Suzuki Financial Services 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 and the audited financial statements of Suzuki Financial Services Limited (the "Company") for the year ended 31 December 2020.

Business overview

The Company's result for the year shows a Profit before tax of £17,584,000 (2019: £17,669,000) and Net interest income of £25,673,000 (2019: £27,746,000). In 2019, the Company incurred a Payment protection insurance ("PPI") charge for the year of £1,536,000. There was no equivalent charge in the current year.

New business written in 2020 had a value of £178,531,000 (2019: £272,914,000) and was 24.5% below budget. The financing of new car sales, which make up 62% of the total business written, was 25% below budget for the year. Used car sales, which make up 33% of the new business written, were 21% ahead of budget, and motorbike sales, which make up the remaining 5% of the new business written, were down 18% against budget for the year. The decline in activity is largely linked to the COVID-19 pandemic as mentioned below.

The Company has been set up as a joint arrangement ("the Joint Arrangement") between Black Horse Group Limited and Suzuki GB plc. The Company is 51% owned by Black Horse Group Limited and 49% owned by Suzuki GB plc. The Company is funded entirely by other companies within Lloyds Banking Group ("the Group").

Future outlook

The Company has achieved a satisfactory level of returns in a disrupted marketplace and expects that returns will improve when the motor market recovers following the temporary downturn in new business following the impact of COVID-19 pandemic. The directors are supporting a strategy designed to ensure that the Company's interest and other charges fully reflect the risks associated with its core products.

The 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. In the event of any further substantial weakening in the UK's economic growth, the possibility of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on the Company's interest margins and potentially adversely affect its profitability 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 of its parent Lloyds Banking Group plc ("LBG"). While these risks are not managed separately for the Company, the Company is a main trading company of the the Group's Retail Division. The Retail Division is a portfolio of businesses and operates in a number of specialist markets providing both consumer lending and contract hire to personal and corporate customers. Further details of these risks and the risk management policy are contained in note 19 to the financial statements.

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

Further, the economic impact of the COVID-19 pandemic, including increased levels of unemployment, corporate insolvencies and business failures could adversely impact the Company's retail or corporate customers and their ability to service their contractual obligations, including to the Company. Adverse changes in the credit quality of the Company's borrowers and counterparties or collateral held in support of exposures, or in their behaviour, may reduce the value of Company's assets and materially increase its write-downs and allowances for impairment losses. This could have a material adverse effect on the Company's results of operations, 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, such as 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, the potential for conduct and compliance risks as well as operational risks materialising has increased, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the Company and the Group may need to change its ways of working whilst managing any instances of COVID-19 pandemic among its employees and locations to ensure continuity and support to colleagues and customers.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

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. Black Horse Group Limited, a wholly owned subsidiary of LBG, holds 51% of the issued share capital. As such, the Company follows many of the processes and practices of the Group whilst being mindful of the requirements of Suzuki GB plc which holds 49% of the Company’s issued share capital.

Customers

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

The Company is an active participant in the broader Motor Finance initiatives. One of the enhancements in the digital journey for Customers implemented enabled dealerships to continue to sell vehicles to customers during periods of lockdown, through the use of the SignAnywhere application which supported the 'Click and Collect' services that dealers where able to offer, by allowing customers to review and sign finance agreements anywhere at anytime. The Company is also focussed on enhancing retention capabilities to support Suzuki franchise dealers and customers as well as improving the experience and options when it comes to handing the vehicle back.

Employees

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

Shareholders

The Company is jointly owned by Black Horse Group Limited, a wholly owned subsidiary of LBG, and Suzuki GB plc. The Company and both shareholders are party to a shareholders' agreement which sets out the overall objectives of the arrangement and the respective obligations of each of the parties in terms of meeting those objectives. The directors ensure that the strategy, priorities, processes and practices of the Company are aligned to the requirements of the shareholders' agreement and, where required, to those of LBG as the Company's controlling shareholder. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic report within the LBG Annual Report and Accounts for 2020, which does not form part of this report, available on the LBG website.

Communities and the environment

Whilst the Company has limited physical presence, the financing of motor vehicles impacts on both the community and the environment. The Company continues to explore ways to contribute to the LBG target of reducing carbon emissions financed by the Group by 50% by 2030. In addition, the Company continues to support LBG's initiatives, including Helping Britain Recover by actively managing its current loan book and will continue to support Suzuki GB plc as the UK transitions to no new fossil fuel vehicles from 2030.

Regulators

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

Strategic report (continued)

For the year ended 31 December 2020

Section 172(1) statement (continued)

How stakeholder interest has influenced decision making

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

During 2020 an area of particular focus for the directors has been to steer through the challenges we have faced into as a result of the COVID-19 pandemic, from both an operational and customer perspective, ensuring alignment with guidance from LBG and the regulators.

Emerging risks

The key emerging risks for the Company relates to how the economy responds to 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. Additionally the impact on the UK's exit from the EU will continue to be monitored as the new EU and non-EU trading relationships develop.

General

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

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

R A Jones
Director

10 May 2021

Directors' report

For the year ended 31 December 2020

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

General information

The Company is a private company, limited by shares, incorporated in the United Kingdom and registered and domiciled in England and Wales (registered number: 03015566). The directors in office are listed further in this report and the Company Secretary is D D Hennessey.

The Company provides a range of finance lease and hire purchase products and personal loans, generally in connection with the financing of Suzuki motor cars.

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

Dividends

A dividend of £14,200,000 (2019: £21,707,000), representing a dividend of £1,420 per share (2019: £2,170.70), was declared and paid during the year.

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 St William House, Tresillian Terrace, Cardiff, CF10 5BH.

Directors

The current directors of the Company are as follows:

J Fernandez
D F Houston
R A Jones
N Suyama
I S Perez
J McCaffrey
J Fulker
D Wyatt

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

Information included in the Strategic report

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

Statement of engagement with employees and other stakeholders

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

Directors' indemnities

LBG has granted to Messrs R A Jones, I S Perez, J Fulker and J McCaffrey, the directors of the Company appointed by and representing the Group, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force during the whole of the financial year and at the date of approval of the financial statements. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the Group directors to the maximum extent permitted by law. The deed for current Group directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate Group directors and officers liability insurance cover which was in place throughout the financial year.

Suzuki GB plc has in place appropriate Directors and Officers Liability and Company Reimbursement Liability Insurance. This has been in place since 7 November 2019 and is in place at the date of approval of the financial statements. Mrs J Fernandez, Mr D F Houston, Mr N Suyama and Mr D Wyatt have had the benefit of this cover since 7 November 2019.

Directors' report (continued)

For the year ended 31 December 2020

Climate change

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

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

Auditors and disclosure of information to 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

10 May 2021

Statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest income		**35,017**	37,697
Interest expense		**(9,344)**	(9,951)
Net interest income	3	**25,673**	27,746
Fee and commission income	4	**318**	457
Provision for liabilities and charges - charge for the year	16	**-**	(1,536)
Credit impairment losses	5	**(2,850)**	(423)
Market impairment gains/(losses)	6	**660**	(1,594)
Other operating expenses	7	**(6,217)**	(6,981)
Profit before tax		**17,584**	17,669
Taxation	10	**(3,320)**	(3,396)
Profit for the year, being total comprehensive income		**14,264**	14,273
Attributable to:			
Owners of the parent		**7,275**	7,279
Non-controlling interest		**6,989**	6,994
Profit for the year being total comprehensive income		**14,264**	14,273

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			
Trade and other receivables	12	**5,657**	3,830
Loans and advances to customers	13	**546,433**	554,408
Deferred tax asset	14	**267**	274
Total assets		**552,357**	558,512
LIABILITIES			
Borrowed funds	15	**523,387**	528,255
Trade and other payables		**199**	398
Provision for liabilities and charges	16	**475**	1,583
Current tax liability		**3,313**	3,357
Total liabilities		**527,374**	533,593
EQUITY			
Share capital	17	**10**	10
Retained earnings		**24,973**	24,909
Total equity		**24,983**	24,919
Total equity and liabilities		**552,357**	558,512

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

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

R A Jones
Director

10 May 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	10	32,343	32,353
Total comprehensive income for the year attributable to:			
- Owners of the parent	-	7,279	7,279
- Non-controlling interest	-	6,994	6,994
Dividend paid to equity holders of the Company (see note 11)	-	(21,707)	(21,707)
At 31 December 2019	**10**	**24,909**	**24,919**
Total comprehensive income for the year attributable to:			
- Owners of the parent	-	7,275	7,275
- Non-controlling interest	-	6,989	6,989
Dividend paid to equity holders of the Company (see note 11)	-	(14,200)	(14,200)
At 31 December 2020	**10**	**24,973**	**24,983**

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	**17,584**	17,669
Adjustments for:		
- Interest expense	**9,344**	9,951
- (Decrease)/increase in Provision for liabilities and charges	**(1,108)**	15
Changes in operating assets and liabilities:		
- Net decrease/(increase) in Loans and advances to customers	**7,975**	(12,599)
- Net (increase)/decrease in Other debtors and Other assets	**(2,260)**	525
- Net decrease in Trade and other payables	**(199)**	(321)
Cash generated from operations	**31,336**	15,240
Tax paid	**(3,357)**	(3,522)
Net cash generated from operating activities	**27,979**	11,718
Cash flows used in financing activities		
(Repayment of)/Proceeds from net borrowings with group undertakings	**(4,435)**	19,940
Dividends paid	**(14,200)**	(21,707)
Interest paid	**(9,344)**	(9,951)
Net cash used in financing activities	**(27,979)**	(11,718)
Change in Cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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.

These financial statements 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 23. No standards have been early adopted.

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

1.2 Income recognition

Interest income and expense from financial assets

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

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

Lease classification

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

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

Finance lease income

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

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

1. Accounting policies (continued)

1.2 Income recognition (continued)

Fees and commission income and expense

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

1.3 Financial assets and liabilities

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

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

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

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

Payment holidays of up to six months have been offered to customers due to the ongoing COVID-19 pandemic. Interest accumulated during this period is charged at the end of the contract.

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

1.4 Impairment

(i) ***Credit losses***

Loans and advances to customers

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

Impairment of loans and advances

At initial recognition, allowance (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.

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

1. Accounting policies (continued)

1.4 Impairment (continued)

Impairment of loans and advances (continued)

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.

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

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

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

Impairment of other financial assets

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

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

(ii) Market losses

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

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

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

1. Accounting policies (continued)

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

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

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

1.7 Dividends paid

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

1.8 Retirement benefit obligations

Defined contribution

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

Defined benefit

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

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

1. Accounting policies (continued)

1.9 Share based payments

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 8. Full details of these schemes can be found in the 2020 Annual Report and the Financial Statements of the Group.

1.10 Provision for liabilities and charges

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

2. Critical accounting estimates and judgements in applying accounting policies

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

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

Allowance for Credit impairment losses

The calculation of the Group’s expected credit loss ("ECL") allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below.

Definition of default

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

Lifetime of an exposure

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

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

Significant increase in credit risk - retail

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

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

Significant increase in credit risk - non-retail

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

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

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

Allowance for Credit impairment losses (continued)

Origination PDs - retail

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

Origination PDs - non-retail

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

Staging rules

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

Generation of Multiple Economic Scenarios

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

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

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 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.

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

Allowance for Credit impairment losses (continued)

Base Case and MES Economic Assumptions (continued)

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.

Model sensitivity to unemployment rates

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

	31 December 2020		31 December 2019	
UK unemployment	1pp **Increase**	1pp **Decrease**	1pp Increase	1pp Decrease
ECL impact	£48,000	(£48,000)	£21,000	(£21,000)

Application of judgement in adjustments to modelled ECL

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

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

At 31 December 2020 the COVID-19 pandemic and the various support measures that have been put in place have resulted in an economic environment which differs significantly from the historical economic conditions upon which the impairment models have been built. As a result there is a greater need for management judgements to be applied alongside the use of models. At 31 December 2020 management judgement resulted in additional retail ECL allowances totalling £1,286,000 (2019: £127,000) and non-retail of £nil (2019: £nil). This comprises judgements 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.

Allowance for Market impairment losses

As set out in note 19.3 the Company's leasing arrangements expose it to market risk in the form of motor vehicle residual value primarily relating to the PCP product and to customer voluntary termination. In order to assess an impairment loss relating to these risks the directors use assumptions to reassess the likely future value of the vehicles financed. The used car market in the UK is mature with prices dependent upon a broad range of economic and vehicle specific factors. These factors are taken into consideration by means of the data provided by market specialists, overlaid with adjustment to reflect Company specific knowledge and experience. The expected market price determined in this manner impacts upon the extent to which customers are expected to return vehicles either at the end of the contract or, in the case of voluntary terminations, during the term of the contract. In order to assess the level of expected returns associated with the assessed future value of the vehicles financed, the Company references historic experience of actual returns.

Whilst the likely future used car prices are determined based on management's best estimate, it is possible that the actual outcome will be different. The market risk provision included within the accounts is £1,675,000 (2019: £2,652,000).

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

	1pp		**2pp**		**5pp**	
	Increase £'000	**Decrease £'000**	**Increase £'000**	**Decrease £'000**	**Increase £'000**	**Decrease £'000**
Allowance for market losses	448	(428)	930	(817)	2,579	(1,787)

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

3. Net interest income

	2020 £'000	2019 £'000
Interest income		
From finance lease and hire purchase contracts	**33,848**	36,002
From personal loans	**-**	2
From other loans and advances	**1,169**	1,693
	35,017	37,697
Interest expense		
Group interest expense (see note 18)	**(9,344)**	(9,951)
	25,673	27,746

4. Fee and commission income

	2020 £'000	2019 £'000
Loan fees receivable	**318**	457

5. Credit impairment losses

31 December 2020	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Transfers between stages	**(345)**	**619**	**1,362**	**1,636**
Other changes in credit quality	**1,125**	**450**	**593**	**2,168**
Repayments	**(744)**	**(153)**	**(57)**	**(954)**
	36	**916**	**1,898**	**2,850**
In respect of:				
Loans and advances to customers	**(7)**	**916**	**1,898**	**2,807**
Undrawn loan commitments	**43**	**-**	**-**	**43**
	36	**916**	**1,898**	**2,850**

31 December 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Transfers between stages	(34)	236	973	1,175
Other changes in credit quality	(926)	(139)	388	(677)
Additions/(Repayments)	396	(146)	(325)	(75)
	(564)	(49)	1,036	423
In respect of:				
Loans and advances to customers	(582)	(49)	1,036	405
Undrawn loan commitments	18	-	-	18
	(564)	(49)	1,036	423

6. Market impairment (gains)/losses

	2020 **£'000**	2019 £'000
Brought forward at 1 January	**2,652**	1,444
Utilised during the year	**(317)**	(386)
(Credit)/charge for the year	**(660)**	1,594
Carried forward at 31 December (see note 13)	**1,675**	2,652

7. Other operating expenses

	2020 **£'000**	2019 £'000
Staff costs (see note 8)	**607**	725
Management charges payable (see note 18)	**5,479**	5,981
Other operating expenses	**131**	275
	6,217	6,981

Fees payable to the Company's auditors for the audit of the financial statements of £22,500 (2019: £20,000) have been borne by a fellow group company and are not recharged to the Company and fees for non-audit services of £nil (2019: £12,250) have been borne by a fellow group company and are recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management fees.

8. Staff costs

	2020 **£'000**	2019 £'000
Wages and salaries	**414**	525
Social security costs	**53**	71
Other pension costs	**140**	129
	607	725

The average monthly number of employees during the year was 11 (2019: 11). All staff are located in the United Kingdom and provide management, administration and sales support. All staff contracts of service are with Lloyds Bank Asset Finance Limited. However, the staff costs shown above were paid by the Company in respect of staff identified as providing services to the Company. Other pension costs comprise solely costs for defined contribution schemes.

9. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2019: £nil). The directors are employed by other companies within the Group or companies controlled by Suzuki GB plc and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 18).

Notes to the financial statements (continued)

For the year ended 31 December 2020

10. Taxation

	2020 £'000	2019 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**3,311**	3,356
- Adjustments in respect of prior years	**2**	1
Current tax charge	**3,313**	3,357
UK deferred tax:		
- Origination and reversal of timing differences	**38**	39
- Due to change in UK corporation tax rate	**(31)**	-
Deferred tax charge (see note 14)	**7**	39
Tax charge	**3,320**	3,396

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	**17,584**	17,669
Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	**3,341**	3,358
Factors affecting charge:		
- Due to change in UK corporation tax rate	**(31)**	-
- Disallowed and non-taxable items	**8**	37
- Adjustments in respect of prior years	**2**	1
Tax charge on profit on ordinary activities	**3,320**	3,396
Effective rate	**18.88%**	19.22%

11. Dividends

In 2020, dividends of £1,420 per "A" share and £1,420 per "B" share representing a total of £14,200,000 were paid in the year (2019: £2,170.70 per "A" share and £2,170.70 per "B" share representing a total of 21,707,000).

12. Trade and other receivables

	2020 £'000	2019 £'000
Amounts due from group undertakings (see note 18)	**-**	433
Other debtors	**5,657**	3,105
Other assets	**-**	292
	5,657	3,830

Amounts due from group undertakings are unsecured, non-interest bearing and repayable on demand. Included in other debtors is a manufacturing subsidy receivable from Suzuki GB plc of £1,483,000 (2019: £1,440,000) (see note 18).

At 31 December 2020, the Company recognised an asset of £nil (2019: £292,000) in respect of indemnities from Black Horse Limited in relation to PPI (see note 16).

13. Loans and advances to customers

13.1 Loans and advances to customers - maturity

	2020	2019
	£'000	£'000
Advances under finance lease and hire purchase contracts	**472,947**	505,258
Personal loans to customers	**27**	61
Other loans and advances to customers	**80,567**	55,138
Gross loans and advances to customers	**553,541**	560,457
Less: allowances for Credit losses on loans and advances	**(5,433)**	(3,397)
Less: allowances for Market losses on loans and advances	**(1,675)**	(2,652)
Net loans and advances to customers	**546,433**	554,408
of which:		
Due within one year	**217,010**	185,338
Due after one year	**329,423**	369,070
	546,433	554,408

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

	2020	2019
	£'000	£'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**155,140**	148,751
- later than one year and no later than two years	**149,948**	167,495
- later than two years and no later than three years	**138,859**	135,290
- later than three years and no later than four years	**76,930**	109,446
- later than four years and no later than five years	**6,007**	7,505
- later than five years	**2**	-
	526,886	568,487
Unearned future finance income on finance lease and hire purchase contracts	**(53,939)**	(63,229)
Net investment in finance lease and hire purchase contracts	**472,947**	505,258

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

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

Further analysis of Loans and advances to customers is provided in note 19.

Notes to the financial statements (continued)

For the year ended 31 December 2020

13. Loans and advances to customers (continued)

13.2 Loans and advances to customers - movement over time

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2020	**500,489**	**57,489**	**2,479**	**560,457**
Transfers to Stage 1	**14,204**	**(14,204)**	**-**	**-**
Transfers to Stage 2	**(34,453)**	**34,599**	**(146)**	**-**
Transfers to Stage 3	**(3,004)**	**(3,286)**	**6,290**	**-**
Net increase/(decrease) in loans and advances to customers	**11,408**	**(13,183)**	**(3,704)**	**(5,479)**
Financial assets that have been written off during the year	**-**	**-**	**(1,501)**	**(1,501)**
Recoveries of prior advances written off	**-**	**-**	**64**	**64**
Gross loans and advances to customers	**488,644**	**61,415**	**3,482**	**553,541**
Less: allowances for Credit losses on loans and advances	**(860)**	**(2,526)**	**(2,047)**	**(5,433)**
Less: allowances for Market losses on loans and advances	**(1,442)**	**(233)**	**-**	**(1,675)**
Net loans and advances to customers	**486,342**	**58,656**	**1,435**	**546,433**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2019	493,153	51,127	2,879	547,159
Transfers to Stage 1	14,960	(14,960)	-	-
Transfers to Stage 2	(28,327)	28,463	(136)	-
Transfers to Stage 3	(2,432)	(2,590)	5,022	-
Net increase/(decrease) in loans and advances to customers	23,135	(4,551)	(3,706)	14,878
Recoveries of prior advances written off	-	-	(1,654)	(1,654)
Reinstatement of provisions previously written off	-	-	74	74
Gross loans and advances to customers	500,489	57,489	2,479	560,457
Less: allowances for Credit losses on loans and advances	(596)	(1,565)	(1,236)	(3,397)
Less: allowances for Market losses on loans and advances	(2,487)	(165)	-	(2,652)
Net loans and advances to customers	497,406	55,759	1,243	554,408

Included within the movement over time analysis are unguaranteed residual value payments of £241,775,000 (2019: £256,499,000).

14. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2020 £'000	2019 £'000
At 1 January	**274**	313
Charge for the year (see note 10)	**(7)**	(39)
At 31 December	**267**	274

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

	2020 £'000	2019 £'000
Other temporary differences	**(7)**	(39)

14. Deferred tax asset (continued)

Deferred tax asset comprises:	**2020 £'000**	2019 £'000
Accelerated capital allowances	**3**	3
Other temporary differences	**264**	271
	267	274

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 Budget, the UK government stated its intention to maintain the corporation tax rate at 19% on 1 April 2020. That rate change was enacted under the Provisional Collection of Taxes Act 1968 on 17 March 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 impact would have been to increase net deferred tax assets by approximately £84,000.

15. Borrowed funds

	2020 £'000	2019 £'000
Amounts due to group undertakings (see note 18)	**523,387**	528,255

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 Black Horse Limited are interest bearing at variable rates based on the SONIA (2019: LIBOR) plus a margin of 0.35%. Amounts due from other group entities are non-interest bearing.

16. Provision for liabilities and charges

	Undrawn loan commitments £'000	**Payment protection insurance £'000**	**Other provision £'000**	**Total £'000**
At 1 January 2019	59	1,255	254	1,568
Charge for the year	46	1,536	-	1,582
Reversal of unused Indemnity provision	-	(203)	(244)	(447)
Utilised under indemnity from Black Horse Limited	-	(229)	-	(229)
Utilised during the year	(24)	(857)	(10)	(891)
At 31 December 2019	81	1,502	-	1,583
Charge for the year	43	-	-	43
Utilised under indemnity from Black Horse Limited	-	(292)	-	(292)
Utilised during the year	-	(859)	-	(859)
At 31 December 2020	**124**	**351**	**-**	**475**

Black Horse Limited has agreed to indemnify retrospectively PPI claims that meet certain criteria. As at 31 December 2020, the Company has provided £351,000 (2019: £1,502,000) against all PPI claims of which an amount of £nil (2019: £292,000) is indemnified by Black Horse Limited (see note 12).

17. Share capital

	2020 £'000	2019 £'000
Allotted, issued and fully paid		
5,100 "A" ordinary shares of £1 each	**5**	5
4,900 "B" ordinary shares of £1 each	**5**	5

At 31 December 2019, the authorised share capital of the Company was £10,000 divided into 5,100 "A" ordinary shares of £1 each and 4,900 "B" ordinary shares of £1 each. The "A" ordinary shares rank pari passu with the "B" ordinary shares, including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company. The "A" ordinary shares are held by Black Horse Group Limited, the "B" ordinary shares are held by Suzuki GB plc.

18. 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 fee transactions. A summary of the outstanding balances at the year end and the related expense for the year are set out below.

	2020 £'000	2019 £'000
Amounts due from group undertakings		
Black Horse Limited	**-**	431
Lloyds Bank plc	**-**	2
Total Amounts due from group undertakings (see note 12)	-	433
Amounts due to group undertakings		
Bank of Scotland plc	**-**	280
Black Horse Group Limited	**7,242**	11,071
Black Horse Limited	**515,925**	516,809
Lloyds Bank plc	**220**	95
Total Amounts due to group undertakings (see note 15)	**523,387**	528,255
Interest expense		
Black Horse Limited (see note 3)	**9,344**	9,951
Management charges payable		
Black Horse Limited (see note 7)	**5,479**	5,981
Staff costs recharge		
Black Horse Limited (see notes 7 and 8)	**607**	725

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.

Loans and advances to customers of £546,433,000 (2019: £554,408,000) includes manufacturing subsidies of £10,053,000 (2019: £25,799,000) received during the year from the non-controlling interest, Suzuki GB plc. As at 31 December 2020, an amount of £1,483,000 (2019: £1,440,000) was outstanding (see note 12).

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprises the directors of the Company, the directors of the Retail Division and the members of the LBG board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group or the Suzuki GB plc and consider that their services to the Company are incidental to their other activities within those groups.

19. 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, LBG. 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 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.

19.1 Credit risk

Credit risk management

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

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

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

Credit risk mitigation

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

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

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

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

Credit concentration - Loans and advances to customers

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

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

Loans and advances to customers - gross carrying amount

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

Notes to the financial statements (continued)

For the year ended 31 December 2020

19. Financial risk management (continued)

19.1 Credit risk (continued)

At 31 December 2020		**Gross loans and advances to customers - Loan Quality**			
	PD Range	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Retail					
RMS 1-6	0.00-4.50%	**405,037**	**46,050**	**-**	**451,087**
RMS 7-9	4.51-14.00%	**752**	**8,273**	**-**	**9,025**
RMS 10	14.01-20.00%	**33**	**3,621**	**-**	**3,654**
RMS 11-13	20.01-99.99%	**-**	**3,138**	**-**	**3,138**
RMS 14	100%	**-**	**-**	**3,251**	**3,251**
Total		**405,822**	**61,082**	**3,251**	**470,155**
Wholesale					
CMS 1-10	0.00-0.050%	**17,461**	**-**	**-**	**17,461**
CMS 11-14	0.051-3.00%	**54,548**	**-**	**-**	**54,548**
CMS 15-18	3.01-20.00%	**8,702**	**-**	**-**	**8,702**
CMS 19	20.01-99.99%	**2,110**	**334**	**-**	**2,444**
CMS 20-23	100%	**-**	**-**	**231**	**231**
Total		**82,821**	**334**	**231**	**83,386**

At 31 December 2019		Gross loans and advances to customers - Loan Quality			
	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Retail					
RMS 1-6	0.00-4.50%	444,442	44,137	-	488,579
RMS 7-9	4.51-14.00%	962	6,714	-	7,676
RMS 10	14.01-20.00%	-	2,473	-	2,473
RMS 11-13	20.01-99.99%	32	4,166	-	4,198
RMS 14	100%	-	-	2,478	2,478
Total		445,436	57,490	2,478	505,404
Wholesale					
CMS 1-10	0.00-0.050%	7,979	-	-	7,979
CMS 11-14	0.051-3.00%	40,359	-	-	40,359
CMS 15-18	3.01-20.00%	5,436	-	-	5,436
CMS 19	20.01-99.99%	1,279	-	-	1,279
Total		55,053	-	-	55,053

Notes to the financial statements (continued)

For the year ended 31 December 2020

19. Financial risk management (continued)

19.1 Credit risk (continued)

Commitments to lend

At 31 December 2020 — **Gross loans and advances to customers - Loan Commitments**

Wholesale	**PD Range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
CMS 1-10	0.00-0.050%	**14,607**	**-**	**-**	**14,607**
CMS 11-14	0.051-3.00%	**43,221**	**-**	**-**	**43,221**
CMS 15-18	3.01-20.00%	**4,464**	**-**	**-**	**4,464**
CMS 19	20.01-99.99%	**522**	**-**	**-**	**522**
		62,814	**-**	**-**	**62,814**
At 31 December 2019					
CMS 1-10	0.00-0.050%	14,970	-	-	14,970
CMS 11-14	0.051-3.00%	52,004	-	-	52,004
CMS 15-18	3.01-20.00%	4,763	-	-	4,763
CMS 19	20.01-99.99%	2,446	-	-	2,446
		74,183	-	-	74,183

Commitments to lend consist of undrawn formal standby facilities, credit facilities and other commitments to lend with Suzuki GB plc's dealership network.

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	**596**	**1,565**	**1,236**	**3,397**
Transfers to Stage 1	**209**	**(209)**	**-**	**-**
Transfers to Stage 2	**(430)**	**503**	**(73)**	**-**
Transfers to Stage 3	**(39)**	**(306)**	**345**	**-**
Impact of transfer between stages	**(86)**	**632**	**1,090**	**1,636**
Other items charged to the Statement of comprehensive income	**339**	**296**	**536**	**1,171**
Charge/(credit) for the year (including recoveries)	**(7)**	**916**	**1,898**	**2,807**
Advances written off	**-**	**-**	**(1,501)**	**(1,501)**
Recoveries of prior advances written off	**271**	**45**	**65**	**381**
Unwind of discount	**-**	**-**	**349**	**349**
At 31 December 2020	**860**	**2,526**	**2,047**	**5,433**

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2019	792	1,614	1,500	3,906
Transfers to Stage 1	186	(186)	-	-
Transfers to Stage 2	(178)	259	(81)	-
Transfers to Stage 3	(28)	(290)	318	-
Impact of transfer between stages	(14)	453	736	1,175
Other items charged to the Statement of comprehensive income	(548)	(285)	63	(770)
Charge/(credit) for the year (including recoveries)	(582)	(49)	1,036	405
Advances written off	-	-	(1,654)	(1,654)
Recoveries of prior advances written off	386	-	74	460
Unwind of discount	-	-	280	280
At 31 December 2019	596	1,565	1,236	3,397

19. Financial risk management (continued)

19.1 Credit risk (continued)

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

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2019	63	-	-	63
Charge for year (including recoveries)	18	-	-	18
At 31 December 2019	81	-	-	81
Charge for year (including recoveries)	**43**	**-**	**-**	**43**
At 31 December 2020	**124**	**-**	**-**	**124**

Repossessed collateral

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

19.2 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.

19.3 Market risk

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

PCP agreements

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

Voluntary terminations

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

19. Financial risk management (continued)

19.4 Interest rate risk

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

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

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Amounts due to group undertakings and takes account of movement in the SONIA (2019: LIBOR), which is the basis for the interest charged on such balances. A 0.69% increase or decrease (2019: LIBOR 0.19%) is used to assess the possible change in Interest expense, as this is the actual movement in the SONIA rate (2019: LIBOR) across the year.

If the SONIA (2019: LIBOR) increased by 0.69% (2019: 0.19%) and all other variables remain constant this would increase Interest expense by £489,000 (2019: £146,000) and accordingly decrease Interest expense by £489,000 (2019: £146,000) if the SONIA (2019: LIBOR) decreased by the same amount.

19.5 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.

19.6 Financial strategy

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

19.7 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 £573,522,000 (2019: £581,742,000). The directors consider that, for all other financial assets and liabilities, there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

20. Capital disclosures

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

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

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

21. Contingent liabilities and capital commitments

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

Notes to the financial statements (continued)

For the year ended 31 December 2020

22. Post balance sheet events

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

23. Future developments

The following pronouncement will be 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.

24. Ultimate parent undertaking and controlling party

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

Independent Auditors' report to the member of Suzuki Financial Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, Suzuki Financial Services Limited's accounts:

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

We have audited the accounts, included within the Report and accounts (the "Annual Report"), which comprise: Balance sheet as at 31 December 2020; Statement of comprehensive income, Statement of changes in equity and Cash flow statement for the year then ended; and the notes to the accounts, 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 accounts 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 accounts are authorised for issue.

In auditing the accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the accounts 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 accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the accounts 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 accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the accounts 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 accounts 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 accounts 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 Suzuki Financial Services Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the accounts

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the accounts 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 accounts that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the accounts

Our objectives are to obtain reasonable assurance about whether the accounts 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 accounts.

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles such as those governed by the Financial Conduct Authority ("FCA") and we considered the extent to which non-compliance might have a material effect on the accounts. 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 included:

- Inquiries of those charged with governance in relation to known or suspected instances of non-compliance with law and regulations and fraud and to identify any correspondence with the FCA;
- review of minutes of Board meetings;
- testing period end adjustments to supporting documentation;
- incorporating an element of unpredictability into the nature, timing or extent of our testing;
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular, in relation to the allowance for credit impairment and market impairment; and
- 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 accounts. 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 accounts 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 Suzuki Financial Services 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 received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

10 May 2021