Lex Autolease Limited

Report and Accounts

2020

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2020

The directors present their Strategic report of Lex Autolease Limited (the "Company") for the year ended 31 December 2020.

Business overview

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

The directors consider the level of new business written in the year to be satisfactory under the circumstances where the COVID-19 pandemic caused considerable disruption to the delivery and collection of vehicles and to the use made of vehicles supplied to customers during the national lockdowns. The Company has supported customers experiencing financial difficulty through this period of economic uncertainty offering tailored payment holidays for customers in financial difficulty. In response to the worsening economic climate caused by the COVID-19 pandemic, the credit impairment provision increased by £9,432,000 from £10,864,000 as at 31 December 2019 to £20,296,000 as at 31 December 2020, in anticipation of a fall in used car prices.

In 2020, the Company as part of Lloyds Banking Group ("the Group"), signed a 5 year agreement, effective from January 2021, to continue the strategic relationship with Jaguar Land Rover, which for the Company secures the supply of up to 6,000 vehicles annually under the Jaguar Land Rover branded contract hire product. Additionally the Company's investment programme continued to transform and digitise the customer journey, creating a more efficient experience for customers and facilitating cost savings for the Company. The investment programme is also developing new product propositions, including the development of a Salary Sacrifice proposition which launched in quarter 1 of 2021, which will offer employees of our corporate customers, who currently opt for cash in lieu of a company car, a tax efficient way of leasing electric vehicles.

The directors of Lloyds Banking Group plc ("LBG") manage the Group operations on a divisional basis. The Company is included within the Retail Division of 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.

Development and performance

The Profit before tax amounted to £109,938,000 (2019: £153,527,000). The decrease in the Company's reported profit is principally driven by decreased revenue generated on the Company's owned vehicles leased to customers, as a result of a 11% decline in the average funded fleet in the current year. Whilst some reduction in the average funded fleet was expected in anticipation of the UK's exit from the EU, the actual reduction experienced has been further impacted by the COVID-19 pandemic due to a reduction for demand in fleet vehicles as a result of the national lockdowns.

Future outlook

The Company has achieved a satisfactory level of returns and expects to continue to do so in the foreseeable future when the motor market recovers following the temporary downturn in new business following the impact of the COVID-19 pandemic. The directors are supporting a strategy designed to ensure that the Company's charges fully reflect the risks associated with the provision of its core products.

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, results of operations, financial condition and prospects.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Retail Division in its parent LBG. While these risks are not managed separately for the Company, the Company is a main trading company of the LBG Retail Division. Further details of these risks and the risk management policy are contained in note 21 to the financial statements.

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.

Principal risks and uncertainties (continued)

The economic impact of the COVID-19 pandemic, including increased levels of unemployment, corporate insolvencies and business failures could adversely impact the Company’s customers and their ability to service their contractual obligations, including to the Company. Further, the macro economic impacts may have an impact on the value of vehicles returned at end of contract and this could have a material adverse effect on the Company’s results of operations, financial condition or prospects.

In addition to providing support under government support schemes, the Company has taken specific measures to alleviate the impact on the Company's customers or borrowers, including payment holidays, which may have an adverse impact on the Company’s results of operations, financial conditions or prospects.

As a result of the COVID-19 pandemic, there has been an increased potential for a range of operational risks to materialise, including cyber, fraud, people, technology and operational resilience. 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 among its employees and locations to ensure continuity and support to colleagues and customers.

Key performance indicators ("KPIs")

The directors consider that the key drivers of performance for the Company are the fluctuations in the residual values of fleet vehicles and the levels of new business achieved. Residual values are directly impacted by the UK economy, which influences the performance on disposal of ex-fleet vehicles in the second hand car market. The unwind of Government Covid-19 pandemic support activities and anticipated economic downturn could lead to potential volatility around used vehicle prices against the elevated levels observed across the second half of 2020.

The main component of the Company’s vehicle assets relates to operating leases, accounting for 92% of the total funded fleet. The remaining 8% of the fleet is made up of vehicle assets under finance leases, contract purchase agreements and employee car ownership schemes. The closing total funded fleet size decreased from 342,771 vehicles to 300,277 vehicles, a 12% decrease (2019: 9% decrease). This decrease coincides with the 9% decrease (2019: 7% decrease) in the Company’s total funded vehicle assets from £4,642,197,000 to £4,181,037,000. The average total funded fleet size decreased from 360,804 vehicles in 2019 to 321,178 in 2020, a decrease of 11% (2019: decrease 7%).

The corporate fleet continued to contract as corporate customers downsized, the decrease in the funded fleet size is in line with management’s expectations and it is expected that the fleet will continue to show a declining trajectory over the next 12 months, albeit at a slower rate. However, in terms of market share, with the same issues impacting all businesses across the UK, it is anticipated that the Company’s actual UK market share in terms of the contract hiring business will not be significantly impacted.

Within Property, plant and equipment, the Company has written new leasing business during the year of £1,437,833,000 (2019: £1,693,800,000), offset by disposals with an original cost of £1,896,316,000 (2019: £1,981,781,000).

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 and employees. The Company is a subsidiary of LBG, and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant.

Customers

The directors ensure the Company, as part of the Group, works toward achieving LBG's customer ambitions and by focusing on customer service. The Company is one of a few companies within the Retail Division of the Group providing customers with motor vehicle finance and the directors work with colleagues within the division to understand areas where improvements to customer experience can be made. The Company is an active participant in the broader Motor Finance Group initiatives. The Company has continued to invest in transforming its digital platforms to enhance the services for customers.

Section 172(1) statement (continued)

Employees

As part of LBG, the Company's approach to employee matters and employee engagement is aligned to that of the Group, where colleagues take pride in working for an inclusive and diverse organisation which continues to work towards building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. In 2019, the LBG Board agreed how LBG, including the Company, would engage the workforce and this has not changed in the current 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. During the COVID-19 pandemic the Company has taken steps to support employees impacted by the pandemic for example with policies to support colleagues requiring time off for caring responsibilities, whilst ensuring that employees can continue to perform their roles with minimal disruption, including many employees working from home in line with government guidance.

Shareholders

The Company is a wholly owned subsidiary of ACL Autolease (Holdings) Limited, forming part of LBG's Retail Division. The directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of LBG, the ultimate controlling party, whilst recognising and ensuring that the interests of the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic report within the 2020 Annual report and accounts of LBG, which does not form part of this report, and is available on the LBG website. Further details on where to access this information can be found in note 26.

Communities and the environment

The Company continues to support the Group's related initiatives, including Helping Britain Recover by actively managing its current book of contract hire products and other loans. In addition the Company is an integral part of supporting the Group, with its desire to transition from non-renewable powered vehicles to electric vehicles forming part of a number of commitments it has made to support the Group’s Sustainability Targets. Further information in respect of the Group's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the LBG'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 LBG website.

Regulators

Whilst regulatory matters are a small part of the Company's business, the Company is regulated by the FCA as part of its regulation of the broader activity of the Group. The approach of the Group, including that of the Company, to managing regulatory change is detailed on page 50 of the LBG Annual report and accounts for 2020, which does not form part of this report, and is available on the LBG 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 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.

The directors have been supportive of the Group's initiatives to help customers through the challenges of the COVID-19 pandemic, and have considered the impacts on the Company's customer base in terms of take up rates of payment holidays and other changes to its risk profile arising or potentially arising from the pandemic.

Emerging risks

A key risk is the ongoing uncertainty from the global pandemic as outlined above. This has the potential for operational risks materialising 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. A further risk is the impact of the climate change agenda on the Company’s ability to facilitate a switch from vehicles with internal combustion engines to electric vehicles. The Company is working with its customers to develop products and propositions to facilitate the switch to electric vehicles. Additionally the Company’s residual value policy and processes are being adapted to monitor and manage any impact during this transition period.

Strategic report (continued)

For the year ended 31 December 2020

Section 172(1) statement (continued)

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

9 June 2021

Directors' report

For the year ended 31 December 2020

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2020.

General information

The Company is a private company, limited by shares, incorporated, registered and domiciled in England and Wales (registered number: 01090741).

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

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

Employees

The Company has no direct employees (2019: nil). All staff are employed by other group undertakings and certain 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 within the 2020 Annual report and accounts of LBG, which does not form part of this report, and is available on the LBG website.

Dividends

No dividends were paid or proposed during the year ended 31 December 2020 (2019: £136,600,000).

Going concern

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

Registered office

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

Directors

The current directors of the Company are shown below.

R A Jones
J McCaffrey
I S Perez

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)

Company secretary

The Company secretary is D D Hennessey.

Information included in the Strategic report

The disclosures for Principal risks and uncertainties and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on pages 1 and 2.

Statement of engagement with employees and other stakeholders

A statement of engagement with employees and other stakeholders is included in the Strategic report on page 3.

Directors' report (continued)

For the year ended 31 December 2020

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 the Group, and overseeing delivery against it. The Company's strategy is discussed further in the Strategic Report on pages 1 to 4. The board also assumes responsibilities for the management of the culture, values and wider standards of the Company, within the equivalent standards set by the Group.

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 LBG Annual report and accounts for 2020, which does not form part of this report, and is available on the LBG website.

Principle Two – Board Composition

The Company is led by a board comprising the directors which can be found on page 5 of this report. The board considers its composition regularly and is committed to ensuring it has the right balance of skills and experience. The board considers that its current size and composition is appropriate to the Company's circumstances. New appointments are made on merit, taking account of the specific skills, experience and knowledge needed to ensure a rounded board and the benefits each candidate can bring to the board overall. There are a range of initiatives within LBG 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.

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 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 in note 21.

Directors' report (continued)

For the year ended 31 December 2020

Approach to Corporate Governance (continued)

Principle Five – Remuneration

The Remuneration Committee of the Group assumes responsibility for the approach to remuneration for certain of its subsidiaries, including that of the Company. This includes reviewing and making recommendations to the Group board on remuneration policy, as relevant to the Company, which includes colleagues where the regulators require the Company to implement a specific approach to their remuneration.

Principle Six – Stakeholders

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

In 2020, the Responsible Business Committee determined that the Company and 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

LBG has granted to the directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of directors who join the board of the Company during the financial year. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are available for inspection at the registered office of LBG. 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 Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

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

Directors' report (continued)

For the year ended 31 December 2020

Auditors and disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the report is approved:

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

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

9 June 2021

Statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	3	**2,336,441**	2,503,584
Direct costs	3	**(2,032,995)**	(2,162,778)
Gross profit		**303,446**	340,806
Interest income	4	**676**	5,590
Interest expense	4	**(64,334)**	(72,992)
Other operating expenses	3	**(129,850)**	(119,877)
Profit before tax	3	**109,938**	153,527
Taxation	8	**(1,444)**	(31,243)
Profit for the year, being total comprehensive income		**108,494**	122,284

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		**111,363**	225,725
Trade and other receivables	10	**289,117**	257,279
Loans and advances to customers	11	**182,407**	243,140
Property, plant and equipment	12	**3,998,630**	4,399,057
Intangible assets	13	**7,806**	10,458
Deferred tax asset	14	**200,184**	166,125
Total assets		**4,789,507**	5,301,784
LIABILITIES			
Borrowed funds	15	**3,833,300**	4,468,760
Trade and other payables	16	**403,289**	369,412
Provision for liabilities and charges	17	**53,872**	31,562
Current tax liability		**70,225**	111,723
Total liabilities		**4,360,686**	4,981,457
EQUITY			
Share capital	18	**5,963**	5,963
Retained earnings		**422,858**	314,364
Total equity		**428,821**	320,327
Total equity and liabilities		**4,789,507**	5,301,784

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

9 June 2021

Statement of changes in equity

For the year ended 31 December 2020

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2019	5,963	328,680	334,643
Profit for the year being total comprehensive income	-	122,284	122,284
Dividend paid to equity holders of the Company (see note 9)	-	(136,600)	(136,600)
At 31 December 2019	**5,963**	**314,364**	**320,327**
Profit for the year being total comprehensive income	**-**	**108,494**	**108,494**
At 31 December 2020	**5,963**	**422,858**	**428,821**

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 generated from operating activities		
Profit before tax	**109,938**	153,527
Adjustments for:		
- Interest income	**(676)**	(5,590)
- Interest expense	**64,334**	72,992
- Depreciation of Property, plant and equipment	**937,642**	962,823
- Cost of sale of Property, plant and equipment	**900,618**	997,160
- Amortisation of intangible assets	**2,652**	2,660
- Increase in Provision for liabilities and charges	**22,310**	5,545
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**60,733**	65,503
- Net increase in Trade receivables, prepayments and other debtors	**(38,024)**	(46,112)
- Net increase in Trade and other payables	**33,877**	2,035
Cash generated from operations	**2,093,404**	2,210,543
Tax paid	**(77,001)**	(35,760)
Net cash generated from operating activities	**2,016,403**	2,174,783
Cash flows used in investing activities		
Purchase of Property, plant and equipment	**(1,437,833)**	(1,693,800)
Transfer of Property, plant and equipment from fellow group undertakings	**-**	(10,917)
Net cash used in investing activities	**(1,437,833)**	(1,704,717)
Cash flows used in financing activities		
Decrease in net borrowings with group undertakings	**(629,274)**	(768,604)
Dividends paid	**-**	(136,600)
Interest received	**676**	5,590
Interest paid	**(64,334)**	(72,992)
Net cash used in financing activities	**(692,932)**	(972,606)
Change in Cash and cash equivalents	**(114,362)**	(502,540)
Cash and cash equivalents at beginning of year	**225,725**	728,265
Cash and cash equivalents at end of year	**111,363**	225,725

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 is relevant to the Company and 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 25. No standards have been early adopted.

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

1.2 Income recognition

Revenue

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

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

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

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

Lease classification

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

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

1. Accounting policies (continued)

1.3 Financial assets and liabilities

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

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

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

Financial assets are derecognised when the contractual rights to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets.

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

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortised cost are Loans and advances to customers, Cash and cash equivalents, Amounts due from group undertakings and Trade and other receivables. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method.

All financial liabilities are measured at amortised cost.

Specific and collective provisions are deducted from loans and advances and finance lease receivables. Provisions made during the year, less amounts released and recoveries of amounts written off in previous years are charged to the Statement of comprehensive income.

1.4 Impairment

(i) Impairment of financial assets

Trade receivables

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

Loans and advances to customers

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses over the year including those arising from certain types of fraud. Expected credit losses ("ECL") are recognised for loans and advances to customers and other financial assets held at amortised cost. 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.

1. Accounting policies (continued)

1. Impairment (continued)

Impairment of loans and advances

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

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 not accumulate on any accounts that have taken a payment holiday.

IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Company equates 90 days past due with a customer that is unlikely to pay a material obligation.

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 products:

• unlikely to pay material obligation (> £1,000 in line with regulatory definition of default); or
• material breach of terms of facility.

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

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

1.4 Impairment (continued)

(ii) Impairment of non-financial assets

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

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the Balance sheet carrying value of the asset and the present value of estimated future cash flows, including future rentals receivable and a current assessment of residual values, discounted at the Company's weighted average cost of capital. This assessment is performed on an asset by asset basis. The method and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between the loss estimates and actual loss experience.

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

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

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

1.5 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.

1.6 Taxation, including deferred income taxes

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

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

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

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

Deferred tax 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. Accounting policies (continued)

1.7 Property, plant and equipment

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

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

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

Adjustments to depreciation as a result of changes to the estimated residual value are reflected prospectively unless the change in residual value results in an impairment (see note 1.4).

1.8 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.

1.9 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.

1.10 Share based payments

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 6. Full details of these schemes can be found in the 2020 Annual report and accounts of the Group.

1.11 Retirement benefit obligations

Defined contribution

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

Defined benefit

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. Certain qualifying employees are members of the Group's defined benefit plans. The majority of the active members of these schemes are employed by other companies within the Group. Accordingly, in substance most of the risk associated with the operation of the schemes lies with these companies and the Company has accounted for the schemes as defined contribution schemes.

1.12 Dividends paid

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

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.

(i) Critical accounting estimates

The following are critical accounting estimates that the directors have made in the process of applying the Company's accounting policies 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.

Provision for liabilities and charges

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

(ii) Critical accounting judgements

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

Allowance for impairment losses

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

Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk ("SICR") since initial recognition. 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. The Company monitors a series of account flags which may indicate whether the asset has suffered a SICR, which are aligned to operational credit risk management strategies. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

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.

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

(ii) Critical accounting judgements (continued)

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 ("MES")

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In addition to a defined base case, as used for planning, the Company's approach relies on model-generated scenarios, reducing scope for bias in the selection of scenarios and their weightings. The 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 COVID-19 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.

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.

Sensitivities to key economic assumptions

The ECL is not materially sensitive to changes in the unemployment economic variable.

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

(ii) Critical accounting judgements (continued)

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 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 ECL allowances totalling £19,918,000 (2019: £10,080,000). For Loans and advances to customers, this included adjustments in respect of residual values totalling £2,390,000 (2019: £2,390,000). The total judgments comprise those added due to 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.

Owned vehicles leased to customers

The Company regularly reviews the residual value of its operating lease assets on a regular basis by reference to independent market value data and the prevailing economic conditions. The adjustment arising from the reviews are dealt with as set out in note 1.7.

Allowance for Residual value provision

In order to assess any required adjustment to depreciation or impairment, the directors regularly review the expected residual value of vehicles net of selling costs at the end of contract. The adjustment arising from the reviews are dealt with as set out in note 1.7. 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 is the most significant assumption impacting the expected residual value of vehicles net of selling costs.

Whilst the likely future used vehicle prices are determined based on management's best estimate, it is possible that the actual outcome will be different. The relationship between used vehicle prices and the level of provision required is non-linear because the initial impact of used vehicle price reduction impacts the prospective depreciation until the fall reaches a level whereby the individual lease contract is impaired at which point there is an immediate impact on profit and loss. Accordingly, set out below is an indication of the sensitivity of the impact to adjustments to the impairment provision at the balance sheet date based on potential changes in the average future price of used cars:

	1pp		2pp		5pp	
	Increase £	**Decrease £**	**Increase £**	**Decrease £**	**Increase £**	**Decrease £**
Residual value provision	(12,205,000)	12,680,000	(23,864,000)	25,902,000	(61,512,000)	69,110,000

3. Profit before tax

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

	2020 £'000	2019 £'000
Revenue		
Aggregate rentals receivable from operating lease contracts	**1,288,570**	1,409,574
Interest receivable on finance lease agreements	**10,994**	12,491
Interest receivable on contract purchase agreements	**4,630**	5,545
Interest receivable on credit sale agreements	**1,626**	2,554
Fleet management fees	**7,080**	10,737
Proceeds from disposal of property, plant and equipment	**1,010,146**	1,015,934
Other income	**13,395**	46,749
	2,336,441	2,503,584

3. Profit before tax (continued)

	2020 £'000	2019 £'000
Direct costs		
Depreciation on owned vehicles leased to customer (see note 12)	**937,329**	962,536
Amortisation of Intangible assets (see note 13)	**-**	2,660
Cost of sale on disposal of Property, plant and equipment (see note 12)	**900,618**	997,160
Impairment/(reversal of impairment) of Loans and advances to customer (see note 5)	**2**	(592)
Impairment of Trade receivable (see note 5)	**14,909**	8,269
Other provision charge (see note 17)	**22,310**	16,045
Other costs	**157,827**	176,700
	2,032,995	2,162,778
Other operating expenses		
Staff costs (see note 6)	**49,164**	36,857
Depreciation on freehold land and buildings (see note 12)	**313**	287
Amortisation of Intangible assets (see note 13)	**2,652**	-
Auditors remuneration - audit work	**100**	95
Other costs	**77,621**	82,638
	129,850	119,877

For the year ended 31 December 2020, amortisation of intangible assets has been classified within other operating expenses having been classified within direct costs in the prior year. The reclassification has been made in order to better reflect the nature of the cost.

4. Interest income and Interest expense

	2020 £'000	2019 £'000
Interest income		
Group interest income (see note 20)	**676**	5,590
Interest expense		
Group interest expense (see note 20)	**(64,334)**	(72,992)

5. Impairment losses

31 December 2020	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Transfers between stages	**(1)**	**3**	**-**	**2**
Impact from other changes in credit quality	**553**	**1,724**	**9,602**	**11,879**
(Repayments)/additions	**(528)**	**(24)**	**3,582**	**3,030**
	24	**1,703**	**13,184**	**14,911**
In respect of:				
Trade and other receivables	**-**	**1,725**	**13,184**	**14,909**
Loans and advances to customers	**24**	**(22)**	**-**	**2**
	24	**1,703**	**13,184**	**14,911**

31 December 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Transfers between stages	(1)	5	183	187
Impact from other changes in credit quality	131	1	6,183	6,315
(Repayments)/additions	(727)	(1)	1,903	1,175
	(597)	5	8,269	7,677

5. Impairment losses (continued)

31 December 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of:				
Trade and other receivables	-	-	8,269	8,269
Loans and advances to customers	(597)	5	-	(592)
	(597)	5	8,269	7,677

6. Staff costs

	2020 £'000	2019 £'000
Wages and salaries	**38,523**	30,590
Social security costs	**3,984**	2,980
Share based payments (see note 19)	**878**	635
Pension costs	**5,779**	2,652
	49,164	36,857

The average monthly number of staff during the year was 1,036 (2019:1,065). All staff contracts of service are with either Lloyds Bank Asset Finance Limited, Lloyds Bank plc or HBOS plc. All staff costs in respect of staff identified as providing services to the Company are recharged from a fellow Group company.

7. Directors' emoluments

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

	2020 £'000	2019 £'000
Aggregate emoluments	**162**	335
Aggregate post-employment benefits	**1**	-
	163	335

The number of directors to whom retirement benefits accrued under defined benefit and defined contribution schemes is three and one respectively (2019: three and two respectively). No directors exercised share options in the ultimate parent company during the year (2019: none).

Directors and related parties who lease or purchase vehicles from the Company do so on terms that are aligned with those available to all customers.

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

8. Taxation

a) Analysis of charge for the year

	2020 £'000	2019 £'000
UK corporation tax:		
- Current tax on taxable profit for the year	**35,739**	47,722
- Adjustments in respect of prior years	**(236)**	316
Current tax charge	**35,503**	48,038
UK deferred tax:		
- Origination and reversal of timing differences	**(14,790)**	(18,478)
- Due to change in UK corporation tax rate	**(19,515)**	1,945
- Adjustments in respect of prior years	**246**	(262)
Deferred tax credit (see note 14)	**(34,059)**	(16,795)
Tax charge	**1,444**	31,243

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 for the year

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

	2020 £'000	2019 £'000
Profit before tax	**109,938**	153,527
Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	**20,888**	29,170
Factors affecting charge:		
- Due to change in UK corporation tax rate	**(19,515)**	1,945
- Disallowed and non-taxable items	**61**	74
- Adjustments in respect of prior years	**10**	54
Tax charge on profit on ordinary activities	**1,444**	31,243
Effective rate	**1.31%**	20.35%

9. Dividends

No dividends were paid or proposed during the year ended 31 December 2020 (2019: £136,600,000).

10. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	**170,005**	155,436
Amounts due from group undertakings (see note 20)	**-**	6,186
Prepayments	**42,852**	35,870
Other debtors	**76,260**	59,787
	289,117	257,279

Amounts due from group undertakings are unsecured, non-interest bearing and repayable on demand. This balance was settled during 2020.

11. Loans and advances to customers

11.1 Loans and advances to customers - maturity

	2020 £'000	2019 £'000
Advances under finance lease and hire purchase contracts	**141,630**	178,477
Amounts receivable on credit sales agreements	**8,617**	16,563
Other loans and advances to customers	**35,336**	51,274
Gross loans and advances to customers	**185,583**	246,314
Less: allowances for losses on loans and advances	**(3,176)**	(3,174)
Net loans and advances to customers	**182,407**	243,140
of which:		
Due within one year	**120,135**	135,090
Due after one year	**62,272**	108,050
	182,407	243,140

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	**99,601**	99,168
- later than one year and no later than two years	**34,047**	59,089
- later than two years and no later than three years	**15,184**	27,635
- later than three years and no later than four years	**6,439**	10,422
- later than four years and no later than five years	**1,856**	2,885
- later than five years	**69**	96
	157,196	199,295
Unearned future finance income on finance lease and hire purchase contracts	**(15,566)**	(20,818)
Net investment in finance lease and hire purchase contracts	**141,630**	178,477

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

	2020 £'000	2019 £'000
- no later than one year	**92,081**	89,987
- later than one year and no later than two years	**29,686**	52,868
- later than two years and no later than three years	**12,821**	24,170
- later than three years and no later than four years	**5,400**	8,854
- later than four years and no later than five years	**1,584**	2,514
- later than five years	**58**	84
	141,630	178,477

No contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income during the year (2019: £nil) and there is no allowance for uncollectible minimum lease payments receivable (2019: £nil).

11. Loans and advances to customers (continued)

11.1 Loans and advances to customers - maturity (continued)

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

	2020 £'000	2019 £'000
- no later than one year	**18,019**	42,168
- later than one year and no later than five years	**36,079**	42,730
- later than five years	**3,285**	55
	57,383	84,953

The Company provides a range of finance lease products in connection with the financing of motor vehicles and equipment. The leases typically run for periods of between 1 and 5 years.

Further analysis of Loans and advances to customers is provided in note 21.

11.2 Loans and advances to customers - movement over time

As at 31 December 2020	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance at 1 January 2020	**245,736**	**364**	**214**	**246,314**
Transfers to Stage 2	**(52)**	**52**	**-**	**-**
Transfers to Stage 3	**(60)**	**-**	**60**	**-**
Net decrease in loans and advances to customers	**(60,328)**	**(376)**	**(29)**	**(60,733)**
Reinstatement of provisions previously written off	**-**	**-**	**2**	**2**
Gross loans and advances to customers	**185,296**	**40**	**247**	**185,583**
Less: allowances for losses on loans and advances	**(3,174)**	**(2)**	**-**	**(3,176)**
Net loans and advances to customers	**182,122**	**38**	**247**	**182,407**

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

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

12. Property, plant and equipment

	Freehold land and buildings	Plant, machinery and equipment	Owned vehicles leased to customers	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2019	-	6,333	6,809,076	6,815,409
Additions	-	-	1,693,800	1,693,800
Transfers from other group companies	10,917	-	-	10,917
Disposals	-	(6,333)	(1,975,448)	(1,981,781)
At 31 December 2019	10,917	-	6,527,428	6,538,345
Additions	-	-	1,437,833	1,437,833
Disposals	-	-	(1,896,316)	(1,896,316)
At 31 December 2020	10,917	-	6,068,945	6,079,862
Accumulated depreciation				
At 1 January 2019	-	6,333	2,154,753	2,161,086
Charge for the year (see note 3)	287	-	962,536	962,823
Disposals	-	(6,333)	(978,288)	(984,621)
At 31 December 2019	287	-	2,139,001	2,139,288
Charge for the year (see note 3)	313	-	937,329	937,642
Disposals	-	-	(995,698)	(995,698)
At 31 December 2020	600	-	2,080,632	2,081,232
Balance sheet amount at 31 December 2020	**10,317**	**-**	**3,988,313**	**3,998,630**
Balance sheet amount at 31 December 2019	10,630	-	4,388,427	4,399,057

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

Impairment charges, which are included in the charge for the year, are calculated in accordance with the accounting policy described in note 1.4(ii).

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

	2020	2019
	£'000	£'000
Receivable within one year	**852,993**	963,411
Receivable between two to five years	**896,775**	1,027,549
Receivable later than five years	**365**	2,132
	1,750,133	1,993,092

13. Intangible assets

	Software £'000
Cost	
At 1 January 2019, 31 December 2019 and 31 December 2020	18,464
Accumulated Amortisation	
At 1 January 2019	5,346
Charge for the year (see note 3)	2,660
At 31 December 2019	8,006
Charge for the year (see note 3)	2,652
At 31 December 2020	10,658
Balance sheet amount at 31 December 2020	**7,806**
Balance sheet amount at 31 December 2019	10,458

The Company's Intangible assets relate to Software enhancement costs.

14. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2020 £'000	2019 £'000
At 1 January	**166,125**	149,330
Credit for the year (see note 8)	**34,059**	16,795
At 31 December	**200,184**	166,125

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

	2020 £'000	2019 £'000
Accelerated capital allowances	**34,059**	16,878
Other temporary differences	**-**	(83)
	34,059	16,795

Deferred tax asset comprises:	**2020 £'000**	2019 £'000
Accelerated capital allowances	**200,184**	166,125

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 £63,000,000.

15. Borrowed funds

	2020 £'000	2019 £'000
Amounts due to group undertakings (see note 20)	**3,833,300**	4,468,760

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to Lloyds Bank plc are interest bearing at variable rates, with the interest rates charged during the year varying between 0.70% and 0.79% (2019: 0.62% and 0.94%). All other balances are non-interest bearing.

16. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	**14,941**	15,387
Other tax and social security payable	**30,078**	28,708
Accruals and deferred income	**358,270**	325,317
	403,289	369,412

Accruals and deferred income include £115,123,000 which is due after more than one year (2019: £127,946,000).

17. Provision for liabilities and charges

	Conduct risk provision £'000	Other provision £'000	Total £'000
At 1 January 2019	130	25,887	26,017
(Credit)/charge for the year	(122)	16,167	16,045
Utilised during the year	(8)	(10,492)	(10,500)
At 31 December 2019	-	31,562	31,562
Charge for the year	-	22,310	22,310
At 31 December 2020	**-**	**53,872**	**53,872**

Conduct risk provision

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated. An assessment has been made of the potential future transfer of economic benefits from claims made against the Company in relation to conduct risk. During 2015, the Company reviewed its documentation and found there to be a compliance issue. The provision represented an estimate of the likely future outflows to settle claims against the Company. All claims were settled in the prior year and the directors are not aware of any other conduct risk issues in existence at either year end. Consequently no provision is recognised.

Other provision

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

18. Share capital

	2020 £'000	2019 £'000
Allotted, issued and fully paid		
5,963,379 ordinary shares of £1 each	**5,963**	5,963

19. Share based payments

During the year ended 31 December 2020, the Company's ultimate parent undertaking operated share based payment schemes, all of which are equity settled. As stated in note 6, the Company had no direct employees during the year (2019: nil). The employee costs, including a charge for share based payments of £878,000 (2019: £635,000), 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 Company's ultimate parent undertaking, copies of which may be obtained from the Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The LBG Annual report and accounts may be downloaded via www.lloydsbankinggroup.com.

20. Related party transactions

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

	2020	2019
	£'000	£'000
Amounts due from group undertakings		
Lloyds Bank Asset Finance Limited (see note 10)	**-**	6,186
Amounts due to group undertakings		
A. C. L. Limited	**100**	100
ACL Autolease Holdings Limited	**1,349**	43,311
Bank of Scotland plc	**179**	23,565
HVF Limited	**68**	67
Lex Autolease (CH) Limited	**1**	1
Lex Autolease (VC) Limited	**10**	10
Lloyds Bank plc	**3,831,593**	4,401,706
Total Amounts due to group undertakings (see note 15)	**3,833,300**	4,468,760
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**111,363**	225,725
Interest income		
Lloyds Bank plc (see note 4)	**676**	5,590
Interest expense		
Lloyds Bank plc (see note 4)	**64,334**	72,992

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

Key management personnel

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

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

	2020	2019
	£'000	£'000
Aggregate emoluments	**836**	1,149

21. Financial risk management

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

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

21.1 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.

Cash and cash equivalents and Amounts due from other group undertakings are held with other companies within the Group. The credit risk associated with these financial assets is considered to be trivial.

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.

Credit concentration - Trade receivables

The Company provides operating lease arrangements and other funded products to customers geographically located in the United Kingdom. The maximum exposure to Trade receivables at the year end is £170,005,000 (2019: £155,436,000). Trade receivables of £27,042,000 (2019: £nil) are considered to be in Stage 2 and a further £15,395,000 (2019: £7,690,000) in Stage 3 for impairment and are provided for. The rest of Trade receivables are all considered to be in Stage 1.

Credit concentration - Loans and advances to customers

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

21. Financial risk management (continued)

21.1 Credit risk (continued)

Financial assets subject to credit risk

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

	2020 **£'000**	2019 £'000
Trade and other receivables	**289,117**	257,279
Loans and advances to customers	**185,583**	246,314
	474,700	503,593

Loans and advances to customers - gross carrying amount

The analysis of lending has been prepared by applying the Group's Corporate Master Scale ("CMS") to the Company's impairment model, for the Company's leasing portfolio. The internal credit ratings systems are set out below. The Group's probabilities of default ("PD"s), that have been applied, include forward-looking information and are based on 12 month values, with the exception of credit impaired which has a CMS rating of 20-23.

At 31 December 2020		**Gross loans and advances to customers - credit quality**			
	PD Range	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
CMS 1-10	0.00-0.050%	**17,937**	**-**	**-**	**17,937**
CMS 11-14	0.051-3.00%	**43,628**	**-**	**-**	**43,628**
CMS 15-18	3.01-20.00%	**123,660**	**-**	**-**	**123,660**
CMS 19	20.01-99.99%	**71**	**40**	**-**	**111**
CMS 20-23	100%	**-**	**-**	**247**	**247**
Total		**185,296**	**40**	**247**	**185,583**

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2020

21. Financial risk management (continued)

21.1 Credit risk (continued)

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2020	**3,150**	**24**	**7,690**	**10,864**
Transfers to Stage 2	**(1)**	**1**	**-**	**-**
Other items charged to the Statement of comprehensive income	**25**	**1,702**	**13,184**	**14,911**
Charge for year (including recoveries)	**24**	**1,703**	**13,184**	**14,911**
Advances written off	**-**	**-**	**(5,481)**	**(5,481)**
Recoveries of prior advances written off	**-**	**-**	**2**	**2**
At 31 December 2020	**3,174**	**1,727**	**15,395**	**20,296**

In respect of:	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Trade receivables	**-**	**1,725**	**15,395**	**17,120**
Loans and advances to customers	**3,174**	**2**	**-**	**3,176**
Total	**3,174**	**1,727**	**15,395**	**20,296**

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

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

21.2 Liquidity risk

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

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

21. Financial risk management (continued)

21.3 Market risk

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

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

21.4 Interest rate risk

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

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company’s balance due to Lloyds Bank plc and takes account of movement in the blended variable rates, linked to both market swap rates and SONIA (2019: LIBOR), which is the basis for the interest charged on such balances. A 0.15% increase or decrease is used to assess the possible change in Interest expense, as this is within expectations following review of movements in the blended rate over the last 12 months.

If blended rates increased by 0.15% and all other variables remain constant this would increase Interest expense by £6,391,000 (2019: £7,138,000) and accordingly decrease Interest expense by £6,391,000 (2019: £7,138,000) if blended rates decreased by the same amount.

21.5 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.

21.6 Financial strategy

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

21.7 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 £148,410,000 (2019: £226,456,000).

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

22. 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.

22. Capital disclosures (continued)

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

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

23. Contingent liabilities and capital commitments

At 31 December 2020, the Company had placed orders for motor vehicles, in order to satisfy customer requirements, of £500,372,344 (2019: £400,002,000).

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in early 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the Company of approximately £122,122,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

24. Post balance sheet events

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

25. Future developments

The following pronouncement was relevant to the Company but was not effective at 31 December 2020 and has not been applied in preparing these financial statements.

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

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

26. Ultimate parent undertaking and controlling party

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

Independent Auditors' report to the member of Lex Autolease Limited

Report on the audit of the financial statements

Opinion

In our opinion, Lex Autolease Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2020; the Statement of comprehensive income, the 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.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, 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 the requirements of UK tax law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. 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 law and regulations
- review of minutes of Board meetings
- testing period end adjustments to supporting documentation
- we have not obtained all the information and explanations we require for our audit; or
- 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 allowance for impairment of property, plant and equipment and credit impairment.
- identifying and testing journal entries, in particular any manual journal entries posted by unexpected or unusual users, posted with descriptions indicating a higher level of risk, and posted late 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.

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

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.

Kevin Williams (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
CF10 3PW

9 June 2021