Black Horse Limited

Annual report and accounts

2020

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2020

The directors present their Strategic report and audited financial statements of Black Horse Limited (the "Company") for the year ended 31 December 2020.

Business overview

The Company experienced a modest level of growth with Loans and advances to customers increasing by £227,861,000 (2019: £2,966,004) during the year. The Company was impacted adversely by the COVID-19 pandemic as new business volumes were impacted by the National lockdowns within the United Kingdom, particularly in Q2 when motor dealerships were closed for all business. However, during subsequent lockdowns, trading has been impacted less as some motor dealerships have remained open for online sales. The Company has supported customers experiencing financial difficulty through this period of economic uncertainty by offering payment holidays of up to six months and forbearance options for customers with longer term financial difficulties. In response to the worsening economic climate caused by the COVID-19 pandemic, the Company set aside additional provisions for credit losses given the anticipated increase in the unemployment rate, and residual value losses in anticipation of a fall in used car prices. In 2020, Lloyds Banking Group ("the Group"), including the Company as a subsidiary, signed a five year agreement, effective from January 2021, to continue the strategic relationship with Jaguar Land Rover.

The Company's result for the year shows a Profit before tax of £198,850,000 (2019: Loss before tax of £99,886,000) and Net interest income of £444,511,000 (2019: £325,382,000). The Company holds net assets of £542,585,000 (2019: £380,847,000).

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

Future outlook

The directors support the Group strategy of “Helping Britain Recover” following the global pandemic through continued support for customers in financial difficulty as the after effects of the COVID-19 pandemic are expected to continue throughout 2021. This is alongside the Company’s goal of improving the provision of more digital services which has been accelerated by the COVID-19 pandemic; this is supported by a transformation programme to develop more online journeys and creating efficiencies in the application and post-completion process. The Company will continue to support the Group's goal to be net carbon neutral by 2030 with a focus on supporting our customers moving to alternate fuel vehicles and away from diesel and petrol engines.

The effects on the UK, European and global economies following the UK’s exit from the EU and the impact of the EU-UK Trade and Cooperation Agreement signed on 30 December 2020 (the “EU-UK TCA”) remain difficult to predict but may include economic and financial instability, constitutional instability in the UK and other types of risks that could adversely impact the business of the Company and Lloyds Banking Group, results of operations, financial condition and prospects. In the event of any further substantial weakening in the UK’s economic growth, the possibility of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on the Company’s interest margins and potentially adversely affect its profitability.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Retail Division, which is part of the Group. While these risks are not managed separately for the Company, the Company is a main trading company of the Motor Finance business as part of the Retail Division within the Group. 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. Liquidity risk and Interest rate risk is managed and monitored by Internal risk teams. Further details of these risks and the risk management policy are contained in note 27 to the financial statements.

Credit risk

Credit risk arises on the individual customer balances, both on the Loans and advances to customers and also any undrawn balances for an existing customer. These loans are continually monitored by the Group's Internal Risk teams for credit performance and to ensure compliance with current regulations and that customers are being treated fairly. Further information can be found included in note 27.1.

Liquidity risk

Liquidity risk is the risk of the Company being unable to meet its financial obligations. Liquidity risk is subject to independent oversight by Internal Risk teams. The Company's ability to meet its funding obligations is closely monitored by the Group's Corporate Treasury team. Further information can be found in note 27.2.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis, or are reset at different times. Interest rate risk for the Company includes customer lending and intragroup funding obligations. Further information can be found in note 27.4.

Strategic report (continued)

For the year ended 31 December 2020

Principal risks and uncertainties (continued)

COVID-19 pandemic

The global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to normal patterns of business activity across the world, including in the UK, and volatility in financial markets. Measures taken to contain the health impact of the COVID-19 pandemic have resulted in an adverse impact on economic activity across the world and the duration of these measures remains uncertain. Monetary policy loosening has supported asset valuations across many financial markets, but longer-term impacts on inflation, interest rates, credit spreads, foreign exchange rates and commodity, equity and bond prices remain unclear.

Further, the economic impact of the COVID-19 pandemic, including increased levels of unemployment, corporate insolvencies and business failures could adversely impact the Company's retail or corporate customers and their ability to service their contractual obligations, including to the Company. Adverse changes in the credit quality of the Company's borrowers and counterparties, or in their behaviour, may reduce the value of the Company's assets and materially increase its write-downs and allowances for impairment losses. This could have a material adverse effect on the Company's results of operations or financial condition.

In addition to providing support under government support schemes, the Company has taken specific measures to alleviate the impact on customers or borrowers, including payment holidays which, taken together with lower interest rates and restrictions on fees associated with certain products, may have an adverse impact on the Company's results of operations, financial conditions or prospects.

As a result of the COVID-19 pandemic, the potential for conduct and compliance risks as well as operational risks materialising has increased, 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 Company may need to change its ways of working whilst managing any instances of COVID-19 pandemic among its employees and locations to ensure continuity and support to colleagues and customers.

Key performance indicators ("KPIs")

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

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

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

KPI	2020	2019	Analysis
Net interest income (£'000)	444,511	325,382	The increase in Net interest income has been driven by growth in average loans and advances in the year along with lower funding costs.
Net interest margin	3.6%	3.0%	The increase in Net interest margin has been driven by lower funding costs and stronger yields on new business written in the year.
Costs (excluding Impairment losses) (£'000)	(58,998)	(306,196)	The reduction in costs is largely driven by the release of £14,576,000 in the Payment Protection Insurance Provision in the year versus a charge of £229,080,000 in 2019.
Loans and advances to customers (£'000)	12,276,090	12,048,229	The level of growth was impacted by lower trading volumes during the national lockdown periods in response to the global pandemic.
Cost to income ratio	-987.4%	-340.6%	Whilst Operating costs have remained fairly flat year on year, Other operating income in 2019 includes a one off receipt of £12,187,000 in relation to a VAT rebate from HMRC that has not been repeated in the current year ending 31 December 2020.
Asset quality ratio	1.6%	1.3%	The Asset quality ratio has remained broadly flat year on year, despite an increase in the impairment provision as a result of the COVID-19 pandemic.

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2020, the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of engagement with employees and other stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the directors have engaged with, and had regard to, the interest of key stakeholders only as the Company has no direct employees. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

Section 172(1) statement (continued)

Customers

The directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions by focussing on customer fair value and by treating customers fairly. The Board meets on a regular basis and directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made. During the Public Health Crisis caused by the global pandemic, the Company has been able to support its customers by providing payment holidays for up to six months if requested, as well as providing dedicated phone lines with extended hours for customers over 70 years old and NHS workers.

The Company is an active participant in the broader Motor Finance Group initiatives. The enhancements in the digital journey for customers implemented in prior years have enabled dealerships to continue to sell vehicles to customers during periods of lockdown, through the use of the SignAnywhere application which supported the 'Click and Collect' services that dealers were able to offer, by allowing customers to review and sign finance agreements anywhere at any time. The Company is continuing to enhance the customer journey and proposition for its strategic partners and dealer introduced customers.

Employees

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

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's Retail Division. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's ultimate parent company are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2020, which does not form part of this report, available on the Lloyds Banking Group plc website.

Communities and the environment

The Company continues to support Lloyds Banking Group plc's related initiatives, including Helping Britain Recover by actively managing its current book of hire purchase products and other loans. In addition, the Company is an integral part of supporting the Group's desire to transition to electric vehicles, 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 2020, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Recover Plan is available on the Lloyds Banking Group plc website.

Regulators

The Company provides quarterly updates to relevant regulators including disclosures on its capital position. During 2020 the Company's directors had meetings with the regulators, representing the interests of Lloyds Banking Group plc and its subsidiaries as required. The status of regulatory relationships continues to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of Lloyds Banking Group plc, including that of the Company, to managing regulatory change is detailed further on page 50 of the Lloyds Banking Group plc Annual Report and Accounts for 2020 which does not form part of this report, available on the Lloyds Banking Group plc website.

How stakeholder interest has influenced decision making

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

During 2020 an area of particular focus for the directors has been to steer through the challenges we have faced into as a result of the global pandemic both from both an operational and customer perspective, ensuring alignment with guidance from Lloyds Banking Group plc and regulators.

Section 172(1) statement (continued)

Emerging risks

A key risk is the ongoing uncertainty from the global pandemic as outlined above. This has the potential for operational risks to materialise in the areas of cyber fraud, people, technology and operational resilience, and where there is reliance on third-party suppliers. The Company has developed increased agility and resiliency to ensure the continued support of colleagues and customers to minimise disruption to ways of working whilst managing site contamination issues. Additionally, the impact on the UK's exit from the EU will continue to be monitored as the new EU and non-EU trading relationships develop.

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
10 June 2021

Directors' report

For the year ended 31 December 2020

The directors present their report for the year ended 31 December 2020.

General information

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

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

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

Employees

The Company has no direct employees (2019: nil). All staff are employed by other companies within the Group and the relevant staff costs are recharged to the Company. Full details of policies relating to disabled persons, together with details of actions taken regarding the provision of information to employees, their consultation and involvement, are shown in the 2020 Annual report and Accounts of the Group, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

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

Dividends

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

Going concern

The directors are satisfied that the financial statements have been prepared on a going concern basis taking into account the following:
- There is a net asset position of £542,585,000 (2019: £380,847,000).
- The Company does not have external debt and is funded by other companies within the Group.
- The Company will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on further funding as required from its intermediate parent, Lloyds Bank plc.
- That it is the intention of Lloyds Bank plc, to continue to provide adequate access to liquidity for the foreseeable future.

Registered office

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

Directors

The current directors of the Company are shown below.

J K Harris *	
R A Jones	
J McCaffrey	
K Morris	(appointed 18 December 2020)
I S Perez	

* Non executive director

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

R J H Milne	(resigned 14 March 2021)

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 pages 1 to 4.

Climate change

The Company is out of scope of the Streamlined Energy and Carbon Reporting ("SECR"), as it does not have to report on SECR in its own Director's report where included in the Group's SECR statement of a UK Group report. Further information in respect of SECR is included within the Lloyds Banking Group plc Annual Report and Accounts for 2020, which does not form part of this report, available on the Lloyds Banking Group plc website.

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.

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 2020, 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 of these financial statements. The Board also assumes responsibilities for the management of the culture, values and wider standards of the Company, within the equivalent standards set by the Group, which are discussed in the Group annual report and accounts for 2020, which does not form part of this report, and is 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 page 92 of the Group annual report and accounts for 2020, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

Principle Two – Board Composition

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

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

Principle Three – Director Responsibilities

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

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

Principle Four – Opportunity and Risk

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

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

Strong risk management is central to the strategy of the Company, which along with a robust risk and 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 the 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 27.

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. Whilst the Company has no direct employees (2019: nil), all staff are employed by an intermediate parent undertaking, Lloyds Bank Asset Finance Limited, and all staff costs are recharged to the Company.

Directors' report (continued)

For the year ended 31 December 2020

Approach to Corporate Governance (continued)

Principle Six – Stakeholders

The Company, as part of the Group, operates under the Group's wider Responsible Business approach, as overseen by the Lloyds Banking Group plc Responsible Business Committee. Helping Britain Recover is central to the Group's responsible business approach and the Company supports this initiative through supporting the needs of its customers and colleagues during these uncertain times.

In 2020, the Responsible Business Committee determined that the Company and the Group continued to demonstrate responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the director who joined the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this deed of indemnity during that period of service. The Deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 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.

The directors are responsible for the maintenance and integrity of the Company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' report (continued)

For the year ended 31 December 2020

Directors' confirmations

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.

Auditors and disclosure of information to auditors

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the directors of the Company resolve to terminate their appointment. Following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the Company for accounting periods ending on or after 31 December 2021.

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

R A Jones
Director

10 June 2021

Financial statements

Statement of comprehensive income

For the year ended 31 December 2020

	Note	**2020 £'000**	2019 £'000
Interest income		**661,343**	598,417
Interest expense		**(216,832)**	(273,035)
Net interest income	3	**444,511**	325,382
Fee and commission income		**3,658**	2,957
Fee and commission expense		**(146)**	(1,725)
Net fee and commission income	4	**3,512**	1,232
Other operating income	5	**7,095**	21,868
Payment protection insurance credit/(charge)	21	**14,576**	(229,080)
Other provision - charge for the year	21	**(3,517)**	(2,638)
Credit impairment losses	6	**(139,663)**	(34,589)
Market impairment losses	7	**(57,607)**	(107,583)
Other operating expenses	8	**(70,057)**	(74,478)
Profit/(loss) before tax		**198,850**	(99,886)
Taxation	11	**(37,112)**	19,050
Profit/(loss) for the year, being total comprehensive income/(expense)		**161,738**	(80,836)

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

Balance sheet

As at 31 December 2020

	Note	**2020 £'000**	2019 £'000
ASSETS			
Cash and cash equivalents		**63,735**	61,145
Amounts due from group undertakings	12	**2,168,896**	3,740,634
Trade and other receivables	13	**71,823**	87,945
Loans and advances to customers	14	**12,276,090**	12,048,229
Inventories	15	**25,504**	36,028
Assets held for sale	16	**1,599**	1,599
Investment in unlisted investments		**54**	54
Property, plant and equipment	17	**148**	254
Intangible assets	18	**5,827**	8,187
Current tax asset		**-**	19,432
Deferred tax asset	22	**4,381**	4,894
Total assets		**14,618,057**	16,008,401
LIABILITIES			
Borrowed funds	19	**13,842,398**	15,192,782
Trade and other payables	20	**103,699**	94,329
Provision for liabilities and charges	21	**92,776**	340,443
Current tax liability		**36,599**	-
Total liabilities		**14,075,472**	15,627,554
EQUITY			
Share capital	23	**880,907**	880,907
Share premium account		**4,615**	4,615
Accumulated losses		**(342,937)**	(504,675)
Total equity		**542,585**	380,847
Total equity and liabilities		**14,618,057**	16,008,401

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

10 June 2021

Statement of changes in equity

For the year ended 31 December 2020

	Share capital	Share premium account	Accumulated losses	Total equity
	£'000	£'000	£'000	£'000
At 1 January 2019	455,907	4,615	(423,839)	36,683
Loss for the year being total comprehensive expense	-	-	(80,836)	(80,836)
Shares issued	425,000	-	-	425,000
At 31 December 2019	**880,907**	**4,615**	**(504,675)**	**380,847**
Profit for the year being total comprehensive income	-	-	161,738	161,738
At 31 December 2020	**880,907**	**4,615**	**(342,937)**	**542,585**

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

Cash flow statement

For the year ended 31 December 2020

	2020 £'000	2019 £'000
Cash flows used in operating activities		
Profit/(loss) before tax	**198,850**	(99,886)
Adjustments for:		
- Interest expense	**216,832**	273,035
- Depreciation of Property, plant and equipment	**105**	166
- Cost of disposal of Property, plant and equipment	**1**	-
- Amortisation of intangible assets	**2,360**	2,366
- Decrease in Provision for liabilities and charges	**(247,667)**	(30,615)
Changes in operating assets and liabilities:		
- Net increase in Loans and advances to customers	**(227,861)**	(2,966,004)
- Net decrease/(increase) in Inventories	**10,524**	(29,567)
- Net decrease/(increase) in Trade and other receivables	**16,122**	(17,466)
- Net increase in Trade and other payables	**9,370**	25,954
Cash used in operations	**(21,364)**	(2,842,017)
Retirement benefit asset settled in the year	**-**	2,810
Tax received	**19,432**	33,005
Net cash used in operating activities	**(1,932)**	(2,806,202)
Cash flows generated from financing activities		
Proceeds from net borrowings with group undertakings	**221,354**	2,640,789
Proceeds from issue of shares	**-**	425,000
Interest paid	**(216,832)**	(273,035)
Net cash generated from financing activities	**4,522**	2,792,754
Change in Cash and cash equivalents	**2,590**	(13,448)
Cash and cash equivalents at beginning of year	**61,145**	74,593
Cash and cash equivalents at end of year	**63,735**	61,145

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 2020

1. Accounting policies

1.1 Basis of preparation

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

The financial statements of the Company comply with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the IFRS Interpretations Committee and its predecessor body.

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

(i) Amendments to IAS 1: 'Presentation of financial statements', and IAS 8: 'Accounting policies, changes in accounting estimates and errors'. Clarifies the definition of material to ensure it is consistently applied throughout all IFRSs and the conceptual framework for financial reporting, whilst updating guidance in IAS 1 around immaterial information.

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2020 and which have not been applied in preparing these financial statements are given in note 31. 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

Interest income and expense from financial assets

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments, including loans and advances, using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the gross carrying amount of the financial asset (before accounting for expected credit losses) or the amortised cost of the financial liability.

Once a financial asset or a group of similar financial assets has become credit impaired, interest income is recognised on the net lending balance (after deducting the allowance for expected credit losses) using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Lease classification

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee; all other leases are classified as operating leases.

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

Finance lease income

Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the lease. Initial direct incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the agreement but not future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return such as acceptance and, where relevant, early settlement fees as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

Fees and commissions which are not an integral part of the effective interest rate (such as commission associated with the sale of insurance underwritten by a third party) are generally recognised in the Statement of comprehensive income on an accruals basis when the service has been provided.

1. Accounting policies (continued)

1.3 Financial assets and liabilities

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

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

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

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

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

1.4 Impairment of financial assets

(i) Credit losses

Loans and advances to customers

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

Impairment of loans and advances

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

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

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

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

1. Accounting policies (continued)

1.4 Impairment of financial assets (continued)

(i) Credit losses (continued)

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

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

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

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

Impairment of other financial assets

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

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

(ii) Market losses

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

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

1.5 Inventories

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

1.6 Assets held for sale

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

1.7 Cash and cash equivalents

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

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

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

1.9 Investments

Investment in unlisted investments

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

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

1.10 Retirement benefit schemes

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the Group. Full details of these schemes can be found in the Lloyds Banking Group plc 2020 Annual Report and Accounts, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

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

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

Costs relating to the Group's defined contribution plans are charged to the Statement of comprehensive income in the period in which they fall due.

Notes to the financial statements (continued)
For the year ended 31 December 2020

1. Accounting policies (continued)

1.11 Share based payments

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

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

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 9. Full details of these schemes can be found in the 2020 Annual Report and Accounts of the Group.

1.12 Property, plant and equipment

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

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

1.13 Intangible assets

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

1.14 Provision for liabilities and charges

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

1.15 Deemed securitisation loans

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

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

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

2. Critical accounting estimates and judgements in applying accounting policies

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

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

Deferred tax

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

Allowance for Credit impairment losses

The calculation of the Company's expected credit loss ("ECL") allowances and provisions against loans and advances to customers under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

Definition of default

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

Lifetime of an exposure

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

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

Significant increase in credit risk - retail

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

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. For retail loans, either (i) a deterioration of two PD grades from the grade in which the account was originated, or (ii) a deterioration of two PD grades within the last twelve months, is considered a SICR.

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

Significant increase in credit risk - non-retail

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

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

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

Allowance for Credit impairment losses (continued)

Origination PDs - retail

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

Origination PDs - non-retail

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

Staging rules

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

Generation of Multiple Economic Scenarios

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

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

In 2020, a change was made to the way in which the distribution of scenarios is created. This change allows for a greater dispersal of economic outcomes in the early periods of the forecast, to recognise the increased near-term profile of risks present since the onset of the COVID-19 pandemic. This change allows for a wider distribution of losses both on the upside and downside, although is most evident in the severe downside scenario, given it represents a more adverse segment of the distribution.

Base Case and MES Economic Assumptions

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

Despite large-scale vaccination efforts commencing in the UK and globally, there remains considerable uncertainty about the pace and eventual extent of the post-pandemic recovery. The Company's current base case scenario builds in three key conditioning assumptions. First, the UK vaccine rollout successfully protects the elderly, key workers and the clinically vulnerable by mid-2021. Second, national lockdowns end by April 2021, allowing a phased return to a tiered system of restrictions that are progressively eased in the second quarter and second half of 2021, leaving only limited restrictions in place by the end of 2021. Third, government policy measures including specifically the furlough scheme continue to provide support for the duration of severe economic restrictions, through to mid-2021.

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

Allowance for Credit impairment losses (continued)

Base Case and MES Economic Assumptions (continued)

Conditioned on the above assumptions and despite the recovery in economic activity resuming from the second quarter of 2021, the Company's base case outlook assumes a rise in the unemployment rate and weakness in used car prices. Risks around this base case economic view lie in both directions and are partly captured by the MES generated. But uncertainties relating to the key conditioning assumptions, including epidemiological developments and the efficacy of vaccine rollouts, are not specifically captured by the MES scenarios.

The Company has accommodated the latest available information at the reporting date in defining its base case scenario and generating the MES. The scenarios include forecasts for key variables in the fourth quarter of 2020, for which actuals may have since emerged prior to publication.

The table below shows the impact on the Company's ECL resulting from a decrease / increase for a 1 percentage point (PP) increase / decrease in the UK Unemployment rate from base case scenario.

	31 December 2020		31 December 2019	
UK unemployment	**1pp Increase**	**1pp Decrease**	1pp Increase	1pp Decrease
ECL impact, £	**1,950,000**	**(1,950,000)**	720,000	(720,000)

Application of judgement in adjustments to modelled ECL

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

Judgements are not typically assessed under each distinct economic scenario used to generate ECL, but instead are applied on the basis of final modelled ECL which reflects the probability weighted view of all scenarios. All adjustments are reviewed quarterly and are subject to internal review and challenge, including by the Audit Committee, to ensure that amounts are appropriately calculated and that there are specific release criteria within a reasonable timeframe.

At 31 December 2020 the COVID-19 pandemic and the various support measures that have been put in place have resulted in an economic environment which differs significantly from the historical economic conditions upon which the impairment models have been built. As a result there is a greater need for management judgements to be applied alongside the use of models. At 31 December 2020 management judgement resulted in additional retail ECL allowances totalling £47,413,000 (2019: £4,826,000) and non-retail of £nil (2019: £nil). This comprises judgements added due to the COVID-19 pandemic in the year and other judgements not directly linked to COVID-19 pandemic but which have increased in size under the current outlook. The most significant judgements at 31 December 2020 are as follows:

Incorporation of forward-looking LGDs: £21,400,000 (2019: £10,700,000)

Modelled LGDs for the Company are predominately based on observed customer behaviour and resulting incurred losses. Management believes that this may not be representative of future experience, given the current economic outlook, and consequently an adjustment has been made to increase forward-looking LGDs to reflect a deterioration in cure and recovery rates. The impact has been estimated by using experience of losses in previous downturns and management's view of relative comparability of anticipated economic scenarios.

Recognition of impact of COVID-19 pandemic support measures: £20,800,000 (2019: £nil)

The use of payment holidays along with subdued levels of consumer spending is judged to have temporarily reduced the flow of accounts into arrears and default and to have also improved average credit scores across the Company's portfolio. Management believes that the resulting position does not fully reflect the underlying credit risk. Adjustments have therefore been made to increase expected future rates of default and remove the impact of the observed improvement in average credit scores.

Notes to the financial statements (continued)

For the year ended 31 December 2020

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

Allowance for Market impairment losses

As set out in note 27.3 the Company's leasing arrangements expose it to market risk in the form of motor vehicle residual value primarily relating to the PCP product and to voluntary terminations. In order to assess an impairment loss relating to these risks the directors use assumptions to reassess the likely future value of the vehicles financed. The used car market in the UK is mature with prices dependent upon a broad range of economic and vehicle specific factors. These factors are taken into consideration by means of the data provided by market specialists, overlaid with adjustment to reflect Company specific knowledge and experience. The expected market price determined in this manner impacts upon the extent to which customers are expected to return vehicles either at the end of the contract or, in the case of voluntary terminations, during the term of the contract. In order to assess the level of expected returns associated with the assessed future value of the vehicles financed, the Company references historic experience of actual returns.

Whilst the likely future used car prices are determined based on management's best estimate, it is possible that the actual outcome will be different. The market risk provision included within the accounts is £178,525,000 (2019: £150,707,000).

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

	1pp		**2pp**		**5pp**	
	Increase £	**Decrease £**	**Increase £**	**Decrease £**	**Increase £**	**Decrease £**
Allowance for market losses	(14,233,000)	14,945,000	(27,395,000)	30,998,000	(61,512,000)	85,365,000

3. Net interest income

	2020 £'000	2019 £'000
Interest income		
From finance lease and hire purchase contracts	**516,941**	429,964
From other loans and advances	**38,893**	47,173
Group interest income (see note 26)	**105,509**	121,280
	661,343	598,417
Interest expense		
Group interest expense (see note 26)	**(216,832)**	(273,035)
Net interest income	**444,511**	325,382

4. Net fee and commission income

	2020 £'000	2019 £'000
Fee and commission income		
Loan fees receivable	**581**	762
Commission receivable (see note 26)	**3,077**	2,195
Fee and commission expense		
Other fees and commission payable	**(146)**	(1,725)
Net fee and commission income	**3,512**	1,232

Notes to the financial statements (continued)
For the year ended 31 December 2020

5. Other operating income

	2020 £'000	2019 £'000
Management fees receivable	**6,694**	8,099
Agency fee income (see note 26)	**379**	1,482
Dealer training	**22**	100
Other operating income	**-**	12,187
	7,095	21,868

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

Other operating income of £nil relates to a VAT refund (2019: £12,187,000).

6. Credit impairment losses

31 December 2020	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Transfers between stages	**(11,827)**	**44,510**	**66,541**	**99,224**
Other changes in credit quality	**8,615**	**6,205**	**40,428**	**55,248**
(Repayments)/additions	**(22,076)**	**7,984**	**(717)**	**(14,809)**
	(25,288)	**58,699**	**106,252**	**139,663**
In respect of:				
Trade receivables	**-**	**-**	**310**	**310**
Loans and advances to customers	**(26,840)**	**58,699**	**105,942**	**137,801**
Undrawn loan commitments	**1,552**	**-**	**-**	**1,552**
	(25,288)	**58,699**	**106,252**	**139,663**

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

7. Market impairment losses

	2020 £'000	2019 £'000
Brought forward at 1 January	**150,707**	74,327
Utilised during the year	**(29,789)**	(31,203)
Charge for the year	**57,607**	107,583
Carried forward at 31 December (see note 14)	**178,525**	150,707

The Company made a loss on residual value of £17,363,000 in the year (2019: £9,264,000) which is included within the movement in the Market impairment losses.

Notes to the financial statements (continued)

For the year ended 31 December 2020

8. Other operating expenses

	2020 £'000	2019 £'000
Staff costs (see note 9)	**24,301**	28,162
Depreciation (see note 17)	**105**	166
Other operating expenses	**43,696**	43,935
Amortisation of Intangible assets (see note 18)	**2,360**	2,366
Impairment on Amounts due from group undertakings	**(405)**	(151)
	70,057	74,478

Other operating expenses is shown net of costs recharged to other Group companies for services provided under agency. During 2020, the Company recharged £5,601,000 to Lloyds Bank plc (2019: £19,687,000), £4,110,000 to United Dominions Trust Limited (2019: £8,132,000) and £995,000 to United Dominions Leasing Limited (2019: £1,296,000).

Fees payable to the Company's auditors for the audit of the financial statements of £315,000 (2019: £300,000) have been borne by a fellow group undertaking and are recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as set out in note 9.

9. Staff costs

	2020 £'000	2019 £'000
Wages and salaries	**23,547**	35,927
Wages and salaries recharge*	**(3,272)**	(11,841)
Social security costs	**2,151**	3,054
Social security costs recharge	**(299)**	(1,006)
Share based payments (see note 25)	**891**	989
Share based payments recharge	**(121)**	(326)
Pension costs – defined contribution plans	**1,633**	2,117
Pension costs – defined contribution plans recharge	**(229)**	(698)
Pension costs – defined benefit plans	**-**	(80)
Pension costs – defined benefit plans recharge	**-**	26
	24,301	28,162

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

The average monthly number of employees during the year was 750 (2019: 824). All staff are located in the United Kingdom and provide management, administration and sales support. All staff contracts of service are with Lloyds Bank Asset Finance Limited. However, the staff costs shown above were paid by the Company in respect of staff identified as providing services to the Company.

10. Directors' emoluments

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

	2020 £'000	2019 £'000
Aggregate emoluments	**165**	162
Aggregate post-employment benefits	**1**	1
	166	163

Three of the directors are accruing benefits under a defined benefit scheme (2019: three). Four directors received shares in LBG under long term incentive plans during the year (2019: two). No directors exercised share options (2019: none). The number and total amount of the outstanding loans to directors, officers and connected persons as at 31 December 2020 was £nil (2019: £nil).

The directors are employed by other companies within the Group and one director (2019: two) consider that their services to the Company are incidental to their other responsibilities within the Group. In 2020, no compensation was received by the directors for loss of office (2019: £nil).

11. Taxation

	2020 **£'000**	2019 £'000
a) Analysis of charge/(credit) for the year		
UK corporation tax:		
- Current tax on taxable profit/(loss) for the year	**36,560**	(19,432)
- Adjustments in respect of prior years	**39**	233
Current tax charge/(credit)	**36,599**	(19,199)
UK deferred tax:		
- Origination and reversal of timing differences	**1,241**	116
- Due to change in UK corporation tax rate	**(592)**	33
- Adjustments in respect of prior years	**(136)**	-
Deferred tax charge (see note 22)	**513**	149
Tax charge/(credit)	**37,112**	(19,050)

Corporation tax is calculated at a rate of 19.00% (2019: 19.00%) of the taxable profit for the year.

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

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

	2020 **£'000**	2019 £'000
Profit/(loss) before tax	**198,850**	(99,886)
Tax charge/(credit) thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	**37,782**	(18,978)
Factors affecting charge/(credit):		
- Due to change in UK corporation tax rate	**(592)**	33
- Disallowed and non-taxable items	**19**	253
- Adjustments in respect of prior years	**(97)**	233
- Other items	**-**	(591)
Tax charge/(credit) on profit/(loss) on ordinary activities	**37,112**	(19,050)
Effective rate	**18.66%**	19.07%

12. Amounts due from group undertakings

	2020 £'000	2019 £'000
Amounts due from group undertakings (see note 26)	**2,168,896**	3,740,634

Deposit due from Lloyds Bank plc of £763,611,000 (2019: £2,131,172,000) is unsecured, interest bearing at fixed rates and repayable on 21 June 2021. Deposits due from Lloyds Bank plc of £321,664,000 (2019: £500,891,000) are unsecured, interest bearing at variable rates and repayable on 16 July 2021 and 16 December 2022.

Loan notes due from Cardiff Auto Receivables Securitisation 2018-1 plc of £1,484,491,000 (2019: £2,852,052,000) are secured, interest bearing at fixed rates and repayable in tranches based on contractual maturity dates. Deemed loan due to Cardiff Auto Receivables Securitisation 2018-1 plc of £1,368,471,000 (2019: £2,716,545,000) is secured, interest bearing based on SONIA (2019: LIBOR) with a margin attached and repayable in tranches based on contractual maturity dates. Deemed loan to Cardiff Auto Receivables Securitisation 2018-1 plc is classified within Amounts due from group undertakings as discussed within note 1.15.

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

The ECL on Amounts due from group undertakings is £467,000 (2019: £872,000).

13. Trade and other receivables

	2020 £'000	2019 £'000
Other debtors	**43,730**	57,240
Items in the course of collection	**28,093**	30,705
	71,823	87,945

14. Loans and advances to customers

14.1 Loans and advances to customers - maturity

	2020 £'000	2019 £'000
Advances under finance lease and hire purchase contracts	**11,542,024**	10,737,534
Personal loans to customers	**315**	719
Other loans and advances to customers	**1,135,396**	1,580,745
Gross loans and advances to customers	**12,677,735**	12,318,998
Less: allowances for Credit losses on loans and advances	**(223,120)**	(120,062)
Less: allowances for Market losses on loans and advances	**(178,525)**	(150,707)
Net loans and advances to customers	**12,276,090**	12,048,229
of which:		
Due within one year	**4,658,216**	3,927,837
Due after one year	**7,617,874**	8,120,392
	12,276,090	12,048,229

14. Loans and advances to customers (continued)

14.1 Loans and advances to customers - maturity (continued)

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

	2020 £'000	2019 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**3,390,052**	2,767,877
- later than one year and no later than two years	**3,451,080**	3,184,937
- later than two years and no later than three years	**2,881,266**	3,144,051
- later than three years and no later than four years	**2,144,734**	2,316,654
- later than four years and no later than five years	**364,311**	357,807
- later than five years	**571,097**	297,194
	12,802,540	12,068,520
Unearned future finance income on finance lease and hire purchase contracts	**(1,260,516)**	(1,330,986)
Net investment in finance lease and hire purchase contracts	**11,542,024**	10,737,534

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

	2020 £'000	2019 £'000
- no later than one year	**3,056,273**	2,462,621
- later than one year and no later than two years	**3,111,292**	2,833,684
- later than two years and no later than three years	**2,597,582**	2,797,306
- later than three years and no later than four years	**1,933,567**	2,061,160
- later than four years and no later than five years	**328,442**	318,346
- later than five years	**514,868**	264,417
	11,542,024	10,737,534

The Company provides a range of finance lease products in connection with the financing of motor vehicles and equipment. The leases typically run for periods of between 1 and 5 years. During the loan period the customer can settle early at an amount which is in accordance with Consumer Credit Act requirements.

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2019: £nil).

Further analysis of Loans and advances to customers is provided in note 27.

14.2 Loans and advances to customers - movement over time

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2020	**10,646,342**	**1,592,328**	**80,328**	**12,318,998**
Transfers to Stage 1	**376,264**	**(376,264)**	**-**	**-**
Transfers to Stage 2	**(994,821)**	**999,066**	**(4,245)**	**-**
Transfers to Stage 3	**(119,239)**	**(112,699)**	**231,938**	**-**
Net increase/(decrease) in loans and advances to customers	**617,094**	**(96,183)**	**(94,667)**	**426,244**
Financial assets that have been written off during the year	**-**	**-**	**(69,772)**	**(69,772)**
Reinstatement of provisions previously written off	**-**	**-**	**2,265**	**2,265**
Gross loans and advances to customers at 31 December 2020	**10,525,640**	**2,006,248**	**145,847**	**12,677,735**
Less: allowances for Credit losses on loans and advances	**(18,945)**	**(117,558)**	**(86,617)**	**(223,120)**
Less: allowances for Market losses on loans and advances	**(153,750)**	**(24,775)**	**-**	**(178,525)**
Net loans and advances to customers at 31 December 2020	**10,352,945**	**1,863,915**	**59,230**	**12,276,090**

14. Loans and advances to customers (continued)

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

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2019	8,326,168	870,375	48,899	9,245,442
Transfers to Stage 1	257,000	(257,000)	-	-
Transfers to Stage 2	(712,835)	716,085	(3,250)	-
Transfers to Stage 3	(46,696)	(55,667)	102,363	-
Net increase (decrease) in loans and advances to customers	2,822,705	318,535	(29,420)	3,111,820
Financial assets that have been written off during the year	-	-	(39,558)	(39,558)
Recoveries of prior advances written off	-	-	1,294	1,294
Gross loans and advances to customers at 31 December 2019	10,646,342	1,592,328	80,328	12,318,998
Less: allowances for Credit losses on loans and advances	(19,720)	(55,135)	(45,207)	(120,062)
Less: allowances for Market losses on loans and advances	(139,647)	(11,060)	-	(150,707)
Net loans and advances to customers at 31 December 2019	10,486,975	1,526,133	35,121	12,048,229

14.3 Securitisation transactions

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

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

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

	Loans and advances 2020 £'000	**Notes in issue 2020 £'000**	Loans and advances 2019 £'000	Notes in issue 2019 £'000
Loans and advances to customers	**1,707,875**	**1,594,495**	3,220,571	2,962,191
Less held by the Company	**-**	**(830,884)**	-	(831,019)
Total securitisation transactions	**1,707,875**	**763,611**	3,220,571	2,131,172

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

At the year end £791,078,000 of assets were subject to repurchase agreements (2019: £2,131,172,000).

15. Inventories

	2020 £'000	2019 £'000
Vehicles for resale	**25,504**	36,028

No inventory has been written down in the year (2019: £nil). There has been no reversal of write down in the year (2019: £nil). There has been inventory losses of £28,275,000 recognised in the year within Interest income (2019: £10,617,000).

16. Assets held for sale

	2020 £'000	2019 £'000
Freehold land and buildings	**1,599**	1,599

In April 2021, the Company has sold these Assets held for sale for £10,250,000.

17. Property, plant and equipment

		Land and buildings £'000	**Office and other equipment £'000**	**Total £'000**
Cost				
At 1 January 2019, 31 December 2019 and 1 January 2020		57	5,757	5,814
Disposals		-	(5,242)	(5,242)
At 31 December 2020		57	515	572
Accumulated depreciation				
At 1 January 2019		5	5,389	5,394
Charge for the year		1	165	166
At 31 December 2019		6	5,554	5,560
Charge for the year		1	104	105
Disposals		-	(5,241)	(5,241)
At 31 December 2020		7	417	424
Balance sheet amount at 31 December 2020		**50**	**98**	**148**
Balance sheet amount at 31 December 2019	-	51	203	254

No Property, plant and equipment has been revalued in the year (2019: £nil). There are no contractual commitments for the capital acquisition of Property, plant and equipment in the year (2019: £nil).

18. Intangible assets

	Software £'000
Cost	
At 1 January 2019, 31 December 2019 and 31 December 2020	16,564
Amortisation	
At 1 January 2019	6,011
Charge for the year (see note 8)	2,366
At 31 December 2019	8,377
Charge for the year (see note 8)	2,360
At 31 December 2020	10,737
Balance sheet amount at 31 December 2020	**5,827**
Balance sheet amount at 31 December 2019	8,187

The Company's Intangible assets relate to Software enhancement costs. Following a change in the Group's policy in early 2018, all such costs around software enhancement and development are now recognised by the Group directly for all its subsidiary undertakings and consequently the Company will no longer recognise any new assets, other than the existing assets which will continue to amortise over their estimated useful life of 7 years. No gain or loss has been recognised as a result of revaluing the assets (2019: £nil).

19. Borrowed funds

	2020 £'000	2019 £'000
Amounts due to group undertakings (see note 26)	**13,842,398**	15,192,782

Amounts due to Lloyds Bank plc of £3,902,050,000 (2019: £613,975,000) and Amounts due to other group undertakings of £124,360,000 (2019: £279,015,000) are interest bearing at fixed rates for funding of long term loans and advances and variable rates for all other borrowings, and are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to Lloyds Bank plc of £9,695,404,000 (2019: £13,905,907,000) is unsecured, interest bearing at fixed rates of which £3,785,319,000 (2019: £7,183,108,000) is repayable within one year.

Deemed loan to Cardiff Auto Receivables 2019-1 plc of £339,404,000 (2019: £504,025,000) is secured, interest bearing based on SONIA with a margin attached and repayable in tranches based on contractual maturity dates. Loan notes due from Cardiff Auto Receivables 2019-1 plc of £110,005,000 (2019: £110,139,000) are secured, interest bearing at fixed rates and repayable in tranches based on contractual maturity dates. Loan notes due from Cardiff Auto Receivables 2019-1 plc are classified within Borrowed funds as discussed in note 1.15.

20. Trade and other payables

	2020 £'000	2019 £'000
Customer deposit accounts	**12,302**	16,564
Other payables	**13,849**	17,032
Other tax and social security payable	**6,759**	5,911
Accruals and deferred income	**70,789**	54,822
	103,699	94,329

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

21. Provision for liabilities and charges

	Undrawn loan commitments £'000	Payment protection insurance £'000	Other provision £'000	Total £'000
At 1 January 2019	929	355,924	14,205	371,058
Charge for the year	-	229,080	4,179	233,259
Reclassified as provision	-	-	13,576	13,576
Reversal of unused provision	(1)	-	(2,250)	(2,251)
Utilised during the year	-	(261,052)	(14,147)	(275,199)
At 31 December 2019	928	323,952	15,563	340,443
Charge/(credit) for the year	**1,552**	**(14,576)**	**3,517**	**(9,507)**
Utilised during the year	**-**	**(226,087)**	**(12,073)**	**(238,160)**
At 31 December 2020	**2,480**	**83,289**	**7,007**	**92,776**

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.

Undrawn loan commitment provision

Undrawn loan commitment provision relates to the expected loss on the loan commitments that the Company has made to its customers for undrawn balances at the year-end.

As at 31 December 2020, the provision of £2,480,000 (2019: £928,000) was all categorised as Stage 1 of impairment per the expected credit loss methodology under IFRS 9.

21. Provision for liabilities and charges (continued)

Payment protection insurance provision

The 2020 PPI provision comprises £83,289,000 (2019: £323,952,000) for the cost of making redress payments to customers, the related administration costs and the costs associated with litigation activity to date. The stock of complaints resulting from the PPI industry deadline in August 2019 was materially completed during 2020, despite the COVID-19 pandemic delaying operational activities. The Company is now focused upon the final stages of work to ensure operational completeness ahead of an orderly programme close.

Other provision

Other provisions includes a £7,007,000 (2019: £15,563,000) provision that arose in 2013 in respect of a compliance issue and is being utilised to cover costs of redress

22. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2020 £'000	2019 £'000
Brought forward	**4,894**	5,043
Charge for the year (see note 11)	**(513)**	(149)
	4,381	4,894

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

	2020 £'000	2019 £'000
Accelerated capital allowances	**(118)**	(315)
Pensions - Income statement	**-**	480
Accounting provisions disallowed	**(405)**	111
Other temporary differences	**10**	(425)
	(513)	(149)

Deferred tax asset comprises:	**2020 £'000**	2019 £'000
Accelerated capital allowances	**1,314**	1,432
Accounting provisions disallowed	**-**	405
Other temporary differences	**3,067**	3,057
	4,381	4,894

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.

On 3 March 2021, the UK Government announced its intention to increase the rate of corporation tax from 19% to 25% with effect from 1 April 2023. Had this change in corporation tax been enacted on 31 December 2020, the effect would have been to increase net deferred tax assets by £900,000.

23. Share capital

	2020 £'000	2019 £'000
Allotted, issued and fully paid		
3,523,628,072 ordinary shares of £0.25 each	**880,907**	880,907

At 31 December 2020, 1 (2019: 1) ordinary share is owned by Lloyds Bank Asset Finance Limited and 3,523,628,071 (2019: 3,523,628,071) ordinary shares are owned by Black Horse Group Limited.

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

24. Transfer of financial assets

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

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

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

Loan notes subject to repurchase		**Carrying value of transferred assets £'000**	**Carrying value of associated £'000**
	At 31 December 2020	**763,611**	**763,611**
	At 31 December 2019	2,131,172	2,131,172

25. Share based payments

During the year ended 31 December 2020, the Bank’s ultimate parent undertaking operated share based payment schemes, all of which are equity settled. As stated in note 9, the Company had no direct employees during the year (2019: nil). The employee costs, including a charge for share based payments of 891,000 (2019: £989,000), are recharged from other group companies.

Further details in respect of share based payment schemes can be found in the 2020 financial statements of the Bank’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.

26. Related party transactions

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

	2020 £'000	2019 £'000
Amounts due from group undertakings		
Lloyds Bank plc	**1,204,617**	2,631,450
Securitisation vehicles	**115,997**	135,474
Other group undertakings	**848,282**	973,710
Total Amounts due from group undertakings (see note 12)	**2,168,896**	3,740,634
Amounts due to group undertakings		
Lloyds Bank Asset Finance Limited	**33,224**	33,229
Lloyds Bank plc	**12,584,727**	12,388,710
Lloyds Bank Corporate Markets plc	**763,611**	2,131,172
Black Horse Group Limited	**201,799**	185,667
Securitisation vehicles	**229,399**	393,886
Other group undertakings	**29,638**	60,118
Total Amounts due to group undertakings (see note 19)	**13,842,398**	15,192,782
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**63,735**	61,145
Interest income		
Lloyds Bank plc	**31,333**	38,971
Securitisation vehicles	**59,741**	66,217
Other group undertakings	**14,435**	16,092
Total Interest income (see note 3)	**105,509**	121,280

26. Related party transactions (continued)

	2020 £'000	2019 £'000
Interest expense		
Lloyds Bank Asset Finance Limited	**-**	83,076
Lloyds Bank plc	**125,586**	83,781
Lloyds Bank Corporate Markets plc	**26,536**	38,340
Securitisation vehicles	**64,710**	67,838
Total Interest expense (see note 3)	**216,832**	273,035
Other income		
Lloyds Bank plc	**379**	1,482
Other group undertakings	**6,694**	8,099
Total Other income (see note 5)	**7,073**	9,581

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.

Commission receivable of £3,077,000 (2019: £2,195,000) includes profit share receivables of £1,979,000 (2019: £1,284,000) under the terms of the Company's agreement with Lloyds Bank General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprises the directors of the Company and the Retail Division. Members of the Lloyds Banking Group plc board are employed by other companies within the Group and consider their services to the Retail Division are incidental to their other responsibilities within the Group. Other than as set out below, there were no transactions between the Company and key management personnel during the current or preceding year.

Key management personnel emoluments

	2020 £'000	2019 £'000
Short term employee benefits	**393**	562
Post employment benefits	**1**	22
	394	584

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

27. Financial risk management

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

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

27. Financial risk management (continued)

27.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Loans and advances to customers is managed through the application of strict underwriting criteria, determined by the Retail Division's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for all losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in notes 1.4 and 2.

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

Amounts due from other group undertakings are held with other companies within the Group. The credit risk associated with these financial assets is not considered to be significant as these balances are supported by the Group Letter of support.

Credit risk mitigation

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

- Credit scoring: In its principal 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 Company and divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

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

Credit concentration - Loans and advances to customers

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

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

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

Loans and advances to customers – maximum exposure

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

27. Financial risk management (continued)

27.1 Credit risk

Loans and advances to customers – maximum exposure (continued)

	As at 31 December 2020		As at 31 December 2019	
	Maximum Exposure £'000	**Net Exposure £'000**	Maximum Exposure £'000	Net Exposure £'000
Loans and advances to customers, net[1]	**12,276,090**	**12,276,090**	12,048,229	12,048,229
Off balance sheet items:				
Commitments to lend	**1,259,297**	**1,259,297**	853,896	853,896
	13,535,387	**13,535,387**	12,902,125	12,902,125

[1] Amounts shown net of impairment balances.

Loans and advances to customers - gross carrying amount

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

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

At 31 December 2020	**PD Range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Retail					
RMS 1-6	0.00-4.50%	**9,404,395**	**1,278,517**	**-**	**10,682,912**
RMS 7-9	4.51-14.00%	**71,588**	**310,056**	**-**	**381,644**
RMS 10	14.01-20.00%	**-**	**156,286**	**-**	**156,286**
RMS 11-13	20.01-99.99%	**2,521**	**171,705**	**-**	**174,226**
RMS 14	100%	**-**	**-**	**143,943**	**143,943**
Total		**9,478,504**	**1,916,564**	**143,943**	**11,539,011**
Wholesale					
CMS 1-10	0.00-0.050%	**88,967**	**-**	**-**	**88,967**
CMS 11-14	0.051-3.00%	**738,642**	**212**	**-**	**738,854**
CMS 15-18	3.01-20.00%	**212,847**	**89,331**	**-**	**302,178**
CMS 19	20.01-99.99%	**6,680**	**141**	**-**	**6,821**
CMS 20-23	100%	**-**	**-**	**1,904**	**1,904**
Total		**1,047,136**	**89,684**	**1,904**	**1,138,724**

27. Financial risk management (continued)

27.1 Credit risk (continued)

Loans and advances to customers - gross carrying amount (continued)

Total loans and advances to customers	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
In respect of:				
Retail	**9,478,504**	**1,916,564**	**143,943**	**11,539,011**
Wholesale	**1,047,136**	**89,684**	**1,904**	**1,138,724**
Total	**10,525,640**	**2,006,248**	**145,847**	**12,677,735**

At 31 December 2019	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Retail					
RMS 1-6	0.00-4.50%	9,031,225	1,085,799	-	10,117,024
RMS 7-9	4.51-14.00%	96,991	230,564	-	327,555
RMS 10	14.01-20.00%	-	78,180	-	78,180
RMS 11-13	20.01-99.99%	2,078	135,275	-	137,353
RMS 14	100%	-	-	78,318	78,318
Total		9,130,294	1,529,818	78,318	10,738,430
Wholesale					
CMS 1-10	0.00-0.050%	135,846	-	-	135,846
CMS 11-14	0.051-3.00%	1,239,773	935	-	1,240,708
CMS 15-18	3.01-20.00%	130,895	61,575	-	192,470
CMS 19	20.01-99.99%	9,534	-	-	9,534
CMS 20-23	100%	-	-	2,010	2,010
Total		1,516,048	62,510	2,010	1,580,568

Total loans and advances to customers	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of:				
Retail	9,130,294	1,529,818	78,318	10,738,430
Wholesale	1,516,048	62,510	2,010	1,580,568
Total	10,646,342	1,592,328	80,328	12,318,998

Commitments to lend

At 31 December 2020		**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Wholesale	**PD Range**				
CMS 1-10	0.00-0.050%	**117,607**	**-**	**-**	**117,607**
CMS 11-14	0.051-3.00%	**806,771**	**-**	**-**	**806,771**
CMS 15-18	3.01-20.00%	**334,794**	**-**	**-**	**334,794**
RMS 11-13	20.01-99.99%	**125**	**-**	**-**	**125**
		1,259,297	**-**	**-**	**1,259,297**

27. Financial risk management (continued)

27.1 Credit risk (continued)

Commitments to lend (continued)

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

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. All Loans and advances to customers are assessed for impairment. No amounts due to group undertakings are impaired (2019: £nil).

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2020	**19,720**	**55,135**	**45,207**	**120,062**
Transfers to Stage 1	**10,496**	**(9,657)**	**(839)**	**-**
Transfers to Stage 2	**(19,019)**	**21,218**	**(2,199)**	**-**
Transfers to Stage 3	**(3,468)**	**(12,620)**	**16,088**	**-**
Impact of transfer between stages	**164**	**45,569**	**53,491**	**99,224**
Other items (credited)/charged to Statement of comprehensive income	**(15,013)**	**14,189**	**39,711**	**38,887**
(Credit)/charge for the year (including recoveries)	**(26,840)**	**58,699**	**106,252**	**138,111**
Financial assets that have been written off during the year	**-**	**-**	**(69,773)**	**(69,773)**
Reinstatement of provisions previously written off	**26,065**	**3,724**	**2,269**	**32,058**
Unwind of discount	**-**	**-**	**5,454**	**5,454**
Amount reclassified to Trade and other receivables provision	**-**	**-**	**(2,792)**	**(2,792)**
At 31 December 2020	**18,945**	**117,558**	**86,617**	**223,120**

In respect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2020	**928**	**-**	**-**	**928**
Charge for year (including recoveries)	**1,552**	**-**	**-**	**1,552**
At 31 December 2020	**2,480**	**-**	**-**	**2,480**
Total	**21,425**	**117,558**	**86,617**	**225,600**

Notes to the financial statements (continued)

For the year ended 31 December 2020

27. Financial risk management (continued)

27.1 Credit risk (continued)

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

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2019	20,983	37,353	30,554	88,890
Transfers to Stage 1	6,132	(6,132)	-	-
Transfers to Stage 2	(8,853)	10,889	(2,036)	-
Transfers to Stage 3	(705)	(7,412)	8,117	-
Impact of transfer between stages	(234)	16,111	25,345	41,222
Other items (credited)/charged to Statement of comprehensive income	(27,833)	3,354	17,847	(6,632)
(Credit)/charge for the year (including recoveries)	(31,493)	16,810	49,273	34,590
Advances written off	-	-	(39,558)	(39,558)
Recoveries of prior advances written off	30,230	972	1,292	32,494
Unwind of discount	-	-	3,646	3,646
At 31 December 2019	19,720	55,135	45,207	120,062

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2019	928	1	-	929
Charge for year (including recoveries)	-	(1)	-	(1)
At 31 December 2019	928	-	-	928
Total	20,648	55,135	45,207	120,990

Repossessed collateral

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

27.2 Liquidity risk

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

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

27. Financial risk management (continued)

27.2 Liquidity risk (continued)

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

As at 31 December 2020	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Borrowed funds	**4,133,319**	**562,641**	**3,236,353**	**5,910,085**	**13,842,398**
Contractual interest payments	**9,997**	**18,274**	**64,423**	**70,648**	**163,342**
	4,143,316	**580,915**	**3,300,776**	**5,980,733**	**14,005,740**

As at 31 December 2019	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Borrowed funds	1,238,908	916,732	4,394,668	8,642,475	15,192,783
Contractual interest payments	15,277	29,257	103,193	152,243	299,970
	1,254,185	945,989	4,497,861	8,794,718	15,492,753

27.3 Market risk

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

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

The leasing portfolio includes agreements where the Company has a risk in respect of residual value of the assets. This area of market risk policy is monitored by a residual value committee which meets on a regular basis to consider the exposure taking into account current and projected industry trends in addition to the Company's own risk management data.

Included in Loans and advances to customers is a provision of £178,525,000 (2019: £150,707,000) relating to market risk impairment.

27.4 Interest rate risk

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

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

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

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's interest-bearing Amounts due to group undertakings and takes account of movement in the SONIA (2019: LIBOR), which is the basis for the interest charged on such balances. A 0.63% (2019: 0.15%) increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as it is the amount by which the SONIA (2019: LIBOR) increased in the year.

If the SONIA (2019: LIBOR) increased by 0.63% and all other variables remain constant this would increase Interest expense by £79,170,000 (2019: £18,147,000) and accordingly decrease Interest expense by £79,170,000 (2019: £18,147,000) if the SONIA (2019: LIBOR) decreased by the same amount.

Notes to the financial statements (continued)

For the year ended 31 December 2020

27. Financial risk management (continued)

27.5 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.

27.6 Financial strategy

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

27.7 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 £13,198,905,000 (2019: £12,857,288,000).

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

28. 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 managed capital of the Company constitutes Total equity. This consists entirely of issued Share capital, Share premium account and Accumulated losses. As at 31 December 2020, total managed capital was £542,585,000 (2019: £380,847,000).

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

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

29. Contingent liabilities and capital commitments

There were no contingent liabilities at the Balance sheet date (2019: £nil).

The Company's undrawn formal standby facilities, credit facilities and other commitments to lend were £1,259,297,000 (2019: £853,896,000).

30. Post balance sheet events

In April 2021, the Company has confirmed that Assets held for sale with a net book value of £1,599,000 have sold for sales proceeds totalling £10,250,000 (see note 16).

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

Notes to the financial statements (continued)
For the year ended 31 December 2020

31. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2020 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).	Annual periods beginning on or after 1 January 2021 and on or after 1 January 2022
Interest rate benchmark reform	The IASB's Phase 2 amendments in response to issues arising from the planned replacement of interest rate benchmarks in a number of jurisdictions. Under these amendments, an immediate gain or loss is not recognised in the Statement of comprehensive income where the contractual cash flows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms. In addition, hedge accounting is continued for relationships that are directly affected by the reform.	Annual periods beginning on or after 1 January 2021

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

32. Ultimate parent undertaking and controlling party

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

Independent auditors’ report to the members of Black Horse Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company’s affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the “Annual Report”), which comprise: the Balance sheet as at 31 December 2020; the Statement of comprehensive income, Statement of changes in equity and the Cash flow statement 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

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

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

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

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

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 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, 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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles such as those governed by the Financial Conduct Authority

("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates. Audit procedures performed by the engagement team included:

- Inquiries of those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations;
- review of minutes of Board meetings;
- testing period end adjustments to supporting documentation;
- incorporating an element of unpredictability into the nature, timing or extent of our testing;
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular, in relation to the provisions for Expected Credit Losses and provisions for market risk related impairment; and
- identifying and testing journal entries, including manual journal entries posted by unexpected or unusual users, journals posted with descriptions indicating a higher level of risk, and late journals with an impact on financial performance.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

We have no exceptions to report arising from this responsibility.

Ian Godsmark (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 June 2021