Net interest income

	2021 £'000	2020 £'000
<b>Interest income</b>		
From finance lease and hire purchase contracts	10,953	12,623
From other loans and advances	282	649
	<b>11,235</b>	13,272
<b>Interest expense</b>		
Group interest expense (see note 19)	(1,664)	(3,237)
	<b>9,571</b>	10,035

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 4. Fee and commission income

	2021 £'000	2020 £'000
Loan fees receivable	312	412

### 5. Credit impairment (gains)/losses

31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Transfers between stages	(17)	-	381	364
Other changes in credit quality	43	(256)	(85)	(298)
Additions/(repayments)	(328)	(646)	(279)	(1,253)
	(302)	(902)	17	(1,187)

#### In respect of:

Loans and advances to customers	(251)	(902)	17	(1,136)
Undrawn loan commitments	(51)	-	-	(51)
	(302)	(902)	17	(1,187)

31 December 2020	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Transfers between stages	(174)	412	597	835
Other changes in credit quality	731	202	98	1,031
Repayments	(556)	131	(88)	(513)
	1	745	607	1,353

#### In respect of:

Loans and advances to customers	(29)	745	607	1,323
Undrawn loan commitments	30	-	-	30
	1	745	607	1,353

### 6. Market impairment (gains)/losses

	2021 £'000	2020 £'000
Brought forward at 1 January	716	999
Utilised during the year	(116)	(109)
Charge/(credit) for the year	122	(174)
Carried forward at 31 December (see note 13)	722	716

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 7. Other operating expenses

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Staff costs (see note 8)	<b>1,042</b>	623
Management charges payable (see note 19)	<b>1,138</b>	1,448
Other operating expenses	<b>175</b>	142
	<b>2,355</b>	2,213

Fees payable to the Company's auditors for the audit of the financial statements of £23,625 (2020: £22,500) have been borne by a fellow group undertaking and are recharged to the Company (2020: 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 charges.

### 8. Staff costs

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Wages and salaries	<b>470</b>	480
Social security costs	<b>56</b>	61
Redundancy costs	<b>280</b>	-
Other pension costs	<b>236</b>	82
	<b>1,042</b>	623

The average monthly number of employees during the year was 7 (2020: 10). As at 31 December 2021, the number of employees is two (2020: 10). All staff are located in the United Kingdom and provide management, administration and sales support. All staff contracts of service are with Lloyds Bank Asset Finance Limited. However, the staff costs shown above were paid by the Company in respect of staff identified as providing services to the Company. Other pension costs comprise solely costs for defined contribution schemes.

### 9. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2020: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within these organisations.

Up until 12 October 2021 the Company also had directors employed by companies controlled by Spitalgate Dealer Services Limited and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 19).

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 10. Taxation

	2021 £'000	2020 £'000
<b>a) Analysis of charge for the year</b>		
UK corporation tax:		
- Current tax on taxable profit for the year	1,610	1,317
- Adjustments in respect of prior years	-	1
<b>Current tax charge</b>	<b>1,610</b>	<b>1,318</b>
UK deferred tax:		
- Origination and reversal of timing differences	23	24
- Impact of deferred tax rate change	(34)	(19)
<b>Deferred tax (credit)/charge (see note 14)</b>	<b>(11)</b>	<b>5</b>
<b>Tax charge</b>	<b>1,599</b>	<b>1,323</b>

Corporation tax is calculated at a rate of 19.00% (2020: 19.00%) of the taxable profit for the year.

#### b) Factors affecting the tax charge for the year

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

	2021 £'000	2020 £'000
Profit before tax	8,593	7,055
Tax charge thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	1,633	1,340
Factors affecting charge:		
- Effect of change in tax rate and related impacts	(34)	(19)
- Disallowed and non-taxable items	-	1
- Adjustments in respect of prior years	-	1
<b>Tax charge on profit on ordinary activities</b>	<b>1,599</b>	<b>1,323</b>
<b>Effective rate</b>	<b>18.61%</b>	<b>18.75%</b>

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

### 11. Dividends

A dividend of £10,122,016 (2020: £5,400,000), representing a dividend of £1,012 per share (2020: £540), was declared and paid during the year (2020: declared during the year and paid after the year end).

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 12. Trade and other receivables

	2021 £'000	2020 £'000
Amounts due from related undertakings (see note 19)	-	264
Amounts due from group undertakings (see note 19)	119	-
Other debtors	4,281	1,346
Other assets	100	105
	<b>4,500</b>	<b>1,715</b>

Amounts due from related undertakings is unsecured, non-interest bearing and repayable on demand. There is no ECL provision held in respect of Amounts due from related undertakings. Other debtors are all due within one year.

At 31 December 2021, the Company recognised an asset of £100,000 (2020: £105,000) in respect of indemnities from Black Horse Limited in relation to PPI (see note 17).

### 13. Loans and advances to customers

#### 13.1 Loans and advances to customers - maturity

	2021 £'000	2020 £'000
Advances under finance lease and hire purchase contracts	138,310	186,065
Personal loans to customers	5	31
Other loans and advances to customers	2	32,589
	<b>138,317</b>	<b>218,685</b>
Gross loans and advances to customers	<b>138,317</b>	<b>218,685</b>
Less: allowances for Credit losses on loans and advances	<b>(1,681)</b>	<b>(2,903)</b>
Less: allowances for Market losses on loans and advances	<b>(722)</b>	<b>(716)</b>
	<b>135,914</b>	<b>215,066</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 13. Loans and advances to customers (continued)

#### 13.1 Loans and advances to customers - maturity (continued)

	2021 £'000	2020 £'000
of which:		
Due within one year	52,027	93,176
Due after one year	83,887	121,890
	<b>135,914</b>	215,066

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

	2021 £'000	2020 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	58,127	69,135
- later than one year and no later than two years	43,300	64,662
- later than two years and no later than three years	33,819	42,092
- later than three years and no later than four years	15,186	27,731
- later than four years and no later than five years	1,404	3,365
- later than five years	11	8
	<b>151,847</b>	206,993
Unearned future finance income on finance lease and hire purchase contracts	<b>(13,537)</b>	(20,928)
Net investment in finance lease and hire purchase contracts	<b>138,310</b>	186,065

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

	2021 £'000	2020 £'000
- no later than one year	52,944	62,145
- later than one year and no later than two years	39,440	58,124
- later than two years and no later than three years	30,805	37,836
- later than three years and no later than four years	13,833	24,927
- later than four years and no later than five years	1,279	3,025
- later than five years	9	8
	<b>138,310</b>	186,065

The Company provides a range of finance lease products in connection with the financing of motor vehicles and equipment. The leases typically run for periods of between 3 and 5 years.

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2020: £nil).

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 13. Loans and advances to customers (continued)

#### 13.2 Loans and advances to customers - movement over time

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2021	189,666	26,807	2,212	218,685
Transfers to Stage 1	5,588	(5,585)	(3)	-
Transfers to Stage 2	(11,947)	12,048	(101)	-
Transfers to Stage 3	(1,060)	(886)	1,946	-
Net decrease in loans and advances to customers	(65,249)	(12,656)	(2,133)	(80,038)
Financial assets that have been written off during the year	-	-	(363)	(363)
Reinstatement of provisions previously written off	-	-	33	33
<b>Gross loans and advances to customers</b>	<b>116,998</b>	<b>19,728</b>	<b>1,591</b>	<b>138,317</b>
Less: allowances for Credit losses on loans and advances	(232)	(548)	(901)	(1,681)
Less: allowances for Market losses on loans and advances	(614)	(108)	-	(722)
<b>Net loans and advances to customers</b>	<b>116,152</b>	<b>19,072</b>	<b>690</b>	<b>135,914</b>

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2020	222,117	22,209	2,044	246,370
Transfers to Stage 1	5,230	(5,230)	-	-
Transfers to Stage 2	(14,032)	14,090	(58)	-
Transfers to Stage 3	(1,410)	(1,110)	2,520	-
Net decrease in loans and advances to customers	(22,239)	(3,152)	(1,831)	(27,222)
Financial assets that have been written off during the year	-	-	(493)	(493)
Reinstatement of provisions previously written off	-	-	30	30
<b>Gross loans and advances to customers</b>	<b>189,666</b>	<b>26,807</b>	<b>2,212</b>	<b>218,685</b>
Less: allowances for Credit losses on loans and advances	(385)	(1,432)	(1,086)	(2,903)
Less: allowances for Market losses on loans and advances	(642)	(74)	-	(716)
<b>Net loans and advances to customers</b>	<b>188,639</b>	<b>25,301</b>	<b>1,126</b>	<b>215,066</b>

### 14. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2021 £'000	2020 £'000
At 1 January	161	166
Credit/(charge) for the year (see note 10)	11	(5)
<b>At 31 December</b>	<b>172</b>	<b>161</b>

The deferred tax credit/(charge) in the Statement of comprehensive income comprises the following temporary differences:

	2021 £'000	2020 £'000
Accelerated capital allowances	-	(1)
Other temporary differences	11	(4)
	<b>11</b>	<b>(5)</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 14. Deferred tax asset (continued)

Deferred tax asset comprises:	<b>2021</b>	2020
	<b>£'000</b>	£'000
Accelerated capital allowances	11	11
Other temporary differences	161	150
	<b>172</b>	161

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

At the balance sheet date, a deferred tax asset of £172,000 has been recognised (2020: £161,000) based on the expectation that the company will be able to benefit from group relief with connected companies.

### 15. Borrowed funds

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Amounts due to group undertakings (see note 19)	133,309	201,116

Amounts due to group undertakings is unsecured and repayable on demand, although there is no expectation that such a demand would be made. During 2020 the Group revised its approach to internal funding by adopting the Sterling Overnight Index Average ("SONIA") interest rate benchmark instead of LIBOR. Amounts due to Black Horse Limited of £133,309,000 (2020: £201,025,000) are interest bearing at variable rates based on the SONIA plus a margin. All other Amounts due from other group entities are non-interest bearing.

### 16. Trade and other payables

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Other payables	22	1,588

Trade and other payables include cash in transit of £nil (2020: £1,548,000). Other payables are all due within one year.

### 17. Provision for liabilities and charges

	Undrawn loan commitments	Payment protection insurance	Total
	£'000	£'000	£'000
At 1 January 2020	32	318	350
Charge for the year (see note 5)	30	-	30
Utilised under indemnity from Black Horse Limited	-	(26)	(26)
Utilised during the year	-	(119)	(119)
At 31 December 2020	62	173	235
Credit for the year (see note 5)	(51)	-	(51)
Utilised under indemnity from Black Horse Limited	-	(5)	(5)
Utilised during the year	-	(9)	(9)
<b>At 31 December 2021</b>	<b>11</b>	<b>159</b>	<b>170</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 17. Provision for liabilities and charges (continued)

As at 31 December 2021, the Company carried a provision of £11,000 (2020: £62,000) for expected credit losses on undrawn loan commitments.

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. Black Horse Limited has agreed to indemnify retrospectively PPI claims that meet certain criteria. As at 31 December 2021, the Company has provided £159,000 (2020: £173,000) against all PPI claims of which an amount of £100,000 (2020: £105,000) is indemnified by Black Horse Limited (see note 12).

### 18. Share capital

	2021 £'000	2020 £'000
<b>Allotted, issued and fully paid</b>		
4,999 "A" ordinary shares of £1 each	5	5
5,001 "B" ordinary shares of £1 each	5	5

At 31 December 2021, the authorised share capital of the Company was £10,000 divided into 4,999 "A" ordinary shares of £1 each and 5,001 "B" ordinary shares of £1 each.

The "A" ordinary shares 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. On 12 October 2021, Black Horse Group Limited is the sole owner of all of the "A" ordinary shares and all of the "B" ordinary shares.

### 19. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. A summary of the outstanding balances at the year end and the related expense for the year is set out below.

	2021 £'000	2020 £'000
<b>Amounts due from related undertakings</b>		
The Colt Car Company (see note 12)	-	264
<b>Amounts due from group undertakings</b>		
Lloyds Bank plc (see note 12)	119	-
<b>Amounts due to group undertakings</b>		
Black Horse Limited	133,309	201,024
Lloyds Bank plc	-	92
Total Amounts due to group undertakings (see note 15)	133,309	201,116
<b>Interest expense</b>		
Black Horse Limited (see note 3)	1,664	3,237
<b>Management charges payable</b>		
Black Horse Limited	864	1,018
Spitalgate Dealer Services Limited	274	430
Total Management charges payable (see note 7)	1,138	1,448
<b>Staff costs recharge</b>		
Black Horse Limited (see notes 7 and 8)	1,042	623

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.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 19. Related party transactions (continued)

Spitalgate Dealer Services Limited and The Colt Car Company Limited are both subsidiary undertakings of the Mitsubishi Group.

Up until 12 October 2021 Spitalgate Dealer Services Limited, as the external member of the Joint Arrangement, invoiced the Company for its share of service and administration costs.

The Colt Car Company Limited, which manages the UK Car network for the Mitsubishi Group, paid the Company commission in the form of manufacturing subsidies. Subsidy payments of £399,000 (2020: £538,000) received during the year from The Colt Car Company Limited and are being amortised in accordance with the EIR methodology.

#### 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 comprises the directors of the Company, the directors of the Retail 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 up until 12 October 2021 Mitsubishi Group) and consider that their services to the Company are incidental to their other activities within those groups.

### 20. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, market risk, interest rate risk and business risk; it is not exposed to any significant 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 Division, and the ultimate parent, Lloyds Banking Group plc. The interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by the Retail Division's credit committee and credit functions. Market risk is managed by the Company through the terms negotiated in commercial agreements and management regularly reviewing its portfolio of leases for impairment. Business risk is managed through regular reporting and oversight.

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

#### 20.1 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 Loans and advances to customers is managed through the application of strict underwriting criteria, determined by the Retail Division's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for all losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in notes 1.4 and 2.

For loans and advances, credit risk arises both from amounts lent and commitments to extend credit to a customer, principally loan commitments.

Amounts due from other group undertakings are held with other companies within the Group. These financial assets and Amounts due from related undertakings are considered to be good quality.

##### 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 product area credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Retail 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 20. Financial risk management (continued)

#### 20.1 Credit risk (continued)

##### Credit concentration - Loans and advances to customers

The Company lends predominantly to individual 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 - gross carrying amount

The analysis of lending has been prepared by applying the Group's rating scales to the Company's impairment model. The internal credit ratings systems are set out below. The Group's probabilities of default ("PD"s), that have been applied, include forward-looking information and are based on 12 month values, with the exception of credit impaired.

At 31 December 2021

##### Gross loans and advances to customers - Loan Quality

	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<b>Retail</b>					
RMS 1-6	0.00-4.50%	116,728	14,904	-	131,632
RMS 7-9	4.51-14.00%	268	2,612	-	2,880
RMS 10	14.01-20.00%	-	819	-	819
RMS 11-13	20.01-99.99%	-	1,393	-	1,393
RMS 14	100%	-	-	1,591	1,591
<b>Total</b>		<b>116,996</b>	<b>19,728</b>	<b>1,591</b>	<b>138,315</b>

At 31 December 2021

##### Gross loans and advances to customers - Loan Quality

	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<b>Wholesale</b>					
CMS 1-10	0.00-0.050%	2	-	-	2
CMS 11-14	0.051-3.00%	-	-	-	-
CMS 15-18	3.01-20.00%	-	-	-	-
CMS 19	20.01-99.99%	-	-	-	-
CMS 20-23	100%	-	-	-	-
<b>Total</b>		<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>

**Loans and advances to customers**

**116,998                      19,728                      1,591                      138,317**

At 31 December 2020

##### Gross loans and advances to customers - Loan Quality

	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<b>Retail</b>					
RMS 1-6	0.00-4.50%	160,980	16,061	-	177,041
RMS 7-9	4.51-14.00%	380	3,457	-	3,837
RMS 10	14.01-20.00%	-	1,699	-	1,699
RMS 11-13	20.01-99.99%	53	1,688	-	1,741
RMS 14	100%	-	-	1,592	1,592
<b>Total</b>		<b>161,413</b>	<b>22,905</b>	<b>1,592</b>	<b>185,910</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 20. Financial risk management (continued)

#### 20.1 Credit risk (continued)

At 31 December 2020

Gross loans and advances to customers - Loan Quality

	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Wholesale					
CMS 1-10	0.00-0.050%	4,266	-	-	4,266
CMS 11-14	0.051-3.00%	19,107	-	-	19,107
CMS 15-18	3.01-20.00%	3,520	3,526	-	7,046
CMS 19	20.01-99.99%	1,360	376	-	1,736
CMS 20-23	100%	-	-	620	620
<b>Total</b>		<b>28,253</b>	<b>3,902</b>	<b>620</b>	<b>32,775</b>
Loans and advances to customers					
		189,666	26,807	2,212	218,685

#### Commitments to lend

At 31 December 2021

Gross loans and advances to customers - Loan Commitments

Wholesale	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 1-10	0.00-0.050%	1,989	-	-	1,989
CMS 11-14	0.051-3.00%	11,319	-	-	11,319
CMS 15-18	3.01-20.00%	161	-	-	161
CMS 19	20.01-99.99%	-	-	-	-
		<b>13,469</b>	<b>-</b>	<b>-</b>	<b>13,469</b>

At 31 December 2020

Gross loans and advances to customers - Loan Commitments

Wholesale	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 1-10	0.00-0.050%	5,055	-	-	5,055
CMS 11-14	0.051-3.00%	16,549	-	-	16,549
CMS 15-18	3.01-20.00%	8,924	-	-	8,924
CMS 19	20.01-99.99%	620	-	-	620
		<b>31,148</b>	<b>-</b>	<b>-</b>	<b>31,148</b>

Classifications of lending incorporate expected recovery levels, as well as probabilities of default assessed using internal rating models. Lower CMS ratings comprise good quality lending, which includes the lower assessed default probabilities and all loans with low expected losses in the event of default, with other ratings reflect progressively higher risks and lower expected recoveries.

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

Commitments to lend consist of undrawn formal standby facilities, credit facilities and other commitments to lend within The Colt Car Company Limited's dealership network.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 20. Financial risk management (continued)

#### 20.1 Credit risk (continued)

##### Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2021	385	1,432	1,086	2,903
Transfers to Stage 1	129	(127)	(2)	-
Transfers to Stage 2	(67)	126	(59)	-
Transfers to Stage 3	(15)	(159)	174	-
Impact of transfer between stages	(64)	161	268	365
Other items charged to the Statement of comprehensive income	(234)	(903)	(364)	(1,501)
Charge/(credit) for the year (including recoveries)	(251)	(902)	17	(1,136)
Advances written off	-	-	(363)	(363)
Recoveries of prior advances written off	98	18	33	149
Unwind of discount	-	-	128	128
<b>At 31 December 2021</b>	<b>232</b>	<b>548</b>	<b>901</b>	<b>1,681</b>
At 1 January 2020	318	675	795	1,788
Transfers to Stage 1	100	(100)	-	-
Transfers to Stage 2	(207)	236	(29)	-
Transfers to Stage 3	(20)	(105)	125	-
Impact of transfer between stages	(47)	382	500	835
Other items credited to the Statement of comprehensive income	145	332	11	488
Charge/(credit) for the year (including recoveries)	(29)	745	607	1,323
Advances written off	-	-	(491)	(491)
Recoveries of prior advances written off	96	12	30	138
Unwind of discount	-	-	145	145
At 31 December 2020	385	1,432	1,086	2,903
In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2020	32	-	-	32
Charge for year (including recoveries)	30	-	-	30
At 31 December 2020	62	-	-	62
Credit for year (including recoveries)	(51)	-	-	(51)
<b>At 31 December 2021</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>11</b>

##### Reposessed 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 reposessed collateral in respect of defaulted debt with a value of £nil (2020: £nil).

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 20. Financial risk management (continued)

#### 20.2 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.

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.

#### 20.3 Market risk

The terms of the Company's leasing arrangements expose it to market risk in respect of the residual value of the vehicles financed as follows:

##### PCP agreements

This is an arrangement which allows the borrower to return the vehicle to the Company or to pay the pre-agreed residual value to acquire title to the vehicle financed. As a result the Company is exposed to a risk of loss where the actual residual value falls below the pre-agreed residual value. The pre-agreed residual value is set by the pricing committee which includes members with significant knowledge and experience of the motor industry. Subsequently, residual values within the portfolio of vehicles are monitored by a residual value committee which meets on a regular basis to consider the exposure taking into account current and projected industry trends in addition to the Company's own risk management data (see note 1.4 ii) and note 2).

##### Voluntary terminations

There is legislation governing certain leasing arrangements that allows lessees to return the vehicle to the lessor, without liability, once they have paid more than 50% of the finance element of the agreement. As a result the Company is exposed to a risk that the residual value of a vehicle at the time that the lessee chooses to invoke this right to return the vehicle and cease payment is insufficient to cover the net book value of the loan receivable at that date. To mitigate against this risk the Company works with dealers to make sure that voluntary termination is the right approach for the customer. In addition, contracts include provisions for excess mileage charges. A provision is also held against any potential shortfall in market value as described in note 1.4 and note 2.

#### 20.4 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities.

Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

##### Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Amounts due to group undertakings and takes account of movement in the SONIA, which is the basis for the interest charged on such balances. A 0.14% increase or decrease (2020: 0.69%) is used to assess the possible change in Interest expense, as this is the actual movement in the SONIA rate across the year.

If the SONIA increased by 0.14% (2020: 0.69%) and all other variables remain constant this would increase Interest expense by £40,000 (2020: £234,000) and accordingly decrease Interest expense by £40,000 (2020: £234,000) if the SONIA decreased by the same amount.

#### 20.5 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. Business risk is considered to be limited since the Company ceased to sell new business in September 2021.

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

#### 20.6 Financial strategy

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

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 20. Financial risk management (continued)

#### 20.7 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 £143,102,000 (2020: £225,706,000).

### 21. 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 ultimate 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.

### 22. Contingent liabilities and capital commitments

There were no contingent liabilities at the Balance sheet date (2020: £nil).

The Company's undrawn formal standby facilities, credit facilities and other commitments to lend were £13,469,000 (2020: £31,148,000).

### 23. Post balance sheet events

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

### 24. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2021 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).	Annual periods beginning on or after 1 January 2021 and 1 January 2022

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

### 25. Ultimate parent undertaking and controlling party

The immediate parent company is Black Horse Group Limited. The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group 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 <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

# Independent auditor's report to the members of Shogun Finance Limited

## Report on the audit of the financial statements

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### Opinion

In our opinion the financial statements of Shogun Finance Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

## **Independent auditor's report to the members of Shogun Finance Limited (continued)**

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 accounts**

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 auditor's 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements, for example, the Companies Act 2006 ;and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty, for example, FCA regulation.

We discussed among the audit engagement team including relevant internal specialists such as tax, IT and credit specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

## **Independent auditor's report to the members of Shogun Finance Limited (continued)**

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- The risk that the electric vehicle overlay applied by management to reflect the uncertainty in used electric vehicle residual values within impairment calculations might not be appropriate and/or not reliably measured. Our work included:
  - Using independent market data to determine an expectation of the premium in used car values for electric vehicles over traditional internal combustion vehicles; and.
  - Considering market analysis, determine an independent range of potential outcomes for the exposure if electric vehicle and traditional vehicle used car prices converge over time.
- The risk that the volatility overlay applied by management to reflect risk in the used car residual values in determining provisions for residual value or voluntary termination losses might not be appropriate and/or reliably measured. Our work included:
  - Making inquiries of management to understand the composition and rationale for the overlays applied. Validating the data points used against sufficient and appropriate audit evidence.
  - Perform external market analysis to identify third party data and compare against those used by management to assess whether there is indication of bias or error; and.
  - Perform a retrospective analysis of used vehicle market fluctuations to assess the likelihood of the scenarios applied and develop an independent range of possible outcomes.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house / external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the FCA.

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

## **Independent auditor's report to the members of Shogun Finance Limited (continued)**

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark Taylor, FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Bristol, United Kingdom

7<sup>th</sup> June 2022