Black Horse Limited

Report and Accounts

2019

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2019

The directors present their Strategic report and the audited financial statements of Black Horse Limited (the "Company") for the year ended 31 December 2019.

Business overview

The business continues to grow Loans and Advances to customers, increasing by 33% (£2,966 million) to £12,048 million as at 31 December 2019. This is mainly driven by the portfolio starting to reach a mature mix of vintages since the exit from the agency agreement with its parent Lloyds Bank plc in 2017 with all new business now written directly in the Company. As a result of this growth, the underlying position reflects mainly volume increases across all lines in the Income statement with Net interest income up £131 million from prior year. In 2019, the Company has experienced two key financial events that have had a material impact against this underlying position. Firstly, an increase to the PPI provision of £229 million (see note 21), due to the unprecedented number of claims received in the final weeks before the deadline date of 29 August 2019. Secondly, the Residual value provision increased by £41 million reflecting the performance of the used car market, which saw average prices drop in the first three quarters of 2019.

The Company's results for the year show a Loss before tax of £99,886,000 (2018: Loss before tax of £148,127,000) and Net interest income of £325,382,000 (2018: £194,810,000).

Given this position, and in line with the two events that occurred in 2019, on 5 July 2019 the Company issued 1,000,000,000 ordinary shares of £0.25 each, bringing the total number of shares in issue to 2,823,628,072. On 31 October 2019 the Company issued a further 700,000,000 shares of £0.25 each, bringing the total number of shares in issue to 3,523,628,072; as at this date the total Share capital was £880,907,000 (see note 23).

Underlying profit before tax, excluding the two events mentioned above, totalled £170 million, reflecting a continued strong performance.

Future outlook

The directors continue to support the strategy underpinned by the translation of the parent company goal of “Helping Britain Prosper” into the Company’s goal of “Keeping Britain Mobile”. The business has invested in new digital transformation, changing the way it interacts with its customers, providing more online journeys and creating efficiencies in the application and post completion process. In addition, through the partner relationships the Company has seen and continue to expect to see more and more customers opting for alternate fuel vehicles, away from diesel and petrol engines, albeit these still account for c.88% of new business written in the last 12 months.

In the first half of 2020 as part of the consequences of Covid-19 across the World, the car industry has observed a number of significant impacts that affected the whole supply chain, from production of new vehicles, to delivery and sale of both new and then used. Through this lockdown period only online providers were able to continue to supply if they had a contactless delivery process in place. Black Horse Limited has not been immune and has experienced these market wide impacts resulting in lower new car registrations and lower used car purchases. That said, in the initial months following lockdown the UK has experienced a strong return across both new and used.

The directors recognise that as they continue their investment focus on the changing market outlook, the Company will be well placed to continue to serve its customers and attract new ones with its enhanced customer experience.

Post balance sheet events

In March 2020 the World Health Organisation declared the outbreak of Covid-19 a global pandemic. The outbreak and the action taken by governments across the world are causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event given the limited number of cases reported as at 31 December 2019. In view of its currently evolving nature, the directors continue to monitor the developments closely. Based upon an initial assessment of the likely impact of the pervasive disruption experienced in the UK, the directors assessed an additional credit impairment provision of £160.2 million during the first half of 2020. In addition, the disruption to the economy and the used car market is expected to impact both customer behaviour and used car prices in the near future and the Company's market impairment provision was also increased by £17.6 million during the first half of 2020, based upon an assessment of the impact on the future volume and value of vehicles returned to the Company by loan customers either early or at the end of the loan (see note 32).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Retail Division, which is part of the Group. While these risks are not managed separately for the Company, the Company is a main trading company of the Motor Finance business as part of the LBG Retail Division within the Group. The Motor Finance business is a portfolio of businesses and operates in a number of specialist markets providing consumer lending and contract hire to personal and corporate customers. Further details of the Company’s and Group's risk management policy are contained in note 28 to the financial statements.

Strategic report (continued)

For the year ended 31 December 2019

Principal risks and uncertainties (continued)

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including in the financial services sector. This continued lack of clarity over the UK's relationship with the EU and other foreign countries, and on-going challenges in the Eurozone, including weak growth, raise additional uncertainty for the UK's economic outlook. There also remains the possibility of a further referendum on Scottish independence. The Company is part of the wider Lloyds Banking Group ("the Group"), and, it is at that level that consideration of the many potential implications this may have has been undertaken. Work continues to assess the impact of EU exit at the level of the Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Key performance indicators ("KPIs")

The Company's key objective is to support the dealer network in Keeping Britain Mobile. The level of overall lending balances across both the new and used vehicle financing are seen as important measures of success.

Credit risk management, aligned with helping customers ensure they have a product suitable for their needs, is fundamental to the success of the business. Impairment losses and interest income are considered to be relevant measures in relation to this.

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

KPI	Movement compared to 2018 £'000	Analysis
Net interest income	+130,572	Net interest income is up year on year driven by £4m higher average customer balances year on year. The average cost of money remains flat.
Net interest margin	+0.1%	The Net interest margin has remained broadly consistent year on year.
Costs (excluding Impairment losses)	+66,071	Costs have increased during the year, primarily due to the two events detailed in the Business overview (increase in PPI and the inventory write down). In addition, more costs have been incurred in line with the growth of the customer loan book.
Loans and advances to customers	+2,966,004	Strong new business lending and the current build to maturity of the book since the agency transition in 2017 is behind the continued growth in customer advances.
Cost to income ratio	+4%	Cost to income ratio of 345% has improved by 4% largely due to an VAT refund from HMRC offset by the inventory write down.
Asset quality ratio	+0.2%	The asset quality for Loans and advances to customers has remained broadly consistent year on year.

Section 172(1) statement

In accordance with the Companies Act 2006 (the 'Act'), for the year ended 31 December 2019, 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 only as the Company has no direct employees. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

Customers

The directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions by focussing on customer fair value and by treating customers fairly. The Board meets on a regular basis and directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made. The Company is an active participant in the broader Motor Finance Group initiatives. The Company is continuing to enhance the customer journey and proposition for its strategic partners and dealer introduced customers.

Strategic report (continued)

For the year ended 31 December 2019

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's Retail Division. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's ultimate parent company are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

Communities and the environment

The Company continues to support Lloyds Banking Group plc's related initiatives, including Helping Britain Prosper by actively managing its current book of hire purchase products and other loans. In addition the Company is an integral part of supporting the Group's desire to transition to electric forming part of a number of commitments it has made to support the green agenda. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2019, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Prosper Plan is available on the Lloyds Banking Group plc website.

Regulators

The Company provides quarterly updates to relevant regulators including disclosures on its capital position. During 2019 the Company's directors had meetings with the regulators, representing the interests of Lloyds Banking Group plc and its subsidiaries as required. The status of regulatory relationships continues to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of Lloyds Banking Group plc, including that of the Company, to managing regulatory change is detailed further on page 11 of the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

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 that of Lloyds Banking Group plc, is to effectively manage its remaining 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.

On this basis, during 2019, the Company's board made a number of changes, firstly in its directors, to enable better reflection on stakeholder feedback, due to their wider backgrounds and experience in the Group and secondly, the implementation of the SMCR 3 regime to increase financial control and more transparent reporting.

How stakeholder interest has influenced decision making

The key emerging risks relate to the UK's exit from the EU and the global pandemic as outlined above. Furthermore, as a result of the global health issues, the potential for operational risks materialising increases, notably in the areas of cyber fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the business will need to change its ways of working whilst managing any site contamination to ensure continuity and support of colleagues and customers.

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

R A Jones
Director
30 September 2020

Directors' report

For the year ended 31 December 2019

The directors present their report for the year ended 31 December 2019.

General information

The Company is a private limited company, incorporated in the United Kingdom, registered in England and Wales and domiciled in England (registered number: 00661204). The Company is limited by shares. The directors in office are listed further in this report and the Company Secretary is D D Hennessey.

The Company provides a comprehensive range of instalment credit products, including hire purchase and leasing products, as well as personal loans which may be secured or unsecured. In addition, the Company provides loan funding to commercial organisations connected with the motor trade.

From 1 April 2017, the Company started writing new business. For the period from 20 April 2013 until 31 March 2017 all new business previously undertaken by the Company was written in Lloyds Bank plc, with the Company acting as the undisclosed agent.

The Company is funded entirely by other companies within the Group.

Employees

The Company has no direct employees (2018: nil). All staff are employed by an intermediate parent undertaking, Lloyds Bank Asset Finance Limited, and all staff costs are recharged to the Company. Full details of policies relating to disabled persons, together with details of actions taken regarding the provision of information to employees, their consultation and involvement, are shown in the 2019 Annual Report and Accounts of the Group.

The Company aims to appoint the best person available into any role and to attract talented people from diverse backgrounds. Applications from people with a disability are encouraged and given full and fair consideration. The Company is unbiased in the way it approaches assessment, appointment, training and promotion. A wide range of programmes are available to support colleagues who become disabled or develop a long-term health condition during employment.

Dividends

No dividends were paid or proposed during the year ended 31 December 2019 (2018: £nil).

Going concern

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

The going concern of the Company is dependent on successfully funding its Balance sheet and maintaining adequate levels of capital. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the directors have considered a number of key dependencies which are set out in note 28 and additionally have considered projections for the Company's capital and funding position. Having considered these, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Registered office

25 Gresham Street
London
EC2V 7HN

Directors

The current directors of the Company are as follows:

J K Harris*	(appointed 9 December 2019)
R A Jones	
J McCaffrey	(appointed 9 December 2019)
R J H Milne	
I S Perez	(appointed 9 December 2019)

* Non executive director

There have been no other changes to directors between the beginning of the reporting period and the approval of the Annual report and accounts.

Directors' report (continued)

For the year ended 31 December 2019

Information included in the Strategic report

The disclosures for Principal risks and uncertainties and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on page 1.

Statement of Engagement with Employees and Other Stakeholders

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

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "Regulations"), for the year ended 31 December 2019, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles"), which are available at frc.org.uk. The following section explains the Company's approach to corporate governance, and its application of the Principles.

Principle One – Purpose and Leadership

The Board is collectively responsible for the long term success of the Company. It achieves this by agreeing the Company's strategy, within the wider strategy of Lloyds Banking Group plc, and overseeing delivery against it. The Company's strategy is discussed further in the Strategic Report on pages 1 to 3. The Board also assumes responsibilities for the management of the culture, values and wider standards of the Company, within the equivalent standards set by the Group, which does not form part of this report, available on the Lloyds Banking Group plc website.

Consideration of the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers is a vital part of the corporate culture. The Company's approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for customers. To this end, the Board plays a role in establishing, promoting and monitoring the Company's corporate culture and values, aligning to the culture and values of the Group, which are discussed in more detail on pages 14 to 35 of the Group annual report and accounts for 2019, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

Principle Two – Board Composition

The Company is led by a Board comprising a Non Executive Chairman and Executive Directors; further details of the directors can be found above. The Board considers its composition regularly, and is committed to ensuring it has the right balance of skills and experience. The Board considers that its current size and composition is appropriate to the Company's circumstances. New appointments are made on merit, taking account of the specific skills, experience and knowledge needed to ensure a rounded Board and the benefits each candidate can bring to the Board overall. There is a range of initiatives within the Group to help provide mentoring and development opportunities for female and BAME executives, and to ensure unbiased career progression opportunities.

The Board undertakes an annual review of its effectiveness, which provides an opportunity to consider ways of identifying greater efficiencies, ways to maximise strengths and highlights areas of further development. The effectiveness review is commissioned by the Board, assisted by the Company Secretary.

Principle Three – Director Responsibilities

The directors assume ultimate responsibility for the affairs of the Company, and along with senior management are committed to maintaining a robust control framework as the foundation for the delivery of good governance, including the effective management of delegation though related Group processes. Policies are also in place in relation to potential conflicts of interest which may arise.

The Board does not operate any committees. An elected director will chair the board meeting and receive support from the Company Secretary for the provision to each meeting of accurate and timely information.

Principle Four – Opportunity and Risk

Strategic opportunities which may arise are considered in the first instance by the board of the Group, as part of the Group board's role in considering such opportunities relevant to itself and its subsidiaries. Any opportunity which is specifically relevant to the Company is subsequently considered by the Board.

The Board is responsible for the long term sustainable success of the Company, generating value for its shareholder and ensuring a positive contribution to society. Key to this is the Company's culture, purpose, values and strategy, as discussed under Principle One, which are closely aligned to those of the Group.

Directors' report (continued)

For the year ended 31 December 2019

Approach to Corporate Governance (continued)

Principle Four – Opportunity and Risk (continued)

Strong risk management is central to the strategy of the Company, which along with a robust risk control framework acts as the foundation for the delivery of effective risk management. The Board agrees the Company's risk appetite, within the wider risk appetite of the Group, and ensures the Company manages risk effectively through delegation within the management hierarchy. Board level engagement, coupled with the direct involvement of management in risk issues ensures that escalated issues are promptly addressed and remediation plans are initiated where required. The Company's risk appetite, principles, policies, procedures, controls and reporting are managed in conjunction with those of Group, and as such are regularly reviewed to ensure they remain fully in line with regulations, law, corporate governance and industry best practice. The Company's principle risks are discussed further within note 28.

Principle Five – Remuneration

The Remuneration Committee of the Group assumes responsibility for the approach to remuneration for certain of its subsidiaries, including that of the Company. This includes reviewing and making recommendations to the Group board on remuneration policy, as relevant to the Company and its employees.

Principle Six – Stakeholders

The Company as part of Group operates under Group's wider Responsible Business approach, which acknowledges that the Company has a responsibility to help address the economic, social and environmental challenges which the UK faces, and as part of this understand the needs of the Company's external stakeholders, including in the development and implementation of strategy. Central to this is Group's Helping Britain Prosper plan, in which the Company participates, which seeks to gather stakeholder views through a dedicated materiality study, as overseen by Group's board level Responsible Business Committee. Further information in respect of Group's Helping Britain Prosper plan is available on the Lloyds Banking Group plc website.

In 2019, the Responsible Business Committee determined that the Company and the Group continued to demonstrate responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers. The approach of the Board in respect of its non colleague stakeholders is described in the separate statement made in compliance with the Regulations, on page 3, and approach in respect of colleague engagement is described in the separate statement made in compliance with the Regulations on page 2.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of directors 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 directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

Statement of directors' responsibilities

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

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

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

Directors' report (continued)

For the year ended 31 December 2019

Statement of directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor 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 Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

This report has been prepared in accordance with section 414 of the Companies Act 2006.

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

R A Jones
Director

30 September 2020

Income statement

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Interest income		**598,417**	334,948
Interest expense		**(273,035)**	(140,138)
Net interest income	3	**325,382**	194,810
Fee and commission income		**2,957**	2,445
Fee and commission expense		**(1,725)**	(1,210)
Net fee and commission income	4	**1,232**	1,235
Other operating income	5	**21,868**	10,503
Payment protection insurance charge	21	**(229,080)**	(201,658)
Other provisions - charge for the year	21	**(2,638)**	(2,250)
Credit impairment losses	6	**(34,589)**	(64,990)
Market impairment losses	7	**(107,583)**	(49,560)
Other operating expenses	8	**(74,478)**	(36,217)
Loss before tax		**(99,886)**	(148,127)
Taxation	11	**19,050**	28,132
Loss for the year		**(80,836)**	(119,995)

Statement of comprehensive income

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Loss for the year		**(80,836)**	(119,995)
Other comprehensive (expense)/income			
Items that may subsequently be reclassified to profit or loss:			
Post retirement defined benefit scheme remeasurements:			
- before tax amount	25	**-**	(2,567)
- tax credit/(charge)	11c, 22	**-**	436
		-	(2,131)
Total comprehensive expense for the year		**(80,836)**	(122,126)

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

Balance sheet

As at 31 December 2019

	Note	2019 £'000	Restated 2018 £'000
ASSETS			
Cash and cash equivalents		**61,145**	74,593
Amounts due from group undertakings	12	**3,740,634**	4,439,517
Trade and other receivables	13	**87,945**	70,479
Loans and advances to customers	14	**12,048,229**	9,082,225
Inventories	15	**36,028**	6,461
Assets held for sale	16	**1,599**	1,599
Investment in unlisted investments		**54**	54
Property, plant and equipment	17	**254**	420
Intangible assets	18	**8,187**	10,553
Retirement benefit assets	25	**-**	2,810
Current tax asset		**19,432**	33,238
Deferred tax asset	22	**4,894**	5,043
Total assets		**16,008,401**	13,726,992
LIABILITIES			
Borrowed funds	19	**15,192,782**	13,250,876
Trade and other payables	20	**94,329**	68,375
Provision for liabilities and charges	21	**340,443**	371,058
Total liabilities		**15,627,554**	13,690,309
EQUITY			
Share capital	23	**880,907**	455,907
Share premium account		**4,615**	4,615
Accumulated losses		**(504,675)**	(423,839)
Total equity		**380,847**	36,683
Total equity and liabilities		**16,008,401**	13,726,992

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

The 2018 comparative balances have been reclassified as explained in note 31.

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

R A Jones
Director

30 September 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital	Share premium account	Accumulated losses	Total equity
	£'000	£'000	£'000	£'000
At 31 December 2017	455,907	4,615	(283,227)	177,295
Impact of transition to IFRS 9	-	-	(18,486)	(18,486)
At 1 January 2018	455,907	4,615	(301,713)	158,809
Loss for the year	-	-	(119,995)	(119,995)
Other comprehensive expense for the year	-	-	(2,131)	(2,131)
At 31 December 2018	**455,907**	**4,615**	**(423,839)**	**36,683**
Loss for the year being total comprehensive expense	-	-	(80,836)	(80,836)
Other comprehensive income for the year	-	-	-	-
Shares issued	425,000	-	-	425,000
At 31 December 2019	**880,907**	**4,615**	**(504,675)**	**380,847**

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

Cash flow statement

For the year ended 31 December 2019

	2019 £'000	Restated 2018 £'000
Cash flows used in operating activities		
Loss before tax	**(99,886)**	(148,127)
Adjustments for:		
- Non-cash pension changes	**-**	1,405
- Interest expense	**273,035**	140,138
- Depreciation of Property, plant and equipment	**166**	280
- Loss on sale of Intangible assets	**-**	-
- (Decrease)/increase in Provision for liabilities and charges	**(30,615)**	154,947
- Decrease in Provision for liabilities and charges - adjustment on adoption of IFRS 9	**-**	(12)
- Amortisation of intangible assets	**2,366**	2,279
Changes in operating assets and liabilities:		
- Net increase in Loans and advances to customers	**(2,966,004)**	(5,003,870)
- Net increase in Inventories	**(29,567)**	(6,461)
- Net increase in Loans and advances to customers - adjustment on adoption of IFRS 9	**-**	(22,382)
- Net increase in Trade and other receivables	**(17,466)**	(10,167)
- Net increase/(decrease) in Trade and other payables	**25,954**	(8,203)
Cash used in operations	**(2,842,017)**	(4,900,173)
Pension contributions paid	**-**	(3,300)
Retirement benefit asset settled in the year	**2,810**	-
Tax received/(paid)	**33,005**	(3,901)
Net cash used in operating activities	**(2,806,202)**	(4,907,374)
Cash flows used in investing activities		
Purchase of intangible assets	**-**	(1,563)
Disposal of intangible assets	**-**	-
Purchase of Property, plant and equipment	**-**	(1,700)
Net cash used in investing activities	**-**	(3,263)
Cash flows generated from financing activities		
Proceeds from net borrowings with group undertakings	**2,640,789**	5,036,130
Proceeds from issue of shares	**425,000**	-
Interest expense	**(273,035)**	(140,138)
Net cash generated from financing activities	**2,792,754**	4,895,992
Change in Cash and cash equivalents	**(13,448)**	(14,645)
Cash and cash equivalents at beginning of year	**74,593**	89,238
Cash and cash equivalents at end of year	**61,145**	74,593

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

The 2018 comparatives have been reclassified as explained in note 31.

Notes to the financial statements

For the year ended 31 December 2019

1. Accounting policies

1.1 Basis of preparation

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

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

The Company adopted IFRS 16 Leases from 1 January 2019. IFRS 16 replaces IAS 17 Leases and addresses the classification and measurement of all leases. The Company's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17; however for lessee accounting there is no longer a distinction between finance and operating leases. For all assets the lessee recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis.

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 2019 and which have not been applied in preparing these financial statements are given in note 33. No standards have been early adopted.

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

1.2 Income recognition

Income and expense from financial instruments

Interest income and expense are recognised in the Income statement 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.

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 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 (such as commission associated with the sale of insurance underwritten by a third party) are generally recognised in the Income statement on an accruals basis when the service has been provided.

1.3 Financial assets and liabilities

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

On initial recognition, financial assets are classified as 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.

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

1.4 Impairment of financial assets

i) *Credit losses*

The credit impairment charge in the Statement of comprehensive income includes the change in expected credit losses and certain fraud costs. Expected credit losses ("ECL") 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 by using an appropriate probability of default, 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 collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

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.

Impairment of retail loans and advances

At initial recognition, allowance 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, 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 are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

1. Accounting policies (continued)

1.4 Impairment of financial assets (continued)

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. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. 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 such as watch lists and other indicators of historic delinquency. 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. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

Impairment of retail loans and advances

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired.

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;

IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due, which the Company has adopted.

Impairment of non-retail loans and advances

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. The Company uses the IFRS 9 rebuttable presumption that default occurs no later than when a payment is 90 days 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 in default (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

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.

1. Accounting policies (continued)

1.4 Impairment of financial assets (continued)

ii) *Market losses*

Included within Loans and advances to customers are certain hire purchase contracts referred to as Personal Contract Purchase ("PCP") agreements. Under the terms of these agreements, customers have the option to either purchase the hired vehicle at the end of the 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.

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

1.5 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is based on the specific identification method and excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories include returned PCP vehicles which have been returned to the Company and subsequently become held for sale.

1.6 Assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

1.7 Property, plant and equipment

Property, plant and equipment is included at historical purchase cost less depreciation and any impairment allowance. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Freehold land is not depreciated. Depreciation is calculated using the straight line method to allocate the difference between the cost and expected residual value over their estimated useful lives, as follows:

Office and other equipment - between 2 and 10 years.
Land and buildings - 50 years.

1.8 Cash and cash equivalents

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

1.9 Taxation, including deferred income taxes

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.9 Taxation, including deferred income taxes (continued)

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.

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.

1.10 Investments

Investment in unlisted investments

Investment in unlisted investments is stated in the Balance sheet at cost less any provision for impairment. The Investment in unlisted investments comprise debenture holdings in the Wales rugby union and the Scotland rugby union.

Investment in unlisted investments is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and value in use.

1.11 Retirement benefit assets

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the Group.

A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a pension plan into which the Company pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

With effect from 1 January 2019, the Group revised its methodology for the intra-group recharge relating to defined benefit scheme costs. Under this revised approach, the Company is charged the cash contributions paid to the various schemes during the year relating to its employees' current service. The Company accounts for its pension arrangements in accordance with IAS 19. As the amount charged to the Company is based on the cash contributions of Lloyds Bank plc, no asset or liability or movements in other comprehensive income are recognised by the Company. Further details are set out in note 25 Retirement benefit assets".

In 2018, the amount charged to the Company was based on Lloyds Banking Group's IAS 19 pension costs and the Company recognised its share of Lloyds Banking Group's income statement charge, together with its share of the surplus/deficit and movement in other comprehensive income.

Costs relating to Lloyds Banking Group's defined contribution plans are charged to the income statement in the period in which they fall due.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.12 Share based payments

The Company's ultimate parent company operates a number of group wide, equity settled, share based compensation plans. The Company's share of the value of Retail Division's employees' services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments. This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest. The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique, such as a Black-Scholes option pricing model. The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest.

At each Balance sheet date, this estimate is reassessed and if necessary revised. Any revision of the original estimate is recognised in the Income statement over the remaining vesting period. Cancellations by employees of contributions to the Group's Save As You Earn scheme are treated as non-vesting conditions and the Company recognises in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period.

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 9. Full details of these schemes can be found in the 2019 Annual Report and Accounts of the Group.

1.13 Intangible assets

Expenses incurred for software product development are expensed as incurred unless the technical and commercial feasibility of the project is demonstrated, future economic benefits are probable, the Company has an intention and ability to complete and use or sell the software and the costs can be measured reliably. Such expenses and advances paid for software development which is not yet ready for the intended use as at the Balance sheet date are recognised as Intangible assets. Once they are completed for the intended use, the Intangible assets are carried at historical cost less accumulated amortisation, and are amortised over a period of 7 years using the straight line method.

1.14 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.

1.15 Deemed securitisation loans

Under IFRS, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The directors of the Company have concluded that the Company has retained substantially all the risks and rewards of the pool of loans and advances to customers and as a consequence the Company continues to recognise the loans and advances to customers on its Balance sheet.

The initial amount of the deemed loans from Cardiff Auto Receivables Securitisation 2018-1 plc ("CARS 2018-1 plc") and Cardiff Auto Receivables Securitisation 2019-1 plc ("CARS 2019-1 plc") correspond to the consideration paid by CARS 2018-1 plc and CARS 2019-1 plc for the loans and advances to customers (less the subordinated loan granted by the Company for CARS 2019-1 plc). CARS 2018-1 plc and CARS 2019-1 plc recognise principal and interest cash flows from the underlying pool of loans and advances to customers only to the extent that they are entitled to retain such cash flows. Additionally, the directors of the Company consider that the subordinated loan owed to the Company by CARS 2018-1 plc does not meet the definition of a liability as CARS 2018-1 plc will repay the subordinated loan to the Company only if it first receives an equivalent amount from the Company.

The deemed loans to the Company from CARS 2018-1 plc and CARS 2019-1 plc are classified within Amounts due from group undertakings. The amounts represent the net position of the deemed loans and assets as per IFRS 9 which permits the elimination of both the deemed loans and the assets within the Company as a self retained transaction. The initial measurements are at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest on the deemed loans are calculated with reference to the interest earned on the beneficial interest in the loans portfolio.

2. Critical accounting estimates and judgements in applying accounting policies

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

The following are critical accounting estimates 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:

Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

Defined benefit schemes

The value of the Group's defined benefit schemes' liabilities requires management to make a number of assumptions. The key areas of estimation uncertainty are the discount rate applied to future cash flows and the expected lifetime of the schemes' members. The accounting surplus or deficit is sensitive to changes in the discount rate, which is affected by market conditions and therefore potentially subject to significant variation. The cost of the benefits payable by the schemes will also depend upon the longevity of the members. Assumptions are made regarding the expected lifetime of scheme members based on recent experience and extrapolate the improving trend, however given the rate of advance in medical science and increasing levels of obesity, it is uncertain whether they will ultimately reflect actual experience.

The key assumptions used are set out in note 25.

Payment Protection Insurance

At 31 December 2019 the Company has provided £323,952,000 (2018: £355,924,000) against the cost of making redress payments to customers and the related administration costs in relation to the mis-selling of Payment Protection Insurance (PPI).

As a result of the unprecedented volume of claims received in the run up to the 29 August 2019 FCA deadline for making claims, the Group and the Company are in the process of assessing the claims received. Until this process is complete, the determination of an estimate of the amount of provision, representing management's best estimate of the cost of settling, requires the application of assumptions in respect of matters that are inherently uncertain, including the number of valid complaints received and the average cost of redress. Whilst these assumptions are subject to regular review against actual experience, it is possible that the claims against the Company that are yet to be assessed, will result in future costs which differ from those calculated using assumptions in order to derive management's best estimate.

Allowance for Credit impairment losses

The calculation of the Company's expected credit loss ("ECL") allowances and provisions against loans and advances to customers under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. 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 Impairment of financial assets.

Lifetime of an exposure

The PD of a financial asset is dependent on its expected 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.

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.

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

Allowance for impairment losses (continued)

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.

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 two PD grades from the grade in which the account was originated, or (ii) a deterioration of two PD grades within the last twelve months, is considered a SICR.

Significant increase in credit risk - non-retail

The Company monitors a series of account flags, including credit risk classification, which may indicate whether the asset has suffered a SICR which, for non-retail loans, are aligned to operational credit risk management strategies (see note 28.1).

All financial assets are assumed to have suffered a SICR if they are more than 30 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.

Origination PDs - retail

As noted in the definition of SICR, a key quantitative criteria is a deterioration of two PD grades from origination. Management judgement has been used to determine a reasonable basis for estimating the origination PD for existing accounts at the date of transition to IFRS9 (1 January 2018). Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

Origination PDs - non-retail

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. Management judgement has been used to determine a reasonable basis for estimating the origination PD for existing accounts at the date of transition to IFRS9 (1 January 2018). Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

Post-model adjustments

Limitations in the Company's impairment models may be identified through its on-going assessment of the models. In these circumstances, post-model judgement is used to make appropriate adjustments to the Company's allowance for credit impairment losses in the Statement of comprehensive income. At 31 December 2019, post-model adjustments made in respect of retail assets are £179,176,000 (2018: £79,158,000) and non-retail assets are £nil (2018: £nil).

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

Forward looking information

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Group has developed an economic model to project a wide range of key impairment drivers using information derived from external sources. These drivers include factors such as the unemployment rate, the house price index, commercial property prices and corporate credit spreads. The model-generated economic scenarios for the six years beyond 2019 are mapped to industry-wide historical data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. Alongside a defined central scenario three further scenarios are generated by averaging a group of individual scenarios around specified points along the loss distribution to reflect the range of outcomes. The central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also produced together with a severe downside scenario.

At 31 December 2018 and 2019, the base case, upside and downside scenarios each carry a 30% weighting; the severe downside

Allowance for Market impairment losses

As set out in note 28.3 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 voluntary terminations. In assessment of losses related to this risk, values are established by reference to various sources of independent and proprietary information to determine the extent to which customers are expected to return vehicles either during or at the end of contract, the likely future value of the vehicles returned and the associated costs of subsequent sales.

Loss provisions are based on the best view of market conditions in the future UK economic environment, using a probability based estimate of potential Base, Upside and Downside scenarios. The residual value and voluntary termination provisions included within the accounts totals £150,707,000 (2018 : £74,300,000).

Market risk provision is sensitive to both future vehicle return rates and the realisable values of returned motor vehicles. A 2.9%-4.3% reduction in estimated future values would result in a £15m to £25m increase in the market risk provision. A 2.9%-4.3% variation is considered appropriate because it approximates to the difference between the base and the mild downside volatility sce

Independent of price sensitivity, a 16%-17% increase in expected future motor vehicle return rates would result in a £25m to £30m

3. Net interest income

	2019	2018
	£'000	£'000
Interest income		
From finance lease and hire purchase contracts	**429,964**	278,879
From personal loans	**-**	4
From other loans and advances	**47,173**	33,931
Group interest income (see note 27)	**121,280**	22,134
	598,417	334,948
Interest expense		
Group interest expense (see note 27)	**(273,035)**	(140,138)
Net interest income	**325,382**	194,810

4. Net fee and commission income

	2019 £'000	2018 £'000
Fee and commission income		
Loan fees receivable	**762**	1,121
Commission receivable (see note 27)	**2,195**	1,324
	2,957	2,445
Fee and commission expense		
Other fees and commission payable	**(1,725)**	(1,210)
Net fee and commission income	**1,232**	1,235

5. Other operating income

	2019 £'000	2018 £'000
Management fees receivable (see note 27)	**8,099**	7,858
Agency fee income (see note 27)	**1,482**	2,426
Dealer training	**100**	219
Other operating income	**12,187**	-
	21,868	10,503

Until 31 March 2017, the Company acted as the undisclosed agent for Lloyds Bank plc and received Agency fee income, at a rate equal to 7.5% of the total costs incurred in providing the agency services. The Company will continue to earn the agency fee income on the element of the loan portfolio related to the agency agreement until it has completely run off.

Other operating income of £12,187,000 relates to a VAT refund.

6. Credit impairment losses

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
31 December 2019				
Impact of transfers between stages	(3,660)	13,456	31,426	41,222
Other changes in credit quality	(87,864)	(6,935)	17,070	(77,729)
Additional (repayments)	60,031	10,288	777	71,096
	(31,493)	**16,809**	**49,273**	**34,589**
In respect of:				
Loans and advances to customers	(31,493)	16,810	49,273	34,590
Loan commitments and financial guarantees	-	(1)	-	(1)
	(31,493)	**16,809**	**49,273**	**34,589**

Notes to the financial statements (continued)

For the year ended 31 December 2019

6. Credit impairment losses (continued)

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
31 December 2018				
Impact of transfers between stages	(3,413)	11,508	19,455	27,550
Other changes in credit quality	(42,580)	(5,494)	7,303	(40,771)
Additional (repayments)	52,806	19,793	5,612	78,211
	6,813	**25,807**	**32,370**	**64,990**
In respect of:				
Loans and advances to customers	5,897	25,806	32,370	64,073
Loan commitments and financial guarantees	916	1	-	917
	6,813	**25,807**	**32,370**	**64,990**

7. Market impairment losses

	2019 £'000	2018 £'000
Brought forward at 1 January	**74,327**	25,657
Utilised during the year	**(31,203)**	(890)
Charge for the year	**107,583**	49,560
Carried forward at 31 December (see note 14)	**150,707**	74,327

The Company made a loss on residual value of £9,264,000 in the year (2018: £814.000).

8. Other operating expenses

	2019 £'000	2018 £'000
Staff costs (see note 9)	**28,162**	27,257
Depreciation (see note 17)	**166**	280
Other operating expenses	**43,935**	5,377
Amortisation of Intangible assets (see note 18)	**2,366**	2,279
Impairment on Amounts due from group undertakings (see note 12)	**(151)**	1,024
	74,478	36,217

Other operating expenses is shown net of costs recharged to other Group companies for services provided under agency. During 2019, the Company recharged £19,687,000 to Lloyds Bank plc (2018: £32,250,000), £8,132,000 to United Dominions Trust Limited (2018: £8,132,000) and £1,296,000 to United Dominions Leasing Limited (2018: £1,269,000).

Fees payable to the Company's auditors for the audit of the financial statements of £300,000 (2018: £275,000) have been borne by a fellow group undertaking and are recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as set out in Note 9.

Notes to the financial statements (continued)

For the year ended 31 December 2019

9. Staff costs

	2019 £'000	2018 £'000
Wages and salaries	**35,927**	28,628
Wages and salaries recharge*	**(11,841)**	(8,084)
Social security costs	**3,054**	3,734
Social security costs recharge	**(1,006)**	(870)
Share based payments (see note 26)	**989**	1,124
Share based payments recharge	**(326)**	(262)
Pension costs – defined contribution plans (see note 25)	**2,117**	2,489
Pension costs – defined contribution plans recharge (see note 25)	**(698)**	(580)
Pension costs – defined benefit plans (see note 25)	**(80)**	1,405
Pension costs – defined benefit plans recharge	**26**	(327)
	28,162	27,257

* As shown above, the staff costs are subject to a recharge under the terms of the agency agreement between the Company and Lloyds Bank plc that ran until 31 March 2017, this is expected to continue until the related loan book expires.

The average monthly number of employees during the year was 539 (2018: 407). 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.

10. Directors' emoluments

The directors' emoluments payable for services provided to the Company are set out below:

	2019 £'000	2018 £'000
Aggregate emoluments	**162**	177
Aggregate post-employment benefits	**1**	2
	163	179

Three of the directors are accruing benefits under a defined benefit scheme (2018: one). Two directors received shares in LBG under long term incentive plans during the year (2018: four). No directors exercised share options (2018: none). The number and total amount of the outstanding loans to directors, officers and connected persons as at 31 December 2019 was £nil (2018: £nil).

The directors are employed by other companies within the Group and two directors consider that their services to the Company are incidental to their other responsibilities within the Group. In 2019, no compensation was received by the directors for loss of office (2018: £nil).

11. Taxation

	2019 £'000	2018 £'000
a) Analysis of credit for the year		
UK corporation tax:		
- Current tax on taxable loss for the year	**(19,432)**	(28,902)
- Adjustments in respect of prior years	**233**	(293)
Current tax credit	**(19,199)**	(29,195)
UK deferred tax:		
- Origination and reversal of timing differences	**116**	884
- Due to change in UK corporation tax rate	**33**	(48)
- Adjustments in respect of prior years	**-**	227
Deferred tax charge (see note 22)	**149**	1,063
Tax credit	**(19,050)**	(28,132)

Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable (loss)/profit for the year.

Notes to the financial statements (continued)

For the year ended 31 December 2019

11. Taxation (continued)

b) Factors affecting the tax credit for the year

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

	2019 **£'000**	2018 £'000
Loss before tax	**(99,886)**	(148,127)
Tax credit thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**(18,978)**	(28,144)
Factors affecting credit:		
- Due to change in UK corporation tax rate	**33**	(48)
- Disallowed and non-taxable items	**253**	126
- Adjustments in respect of prior years	**233**	(66)
- Other items	**(591)**	-
Tax credit on loss on ordinary activities	**(19,050)**	(28,132)
Effective rate	**19.06%**	18.99%

c) Tax effects relating to Other comprehensive (expense)/income

The tax effect relating to Other comprehensive (expense)/income is as follows:

	Before tax amount £'000	**Tax credit/ (charge) £'000**	**Net of tax amount £'000**
2019			
Post retirement defined benefit pension remeasurements	**-**	**-**	**-**
Other comprehensive (expense)/income for the year	**-**	**-**	**-**
2018			
Post retirement defined benefit pension remeasurements	(2,567)	436	(2,131)
Other comprehensive (expense)/income for the year	(2,567)	436	(2,131)

12. Amounts due from group undertakings

	2019 **£'000**	Reclassified 2018 £'000
Amounts due from group undertakings (see note 27)	**3,740,634**	4,439,517

Amounts due from Lloyds Bank Insurance Services Limited of £11,680,000 (2018: £11,182,000) are non-interest bearing, unsecured and repayable on demand. Deposit due from Lloyds Bank plc of £2,131,172,000 (2018: £2,132,982,000) is unsecured, interest bearing at fixed rates and repayable on 21 June 2021. Deposits due from Lloyds Bank plc of £500,891,000 (2018: £nil) are unsecured, interest bearing at variable rates and repayable on 16 July 2021 or 16 December 2022.

Loan notes due from Cardiff Auto Receivables Securitisation 2018-1 plc of £2,852,052,000 (2018: £2,855,222,000) are secured, interest bearing at fixed rates and repayable in tranches based on contractual maturity dates. Deemed loan due to Cardiff Auto Receivables Securitisation 2018-1 plc of £2,716,545,000 (2018: £2,704,918,000) is secured, interest bearing based on LIBOR with a margin attached and repayable in tranches based on contractual maturity dates. Deemed loan to Cardiff Auto Receivables Securitisation 2018-1 plc is classified within Amounts due from group undertakings as discussed within note 1.15.

12. Amounts due from group undertakings (continued)

All other amounts are unsecured, repayable on demand, and interest bearing at fixed rates for funding of long term loans and advances to customers and variable rates for the remainder.

The ECL on Amounts due from group undertakings is £872,000 (2018: £1,024,000).

13. Trade and other receivables

	2019 £'000	2018 £'000
Other debtors	**87,945**	70,479

Other debtors includes items in the course of collection of £30,705,000 (2018: £24,655,000) and manufacturers' subsidies of £39,568,000 (2018: £26,949,000).

14. Loans and advances to customers

14.1 Loans and advances to customers - maturity

	2019 £'000	2018 £'000
Advances under finance lease and hire purchase contracts	**10,737,534**	7,920,085
Personal loans to customers	**719**	1,224
Other loans and advances to customers	**1,580,745**	1,324,133
Gross loans and advances to customers	**12,318,998**	9,245,442
Less: allowance for Credit losses on loans and advances	**(120,062)**	(88,890)
Less: allowance for Market losses on loans and advances	**(150,707)**	(74,327)
Net loans and advances to customers	**12,048,229**	9,082,225
of which:		
Due within one year	**3,927,837**	2,818,200
Due after one year	**8,120,392**	6,264,025
	12,048,229	9,082,225

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

	2019 £'000	2018 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**2,767,877**	1,743,176
- later than one year and no later than two years	**3,184,937**	2,480,752
- later than two years and no later than three years	**3,144,051**	2,448,905
- later than three years and no later than four years	**2,316,654**	1,804,445
- later than four years and no later than five years	**357,807**	278,696
- later than five years	**297,194**	244,755
	12,068,520	9,000,729
Unearned future finance income on finance lease and hire purchase contracts	**(1,330,986)**	(1,080,644)
Net investment in finance lease and hire purchase contracts	**10,737,534**	7,920,085

Notes to the financial statements (continued)
For the year ended 31 December 2019

14. Loans and advances to customers (continued)

14.1 Loans and advances to customers - maturity (continued)

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

	2019 £'000	2018 £'000
- no later than one year	**2,462,621**	1,533,847
- later than one year and no later than two years	**2,833,684**	2,182,921
- later than two years and no later than three years	**2,797,306**	2,154,899
- later than three years and no later than four years	**2,061,160**	1,587,810
- later than four years and no later than five years	**318,346**	245,237
- later than five years	**264,417**	215,371
	10,737,534	7,920,085

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 1 and 5 years. During the loan period the customer can settle early at an amount which is in accordance with Consumer Credit Act requirements.

During the year, no contingent rentals in respect of finance leases were recognised in the Income statement (2018: £nil).

Further analysis of Loans and advances to customers is provided in note 28.

14.2 Loans and advances to customers - movement over time

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance at 1 January 2019	8,326,168	870,375	48,899	**9,245,442**
Transfers to Stage 1	257,000	(257,000)	-	**-**
Transfers to Stage 2	(712,835)	716,085	(3,250)	**-**
Transfers to Stage 3	(46,696)	(55,667)	102,363	**-**
Net increase/(decrease) in loans and advances to customers	2,822,705	318,535	(29,420)	**3,111,820**
Financial assets that have been written off during the year	-	-	(39,558)	**(39,558)**
Recoveries of prior advances written off	**-**	**-**	1,293	**1,293**
Gross loans and advances to customers at 31 December 2019	10,646,342	1,592,328	80,327	**12,318,997**
Less: allowance for Credit losses on loans and advances	(19,720)	(55,135)	(45,206)	**(120,061)**
Less: allowance for Market losses on loans and advances	(139,647)	(11,060)	-	**(150,707)**
Net loans and advances to customers at 31 December 2019	10,486,975	1,526,133	35,121	**12,048,229**

14. Loans and advances to customers (continued)

14.2 Loans and advances to customers - movement over time (continued)

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Reclassified Total £'000
Balance at 1 January 2018	3,829,832	272,256	14,547	4,116,635
Transfers to Stage 1	69,440	(69,394)	(46)	-
Transfers to Stage 2	(389,951)	390,591	(640)	-
Transfers to Stage 3	(30,183)	(20,882)	51,065	-
Net increase/(decrease) in loans and advances to customers	4,847,030	297,804	(2,498)	5,142,336
Financial assets that have been written off during the year	-	-	(15,594)	(15,594)
Recoveries of prior advances written off	-	-	2,065	2,065
Gross loans and advances to customers at 31 December 2018	8,326,168	870,375	48,899	9,245,442
Less: allowance for Credit losses on loans and advances	(20,983)	(37,353)	(30,554)	(88,890)
Less: allowance for Market losses on loans and advances	(67,910)	(6,417)	-	(74,327)
Net loans and advances to customers at 31 December 2018	8,237,275	826,605	18,345	9,082,225

14.3 Securitisation transactions

Loans and advances to customers include securitised loans sold to a bankruptcy remote special purpose entity ("SPE"). As the SPE is funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained by the Company, all of these loans are retained on the Company's Balance sheet.

On 4 December 2019, the Company securitised Loans and advances to customers with a gross value of £610,070,000. On this date the securitisation vehicle, Cardiff Auto Receivables Securitisation 2019-1 plc, issued asset backed loan notes with a par value of £610,070,000 with a final redemption date falling in September 2025. The Company purchased notes from the securitisation vehicle with a par value of £109,810,000.

On 4 December 2018, the Company securitised Loans and advances to customers with a gross value of £2,850,000,000. On this date the securitisation vehicle, Cardiff Auto Receivables Securitisation 2018-1 plc, issued asset backed loan notes with a par value of £2,850,000,000 with a final redemption date falling in December 2026. The Company purchased notes from the securitisation vehicle with a par value of £2,850,000,000 and provided credit enhancement of £42,750,000 in the form of a subordinated loan.

	Loans and advances 2019 £'000	**Notes in issue 2019 £'000**	Loans and advances 2018 £'000	Notes in issue 2018 £'000
Loans and advances to customers	**3,220,571**	**2,962,191**	2,704,918	2,855,222
Less held by the Company	**-**	**(831,019)**	-	(722,240)
Total securitisation transactions	**3,220,571**	**2,131,172**	2,704,918	2,132,982

In keeping with normal market practice, the Company enters into securities lending transactions and repurchase agreements, whereby cash and securities are temporarily received or transferred as collateral. Where the securities sold subject to repurchase or pledged as collateral are retained on the Balance sheet the funds received under these arrangements are recognised as liabilities.

At the year end £2,131,172,000 of assets were subject to repurchase agreements (2018: £2,132,982,000).

Notes to the financial statements (continued)

For the year ended 31 December 2019

15. Inventories

	2019 £'000	2018 £'000
Vehicles for resale	**36,028**	6,461

16. Assets held for sale

	2019 £'000	2018 £'000
Freehold land and buildings	**1,599**	1,599

On 31 December 2018, the Company made Land and buildings with a net book value of £1,599,000 available to purchase on the open property market (see note 17). It is anticipated that this sale will complete within 12 months of 31 December 2019.

17. Property, plant and equipment

	Land and buildings £'000	**Office and other equipment £'000**	**Total £'000**
Cost			
At 1 January 2018	57	7,093	7,150
Transfers from other group companies	5,209	-	5,209
Transfer to Assets held for sale (see note 16)	(5,209)	-	(5,209)
Disposals	-	(1,336)	(1,336)
At 31 December 2018 and 31 December 2019	57	5,757	5,814

	Land and buildings £'000	**Office and other equipment £'000**	**Total £'000**
Accumulated depreciation			
At 1 January 2018	4	6,547	6,551
Charge for the year (see note 8)	102	178	280
Transfers from other group companies	3,509	-	3,509
Transfer to Assets held for sale (see note 16)	(3,610)	-	(3,610)
Disposals	-	(1,336)	(1,336)
At 31 December 2018	5	5,389	5,394
Charge for the year (see note 8)	1	165	166
At 31 December 2019	6	5,554	5,560
Balance sheet amount at 31 December 2019	**51**	**203**	**254**
Balance sheet amount at 31 December 2018	52	368	420

On 1 January 2018, Land and buildings were transferred into the Company from a fellow group subsidiary. On 31 December 2018, these assets were transferred to Assets held for sale with a net book value of £1,599,000, subject to the Land and buildings being advertised for sale in the property market (see note 16).

18. Intangible assets

	Software £'000
Cost	
At 1 January 2018	16,057
Additions	1,563
Disposals	(1,056)
At 31 December 2018 and 31 December 2019	16,564
Amortisation	
At 1 January 2018	4,788
Charge for the year (see note 8)	2,279
Transfer to other group companies	(1,056)
At 31 December 2018	6,011
Charge for the year (see note 8)	2,366
At 31 December 2019	8,377
Balance sheet amount at 31 December 2019	**8,187**
Balance sheet amount at 31 December 2018	10,553

The Company's Intangible assets relate to Software enhancement costs. Following a change in the Group's policy in early 2018, all such costs around software enhancement and development are now recognised by the Group directly for all its subsidiary undertakings and consequently the Company will no longer recognise any new assets, other than the existing assets which will continue to amortise over their estimated useful life.

19. Borrowed funds

	2019 £'000	2018 £'000
Amounts due to group undertakings (see note 27)	**15,192,783**	13,250,876

Amounts due to Lloyds Bank plc of £613,975,000 (2018: Amounts due to Lloyds Bank Asset Finance Limited of £11,047,189,000) and Amounts due to other group undertakings of £279,015,000 (2018: £70,705,000) are interest bearing at fixed rates for funding of long term loans and advances and variable rates for all other borrowings, and are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to Lloyds Bank plc of £13,905,907,000 (2018: £2,132,982,000) is unsecured, interest bearing at fixed rates of which £7,183,108,000 is repayable within one year.

Deemed loan to Cardiff Auto Receivables 2019-1 plc of £504,025,000 (2018: £nil) is secured, interest bearing based on SONIA with a margin attached and repayable in tranches based on contractual maturity dates. Loan notes due from Cardiff Auto Receivables 2019-1 plc of £110,139,000 (2018: £nil) are secured, interest bearing at fixed rates and repayable in tranches based on contractual maturity dates. Loan notes due from Cardiff Auto Receivables 2019-1 plc are classified within Borrowed funds as discussed in note 1.15.

Notes to the financial statements (continued)

For the year ended 31 December 2019

20. Trade and other payables

	2019	2018
	£'000	£'000
Customer deposit accounts	**16,564**	16,564
Other payables	**17,032**	4,398
Other tax and social security payable	**5,911**	652
Accruals and deferred income	**54,822**	46,761
	94,329	68,375

Customer deposit accounts relate to collateral held in respect of the agreement between the Company and Jaguar Land Rover to cover certain significant dealership costs to the Company during the five year period of the agreement. Amounts unused at the end of the agreement are to be returned to Jaguar Land Rover.

Other payables includes items in the course of transmission of £2,584,000 (2018: £3,540,000).

21. Provision for liabilities and charges

	Undrawn loan commitments	**Payment protection insurance**	**Other provisions**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 January 2018	12	184,015	32,096	216,123
Charge for the year	917	201,658	2,250	204,825
Reclassified as provision	-	-	1,008	1,008
Utilised during the year	-	(29,749)	(21,149)	(50,898)
At 31 December 2018	929	355,924	14,205	371,058
Charge for the year	-	229,080	4,179	233,259
Reclassified as provision	-	-	13,576	13,576
Reversal of unused provision	(1)	-	(2,250)	(2,251)
Utilised during the year	-	(261,052)	(14,147)	(275,199)
At 31 December 2019	**928**	**323,952**	**15,563**	**340,443**

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. As at 31 December 2019, the Company has provided £323,952,000 (2018: £355,924,000) against all PPI claims. The total amount provided for PPI represents the Company's best estimate of the likely future cost. A number of risks and uncertainties remain including processing the remaining PIRs and outstanding complaints.

Key sensitivities to the provision calculation are as follows:

Metric	**Sensitivity**	**Provision Value**
PIR Conversion Rate	1% Increase	£13,313,000
Missale Uphold Rate	1% Increase	£1,800,000
Missale Average Redress	£100 Increase	£9,917,000

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated. The Company has reviewed its documentation and found there to be a compliance issue for which a provision for the cost of redress of £1,479,000 (2018: £10,947,000) has been made and is included within Other provisions in the table above.

Other provisions relate to uncertain tax positions that have been reclassified from accruals in the year. The total amount reflects the Company's best estimate of the likely future cost.

22. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2019	2018
	£'000	£'000
Brought forward	**5,043**	5,670
Charge for the year (see note 11)	**(149)**	(1,063)
	4,894	4,607
Amount charged to equity		
- Post retirement defined benefit pension remeasurements (see note 11c)	**-**	436
At 31 December	**4,894**	5,043

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

	2019	2018
	£'000	£'000
Accelerated capital allowances	**(315)**	(507)
Pensions - Income statement	**480**	(322)
Pensions - Statement of comprehensive income	**-**	436
Accounting provisions disallowed	**111**	-
Other temporary differences	**(425)**	(234)
	(149)	(627)

Deferred tax asset comprises:	**2019**	2018
	£'000	£'000
Accelerated capital allowances	**1,432**	1,747
Pension	**-**	(480)
Accounting provisions disallowed	**405**	294
Other temporary differences	**3,057**	3,482
	4,894	5,043

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by The Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020.

Had this rate change been substantively enacted at 31 December 2019, the effect would have been to increase net deferred tax assets by £563,000.

Notes to the financial statements (continued)

For the year ended 31 December 2019

23. Share capital

	2019 £'000	2018 £'000
Allotted, issued and fully paid		
3,523,628,072 ordinary shares of £0.25 each	**880,907**	455,907

At 31 December 2019, 1 (2018: 1) ordinary share is owned by Lloyds Bank Asset Finance Limited and 3,523,628,071 (2018: 1,823,628,071) ordinary shares are owned by Black Horse Group Limited.

All ordinary shares rank pari passu in all respects including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company.

On 5 July 2019 the Company issued 1,000,000,000 ordinary shares of £0.25 each, bringing the total number of shares in issue to 2,823,628,072. On 31 October 2019 the Company issued 700,000,000 ordinary shares of £0.25 each, bringing the total number of shares in issue to 3,523,628,072; as at this date the total Share capital was £880,907,000.

24. Transfer of financial assets

The Company enters into repurchase and securities lending transactions in the normal course of business that do not result in derecognition of the financial assets concerned. In all cases the transferee has the right to sell or repledge the assets concerned to the transferor.

As set out within note 14.3, included within Loans and advances to customers are loans securitised under Lloyds Banking Group plc's securitisation programmes. The Company retains substantially all of the risks and rewards associated with these loans and they are retained on the Company's Balance sheet. Assets transferred into the securitisation programmes are not available to be used by the Company during the term of those arrangements.

The table below sets out the details of the repurchase agreements in place. For securitisation programmes, the associated liabilities represent the external notes in issue.

		Carrying value of transferred assets £'000	Carrying value of associated liabilities £'000
Loan notes subject to repurchase	At 31 December 2019	2,131,172	2,131,172
	At 31 December 2018	2,132,982	2,132,982

25. Retirement benefit assets

The Group operates a number of defined benefit and defined contribution schemes, in which some of the employees participate. The employees are employed by Lloyds Bank Asset Finance Limited and recharged to the Company.

Defined contribution schemes

The majority of the people providing services to the Company ("employees") are members of the Lloyds Bank Group Pension Scheme No 1. New employees are offered membership of the defined contribution section of the Lloyds Bank Group Pension Scheme No 1.

During the year ended 31 December 2019 the charge to the Income statement in respect of employees in the defined contribution section of the scheme was £1,419,000 (2018: £1,909,000), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2019 (2018: £nil).

25. Retirement benefit assets (continued)

Defined benefit schemes

The remaining employees of the Company are members of the defined benefit sections of the Lloyds Bank Group Pension Scheme No 1. This is a funded scheme providing retirement benefits calculated as a percentage of final pensionable salary depending upon the length of service. The minimum retirement age under the rules of the schemes at 31 December 2019 is generally 55 although certain categories of member are deemed to have a contractual right to retire at 50. The scheme is operated as a separate legal entity under trust law by trustees and the responsibility for its governance rests with Pension Trustees.

As discussed in Note 1. Accounting policies, with effect from 1 January 2019 the Lloyds Banking Group has revised its methodology for the recharge of defined benefit pension costs. Under the new recharge methodology, the Company is charged, and recognises as an expense, the cash contributions paid to the various Group schemes during the year relating to its employees' current service.

In previous years, the charge had been an allocation of the Group's pension cost determined in accordance with IAS 19 Employee Benefits. At 31 December 2018, the Company had recognised a net defined benefit asset of £2,810,000 which was reclassified as intercompany during 2019 and subsequently settled in cash.

Further information on the various Group defined benefits schemes which does not form part of these financial statements is included within the consolidated annual report and accounts of Lloyds Banking Group plc, the ultimate parent company.

The defined benefit pension charge for the year ended 31 December 2019 based on cash contributions amounted to £3,144,000. The charge for the year ended 31 December 2018 is set out below:

Expense recognised in the income statement:

	2018 £'000
Current service cost	(904)
Past service cost	(392)
Curtailment	(33)
Net interest amount	109
Plan administration gains incurred during the year	(185)
	(1,405)

The following disclosures are relevant only where the amount charged to the Company is based on a scheme's IAS 19 Income statement charge. Accordingly, they are provided in respect of 2018 only.

Amounts included in the Balance sheet:

	2018 £'000
Company's share of present value of funded obligations	(193,545)
Company's share of fair value of scheme assets	196,355
	2,810

Net amount recognised in the balance sheet:

	2018 £'000
At 1 January	3,482
Net charge to the Income statement	(1,405)
Net charge to the Statement of comprehensive income	(2,567)
Contributions paid	3,300
At 31 December	2,810

25. Retirement benefit assets (continued)

Defined benefit schemes (continued)

Movements in the defined benefit obligation:

	2018 £'000
At 1 January	(235,137)
Current service cost	(904)
Interest cost	(5,337)
Remeasurements:	
Actuarial gains – experience	(2,864)
Actuarial losses– demographic assumptions	(1,623)
Actuarial losses – financial assumptions	36,898
Benefits paid	15,847
Past service cost	(392)
Curtailment	(33)
At 31 December	(193,545)

Changes in the fair value of scheme assets:

	2018 £'000
At 1 January	238,619
Return on plan assets excluding amounts included in interest income	(34,978)
Contributions by employer	3,300
Interest income	5,446
Benefits paid	(15,847)
Administrative costs and other	(185)
At 31 December	196,355

Composition of scheme assets:

	2018 %
Equities	2.01
Debt instruments	73.31
Pooled investment vehicles	36.95
Derivative instruments, money market instruments and other assets and liabilities	(12.27)
	100

The assets are held independently of the Company's assets in separate trustee administered funds.

Notes to the financial statements (continued)

For the year ended 31 December 2019

25. Retirement benefit assets (continued)

Defined benefit schemes (continued)

The principal actuarial and financial assumptions used were as follows:

	2018 %
Discount rate	2.90
Rate of inflation	
- Retail Price Index	3.20
- Consumer Price Index	2.15
Rate of increase for pensions in payment and deferred pensions	2.73

	Years
Life expectancy for member aged 60, on the valuation date:	
- Men	27.8
- Women	29.4
Life expectancy for member aged 60, 15 years after the valuation date:	
- Men	28.8
- Women	30.6

The mortality assumptions used in the scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with the actual experience of the relevant schemes.

An analysis of the impact of a reasonable change in these assumptions is provided in the 2019 financial statements of the Company's ultimate parent company.

26. Share based payments

During the year ended 31 December 2019, the Company's ultimate parent undertaking operated share based payment schemes, all of which are equity settled. As stated in note 9, the Bank had no direct employees during the year (2018: nil). The employee costs, including a charge for share based payments of £989,000 (2018: £1,124,000), are recharged from other group companies.

Further details in respect of share based payment schemes can be found in the 2019 financial statements of the Company's ultimate parent undertaking, copies of which may be obtained from the Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

27. Related party transactions

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

	2019	Reclassified 2018
	£'000	£'000
Amounts due from group undertakings		
Lloyds Bank Asset Finance Limited	**-**	172,687
Lloyds Bank plc	**2,631,450**	3,160,068
Securitisation vehicles	**135,474**	150,304
Other group undertakings	**973,710**	956,458
Total Amounts due from group undertakings (see note 12)	**3,740,634**	4,439,517
Amounts due to group undertakings		
Lloyds Bank Asset Finance Limited	**33,229**	11,047,189
Lloyds Bank plc	**14,519,882**	-
Securitisation vehicles	**393,886**	-
Other group undertakings	**245,786**	2,203,687
Total Amounts due to group undertakings (see note 19)	**15,192,783**	13,250,876
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**61,145**	74,593
Interest income		
Lloyds Bank plc	**38,669**	3,078
Securitisation vehicles	**82,611**	19,056
Total Interest income (see note 3)	**121,280**	22,134
Interest expense		
Lloyds Bank Asset Finance Limited	**83,076**	131,838
Lloyds Bank plc	**83,781**	96
Securitisation vehicles	**106,178**	8,204
Total Interest expense (see note 3)	**273,035**	140,138
Other operating income		
Lloyds Bank plc (see note 5)	**1,482**	2,426
Other group undertakings (see note 5)	**8,099**	7,858

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 Income statement.

Commission receivable of £2,195,000 (2018: £1,324,000) represents profit share receivable of £1,284,000 (2018: £420,000) under the terms of the Company's agreement with Lloyds Bank General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc.

27. Related party transactions (continued)

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 and the Retail Division. Members of the Lloyds Banking Group plc board are employed by other companies within the Group and consider their services to the Retail Division are incidental to their other responsibilities within the Group. Other than as set out below, there were no transactions between the Company and key management personnel during the current or preceding year.

Key management personnel emoluments

	2019 £'000	2018 £'000
Short term employee benefits	**562**	177
Post employment benefits	**22**	2
	584	179

The amounts disclosed above relate wholly to directors of the Company.

28. 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 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.

28.1 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. The credit risk associated with these financial assets is not considered to be significant as these balances are supported by the Group Letter of support.

28. Financial risk management (continued)

28.1 Credit risk (continued)

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and 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.

- Counterparty limits: Credit risk in wholesale portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Divisional exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

Credit concentration - Loans and advances to customers

The Company lends to customers geographically located in the United Kingdom.

Customer for products in the Retail segment are mainly private individuals. The Wholesale segment comprises financing for motor dealers.

Loans and advances to customers - maximum exposure

The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held and the maximum exposure to loss is considered to be the Balance sheet carrying amount for Loans and advances to customers and commitments to lend.

	As at 31 December 2019		As at 31 December 2018	
	Maximum Exposure £'000	**Net Exposure £'000**	Maximum Exposure £'000	Net Exposure £'000
Loans and advances to customers, net[1]	**12,048,229**	**12,048,229**	9,082,225	9,082,225
Off balance sheet items:				
Commitments to lend	**853,896**	**853,896**	914,778	914,778
	12,902,125	**12,902,125**	9,997,003	9,997,003

[1] Amounts shown net of impairment balances.

28. Financial risk management (continued)

28.1 Credit risk (continued)

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.

For the Company's non-retail leasing portfolio, the Group's Corporate Master Scale ("CMS") has been used, with the internal credit rating systems set out below. The CMS ratings system differs to the RMS ratings system by reflecting the different exposures and the way the portfolios are managed. However, the PD's applied use the same methodology as applied to the RMS ratings system.

At 31 December 2019		**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Retail	**PD Range**				
RMS 1-6	0.00-4.50%	9,031,225	1,085,799	-	**10,117,024**
RMS 7-9	4.51-14.00%	96,991	230,564	-	**327,555**
RMS 10	14.01-20.00%	-	78,180	-	**78,180**
RMS 11-13	20.01-99.99%	2,078	135,275	-	**137,353**
RMS 14	100%	-	-	78,318	**78,318**
		9,130,294	1,529,818	78,318	**10,738,430**
Wholesale	**PD Range**				
CMS 1-10	0.00-0.050%	135,846	-	-	**135,846**
CMS 11-14	0.051-3.00%	1,239,773	935	-	**1,240,708**
CMS 15-18	3.01-20.00%	130,895	61,575	-	**192,470**
CMS 19	20.01-99.99%	9,534	-	-	**9,534**
CMS 20-23	100%	-	-	2,009	**2,009**
		1,516,048	62,510	2,009	**1,580,567**

Total loans and advances to customers	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
In respect of:				
Retail	9,130,294	1,529,818	78,318	**10,738,430**
Wholesale	1,516,048	62,510	2,009	**1,580,567**
	10,646,342	1,592,328	80,327	**12,318,997**

28. Financial risk management (continued)

28.1 Credit risk (continued)

Loans and advances to customers - gross carrying amount

At 31 December 2018		Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Retail	**PD Range**				
RMS 1-6	0.00-4.50%	6,879,596	528,726	-	7,408,322
RMS 7-9	4.51-14.00%	123,233	172,428	-	295,661
RMS 10	14.01-20.00%	-	57,014	-	57,014
RMS 11-13	20.01-99.99%	3,824	109,734	-	113,558
RMS 14	100%	-	-	46,823	46,823
		7,006,653	867,902	46,823	7,921,378
Wholesale	**PD Range**				
CMS 1-10	0.00-0.050%	168,169	1,235	-	169,404
CMS 11-14	0.051-3.00%	1,043,401	1,071	-	1,044,472
CMS 15-18	3.01-20.00%	106,095	167	-	106,262
CMS 19	20.01-99.99%	1,850	-	-	1,850
CMS 20-23	100%	-	-	2,076	2,076
		1,319,515	2,473	2,076	1,324,064

Total loans and advances to customers	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of:				
Retail	7,006,653	867,902	46,823	7,921,378
Wholesale	1,319,515	2,473	2,076	1,324,064
	8,326,168	870,375	48,899	9,245,442

Commitments to lend

At 31 December 2019		**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Wholesale	**PD Range**				
CMS 1-10	0.00-0.050%	145,122	-	-	**145,122**
CMS 11-14	0.051-3.00%	565,002	30	-	**565,032**
CMS 15-18	3.01-20.00%	143,742	-	-	**143,742**
		853,866	30	-	**853,896**

At 31 December 2018		Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Wholesale	**PD Range**				
CMS 1-10	0.00-0.050%	914,730	48	-	914,778

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. All Loans and advances to customers are assessed for impairment. No amounts due to group undertakings are impaired (2018: £nil).

28. Financial risk management (continued)

28.1 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 31 December 2018	**20,983**	**37,353**	**30,554**	**88,890**
Transfers to Stage 1	6,132	(6,132)	-	**-**
Transfers to Stage 2	(8,853)	10,889	(2,036)	**-**
Transfers to Stage 3	(705)	(7,412)	8,117	**-**
Impact of transfers between stages	(234)	16,111	25,345	**41,222**
	(3,660)	13,456	31,426	**41,222**
Other items charged to the Income statement	(27,833)	3,353	17,847	**(6,633)**
Charge for year (including recoveries)	(31,493)	16,809	49,273	**34,589**
Advances written off	-	-	(39,558)	**(39,558)**
Recoveries of prior advances written off	30,230	973	1,292	**32,495**
Unwind of discount	-	-	3,645	**3,645**
At 31 December 2019	**19,720**	**55,135**	**45,206**	**120,061**

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2018	928	1	-	**929**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**-**	**-**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Impact of transfers between stages	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**
Other items charged to the Income statement	**-**	**(1)**	**-**	**(1)**
Charge for year (including recoveries)	**-**	**(1)**	**-**	**(1)**
At 31 December 2019	**928**	**-**	**-**	**928**

28. Financial risk management (continued)

28.1 Credit risk (continued)

Analysis of movement in the allowance for impairment losses by stage (continued)

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance as at 1 January 2018	13,280	11,546	9,262	34,088
Transfers to Stage 1	2,272	(2,244)	(28)	-
Transfers to Stage 2	(3,838)	4,240	(402)	-
Transfers to Stage 3	(379)	(2,985)	3,364	-
Impact of transfers between stages	(1,468)	12,497	16,521	27,550
	(3,413)	11,508	19,455	27,550
Other items charged to the Income statement	10,226	14,299	12,915	37,440
Charge for year (including recoveries)	6,813	25,807	32,370	64,990
Advances written off	-	-	(15,594)	(15,594)
Recoveries of prior advances written off	890	-	2,065	2,955
Unwind of discount	-	-	2,451	2,451
At 31 December 2018	20,983	37,353	30,554	88,890

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2017				-
Adjustment on adoption of IFRS 9				12
Balance as at 1 January 2018	12	-	-	12
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact of transfers between stages	-	1	-	1
	-	1	-	1
Other items charged to the Income statement	916	-	-	916
Charge for year (including recoveries)	916	1	-	917
At 31 December 2018	928	1	-	929

28. Financial risk management (continued)

28.1 Credit risk (continued)

Repossessed collateral

Collateral held against Loans and advances to customers principally comprises motor vehicles and equipment. 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.

28.2 Liquidity risk

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

Liquidity risks are managed as part of the Group by an intermediate parent company, Lloyds Bank plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

The liquidity table below is a contractual maturity analysis for Amounts due to group undertakings, based on the earliest date the entity could be expected to repay the amounts owed.

As at 31 December 2019

	Up to 1 month £'000	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Borrowed funds	1,238,908	916,732	4,394,668	8,642,475	**15,192,783**
Contractual interest payments	15,277	29,257	103,193	152,243	**299,970**

As at 31 December 2018

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Borrowed funds	11,120,876	-	-	2,130,000	13,250,876
Contractual interest payments	5,005	6,390	28,755	42,829	82,979

28.3 Market risk

Market risk is the risk surrounding the market factors that management have applied in estimating the anticipated residual values of finance lease agreements where the Company retains title of the asset differ from actual trends. The Company is exposed to fluctuations in the value of second hand motor vehicles and other plant and machinery.

The Company is exposed to market risk, however the directors believe the exposure to be carefully managed.

The leasing portfolio includes agreements where the Company has a risk in respect of residual value of the assets. This area of market risk policy is 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.

Included in Loans and advances to customers is a provision of £150,707,000 (2018: £74,327,000) relating to market risk impairment.

28. Financial risk management (continued)

28.4 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.

Amounts due from group undertakings include amounts that are interest bearing at fixed rates for funding of long term loans and advances and variable rates for other borrowings.

Amounts due to group undertakings include amounts that are interest bearing at fixed rates for funding of long term loans and advances and variable rates for other borrowings.

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 Company's interest-bearing Amounts due to group undertakings and takes account of movement in the LIBOR which is the basis for the interest rate on such intercompany balances. A 0.15% (2018: 0.30%) increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as it is the amount by which the LIBOR increased in the year.

If the LIBOR increased by 0.15% (2018: 0.30%) and all other variables remain constant this would increase Interest expense by £18,147,000 (2018: £32,865,000) and accordingly decrease Interest expense by £18,147,000 (2018: £32,865,000) if the LIBOR decreased by the same amount.

28.5 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.

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

28.6 Financial strategy

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

28.7 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 £12,857,288,000 (2018: £9,082,637,000).

The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

29. Capital disclosures

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

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

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

The Company is authorised and regulated by the Financial Conduct Authority ('FCA') and is subject to capital resource requirements as set out by the FCA. Capital is actively managed at an appropriate level of frequency and regulatory capital levels are a key factor in the Company's budgeting and planning processes.

All FCA capital requirements imposed on the Company during the year were met.

30. Contingent liabilities and capital commitments

The financial statements for the year ended 31 December 2018 were approved after the FCA deadline of 29 August 2019 for customers to make claims in relation to the mis-selling of PPI. As a result of the unprecedented volume of potential claims received by the Group during August 2019, the requirement for the evaluation of individual claims in order to form a reliable estimate of the exposure and the limited time available prior to the approval of the 2018 financial statements, the directors concluded that it was not possible to determine a reliable estimate in respect of these claims for the purposes of the 2018 financial statements.

The directors are satisfied that sufficient evaluation of the claims received has now been performed in order to calculate a reliable estimate of the Company's exposure (see note 21).

There were no contingent liabilities at 31 December 2019.

The Company's undrawn formal standby facilities, credit facilities and other commitments to lend were £853,896,000 (2018: £914,778,000).

31. Reclassification of comparatives

The following items have been reclassified in the 2018 comparatives. Details of amounts and account items affected are provided below.

	Reclassified	Adjustment	Previously reported
	£'000	£'000	£'000
Balance sheet			
31 December 2018			
Cash and cash equivalents	**74,593**	57,023	17,570
Amounts due from group undertakings	**4,439,517**	(57,023)	4,496,540

In 2018 a balance of £57,023,000 was held in Amounts due from group undertakings. In 2019, this balance was reclassified as Cash and cash equivalents. The reclassification has had £nil impact on the profit before or after tax, £nil impact on net assets and has increased Cash generated from financing activities by £57,023,000.

32. Post balance sheet events

In March 2020 the World Health Organisation declared the outbreak of Covid-19 a global pandemic. The outbreak and the action taken by governments across the world are causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event given the limited number of cases reported as at 31 December 2019. In view of its currently evolving nature, the directors continue to monitor the developments closely. Based upon an initial assessment of the likely impact of the pervasive disruption experienced in the UK, the directors assessed an additional credit impairment provision of £160.2 million during the first half of 2020. In addition, the disruption to the economy and the used car market is expected to impact both customer behaviour and used car prices in the near future and the Company's market impairment provision was also increased by £17.6 million during the first half of 2020, based upon an assessment of the impact on the future volume and value of vehicles returned to the Company by loan customers either early or at the end of the loan.

33. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2019 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IFRS 3 Business Combinations and IAS 1 Presentation of Financial Statements).	Annual periods beginning on or after 1 January 2020

The full impact of this pronouncement is being assessed by the Company. However, the initial view is that this is not expected to have a significant impact on the reported numbers in the financial statements.

34. Ultimate parent undertaking and controlling party

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

Independent auditors' report to the member of Black Horse Limited

Report on the audit of the financial statements

Opinion

In our opinion, Black Horse Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Income statement, the Statement of comprehensive income, the Cash flow statement, and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Ian Godsmark (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 September 2020