Lex Autolease 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 for Lex Autolease Limited (the "Company") for the year ended 31 December 2019.

Business overview

The principal activities of the Company are vehicle contract hire and the provision of motor vehicles under credit sale, contract purchase and finance lease agreements.

The directors consider the level of new business written in the year to be satisfactory and in line with expecations, with new business being consistent with the previous year despite a decline in the corporate market for company cars combined with specific management actions to reduce the size of the public sector fleet, plus fleet size reduction from ex-Brand partner customers. However the strategic decision taken by the board in the prior year to simplify the business and focus on the core lease rental business is expected to return to growth from next year as the market stabilises after the UK has officially left the EU.

Turnover has increased in the current year principally from higher sales revenue from used car disposal activities compared to the previous year. Used car values are determined by prevailing market conditions, which the directors continuously monitor to ensure that vehicle contract pricing remains appropriate.

The directors of Lloyds Banking Group plc (the "Group") manage the Group's operations on a divisional basis. At the year end, the Company was included within the Retail Division. The Retail Division is a portfolio of businesses and operates in a number of specialist markets providing consumer lending and contract hire to personal and corporate customers.

Development and performance

The directors consider that the Company's business has developed in line with expectations in both its vehicle fleet size and business performance.

The Profit before tax amounted to £153,527,000 (2018: £210,226,000). The decrease in the Company's reported profit is principally driven by decreased revenue generated on the Company's owned vehicles leased to customers, which has seen a decline in the average funded fleet by more than 9% in the current year. However this is in line with expectations, due to the impact of the UK's exit from the EU, discussed in more detail in 'Key performance indicators' below.

Future outlook

The Company has achieved a satisfactory level of returns and expects to continue to do so in the foreseeable future when the motor market recovers following the temporary downturn in new business following the impact of Covid-19. The directors are supporting a strategy designed to ensure that the Company's interest and other charges fully reflect the risks associated with its core products. The rapid pace and scale of measures to contain a major health issue such as the Covid-19 pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the customers of the Group and as a result have a material adverse effect on the Company's results of operations, financial condition or prospects.

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 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.

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 of £3,250,000 to June 2020. In addition, the disruption to the economy and the used car market is expected to impact both used car prices in the near future and the Company's provision for residual value was also increased by £100 million during the first half of 2020, based upon an assessment of the impact on the value of vehicles to be returned to the Company.

Strategic report (continued)

For the year ended 31 December 2019

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 in its parent LBG and link to commercial given our corporate customers. While these risks are not managed separately for the Company, the Company is a main trading company of the LBG Retail Division. Further details of the Company's and Group's risk management policy are contained in note 20 to the financial statements.

The rapid pace and scale of measures to contain a major health issue such as the Covid-19 pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the customers of LBG and ultimately the Company, resulting in an adverse effect on the Company's results of operations, financial conditions or prospects.

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 to colleagues and customers.

Key performance indicators ("KPIs")

The directors consider that the key drivers of performance for the Company are the fluctuations in the residual values of fleet vehicles and the levels of new business achieved. Residual values are directly impacted by the UK economy, which influences the performance on disposal of ex fleet vehicles in the second hand car market.

The main component of the Company's vehicle assets relates to operating leases, accounting for 92% of the total funded fleet. The remaining 8% of the total funded fleet is made up of vehicle assets under finance leases, contract purchase agreements and employee car ownership schemes. The closing total funded fleet size decreased from 377,845 vehicles to 342,771 vehicles, a 9% decrease (2018: 3% decrease). This decrease coincides with the 7% decrease (2018: 1% decrease) in the Company's total funded vehicle assets, from £4,963m to £4,632m. The average total funded fleet size decreased from 386,017 vehicles in 2018 to 360,804 vehicles in 2019, a decrease of 7% (2018: increase of 2%).

Due to the uncertainties around the UK's strategy and changes in tax legislation having an impact on corporate customers and resulting in fleet downsizing, as well as customers in the market looking towards products such as Personal Contract Purchase agreements ("PCP") over traditional contract hire arrangements, the decrease in funded fleet size is in line with management's expectations and it is expected that the fleet will continue to show a declining trajectory for the next 12 months in light of the current Covid-19 crisis and uncertainty of impact on the UK economy. However, in terms of market share, with the same issues impacting all businesses across the UK, it is anticipated that the Company's actual UK market share in terms of the contract hiring business will not be significantly impacted.

Within Property, plant and equipment, the Company has written new leasing business during the year of £1,694 million (2018: £1,704 million), offset by disposals with an original cost of £1,975 million (2018: £1,627 million).

Policy and practice on payment of creditors

The Company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills ("BIS"), regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref. URN 04/606.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

The number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is 3 (2018: 2). This bears the same proportion to the number of days in the year as the aggregate of the amounts owed to trade creditors at 31 December 2019 bears to the aggregate of the amounts invoiced by suppliers during the 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.

Strategic report (continued)

For the year ended 31 December 2019

Section 172(1) statement (continued)

Statement of Engagement with Employees and Other Stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the Directors have engaged with, and had regard to, the interest of key stakeholders and employees. The Company is a subsidiary of Lloyds Banking Group plc ("LBG"), and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant. Information in relation to employees is included in the Directors report.

Customers

The directors ensure the Company, as part of the Group, works toward achieving LBG's customer ambitions by focussing on customer fair value and by treating customers fairly. The Company is one of a few companies within the Retail Division of the Group providing customers with motor vehicle finance and the directors work with colleagues within the division to understand areas where improvements to customer experience can be made. The Company is an active participant in the broader Motor Finance Group initiatives. The Company is continuing to enhance the customer journey for both its corporate and broker introduced customers.

Employees

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

Shareholders

The Company is a wholly owned subsidiary of ACL Autolease (Holdings) Limited, forming part of LBG's retail division. The directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of LBG, the ultimate controlling party, whilst recognising and ensuring that the interests of the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic report within the 2019 annual report and accounts of LBG, which does not form part of this report, are available on the LBG website. Further details on where to access this information can be found in note 25.

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, contract hire and other loans. In addition the Company is an integral part of supporting the groups 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

Whilst regulatory matters are a small part of the Company's business, the Company is regulated by the FCA as part of its regulation of the broader activity of the Group. As set out within the customer section above, a key focus for the Company is treating customers fairly. The approach of the Group, including that of the Company, to managing regulatory change is detailed on page 11 of the LBG Annual Report and Accounts for 2019, which does not form part of this report, are available on the LBG website.

Strategic report (continued)
For the year ended 31 December 2019

Section 172(1) statement (continued)

How stakeholder interest has influenced decision making

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

During 2019, several changes to the Company's board of directors were made in order to ensure that the Company benefits from the wider backgrounds and sector experience that exist in the Group and to increase financial control and facilitate transparent reporting. As an example, J McCaffrey, who was appointed during the year, leads the Motor Finance transformation team. In 2019, the business continued with it's three year strategic investment programme which delivered a number of digitally led enhancements to simplify and transform the onboarding , in life and renewal experiences of Corporate and Personal customers.

Emerging risks

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, notatably in the area of cyber fraud, people, technology, operational resilience and where there is reliance on thrid-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.

General

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

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

R A Jones
Director

30 September 2020

Directors' report

For the year ended 31 December 2019

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

General information

The Company is a limited company incorporated and domiciled in United Kingdom (registered number: 01090741).

The Company is party to two undisclosed agency agreements with HVF Limited, a fellow subsidiary undertaking within Lloyds Banking Group ("the Group"). Under the terms of these agreements, HVF Limited's principal activity is to introduce contract hire and credit business to the Company, and to a much lesser extent to continue to act as an agent in respect of assets that the Company acquired from A.C.L. Limited, Lex Autolease (CH) Limited and Lex Autolease (VC) Limited on 1 August 2015, fellow subsidiary undertakings within the Group. It is expected this activity will continue to decline as the number of leased assets acquired from these fellow subsidiaries continue to terminate and are disposed of in the next few years.

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

Employees

The Company is committed to ensuring that employees feel valued and empowered to thrive in a truly inclusive business. Employees are offered a competitive and fair reward package that supports its aims as a responsible business. The Company's employees have the ability to join the Group's trade unions, Accord and Unite, which negotiate and consult on behalf of Group employees.

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

A dividend of £136,600,000, representing a dividend of £22.91 per share, was paid during the year (2018: £186,000,000).

Going concern

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

Registered office

The Company's registered office is 25 Gresham Street, London, EC2V 7HN.

Directors

The current directors of the Company are shown below:

R A Jones	(appointed 5 August 2019)
J McCaffrey	(appointed 9 December 2019)
R J H Milne	(appointed 9 December 2019)
I S Perez	(appointed 9 December 2019)

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

A J Hartley	(resigned 22 November 2019)
C A Parkes	(resigned 22 November 2019)

Company secretary

The Company secretary is D D Hennessey.

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report 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 3.

Directors' report (continued)

For the year ended 31 December 2019

Approach to Corporate Governance

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 4. 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 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.

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, available on the Lloyds Banking Group plc website.

Principle Two – Board Composition

The Company is led by a board comprising a 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 are 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 through 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 Company 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.

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 20.

Directors' report (continued)

For the year ended 31 December 2019

Approach to Corporate Governance (continued)

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 the 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 this 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 3.

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 join 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 have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are 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 Report and accounts in accordance with applicable law and regulation.

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

Company law, as applied to limited liability partnerships by the Limited Liability Partnership (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations"), requires the members to prepare financial statements for each financial year. Under that law the members have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law, as applied to limited liability partnerships, the members 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 limited liability partnership and of the profit or loss of the limited liability partnership for that period. In preparing the financial statements, the members are required to:

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

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

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

Directors' report (continued)

For the year ended 31 December 2019

Independent auditors and audit information

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

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

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

R A Jones
Director

30 September 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Revenue	3	**2,503,584**	2,378,144
Direct costs	3	**(2,162,778)**	(1,957,633)
Gross profit		**340,806**	420,511
Interest income	4	**5,590**	8,700
Interest expense	4	**(72,992)**	(72,995)
Other operating expenses	3	**(119,877)**	(145,990)
Profit before tax		**153,527**	210,226
Taxation	8	**(31,243)**	(39,817)
Profit for the year, being total comprehensive income		**122,284**	170,409

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**	2018 £'000
ASSETS			
Cash and cash equivalents		**225,725**	728,265
Trade and other receivables	9	**257,279**	204,981
Loans and advances to customers	10	**243,140**	308,643
Property, plant and equipment	11	**4,399,057**	4,654,323
Intangible assets	12	**10,458**	13,118
Deferred tax asset	13	**166,125**	149,330
Total assets		**5,301,784**	6,058,660
LIABILITIES			
Borrowed funds	14	**4,468,760**	5,231,178
Trade and other payables	15	**369,412**	367,377
Provision for liabilities and charges	16	**31,562**	26,017
Current tax liability		**111,723**	99,445
Total liabilities		**4,981,457**	5,724,017
EQUITY			
Share capital	17	**5,963**	5,963
Retained earnings		**314,364**	328,680
Total equity		**320,327**	334,643
Total equity and liabilities		**5,301,784**	6,058,660

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

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

R A Jones
Director

30 September 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 31 December 2017	5,963	355,729	361,692
Adjustment on transition to IFRS 9	-	(438)	(438)
Adjustment on transition to IFRS 15	-	(11,020)	(11,020)
At 1 January 2018	5,963	344,271	350,234
Profit for the year being total comprehensive income	-	170,409	170,409
Dividend paid to equity holders of the Company	-	(186,000)	(186,000)
At 31 December 2018	5,963	328,680	334,643
Profit for the year being total comprehensive income	-	122,284	122,284
Dividend paid to equity holders of the Company	-	(136,600)	(136,600)
At 31 December 2019	**5,963**	**314,364**	**320,327**

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	2018 £'000
Cash flows generated from operating activities		
Profit before tax	**153,527**	210,226
Adjustments for:		
- Interest receivable	**(5,590)**	(8,700)
- Interest expense	**72,992**	72,995
- Depreciation of Property, plant and equipment	**962,823**	980,824
- Cost of sale of Property, plant and equipment	**997,160**	804,631
- Increase in Provision for liabilities and charges	**5,545**	4,661
- Amortisation of intangible assets	**2,660**	2,352
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**65,503**	60,122
- Impact on transition to IFRS 9 on Loans and advances to customers	**-**	(532)
- Net increase in Trade receivables, prepayments and other debtors	**(46,112)**	(30,764)
- Net increase in Trade and other payables	**2,035**	20,327
- Impact on transition to IFRS 15 on Trade and other payables	**-**	(13,605)
Cash generated from operations	**2,210,543**	2,102,537
Tax paid	**(35,760)**	-
Net cash generated from operating activities	**2,174,783**	2,102,537
Cash flows used in investing activities		
Purchase of intangible assets	**-**	(140)
Purchase of Property, plant and equipment	**(1,693,800)**	(1,703,651)
Transfer of Property, plant and equipment from fellow group undertakings	**(10,917)**	-
Net cash used in investing activities	**(1,704,717)**	(1,703,791)
Cash flows (used in)/generated from financing activities		
Dividends paid	**(136,600)**	(186,000)
(Repayment of)/Proceeds from net borrowings with group undertakings	**(768,604)**	417,470
Interest received	**5,590**	8,700
Interest paid	**(72,992)**	(72,995)
Net cash (used in)/generated from financing activities	**(972,606)**	167,175
Change in Cash and cash equivalents	**(502,540)**	565,921
Cash and cash equivalents at beginning of year	**728,265**	162,344
Cash and cash equivalents at end of year	**225,725**	728,265

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

Notes to the financial statements

For the year ended 31 December 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 following IFRS pronouncement relevant to the Company has been adopted in these financial statements:

- IFRS 16 'Leases': Replaces IAS 17 'Leases'. Accounting as a lessor will remain aligned to the current approach under IAS 17; however for lessee accounting there will no longer be a distinction between finance and operating leases. The transition will result in the recognition of right of use assets and lease liabilities in respect of leased properties previously accounted for as operating leases; there will be no impact on shareholders' equity. As permitted by the transition options under IFRS 16, comparative figures for the prior year will not be restated. Going forward, a finance charge on the lease liability and a depreciation charge on the right-of-use asset will be recognised, whereas previously the lease rentals were included within operating expenses.

The application of this standard has not had a material impact on the Company.

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 24. 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

Revenue

Revenue substantially comprises income earned from operating lease services provided to customers, which is credited to the Statement of comprehensive income on a straight line basis, and sales proceeds received on disposal of ex leased vehicles. Vehicle sales are recognised in the period in which the sale occurs, with the book value of the vehicle being charged to direct cost of sales.

Other income includes amounts arising at the end of vehicle contracts, which are recognised in the period during which the contract terminates.

Interest receivable on credit sale agreements, finance lease agreements and contract purchase agreements is credited to the Statement of comprehensive income over the contractual life of each contract using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the contractual life of the financial instrument.

For loan products, the effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the contractual life of a financial instrument to the net carrying amount of the financial asset or liability. The effective interest rate for leasing products is similar except that future cash payments or receipts are assessed over the contractual life of the agreement.

Lease classification

Assets leased to customers under contract purchase agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases.

Lease agreements, which do not represent finance leases, are classified as operating leases. Assets leased to customers under such agreements are included in property, plant and equipment and are depreciated over their lease term down to their anticipated realisable value on a straight line basis. Anticipated realisable values are regularly reassessed and the impact upon depreciation charge is adjusted prospectively. The maintenance element of the rental receivable is credited to a deferred income account and released to the Statement of comprehensive income in line with the actual expenditure.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.3 Financial assets and liabilities

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

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

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

Financial assets and liabilities are derecognised when the contractual rights 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.

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

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Financial assets measured at amortised cost are Loans and advances to customers, Cash and cash equivalents, Amounts due from group undertakings and Trade and other receivables. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method.

All financial liabilities are measured at amortised cost.

1.4 Property, plant and equipment

Property, plant and equipment includes Freehold land and buildings and Plant, machinery and equipment relating to fixed plant in buildings and computers, plus Owned vehicles leased to customers.

Plant, machinery and equipment and Owned vehicles leased to customers are stated at cost and are depreciated to expected residual values on a straight line basis over its expected economic life, typically between 3 and 7 years.

Freehold land and buildings are stated at cost and are being depreciated on a straight line basis over their expected useful life of 34 years. Land is not depreciated.

Adjustments to depreciation as a result of changes to the estimated residual value are reflected prospectively unless the change in residual value results in an impairment (see note 1.5).

1.5 Impairment

(i) Impairment of financial assets

Trade receivables

Owned vehicles leased to customers under operating leases reflect the Company's principal trading activity, accounting for more than 90% of the Company's funded fleet and associated activities. Trade receivables reflect the trading debt in respect of the Company's activities as a service provider to its customers and account for the majority of the impairment provision. A simplified model for impairment is applied to provide for lifetime expected credit losses, at Stage 3, when a customer has defaulted or the debts overdue by 4 months or more.

Loans and advances to customers

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses and certain fraud costs. 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 mitigates of loss and including the impact of discounting using the effective interest rate.

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 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)

1.5 Impairment (continued)

(i) Loans and advances to customers (contined)

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.

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

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.

A financial asset 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 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.

(ii) Impairment of non-financial assets

Impairment of owned vehicles leased to customers under operating leases is assessed by comparing the net present value of the expected future cash flows with the asset's carrying value. Any impairment identified in this way is charged immediately to the Statement of comprehensive income.

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, including future rentals receivable and a current assessment of residual values, discounted at the Company's weighted average cost of capital. This assessment is performed on an asset by asset basis. The method and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between the loss estimates and actual loss experience.

All other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the Statement of comprehensive income.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the residual value of the related asset is adjusted and the amount of the reversal is recognised in the Statement of comprehensive income.

1.6 Dividends paid

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

1.7 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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.8 Taxation, including deferred income taxes

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

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

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

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

Deferred tax 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.

1.9 Share based payments

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 6. Full details of these schemes can be found in the 2019 annual report and accounts of the Group.

1.10 Retirement benefit obligations

Defined contribution

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

Defined benefit

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

Certain qualifying employees are members of the Group's defined benefit plans. The majority of the active members of these schemes are employed by other companies within the Group. Accordingly, in substance most of the risk associated with the operation of the schemes lies with these companies and the Company has accounted for the schemes as defined contribution schemes.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.11 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 costs less accumulated amortisation, and are amortised over a period of 7 years using the straight line method.

1.12 Provision for liabilities and charges

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with IFRSs 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.

(i) Critical accounting 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:

Provision for liabilities and charges

The Company carries a provision in respect of amounts contractually payable to customers for under-mileage, in respect of its lease agreements. The provision is management's best estimate of amounts due to customers and underlying assumptions are reviewed periodically using the most up to date and readily available mileage information from live contracts, with adjustments made to the provision where appropriate.

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.

(ii) Critical accounting judgements

The following are critical accounting judgements that the Directors have made in the process of applying the Company's accounting policies which have the most significant effect on the amounts recognised in the financial statements:

Allowance for impairment losses

The calculation of the Group's expected credit loss (ECL) allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. 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 an 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 1.5 Impairment of financial assets.

Lifetime of an exposure

The Company has considered the losses beyond the contractual term over which the Company is exposed to credit risk. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2019

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

Significant increase in credit risk

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 quantitative tests together with qualitative indicators to determine whether there has been a SICR for an asset. The Company monitors a series of account flags which may indicate whether the asset has suffered a SICR which are aligned to operational credit risk management strategies. 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.

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 impairment losses. At 31 December 2019, post-model adjustments were made of £10,080,000 (2018: £10,914,000). This included adjustments in respect of residual values totalling £2,390,000 (2018: £2,680,000).

Forward looking

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.

Allowance for impairment losses (continued)

Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events. To allow for this a relatively unlikely severe downside scenario is therefore included. At 31 December 2018 and 2019, the base case, upside and downside scenarios each carry a 30 per cent weighting; the severe downside scenario is weighted at 10 per cent. The choice of alternative scenarios and scenario weights is a combination of quantitative analysis and judgemental assessment to ensure that the full range of possible outcomes and material non-linearity of losses are captured. A committee under the chairmanship of the Chief Economist meets quarterly to review and, if appropriate, recommend changes to the economic scenarios to the Chief Financial Officer and Chief Risk Officer. Findings dealing with all aspects of the expected credit loss calculation are presented to the Group Audit Committee.

Owned motor vehicles leased to customers

The Company reviews the residual value of it's operating lease assets on a regular basis, by reference to independent market value data and prevailing economic conditions. The adjustment arising from the reviews are dealt with as set out in Note 1.4.

The residual value provision included in the 2019 accounts totals £99,974,630 (2018 : £92,866,126). This provision is sensitive to the future values of leased motor vehicles to be returned at the end of the lease. A 2.7% - 3.1% reduction below the estimated future values for all fleet vehicles would result in a £40 million to £45 million increase in residual value provision. A 2.7% - 3.1% variation is considered appropriate because it is aligned with the Group's view of the impact of a mild downside volatility scenario on used car prices used to assess market risk impairment within its Retail Finance business.

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

3. Profit before tax

The following items have been included in arriving at Profit before tax:

	2019 £'000	2018 £'000
Revenue		
Aggregate rentals receivable from operating lease contracts	**1,409,574**	1,480,509
Interest receivable on finance lease agreements	**12,491**	13,294
Interest receivable on contract purchase agreements	**5,545**	6,535
Interest receivable on credit sale agreements	**2,554**	3,508
Fleet management fees	**10,737**	11,559
Proceeds from disposal of property, plant and equipment	**1,015,934**	823,262
Other income	**46,749**	39,477
	2,503,584	2,378,144
Direct Costs		
Depreciation on owned vehicles leased to customers (see note 11)	**962,536**	980,824
Amortisation of Intangible assets (see note 12)	**2,660**	2,352
Cost of sale on disposal of Property, plant and equipment (see note 11)	**997,160**	804,631
Impairment of Loans and advances to customers (see note 5)	**(592)**	(229)
Impairment of Trade receivables (see note 5)	**8,269**	8,016
Other provision charge (see note 16)	**16,045**	8,054
Other costs	**176,700**	153,985
	2,162,778 **-**	1,957,633
Operating expenses		
Staff costs (see note 6)	**36,857**	40,726
Depreciation on freehold land and buildings (see note 11)	**287**	-
Auditors remuneration - audit work	**95**	79
Other costs	**82,638**	105,185
	119,877	145,990

4. Interest income and Interest expense

	2019 £'000	2018 £'000
Interest income		
Group interest income (see note 19)	**5,590**	8,700
Interest expense		
Group interest expense (see note 19)	**(72,992)**	(72,995)

Notes to the financial statements (continued)

For the year ended 31 December 2019

5. Impairment losses

31 December 2019	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Transfer between stages	(1)	5	183	**187**
Impact from other changes in credit quality	131	1	6,183	**6,315**
Additions/(repayments)	(727)	(1)	1,903	**1,175**
	(597)	5	8,269	**7,677**
In respect of:				
Trade and other receivables	**-**	-	8,269	**8,269**
Loans and advances to customers	(597)	5	-	**(592)**
	(597)	5	8,269	**7,677**

31 December 2018	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Transfer between stages	(5)	14	-	9
Impact from other changes in credit quality	278	-	9,870	10,148
Repayments	(511)	(5)	(1,854)	(2,370)
	(238)	9	8,016	7,787
In respect of:				
Trade and other receivables	-	-	8,016	8,016
Loans and advances to customers	(238)	9	-	(229)
	(238)	9	8,016	7,787

6. Staff costs

	2019 £'000	2018 £'000
Wages and salaries	**30,590**	32,046
Social security costs	**2,980**	3,456
Share based payments	**635**	877
Pension costs	**2,652**	4,347
	36,857	40,726

The average monthly number of staff during the year was 1,065 (2018: 1,195). All staff contracts of service are with either Lloyds Bank Asset Finance Limited, Lloyds Bank plc or HBOS plc. All staff costs in respect of staff identified as providing services to the Company are recharged from a fellow Group company.

Notes to the financial statements (continued)

For the year ended 31 December 2019

7. Directors' emoluments

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

	2019 £'000	2018 £'000
Aggregate emoluments	**335**	578
Aggregate post-employment benefits	**-**	-
Highest paid director:		
Aggregate emoluments	**203**	328

The number of directors to whom retirement benefits accrued under defined benefit and money purchase schemes is three and two respectively (2018: zero and three respectively).

No directors exercised share options in the ultimate parent company during the year (2018: none).

Directors and related parties who lease or purchase vehicles from the Company do so only at market rates.

8. Taxation

a) Analysis of charge for the year	**2019 £'000**	2018 £'000
UK corporation tax:		
- Current tax on taxable profit for the year	**47,722**	35,582
- Adjustments in respect of prior years	**316**	311
Current tax charge	**48,038**	35,893
UK deferred tax:		
- Origination and reversal of timing differences	**(18,478)**	4,380
- Due to change in UK corporation tax rate	**1,945**	(188)
- Adjustments in respect of prior years	**(262)**	(268)
Deferred tax (credit)/charge (see note 13)	**(16,795)**	3,924
Tax charge	**31,243**	39,817

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

b) Factors affecting the tax charge for the year

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

	2019 £'000	2018 £'000
Profit before tax	**153,527**	210,226
Tax charge thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**29,170**	39,943
Factors affecting charge:		
- Due to change in UK corporation tax rate	**1,945**	(188)
- Disallowed and non-taxable items	**74**	19
- Adjustments in respect of prior years	**54**	43
Tax charge on profit on ordinary activities	**31,243**	39,817
Effective rate	**20.35%**	18.94%

9. Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**155,436**	98,322
Amounts due from group undertakings (see note 19)	**6,186**	-
Prepayments	**35,870**	36,513
Other debtors	**59,787**	70,146
	257,279	204,981

Amounts due from group undertakings are unsecured and repayable on demand. Interest is both earned and charged at variable rates on both balances lent to and borrowed from Lloyds Bank plc. All other amounts due from group undertakings are non-interest bearing.

10. Loans and advances to customers

10.1 Loans and advances to customers maturity

	2019 £'000	2018 £'000
Advances under finance lease agreements	**178,477**	218,001
Amounts receivable on credit sales agreements	**16,563**	26,367
Contract purchase agreements	**51,274**	68,041
Gross loans and advances to customers	**246,314**	312,409
Less: allowance for losses on loans and advances	**(3,174)**	(3,766)
Net loans and advances to customers	**243,140**	308,643
of which:		
Due within one year	**135,090**	151,617
Due after one year	**108,050**	157,026
	243,140	308,643

Loans and advances to customers include finance lease receivables:

	2019 £'000	2018 £'000
Gross investment in finance lease receivables:		
- no later than one year	**99,168**	107,924
- one to two years	**59,089**	73,243
- two to three years	**27,635**	34,253
- three to four years	**10,422**	12,918
- four to five years	**2,885**	3,576
- later than five years	**96**	38
	199,295	231,952
Unearned future finance income on finance lease contracts	**(20,818)**	(13,951)
Net investment in finance lease contracts	**178,477**	218,001

10 Loans and advances to customers (continued)

10.1 Loans and advances to customers maturity (continued)

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

	2019 £'000	2018 £'000
- no later than one year	**89,987**	101,514
- one to two years	**52,868**	69,642
- two to three years	**24,170**	31,838
- three to four years	**8,854**	11,664
- four to five years	**2,514**	3,311
- later than five years	**84**	32
	178,477	218,001

No contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income during the year (2018: £nil) and there is no allowance for uncollectible minimum lease payments receivable (2018: £nil).

The present value of minimum lease payments receivable under finance leases are as follows:

	2019 £'000	2018 £'000
- no later than one year	**42,168**	49,717
- later than one year and no later than five years	**42,730**	52,162
- later than five years	**55**	10
	84,953	101,889

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.

Further analysis of Loans and advances to customers is provided in note 20.

10.2 Loans and advances to customers - movement over time

A break-down of the Company's Loans and advances to customers by stage is presented below:

31 December 2019	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance as at 1 January 2019	311,902	483	25	**312,410**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	(110)	110	-	**-**
Transfers to Stage 3	(9)	-	9	**-**
Net decrease in loans and advances to customers	(66,047)	(229)	178	**(66,098)**
Reinstatement of provisions previously written off	-	-	2	**2**
Gross loans and advances to customers	245,736	364	214	**246,314**
Less: allowance for losses on loans and advances	(3,150)	(24)	-	**(3,174)**
Net loans and advances to customers	**242,586**	**340**	**214**	**243,140**

10 Loans and advances to customers maturity (continued)

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

31 December 2018	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance as at 1 January 2018	371,915	181	132	372,228
Transfers to Stage 1	12	(12)	-	-
Transfers to Stage 2	(463)	463	-	-
Transfers to Stage 3	-	-	-	-
Net decrease in loans and advances to customers	(59,563)	(149)	(107)	(59,819)
Gross loans and advances to customers	311,901	483	25	312,409
Less: allowance for losses on loans and advances	(3,747)	(19)	-	(3,766)
Net loans and advances to customers	308,154	464	25	308,643

11. Property, plant and equipment

	Freehold land and buildings £'000	**Plant, machinery and equipment £'000**	**Owned vehicles leased to customers £'000**	**Total £'000**
Cost				
At 1 January 2018	-	6,333	6,732,138	6,738,471
Additions	-	-	1,703,651	1,703,651
Disposals	-	-	(1,626,713)	(1,626,713)
At 31 December 2018	-	6,333	6,809,076	6,815,409
Additions	-	-	1,693,800	1,693,800
Transfers from other group companies	10,917	-	-	10,917
Disposals	-	(6,333)	(1,975,448)	(1,981,781)
At 31 December 2019	**10,917**	**-**	**6,527,428**	**6,538,345**
Accumulated depreciation				
At 1 January 2018	-	6,333	1,996,011	2,002,344
Charge for the year (see note 3)	-	-	980,824	980,824
Disposals	-	-	(822,082)	(822,082)
At 31 December 2018	-	6,333	2,154,753	2,161,086
Charge for the year (see note 3)	287	-	962,536	962,823
Disposals	-	(6,333)	(978,288)	(984,621)
At 31 December 2019	**287**	**-**	**2,139,001**	**2,139,288**
Balance sheet amount at 31 December 2019	**10,630**	**-**	**4,388,427**	**4,399,057**
Balance sheet amount at 31 December 2018	-	-	4,654,323	4,654,323

On 15 February 2019, the Company acquired the freehold land and buildings for Heathside Park, Cheadle Heath, Stockport from a fellow group undertaking, Lex Vehicle Leasing Limited, for a net book value of £10,917,000.

Impairment charges, which are included in the charge for the year, are calculated in accordance with the accounting policy described in note 1.5(ii).

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

11. Property, plant and equipment (conrinued)

At 31 December the future minimum rentals receivable under non-cancellable operating leases were as follows:

	2019 £'000	2018 £'000
Receivable within one year	**963,411**	1,100,516
Receivable between two to five years	**1,027,549**	1,156,386
Receivable later than five years	**2,132**	8,447
	1,993,092	2,265,349

12. Intangible assets

	Software £'000
Cost	
At 1 January 2018	18,324
Additions	140
At 31 December 2018 and 31 December 2019	18,464
Amortisation	
At 1 January 2018	2,994
Charge for the year (see note 3)	2,352
At 31 December 2018	5,346
Charge for the year (see note 3)	2,660
At 31 December 2019	8,006
Balance sheet amount at 31 December 2019	**10,458**
Balance sheet amount at 31 December 2018	13,118

The Company's Intangible assets relate to Software enhancement costs that were recognised by the Company and subsequently brought into use in the previous year. 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.

13. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2019 £'000	2018 £'000
At 1 January	**149,330**	153,254
Credit/(charge) for the year (see note 8)	**16,795**	(3,924)
At 31 December	**166,125**	149,330

13. Deferred tax asset (continued)

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

	2019 £'000	2018 £'000
Accelerated capital allowances	**16,878**	(1,328)
Other temporary differences	**(83)**	(2,596)
	16,795	(3,924)

Deferred tax asset comprises:	**2019 £'000**	2018 £'000
Accelerated capital allowances	**166,125**	149,247
Other temporary differences	**-**	83
	166,125	149,330

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 £19,544,000.

14. Borrowed funds

	2019 £'000	2018 £'000
Amounts due to group undertakings (see note 19)	**4,468,760**	5,231,178

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to Lloyds Bank plc are interest bearing at variable rates, with the interest rates charged during the year varying between 0.62% and 0.94% (2018: 0.59% and 0.85%). All other balances are non-interest bearing.

15. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	**15,387**	4,844
Other tax and social security payable	**28,708**	27,503
Accruals and deferred income	**325,317**	335,030
	369,412	367,377

Trade and other payables include £127,946,000 which is due after more than one year (2018: £117,409,000).

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

16. Provision for liabilities and charges

	Conduct risk provision £'000	Other provision £'000	Total £'000
At 1 January 2018	122	21,234	21,356
Charge for the year	8	8,046	8,054
Utilised during the year	-	(3,393)	(3,393)
At 31 December 2018	130	25,887	26,017
(Credit)/charge for the year	(122)	16,167	16,045
Utilised during the year	(8)	(10,492)	(10,500)
At 31 December 2019	**-**	**31,562**	**31,562**

Conduct risk provision

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. An assessment has been made of the potential future transfer of economic benefits from claims made against the Company in relation to conduct risk. During 2015, the Company reviewed its documentation and found there to be a compliance issue. The provision represented an estimate of the likely future outflows to settle claims against the Company. All claims were settled in the current year and the directors are not aware of any other conduct risk issues in existence at the year end. Consequently no provision is recognised.

Other provision

The Company has recognised certain provisions in respect of amounts contractually payable to customers for under-mileage, in respect of its lease agreements. The provision is continually assessed using the most readily available mileage information for live lease agreements and is an estimate of the likely future outflows. The provision is utilised when rebates are made to customers in line with their lease agreements.

17. Share capital

	2019 £'000	2018 £'000
Allotted, issued and fully paid		
5,963,379 ordinary shares of £1 each	**5,963**	5,963

18. 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 6, the Company had no direct employees during the year (2018: nil). The employee costs, including a charge for share based payments of £635,000 (2018: £877,000), 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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

19. Related party transactions

The Company is controlled by the Retail Division. A number of transactions are entered into with related parties in the normal course of business. These include loan and interest 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 £'000	2018 £'000
Amounts due from group undertakings		
Lloyds Bank Asset Finance Limited	**6,186**	-
Amounts due to group undertakings		
A. C. L. Limited	**100**	100
ACL Autolease Holdings Limited	**43,311**	5,969
Bank of Scotland plc	**23,565**	6
Black Horse Limited	**-**	31,732
HVF Limited	**67**	-
Lex Autolease (CH) Limited	**1**	71,417
Lex Autolease (VC) Limited	**10**	85,707
Lloyds Bank Asset Finance Limited	**-**	373,043
Lloyds Bank plc	**4,401,706**	4,663,204
Total Amounts due to group undertakings (see note 14)	**4,468,760**	5,231,178
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**225,725**	728,265
Interest income		
Lloyds Bank plc (see note 4)	**5,590**	8,700
Interest expense		
Lloyds Bank plc (see note 4)	**72,992**	72,995

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

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management is comprised of the directors of the Company, the directors of the Retail Division and the board of Lloyds Banking Group plc. Members of the Retail division and 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.

The remuneration of directors is set out in note 7. The aggregate emoluments of the other senior management of the Company that were borne by the Company were as follows:

	2019 £'000	2018 £'000
Aggregate emoluments	**1,149**	1,111

20. Financial risk management

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

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

20.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Loans and advances to customers is managed through the application of strict underwriting criteria, determined by the Group'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 1.5 and 2.

Cash and cash equivalents and 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.

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.

- Credit scoring: In its principal portfolios, the Company uses statistically based decision techniques (primarily credit scoring). Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to Group Risk approval.

- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.

- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

Credit concentration - Trade receivables

The Company provides operating lease arrangements and other funded products to customers geographically located in the United Kingdom. The maximum exposure to Trade receivables at the year end is £155,436,000 (2018: £98,322,000). Trade receivables of £7,690,000 (2018: £7,733,000) are considered to be in stage 3 for impairment and are provided for.

Credit concentration - Loans and advances to customers

The Company lends to corporate, personal and other customers geographically located in the United Kingdom.

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

20. Financial risk management (continued)

20.1 Credit risk (continued)

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	2019 £'000	2018 £'000
Cash and cash equivalents	**225,725**	728,265
Trade and other receivables	**257,279**	204,981
Loans and advances to customers	**246,314**	312,409
	729,318	1,245,655

Loans and advances to customers - gross carrying amount

The analysis of lending has been prepared by applying the Group's Corporate Master Scale ("CMS") to the Company's impairment model, for the Company's leasing portfolio. 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 which has a CMS rating of 20-23.

At 31 December 2019		**Gross Loans and advances to customers - credit quality**			
	PD %	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
CMS 1-10	0.00-0.050%	30,596	-	-	30,596
CMS 11-14	0.051-3.00%	55,018	27	-	55,045
CMS 15-18	3.01-20.00%	159,964	-	-	159,964
CMS 19	20.01-99.99%	158	337	-	495
CMS 20-23	100%	-	-	214	214
Total		**245,736**	**364**	**214**	**246,314**

At 31 December 2018		Gross Loans and advances to customers - credit quality			
	PD %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 1-10	0.00-0.050%	53,045	-	-	53,045
CMS 11-14	0.051-3.00%	68,414	5	-	68,419
CMS 15-18	3.01-20.00%	189,896	10	-	189,906
CMS 19	20.01-99.99%	546	468	-	1,014
CMS 20-23	100%	-	-	25	25
Total		311,901	483	25	312,409

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

20. Financial risk management (continued)

20.1 Credit risk (continued)

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance as at 1 January 2019	3,747	19	7,733	11,499
Transfers to Stage 2	(1)	1	-	-
Impact of transfer between stages	-	4	183	187
	(1)	5	183	187
Other items	(596)	-	8,086	7,490
(Credit)/charge for the year (including recoveries)	(597)	5	8,269	7,677
Advances written off	-	-	(8,320)	(8,320)
Recoveries of prior advances written off	-	-	8	8
At 31 December 2019	**3,150**	**24**	**7,690**	**10,864**

In respect of:	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Trade receivables	-	-	7,690	7,690
Loans and advances to customers	3,150	24	-	3,174
Total	**3,150**	**24**	**7,690**	**10,864**

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2018	3,985	10	5,439	9,434
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(5)	5	-	-
Impact of transfer between stages	(1)	10	-	9
	(5)	14	-	9
Other items	(233)	(5)	8,016	7,778
(Credit)/charge for the year (including recoveries)	(238)	9	8,016	7,787
Advances written off	-	-	(5,728)	(5,728)
Recoveries of prior advances written off	-	-	6	6

In respect of	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Trade receivables	-	-	7,733	7,733
Loans and advances to customers	3,747	19	-	3,766
Total	3,747	19	7,733	11,499

20. Financial risk management (continued)

20.2 Liquidity risk

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

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

20.3 Market risk

Market risk is the risk surrounding the market factors that management has applied in estimating the anticipated residual values of Property, plant and equipment and 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.

The Company's activities expose it to movement in the used values of motor vehicles as the sale proceeds arising from the disposal of returned vehicles are important to the profitability of the Company. Residual values, which are set at lease inception, are determined by reference to the latest available industry data and are subject to regular review by the Company's Pricing Committee, which comprises members of the management team with significant industry experience. Thereafter, residual values are subject to regular review by reference to independent market value data and the prevailing economic conditions.

Sensetivity of the provision to the assumptions has been presented in note 2.

20.4 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company’s balance due to Lloyds Bank plc and takes account of movement in the blended variable rates, linked to both market swap rates and LIBOR, which is the basis for the interest charged on such balances. A 0.15% increase or decrease is used to assess the possible change in Interest expense, as this is within expectations following review of movements in the blended rate over the last 12 months.

If the blended rate increased by 0.15% and all other variables remain constant this would increase Interest expense by £7,138,000 (2018: £7,551,000) and accordingly decrease Interest expense by £7,138,000 (2018: £7,551,000) if the blended rate decreased by the same amount.

20.5 Business risk

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

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

20.6 Financial strategy

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

Notes to the financial statements (continued)

For the year ended 31 December 2019

20. Financial risk management (continued)

20.7 Fair values of financial assets and liabilities

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

Fair values of Loans and advances to customers are considered to be level 2 in the valuation hierarchy as their fair value is estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the Balance sheet date.

The aggregated fair value of Loans and advances to customers is approximately £226,456,000 (2018: £289,500,000).

The directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value of all other financial assets and liabilities.

21. Capital disclosures

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

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

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

22. Contingent liabilities and capital commitments

At 31 December 2019, the Company had placed orders for motor vehicles, in order to satisfy customer requirements, of £400,002,000 (2018: £368,594,000).

The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where HMRC adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in a former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies these claims; if HMRC’s position is found to be correct, management estimates that this would result in an increase in current tax liabilities for the Company of approximately £119,501,000 (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

23. 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 of £3,250,000 to June 2020. In addition, the disruption to the economy and the used car market is expected to impact both used car prices in the near future and the Company's provision for residual value was also increased by £100 million during the first half of 2020, based upon an assessment of the impact on the value of vehicles to be returned to the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2019

24. Future developments

The following pronouncement was 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
Minor 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 cause any material adjustments to the reported numbers in the financial statements.

25. Ultimate parent undertaking and controlling party

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

Independent Auditors' report to the members of Lex Autolease Limited

Report on the audit of the financial statements

Opinion

In our opinion, Lex Autolease 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 profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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

Independent Auditors' report to the members of Lex Autolease Limited (continued)

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.

Kevin Williams (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

30 September 2020