Black Horse Limited

Annual report and accounts

2021

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2021

The directors present their Strategic report and audited financial statements of Black Horse Limited (the "Company") for the year ended 31 December 2021.

Business overview

The Company experienced a decrease in Loans and advances to customers of £423,048,000 (2020: £227,861,000 increase) during the year. This was mainly driven by production delays that have occurred in 2021 due to micro-chip shortages. The Company has made an impairment gain of £119,559,000 (2020: £197,270,000 impairment loss) during the year in response to the improved economic outlook regarding the COVID-19 pandemic contributing to improved profitability.

The Company's result for the year shows a Profit before tax of £508,243,000 (2020: £198,850,000) and Net interest income of £452,442,000 (2020: £444,511,000). The Company holds net assets of £956,853,000 (2020: £542,585,000).

In 2020, Lloyds Banking Group (the "Group"), including the Company as a subsidiary, signed a five year agreement, effective from January 2021, to continue the strategic relationship with Jaguar Land Rover.

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

Future outlook

The Company expects to continue to face the challenges of stock shortages resulting from the global micro-chip shortage, supply issues and increasing movement towards electric vehicles. These issues are expected to continue to impact new business levels but returns are expected to remain robust going forward as the business will focus on margin management and its used car business.

Any adverse changes affecting the UK economy may have direct and indirect credit and operational exposures. Any further deterioration in global macroeconomic conditions, including as a result of geopolitical events, global health issues, including the COVID-19 pandemic or acts of war or terrorism, could have an adverse effect on the Company’s results.

The geopolitical implications of the conflict between Russia and Ukraine including the imposition of sanctions, could continue to have an adverse economic effect on financial markets and on energy costs further exacerbating the cost of living crisis, all of which could have an adverse effect on the supply chain issues and loan impairments.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Lloyds Banking Group plc ('LBG'). While these risks are not managed separately for the Company, the Company is a main trading company of the Motor Finance business as part of the Group. Liquidity risk and Interest rate risk is managed and monitored by Internal risk teams. Further details of these risks and the risk management policy are contained in note 25 to the financial statements.

Credit risk

Credit risk arises on the individual customer balances, both on the Loans and advances to customers and also any undrawn balances for an existing customer. These loans are continually monitored by the Group's Internal Risk teams for credit performance and to ensure compliance with current regulations and that customers are being treated fairly. Further information can be found included in note 25.1.

Liquidity risk

Liquidity risk is the risk of the Company being unable to meet its financial obligations. Liquidity risk is subject to independent oversight by Internal Risk teams. The Company's ability to meet its funding obligations is closely monitored by the Group's Corporate Treasury team. Further information can be found in note 25.2.

Market risk

Market risk is the risk surrounding the market factors that management has applied in estimating the anticipated residual values of finance lease agreements where the Company retains title of the asset differ from actual trends. The Company is exposed to fluctuations in the value of second hand motor vehicles. The Company holds larger residual value provisions against electric cars and their growing popularity could increase the Company's residual value risk. Further information can be found in note 25.3.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis, or are reset at different times. Interest rate risk for the Company includes customer lending and intragroup funding obligations. Further information can be found in note 25.4.

Other risks

The ongoing issue of stock shortages as a result of the global micro-chip shortage provides a continued risk to stocking levels and new business sales. Increases in fuel prices could unfavourably impact sales. These risks are monitored by the Motor Finance business.

Principal risks and uncertainties (continued)

Other risks (continued)

The global pandemic from the outbreak of COVID-19 has caused disruption to financial markets and normal patterns of business activity across the world, including in the UK. Measures taken to contain the health impacts of the COVID-19 pandemic have resulted in adverse impacts on economic activity. These measures have now largely ended and the economic impact of the COVID-19 pandemic is not expected to have a material impact on the going concern of the Company.

Key performance indicators ("KPIs")

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

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

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

KPI	2021	2020	Analysis
Net interest income (£'000)	452,442	444,511	The increase in Net interest income has been driven by a decrease in Interest expense following the run off of Cardiff Auto Receivables Securitisation 2018-1 plc.
Net interest margin	3.7%	3.6%	Net interest margin has increased slightly, with the small increase driven by lower funding costs in respect of new business.
Loans and advances to customers (£'000)	11,853,042	12,276,090	The decrease in Loans and advances to customers is mainly driven by production delays that occurred in 2021 due to micro-chip shortages.
Cost: income ratio	15.7%	14.9%	Cost: income ratio has increased due to a greater rise in staff and other operating costs compared to net income, despite a Profit on disposal of plant, property and equipment of £8.7m and growth in net interest income.
Asset quality ratio	(1.0)%	1.6%	Asset quality ratio is negative due to presence of current year Impairment gains due to provision release following improved economic outlook of COVID-19 pandemic.

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2021, 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. The Directors remain mindful in all their deliberations of the long-term consequences of their decisions, as well as the importance of maintaining a reputation for high standards of business conduct and taking account of the views of key stakeholders.

Statement of engagement with employees and other stakeholders

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

Customers

The directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions by focussing on customer fair value and by treating customers fairly. The Board meets on a regular basis and directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made. As we work through the longer lasting impacts of the Public Health Crisis caused by the global pandemic, and potential consequences for customers of the emerging challenges of more recent geopolitical events, the Company continues to support customers in longer term financial difficulty with a range of debt management options including repayment plans which allow customers to make reduced payments for 6 to 12 months. Additionally for customers with extended wait times for new vehicles due to the supply challenges, we have developed our balloon refinance proposition as an option for them to finance their existing vehicle for longer.

The Company is an active participant in the broader Motor Finance Group initiatives. This includes continued investment in enhancing the customer journey and proposition for its strategic partners and dealer introduced customers, including a new web self-serve platform.

Section 172(1) statement (continued)

Employees

As part of the Group, the Company's approach to employee matters and employee engagement is aligned to that of the Group, where colleagues take pride in working for an inclusive and diverse organisation which continues to work towards building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. In 2019, the LBG Board agreed how LBG, including the Company, would engage the workforce, which has remained unchanged. 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.

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

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's Retail Division. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's ultimate parent company are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic report within the Lloyds Banking Group plc Annual Report and Accounts for 2021 , which does not form part of this report, available on the Lloyds Banking Group plc website.

Communities and the environment

The Company continues to support Lloyds Banking Group plc's related initiatives, including Helping Britain Prosper by actively managing its current book of hire purchase products and other loans. In addition, the Company is an integral part of supporting the Group's desire to transition to electric vehicles, forming part of a number of commitments it has made to support the green agenda, for example developing and growing relationships with key strategic Electric Vehicle Original Equipment Manufacturers. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2021, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Recover Plan is available on the Lloyds Banking Group plc website: https://www.lloydsbankinggroup.com/investors/financial-downloads.html

Regulators

The Company provides quarterly updates to relevant regulators including disclosures on its capital position. During 2021 the Company's directors had meetings with the regulators, representing the interests of Lloyds Banking Group plc and its subsidiaries as required. The status of regulatory relationships continues to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of Lloyds Banking Group plc, including that of the Company, to manage regulatory change is detailed further in the Lloyds Banking Group plc Annual Report and Accounts for 2021, which does not form part of this report, available on the Lloyds Banking Group plc website.

How stakeholder interest has influenced decision making

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

During 2021 a continued 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. For example working with our Customer Financial Assistance teams to ensure appropriate support measures are in place for customers experiencing longer term financial difficulties as a result of the pandemic.

Emerging risks

A key risk continues to be the ongoing uncertainty from the global pandemic and any potential longer term impacts. This has the potential for operational risks to materialise in the areas of cyber fraud, people, technology and operational resilience, and where there is reliance on third-party suppliers. The Company has developed increased agility and resilience to ensure the continued support of colleagues and customers to minimise disruption to ways of working whilst managing site contamination issues as a result of Covid instances in the workplace.

The geopolitical implications of the conflict between Russia and Ukraine, as outlined on page 1, has the potential to prolong the new vehicle supply challenges, and demand for new lending, which poses a risk in our ability to forecast new business volumes and used residual values. Additionally the cost of living pressures could lead to more affordability issues and customers going into financial difficulty. The Company has the agility to flex operational support to meet any changing needs in customer demand/support throughout the customer lifecycle.

Strategic report (continued)

For the year ended 31 December 2021

Section 172(1) statement (continued)

Emerging risks (continued)

Additionally, the growth of the electric vehicle market as customers transition from Internal Combustion Engine vehicles poses a risk of uncertainty in the residual value estimates that we assume in our pricing. This could impact the Company's relative competitiveness in the market where other lenders take a different view of residual values, and/or could result in the need to adjust the Company’s impairment provisions.

The Company is out of scope of the Streamlined Energy and Carbon Reporting ("SECR"), as it does not have to report on SECR in its own Director’s report where included in the Group's SECR statement of a UK Group report. Further information in respect of SECR is included within the Lloyds Banking Group plc Annual Report and Accounts for 2021, which does not form part of this report, available on the Lloyds Banking Group plc website.

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
7 June 2022

Directors' report

For the year ended 31 December 2021

The directors present their report for the year ended 31 December 2021.

General information

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

The Company provides a comprehensive range of instalment credit products, including hire purchase, Personal Contract Purchase ('PCP') agreements and leasing products. In addition, the Company provides loan funding to commercial organisations connected with the motor trade.

Employees

The Company has no direct employees (2020: nil). All staff are employed by other companies within the Group and the relevant staff costs are recharged to the Company. Full details of policies relating to disabled persons, together with details of actions taken regarding the provision of information to employees, their consultation and involvement, are shown in the 2021 Annual report and Accounts of the Group, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

Dividends

No dividends were paid or proposed during the year ended 31 December 2021 (2020: £nil).

Going concern

The directors are satisfied that the financial statements have been prepared on a going concern basis taking into account the following:

– There is a net asset position of £956,853,000 (2020: £542,585,000).
– The Company does not have external debt and is funded by other companies within the Group.
– The Company will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on further funding as required from its intermediate parent, Lloyds Bank plc.
– That it is the intention of Lloyds Bank plc, to continue to provide adequate access to liquidity for the foreseeable future.

Post balance sheet events

Share capital reduction and dividend payment

In January 2022, the Company carried out an exercise to reduce its Share capital to £1 and Share premium account to £nil and converted these reductions into distributable reserves. The Company has declared and paid a dividend of £370,000,000.

Cardiff Auto Receivables Securitisation 2022-1 plc

In February 2022, the Company entered into a securitisation, Cardiff Auto Receivables Securitisation 2022-1 plc, to secure a pool of PCP receivables agreements. £610,000,000 of notes have been issued, with £149,450,000 sold to investors and the Class A and S notes retained internally by the Company.

Registered office

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

Directors' report (continued)

For the year ended 31 December 2021

Directors

The current directors of the Company are shown below.

K Morris	
G D Gould	(appointed 10 February 2022)
J K Harris *	
R A Jones	
J McCaffrey	
I S Perez	

* Non executive director

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

R J H Milne (resigned 14 March 2021)

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on pages 1 to 4.

Statement of engagement with employees and other stakeholders

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

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "Regulations"), for the year ended 31 December 2021, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles"), which are available at frc.org.uk. The following section explains the Company's approach to corporate governance, and its application of the Principles.

Principle One – Purpose and Leadership

The Board is collectively responsible for the long term success of the Company. It achieves this by agreeing the Company's strategy, within the wider strategy of Lloyds Banking Group plc, and overseeing delivery against it. The Company's strategy is discussed further in the Strategic Report on pages 1 to 4 of these financial statements. The Board also assumes responsibilities for the management of the culture, values and wider standards of the Company, within the equivalent standards set by the Group, which are discussed in the Group annual report and accounts for 2021, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

Consideration of the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers is a vital part of the corporate culture. The Company's approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for customers. To this end, the Board plays a role in establishing, promoting and monitoring the Company's corporate culture and values, aligning to the culture and values of the Group, which are discussed in more detail on page 3 of the Group annual report and accounts for 2021, which does not form part of this report, and is available on the Lloyds Banking Group plc website. The Lloyds Banking Group plc financial statements may be downloaded via https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Approach to Corporate Governance (continued)

Principle Two – Board Composition

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

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

Principle Three – Director Responsibilities

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

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

Principle Four – Opportunity and Risk

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

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

Strong risk management is central to the strategy of the Company, which along with a robust risk and control framework, acts as the foundation for the delivery of effective risk management. The Board agrees the Company's risk appetite, within the wider risk appetite of the Group, and ensures the Company manages risk effectively through delegation within the management hierarchy. Board level engagement, coupled with the direct involvement of management in risk issues, ensures that escalated issues are promptly addressed and remediation plans are initiated where required. The Company's risk appetite, principles, policies, procedures, controls and reporting are managed in conjunction with those of the Group, and as such are regularly reviewed to ensure they remain fully in line with regulations, law, corporate governance and industry best practice. The Company's principle risks are discussed further within note 25.

Principle Five – Remuneration

The Remuneration Committee of the Group assumes responsibility for the approach to remuneration for certain of its subsidiaries, including that of the Company. This includes reviewing and making recommendations to the Group board on remuneration policy. Whilst the Company has no direct employees (2020: nil), all staff are employed by an intermediate parent undertaking, Lloyds Bank Asset Finance Limited, and all staff costs are recharged to the Company.

Principle Six – Stakeholders

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

In 2021, the Responsible Business Committee determined that the Company and the Group continued to demonstrate responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers.

Directors' indemnities

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

Directors' report (continued)

For the year ended 31 December 2021

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). 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, International Accounting Standard 1 requires that directors:

– properly select and apply accounting policies;

– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

– provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

– make an assessment of the Company's ability to continue as a going concern.

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. They 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.

Statement of disclosure of information to auditor

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

– so far as the director is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

Auditors and disclosure of information to auditors

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

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

R A Jones
Director

7 June 2022

Financial statements

Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest income		**575,868**	661,343
Interest expense		**(123,426)**	(216,832)
Net interest income	3	**452,442**	444,511
Fee and commission income		**1,293**	3,658
Fee and commission expense		**(172)**	(146)
Net fee and commission income	4	**1,121**	3,512
Other operating income	5	**15,652**	7,095
Provisions for liabilities and charges - (charge)/credit for the year	20	**(3,466)**	11,059
Credit impairment gains/(losses)	6	**46,298**	(139,663)
Market impairment gains/(losses)	7	**73,261**	(57,607)
Other operating expenses	8	**(77,065)**	(70,057)
Profit before tax		**508,243**	198,850
Taxation	11	**(93,975)**	(37,112)
Profit for the year being total comprehensive income		**414,268**	161,738

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

Balance sheet
As at 31 December 2021

	Note	**2021**	Restated 2020	Restated As at 1 January 2020
		£'000	£'000	£'000
ASSETS				
Cash and cash equivalents		**61,536**	63,735	61,145
Amounts due from group undertakings	12	**836,335**	1,993,896	3,565,634
Trade and other receivables	13	**41,644**	71,823	87,945
Loans and advances to customers	14	**11,853,042**	12,276,090	12,048,229
Inventories		**2,059**	25,504	36,028
Assets held for sale	15	**—**	1,599	1,599
Investment in unlisted investments		**54**	54	54
Property, plant and equipment	16	**7**	148	254
Intangible assets	17	**2,239**	5,827	8,187
Current tax asset		**—**	—	19,432
Deferred tax asset	21	**4,742**	4,381	4,894
Total assets		**12,801,658**	14,443,057	15,833,401
LIABILITIES				
Borrowed funds	18	**11,637,477**	13,667,398	15,017,782
Trade and other payables	19	**88,302**	103,699	94,329
Provision for liabilities and charges	20	**24,712**	92,776	340,443
Current tax liability		**94,314**	36,599	—
Total liabilities		**11,844,805**	13,900,472	15,452,554
EQUITY				
Share capital	22	**880,907**	880,907	880,907
Share premium account		**4,615**	4,615	4,615
Retained earnings/(accumulated losses)		**71,331**	(342,937)	(504,675)
Total equity		**956,853**	542,585	380,847
Total equity and liabilities		**12,801,658**	14,443,057	15,833,401

The comparatives have been restated to reflect the correction of the error on respect of the capital injection as explained in note 28.

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

7 June 2022

Statement of changes in equity

For the year ended 31 December 2021

	Share capital	Share premium account	(Accumulated losses) / Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 January 2020	880,907	4,615	(504,675)	380,847
Profit for the year being total comprehensive income	—	—	161,738	161,738
At 31 December 2020	**880,907**	**4,615**	**(342,937)**	**542,585**
Profit for the year being total comprehensive income	—	—	414,268	414,268
At 31 December 2021	**880,907**	**4,615**	**71,331**	**956,853**

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

Cash flow statement

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flows used in operating activities			
Profit before tax		**508,243**	198,850
Adjustments for:			
- Interest expense	3	**123,426**	216,832
- Depreciation of Property, plant and equipment	16	**19**	105
- Net book value of disposal of Property, plant and equipment	16	**122**	1
- Amortisation of intangible assets	17	**3,588**	2,360
- Decrease in Provision for liabilities and charges	20	**(68,064)**	(247,667)
- Profit from sales of assets held for sale		**(8,651)**	—
Changes in operating assets and liabilities:			
- Net decrease/(increase) in Loans and advances to customers	14	**423,048**	(227,861)
- Net decrease in Inventories		**23,445**	10,524
- Net decrease in Trade and other receivables	13	**30,179**	16,122
- Net (decrease)/increase in Trade and other payables	19	**(15,397)**	9,370
Cash generated from/(used in) operations		**1,019,958**	(21,364)
(Tax paid)/tax received		**(36,621)**	19,432
Net cash generated from/(used in) operating activities		**983,337**	(1,932)
Cash flows generated from investing activities			
Proceeds from sales of assets held for sale		**10,250**	—
Net cash /generated from investing activities		**10,250**	—
Cash flows (used in)/generated from financing activities			
Proceeds from net borrowings with group undertakings		**(872,360)**	221,354
Interest paid	3	**(123,426)**	(216,832)
Net cash (used in)/generated from financing activities		**(995,786)**	4,522
Change in Cash and cash equivalents		**(2,199)**	2,590
Cash and cash equivalents at beginning of year		**63,735**	61,145
Cash and cash equivalents at end of year		**61,536**	63,735

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

1. Accounting policies

1.1 Basis of preparation

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

The financial statements of the Company comply with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRS comprises accounting standards prefixed IFRS issued by 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.

In preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements:

(i) Minor amendments to other accounting standards: The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

(ii) Interest Rate Benchmark Reform: The IASB's Phase 2 amendments in response to issues arising from the replacement of interest rate benchmarks in a number of jurisdictions are effective for annual periods beginning on or after 1 January 2021. Under these amendments, an immediate gain or loss is not recognised in the Income Statement where the contractual cash flows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms, in addition, hedge accounting is continued for relationships that are directly affected by the reform.

The application of these pronouncements have 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 2021 and which have not been applied in preparing these financial statements are given in note 30. No standards have been early adopted.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in pounds sterling, which is the Company's functional and presentational currency.

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

1. Accounting policies (continued)

1.2 Income recognition (continued)

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.

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

Finance lease income

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

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

Fees and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate (such as commission associated with the sale of insurance underwritten by a third party) are generally recognised in the 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, Trade and other receivables and Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings and Trade and other payables.

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

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

Financial assets are derecognised when the contractual 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 were offered to customers up until 31 March 2021 as a response to the 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. Accounting policies (continued)

1.4 Impairment of financial assets

(i) Credit losses

Loans and advances to customers

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses and certain fraud write offs and recoveries. 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 ("PD"), 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. The collective assessment of impairment aggregates financial instruments with similar risk characteristics.

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 and other indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensure alignment between the assessment of staging and the Company's management of credit risk which utilises these internal metrics within risk management practices. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due.

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

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

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

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

• factors indicating an unwillingness to pay, such as bankruptcy or other financial hardship support, e.g. individual voluntary arrangements; or

• a payment is past due by 90 days.

1. Accounting policies (continued)

1.4 Impairment of financial assets (continued)

(i) Credit losses (continued)

Impairment of loans and advances (continued)

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 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 to end an agreement early and return the asset. 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 a market 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. The provision calculation also considers the likelihood that a customer may voluntary terminate based on the predicted level of loss during the period of eligibility.

(iii) 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. Key judgements include determining an appropriate definition of default against which a probability of default, exposure at default and loss given default parameter can be evaluated, the appropriate life time of an exposure to credit risk for the assessment of lifetime losses, the use of management judgements alongside impairment modelling processes to adjust inputs, parameters and outputs to reflect risks not captured by models; and key estimates include base case and multiple economic scenarios ("MES") assumptions, including the rate of unemployment. The most significant are set out below.

Definition of default

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

1. Accounting policies (continued)

1.4 Impairment of financial assets (continued)

(iii) Allowance for Credit impairment losses (continued)

Lifetime of an exposure

The PD of a financial asset is dependent on its expected life using the full contractual 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. The assessment of significant increase in credit risk ("SICR") and corresponding lifetime loss, and the PD, of a financial asset designated as Stage 2, or Stage 3, is dependent on its expected life.

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 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 three PD grades from the grade in which the account was originated, or (ii) a deterioration of three PD grades within the last twelve months, is considered a SICR. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due. Financial assets are classified as credit-impaired if they are 90 days past due.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.

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

Significant increase in credit risk - non-retail

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

All financial assets are assumed to have suffered a SICR if they are more than 30 days past due. Financial assets are classified as credit-impaired if they are 90 days past due.

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 ("MES")

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

1. Accounting policies (continued)

1.4 Impairment of financial assets (continued)

(iii) Allowance for Credit impairment losses (continued)

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.

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.

Application of adjustment 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.

1.5 Inventories

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

1.6 Assets held for sale

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

1.7 Cash and cash equivalents

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

1.8 Taxation, including deferred income taxes

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

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

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs ("HMRC") or other relevant 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.

1. Accounting policies (continued)

1.8 Taxation, including deferred income taxes (continued)

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

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

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

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

1.9 Investments

Investment in unlisted investments

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

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

1.10 Property, plant and equipment

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

Office and other equipment - between 2 and 10 years.
Long leasehold land and buildings - 50 years.

1.11 Intangible assets

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

1.12 Provision for liabilities and charges

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

1.13 Deemed securitisation loans

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

1. Accounting policies (continued)

1.13 Deemed securitisation loans (continued)

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

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

2. Critical accounting judgements and key sources of estimation uncertainty

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 judgements and key sources of estimation uncertainty 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 Market impairment losses

As set out in note 25.3 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 £88,751,000 (2020: £178,525,000).

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

	1pp		2pp		5pp	
	Increase £	Decrease £	Increase £	Decrease £	Increase £	Decrease £
Allowance for market losses	(7,402,039)	13,933,048	(16,589,523)	26,241,109	(38,452,584)	69,920,390

Market risk provision is sensitive to movements in the used car market, impacting both the likelihood of the customer returning the vehicle and the potential loss on the vehicles once sold. As part of the year-end provision review a number of sensitivities were considered for the forward view of the used car market, with a blended view of these sensitivities generating the current provision requirement. This was done to protect against the expected future volatility in the used car market and more specifically if values fall quicker/further than the current expectation.

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

ECL sensitivity to economic assumptions

The table below shows the Company's ECL for Loans and Advances to Customers and Loan Commitment for the upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall scenario probability-weighted PD and, hence, the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments and post-model adjustments is constant reflecting the basis on which they are evaluated. Judgements applied through changes to inputs are reflected in the scenario sensitivities. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case.

	Probability-weighted	Upside	Base	Downside	Severe downside
	£'000	£'000	£'000	£'000	£'000
2021	**162,839**	**155,627**	**160,842**	**166,868**	**178,392**
2020	225,612	217,231	223,064	230,715	243,073

3. Net interest income

	2021	2020
	£'000	£'000
Interest income		
From finance lease and hire purchase contracts	**505,804**	516,941
From other loans and advances	**21,930**	38,893
Group interest income (see note 24)	**48,134**	105,509
	575,868	661,343
Interest expense		
Group interest expense (see note 24)	**(123,426)**	(216,832)
Net interest income	**452,442**	444,511

4. Net fee and commission income

	2021	2020
	£'000	£'000
Fee and commission income		
Loan fees receivable	**811**	581
Commission receivable (see note 24)	**482**	3,077
Fee and commission expense		
Other fees and commission payable	**(172)**	(146)
Net fee and commission income	**1,121**	3,512

5. Other operating income

	2021	2020
	£'000	£'000
Management fees receivable	**6,851**	6,694
Agency fee income (see note 24)	**59**	379
Profit on disposal of Property, plant and equipment	**8,741**	—
Other operating income	**1**	22
	15,652	7,095

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

5. Other operating income (continued)

Profit on disposal of Property, plant and equipment relates to sale of Orchard Brae. Orchard Brae was recorded as an Asset available for sale at 31 December 2020 (see note 15).

6. Credit impairment (gains)/losses

31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Transfers between stages	**(6,611)**	**(18,002)**	**50,289**	**25,676**
Other changes in credit quality	**45,402**	**(3,205)**	**(3,089)**	**39,108**
(Repayments)/additions	**(53,867)**	**(43,202)**	**(14,013)**	**(111,082)**
	(15,076)	**(64,409)**	**33,187**	**(46,298)**
In respect of:				
Loans and advances to customers	**(13,866)**	**(64,409)**	**33,187**	**(45,088)**
Undrawn loan commitments	**(1,210)**	**—**	**—**	**(1,210)**
	(15,076)	**(64,409)**	**33,187**	**(46,298)**

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

7. Allowance for market losses

	2021 £'000	2020 £'000
Brought forward at 1 January	**178,525**	150,707
Utilised during the year	**(16,513)**	(29,789)
(Credit)/charge for the year	**(73,261)**	57,607
Carried forward at 31 December (see note 14)	**88,751**	178,525

8. Other operating expenses

	2021 £'000	2020 £'000
Staff costs (see note 9)	**27,783**	24,301
Depreciation (see note 16)	**19**	105
Other operating expenses	**45,675**	43,696
Amortisation of Intangible assets (see note 17)	**3,588**	2,360
Impairment on Amounts due from group undertakings	**—**	(405)
	77,065	70,057

Other operating expenses is shown net of costs recharged to other Group companies for services provided under agency. During 2021, the Company recharged £783,000 to Lloyds Bank plc (2020: £5,601,000), £3,692,000 to United Dominions Trust Limited (2020: £4,110,000) and £690,000 to United Dominions Leasing Limited (2020: £995,000).

8. Other operating expenses (continued)

Fees payable to the Company's auditors for the audit of the financial statements of £331,000 (2020: £315,000) have been borne by a fellow group undertaking and are recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as set out in note 9.

9. Staff costs

	2021 £'000	2020 £'000
Wages and salaries	**25,322**	23,547
Wages and salaries recharge*	**(2,229)**	(3,272)
Social security costs	**2,379**	2,151
Social security costs recharge	**(209)**	(299)
Share based payments	**838**	891
Share based payments recharge	**(74)**	(121)
Pension costs – defined contribution plans	**1,926**	1,633
Pension costs – defined contribution plans recharge	**(170)**	(229)
	27,783	24,301

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

The Company's employees are employed by Lloyds Bank Asset Finance Limited. The average monthly number of employees during the year was 658 (2020: 750). 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.

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the Group.The Company's ultimate parent company operates a number of group wide, equity settled, share based compensation plans and share based payment schemes. Further details in respect of the schemes can be found in the 2021 financial statements of the Bank's ultimate parent undertaking, copies of which may be obtained from the Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

10. Directors' emoluments

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

	2021 £'000	2020 £'000
Aggregate emoluments	**156**	165
Aggregate post-employment benefits	**19**	1
	175	166

The amounts reported above are an allocation of a proportion of the directors' total remuneration insofar as it relates to qualifying services for their role as a director of the Company.

Three of the directors are accruing benefits under a defined benefit scheme (2020: three). Five directors received shares in LBG under long term incentive plans during the year (2020: four). No directors exercised share options (2020: none). The number and total amount of the outstanding loans to directors, officers and connected persons as at 31 December 2021 was £nil (2020: £nil).

The directors are employed by other companies within the Group and one director (2020: one) consider that their services to the Company are incidental to their other responsibilities within the Group. In 2021, no compensation was received by the directors for loss of office (2020: £nil).

11. Taxation

a) Analysis of charge/(credit) for the year

	2021	2020
	£'000	£'000
UK corporation tax:		
- Current tax on taxable profit for the year	**94,290**	36,560
- Adjustments in respect of prior years	**46**	39
Current tax charge	**94,336**	36,599
UK deferred tax:		
- Origination and reversal of timing differences	**661**	(1,241)
- Due to change in UK corporation tax rate	**(1,001)**	592
- Adjustments in respect of prior years	**(21)**	(136)
Deferred tax charge (see note 21)	**(361)**	513
Tax charge	**93,975**	37,112

Corporation tax is calculated at a rate of 19.00% (2020: 19.00%) of the taxable profit for the year.

b) Factors affecting the tax charge/(credit) 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:

	2021	2020
	£'000	£'000
Profit before tax	**508,243**	198,850
Tax charge thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	**96,566**	37,782
Factors affecting charge:		
- Due to change in UK corporation tax rate	**(1,001)**	(592)
- Disallowed and non-taxable items	**5**	19
- Adjustments in respect of prior years	**25**	(97)
- Realised losses not taxable	**(1,620)**	—
Tax charge on profit on ordinary activities	**93,975**	37,112
Effective rate	**18.49%**	18.66%

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

12. Amounts due from group undertakings

	2021 £'000	Restated 2020 £'000
Amounts due from group undertakings (see note 24)	**836,335**	1,993,896

Deposit due from Lloyds Bank plc of £nil (2020: £763,611,000) in respect of CARS 2018-1 is unsecured, interest bearing at fixed rates and was repaid on 21 June 2021. Deposit due from Lloyds Bank plc of £140,764,000 (2020: £321,664,000) in respect of CARS 2019-1 are unsecured, interest bearing at variable rates and will be settled during 2022.

Loan notes due from Cardiff Auto Receivables Securitisation 2018-1 plc of £nil (2020: £1,484,491,000) are secured, interest bearing at fixed rates and were repaid in tranches based on contractual maturity dates. Deemed loan due to Cardiff Auto Receivables Securitisation 2018-1 plc of £nil (2020: £1,368,471,000) is secured, interest bearing at variable rate based on SONIA with a margin attached and repaid in tranches based on contractual maturity dates. Deemed loan to Cardiff Auto Receivables Securitisation 2018-1 plc was classified within Amounts due from group undertakings as discussed within note 1.13.

Other amounts of £672,437,000 (2020: £769,467,000) are unsecured, repayable on demand, and interest bearing at fixed rates for funding of long term loans and advances to customers and variable rates for the remainder of £23,134,000 (2020: £19,898,000).

The ECL on Amounts due from group undertakings is not material to these financial statements.

13. Trade and other receivables

	2021 £'000	2020 £'000
Other debtors	**30,370**	43,730
Items in the course of collection	**11,274**	28,093
	41,644	71,823

14. Loans and advances to customers

14.1 Loans and advances to customers - maturity

	2021 £'000	2020 £'000
Advances under finance lease and hire purchase contracts	**11,283,133**	11,542,024
Personal loans to customers	**180**	315
Other loans and advances to customers	**820,049**	1,135,396
Gross loans and advances to customers	**12,103,362**	12,677,735
Less: allowances for Credit losses on loans and advances	**(161,569)**	(223,120)
Less: allowances for Market losses on loans and advances	**(88,751)**	(178,525)
Net loans and advances to customers	**11,853,042**	12,276,090
of which:		
Due within one year	**4,348,564**	4,658,216
Due after one year	**7,504,478**	7,617,874
	11,853,042	12,276,090

14. Loans and advances to customers (continued)

14.1 Loans and advances to customers - maturity (continued)

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

	2021 £'000	2020 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**3,505,718**	3,390,052
- later than one year and no later than two years	**3,170,922**	3,451,080
- later than two years and no later than three years	**2,673,737**	2,881,266
- later than three years and no later than four years	**2,166,931**	2,144,734
- later than four years and no later than five years	**388,705**	364,311
- later than five years	**523,498**	571,097
	12,429,511	12,802,540
Unearned future finance income on finance lease and hire purchase contracts	**(1,146,378)**	(1,260,516)
Net investment in finance lease and hire purchase contracts	**11,283,133**	11,542,024

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

	2021 £'000	2020 £'000
- no later than one year	**3,182,384**	3,056,273
- later than one year and no later than two years	**2,878,467**	3,111,292
- later than two years and no later than three years	**2,427,138**	2,597,582
- later than three years and no later than four years	**1,967,074**	1,933,567
- later than four years and no later than five years	**352,855**	328,442
- later than five years	**475,215**	514,868
	11,283,133	11,542,024

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

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2020: £nil).

Further analysis of Loans and advances to customers is provided in note 25.

14. Loans and advances to customers (continued)

14.2 Loans and advances to customers - movement over time

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2021	**10,525,640**	**2,006,248**	**145,847**	**12,677,735**
Transfers to Stage 1	**489,192**	**(489,100)**	**(92)**	**—**
Transfers to Stage 2	**(843,725)**	**859,345**	**(15,620)**	**—**
Transfers to Stage 3	**(73,269)**	**(115,548)**	**188,817**	**—**
Net increase/(decrease) in loans and advances to customers	**98,970**	**(520,636)**	**(114,207)**	**(535,873)**
Financial assets that have been written off during the year	**—**	**—**	**(41,485)**	**(41,485)**
Recoveries of prior advances written off	**—**	**—**	**2,985**	**2,985**
Gross loans and advances to customers at 31 December 2021	**10,196,808**	**1,740,309**	**166,245**	**12,103,362**
Less: allowances for Credit losses on loans and advances	**(19,438)**	**(55,303)**	**(86,828)**	**(161,569)**
Less: allowances for Market losses on loans and advances	**(76,541)**	**(12,210)**	**—**	**(88,751)**
Net loans and advances to customers at 31 December 2021	**10,100,829**	**1,672,796**	**79,417**	**11,853,042**

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

14. Loans and advances to customers (continued)

14.3 Securitisation transactions

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

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

On 4 December 2018, the Company securitised Loans and advances to customers with a gross value of £2,850,000,000. On this date the securitisation vehicle, Cardiff Auto Receivables Securitisation 2018-1 plc, issued asset backed loan notes with a par value of £2,850,000,000 with a final redemption date falling in December 2026. The Company purchased notes from the securitisation vehicle with a par value of £2,850,000,000 and provided credit enhancement of £42,750,000 in the form of a subordinated loan. Cardiff Auto Receivables Securitisation 2018-1 plc was settled during 2021.

	Loans and advances securitised	**Notes in issue**	Loans and advances securitised	Notes in issue
	2021	**2021**	2020	2020
	£'000	**£'000**	£'000	£'000
Loans and advances to customers	**177,634**	**110,005**	1,707,875	1,594,495
Less held by the Company	**—**	**(110,005)**	—	(830,884)
Total securitisation transactions	**177,634**	**—**	1,707,875	763,611

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

At the year end £nil of assets were subject to repurchase agreements (2020: £763,611,000).

15. Assets held for sale

	2021	2020
	£'000	£'000
Assets held for sale	**—**	1,599

In April 2021, the Company sold these Assets held for sale for £10,250,000 (see note 8).

16. Property, plant and equipment

	Land and buildings £'000	Office and other equipment £'000	Total £'000
Cost			
1 January 2020	57	5,757	5,814
Disposals	—	(5,242)	(5,242)
At 31 December 2020	57	515	572
Disposals	**(57)**	**(482)**	**(539)**
At 31 December 2021	**—**	**33**	**33**
Accumulated depreciation			
At 1 January 2020	6	5,554	5,560
Charge for the year	1	104	105
Disposals		(5,241)	(5,241)
At 31 December 2020	7	417	424
Charge for the year	**—**	**19**	**19**
Disposals	**(7)**	**(410)**	**(417)**
At 31 December 2021	**—**	**26**	**26**
Balance sheet amount at 31 December 2021	**—**	**7**	**7**
Balance sheet amount at 31 December 2020	50	98	148

No Property, plant and equipment has been revalued in the year (2020: £nil). There are no contractual commitments for the capital acquisition of Property, plant and equipment in the year (2020: £nil).

17. Intangible assets

	Software £'000
Cost	
At 1 January 2020 and 31 December 2020	16,564
Disposal	**(4,068)**
At 31 December 2021	**12,496**
Amortisation	
At 1 January 2020	8,377
Charge for the year (see note 8)	2,360
At 31 December 2020	10,737
Charge for the year (see note 8)	**3,588**
Disposal	**(4,068)**
At 31 December 2021	**10,257**
Balance sheet amount at 31 December 2021	**2,239**
Balance sheet amount at 31 December 2020	5,827

The Company's Intangible assets relate to Software enhancement costs. Following a change in the Group's policy in early 2018, all such costs around software enhancement and development are now recognised by the Group directly for all its subsidiary undertakings and consequently the Company will no longer recognise any new assets, other than the existing assets which will continue to amortise over their estimated useful life of 7 years. No gain or loss has been recognised as a result of revaluing the assets (2020: £nil).

18. Borrowed funds

	2021	Restated 2020
	£'000	£'000
Amounts due to group undertakings (see note 24)	**11,637,477**	13,667,398

Amounts due to Lloyds Bank plc of £5,953,719,000 (2020: £3,902,050,000) and Amounts due to other group undertakings of £24,679,000 (2020: £124,360,000) are interest bearing at variable rates, and are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to Lloyds Bank plc of £5,591,450,000 (2020: £9,695,404,000) is unsecured, interest bearing at fixed rates of which £2,666,841,000 (2020: £3,785,319,000) is repayable within one year.

Deemed loan to Cardiff Auto Receivables 2019-1 plc of £177,634,000 (2020: £339,404,000) is secured, interest bearing based on SONIA with a margin attached and repayable in tranches based on contractual maturity dates. Loan notes due from Cardiff Auto Receivables 2019-1 plc of £110,005,000 (2020: £110,005,000) are secured, interest bearing at fixed rates and repayable in tranches based on contractual maturity dates. Loan notes due from Cardiff Auto Receivables 2019-1 plc are classified within Borrowed funds as discussed in note 1.13.

19. Trade and other payables

	2021	2020
	£'000	£'000
Customer deposit accounts	**8,548**	12,302
Other payables	**12,731**	13,849
Other tax and social security payable	**299**	6,759
Accruals and deferred income	**66,724**	70,789
	88,302	103,699

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

20. Provision for liabilities and charges

	Undrawn loan commitments	**Payment protection insurance**	**Other provision**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 January 2020	928	323,952	15,563	340,443
Charge for the year	1,552	(14,576)	3,517	(9,507)
Utilised during the year	—	(226,087)	(12,073)	(238,160)
At 31 December 2020	2,480	83,289	7,007	92,776
Charge/(credit) for the year	**(1,210)**	**3,756**	**(290)**	**2,256**
Utilised during the year	**—**	**(63,969)**	**(6,351)**	**(70,320)**
At 31 December 2021	**1,270**	**23,076**	**366**	**24,712**

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.

20. Provision for liabilities and charges (continued)

Undrawn loan commitment provision

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

As at 31 December 2021, the provision of £1,270,000 (2020: £2,480,000) was all categorised as Stage 1 of impairment per the expected credit loss methodology under IFRS 9.

Payment protection insurance provision

The 2021 PPI provision comprises £23,076,000 (2020: £83,289,000) for the cost of making redress payments to customers, the related administration costs and the costs associated with litigation activity to date.

Other provision

Other provisions includes a £366,000 (2020: £7,007,000) provision that arose in 2013 in respect of a compliance issue and is being utilised to cover costs of redress

21. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2021	2020
	£'000	£'000
Brought forward	**4,381**	4,894
Credit/(charge) for the year (see note 11)	**361**	(513)
	4,742	4,381

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

	2021	2020
	£'000	£'000
Accelerated capital allowances	**106**	(118)
Accounting provisions disallowed	**20**	(405)
Other temporary differences	**235**	10
	361	(513)

Deferred tax asset comprises:

	2021	2020
	£'000	£'000
Accelerated capital allowances	**1,420**	1,314
Accounting provisions disallowed	**20**	—
Other temporary differences	**3,302**	3,067
	4,742	4,381

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

22. Share capital

	2021	2020
	£'000	£'000
Allotted, issued and fully paid		
3,523,628,072 ordinary shares of £0.25 each	**880,907**	880,907

At 31 December 2021, 1 (2020: 1) ordinary share is owned by Lloyds Bank Asset Finance Limited and 3,523,628,071 (2020: 3,523,628,071) ordinary shares are owned by Black Horse Group Limited. The Company's authorised number of shares is 3,523,628,072.

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

23. Transfer of financial assets

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

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

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

Loan notes subject to repurchase		Carrying value of transferred assets	Carrying value of associated liabilities
		£'000	£'000
	At 31 December 2021	**—**	**—**
	At 31 December 2020	763,611	763,611

24. Related party transactions

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

	2021	Restated 2020
	£'000	£'000
Amounts due from group undertakings		
Lloyds Bank plc	**144,674**	1,029,617
Securitisation vehicles	**—**	115,997
Other group undertakings	**691,661**	848,282
Total Amounts due from group undertakings (see note 12)	**836,335**	1,993,896
Amounts due to group undertakings		
Lloyds Bank Asset Finance Limited	**41**	33,224
Lloyds Bank plc	**11,549,919**	12,584,727
Lloyds Bank Corporate Markets plc	**—**	763,611
Black Horse Group Limited	**80**	26,779
Securitisation vehicles	**67,629**	229,399
Other group undertakings	**19,808**	29,658
Total Amounts due to group undertakings (see note 18)	**11,637,477**	13,667,398
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**61,536**	63,735
Interest income		
Lloyds Bank plc	**8,199**	31,333
Securitisation vehicles	**30,456**	59,741
Other group undertakings	**9,479**	14,435
Total Interest income (see note 3)	**48,134**	105,509
Interest expense		
Lloyds Bank Asset Finance Limited	**—**	—
Lloyds Bank plc	**84,336**	125,586
Lloyds Bank Corporate Markets plc	**5,343**	26,536
Securitisation vehicles	**33,747**	64,710
Total Interest expense (see note 3)	**123,426**	216,832
Other income		
Lloyds Bank plc	**59**	379
Other group undertakings	**6,851**	6,694
Total Other income (see note 5)	**6,910**	7,073

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

Commission receivable of £482,000 (2020: £3,077,000) includes profit share receivables of £nil (2020: £1,979,000) under the terms of the Company's agreement with Lloyds Bank General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc.

24. Related party transactions (continued)

Key management personnel

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

Key management personnel emoluments

	2021	2020
	£'000	£'000
Short term employee benefits	**252**	393
Post employment benefits	**20**	1
	272	394

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

25. Financial risk management

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

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

25.1 Credit risk

Credit risk management

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

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

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

Credit risk mitigation

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

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

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

25. Financial risk management (continued)

25.1 Credit risk (continued)

Credit risk mitigation (continued)

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

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

Credit concentration - Loans and advances to customers

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

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

Loans and advances to customers – maximum exposure

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

	As at 31 December 2021		As at 31 December 2020	
	Maximum Exposure	**Net Exposure**	Maximum Exposure	Net Exposure
	£'000	**£'000**	£'000	£'000
Loans and advances to customers, net[1]	**11,853,042**	**11,853,042**	12,276,090	12,276,090
Off balance sheet items:				
Commitments to lend	**1,590,026**	**1,590,026**	1,259,297	1,259,297
	13,443,068	**13,443,068**	13,535,387	13,535,387

[1] Amounts shown net of impairment balances.

25. Financial risk management (continued)

25.1 Credit risk (continued)

Loans and advances to customers - gross carrying amount

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

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

At 31 December 2021	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Retail					
RMS 1-6	0.00-4.50%	**9,313,999**	**1,231,539**	**—**	**10,545,538**
RMS 7-9	4.51-14.00%	**107,196**	**257,061**	**—**	**364,257**
RMS 10	14.01-20.00%	**—**	**65,536**	**—**	**65,536**
RMS 11-13	20.01-99.99%	**1,732**	**141,849**	**—**	**143,581**
RMS 14	100%	**—**	**—**	**164,456**	**164,456**
Total		**9,422,927**	**1,695,985**	**164,456**	**11,283,368**
Wholesale					
CMS 1-10	0.00-0.050%	**67,081**	**—**	**—**	**67,081**
CMS 11-14	0.051-3.00%	**658,039**	**2,367**	**—**	**660,406**
CMS 15-18	3.01-20.00%	**48,238**	**41,957**	**—**	**90,195**
CMS 19	20.01-99.99%	**523**	**—**	**—**	**523**
CMS 20-23	100%	**—**	**—**	**1,789**	**1,789**
Total		**773,881**	**44,324**	**1,789**	**819,994**

Total loans and advances to customers	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of:				
Retail	**9,422,927**	**1,695,985**	**164,456**	**11,283,368**
Wholesale	**773,881**	**44,324**	**1,789**	**819,994**
Total	**10,196,808**	**1,740,309**	**166,245**	**12,103,362**

25. Financial risk management (continued)

25.1 Credit risk (continued)

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

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

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

Commitments to lend

At 31 December 2021		**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Wholesale	**PD Range**				
CMS 1-10	0.00-0.050%	**186,125**	**—**	**—**	**186,125**
CMS 11-14	0.051-3.00%	**919,974**	**—**	**—**	**919,974**
CMS 15-18	3.01-20.00%	**482,876**	**—**	**—**	**482,876**
CMS 19	20.01-99.99%	**1,051**	**—**	**—**	**1,051**
		1,590,026	**—**	**—**	**1,590,026**

25. Financial risk management (continued)

25.1 Credit risk (continued)

Commitments to lend (continued)

At 31 December 2020		Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Wholesale	PD Range				
CMS 1-10	0.00-0.050%	117,607	—	—	117,607
CMS 11-14	0.051-3.00%	806,771	—	—	806,771
CMS 15-18	3.01-20.00%	334,794	—	—	334,794
CMS 19	20.01-99.99%	1,051	—	—	1,051
		1,259,297	—	—	1,259,172

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. All Loans and advances to customers are assessed for impairment. No amounts due to group undertakings are impaired (2020: £nil).

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2021	**18,945**	**117,558**	**86,617**	**223,120**
Transfers to Stage 1	**18,244**	**(18,190)**	**(54)**	**—**
Transfers to Stage 2	**(10,533)**	**19,789**	**(9,256)**	**—**
Transfers to Stage 3	**(4,391)**	**(25,477)**	**29,868**	**—**
Impact of transfer between stages	**(9,931)**	**5,876**	**29,729**	**25,674**
Other items (credited)/charged to Statement of comprehensive income	**(7,255)**	**(46,407)**	**(17,100)**	**(70,762)**
(Credit)/charge for the year (including recoveries)	**(13,866)**	**(64,409)**	**33,187**	**(45,088)**
Financial assets that have been written off during the year	**—**	**—**	**(41,485)**	**(41,485)**
Reinstatement of provisions previously written off	**14,359**	**2,154**	**2,985**	**19,498**
Unwind of discount	**—**	**—**	**5,524**	**5,524**
At 31 December 2021	**19,438**	**55,303**	**86,828**	**161,569**

In respect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2021	**2,480**	**—**	**—**	**2,480**
Credit for year (including recoveries)	**(1,210)**	**—**	**—**	**(1,210)**
At 31 December 2021	**1,270**	**—**	**—**	**1,270**
Total	**20,708**	**55,303**	**86,828**	**162,839**

25. Financial risk management (continued)

25.1 Credit risk (continued)

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

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

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

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.

25.2 Liquidity risk

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

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

25. Financial risk management (continued)

25.2 Liquidity risk (continued)

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

As at 31 December 2021	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Borrowed funds	**6,145,644**	**471,751**	**2,098,392**	**2,921,690**	**11,637,477**
Contractual interest payments	**5,872**	**9,580**	**36,550**	**19,651**	**71,653**
	6,151,516	**481,331**	**2,134,942**	**2,941,341**	**11,709,130**

Restated As at 31 December 2020	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Borrowed funds	3,958,319	562,641	3,236,353	5,910,085	13,667,398
Contractual interest payments	9,997	18,274	64,423	70,648	163,342
	3,968,316	580,915	3,300,776	5,980,733	13,830,740

25.3 Market risk

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

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

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

Included in Loans and advances to customers is a provision of £88,751,000 (2020: £178,525,000) relating to market risk impairment.

25.4 Interest rate risk

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

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

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

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company’s interest-bearing Amounts due to group undertakings and takes account of movement in SONIA, which is the basis for the interest charged on such balances. A 0.14% (2020: 0.63%) increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as it is the amount by which SONIA increased in the year.

If SONIA increased by 0.14% and all other variables remain constant this would increase Interest expense by £16,475,000 (2020: £79,170,000) and accordingly decrease Interest expense by £16,475,000 (2020: £79,170,000) if SONIA decreased by the same amount.

25. Financial risk management (continued)

25.5 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.

25.6 Financial strategy

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

25.7 Fair values of financial assets and liabilities

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

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

The aggregated fair value of Loans and advances to customers is approximately £12,616,048,000 (2020: £13,198,905,000).

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

26. Capital disclosures

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

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

The managed capital of the Company constitutes Total equity. This consists entirely of issued Share capital, Share premium account and Accumulated losses. As at 31 December 2021, total managed capital was £956,853,000 (2020: £542,585,000).

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

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

27. Contingent liabilities and capital commitments

There were no contingent liabilities at the Balance sheet date (2020: £nil).

The Company's undrawn formal standby facilities, credit facilities and other commitments to lend were £1,590,026,000 (2020: £1,259,297,000).

28. Restatement of comparatives

The comparative information reported has been restated, as summarised in the table below:

	Previously reported £'000	Restatement adjustment £'000	Restated £'000
Balance Sheet			
As at 31 December 2020			
Assets			
Amounts due from group undertakings	2,168,896	(175,000)	1,993,896
Liabilities			
Borrowed funds	13,842,398	(175,000)	13,667,398
Balance Sheet			
As at 1 January 2020			
Assets			
Amounts due from group undertakings	3,740,634	(175,000)	3,565,634
Liabilities			
Borrowed funds	15,192,782	(175,000)	15,017,782

An intercompany adjustment between Amounts due from group undertakings and Borrowed funds was incorrectly made in the prior year financial statements in respect of the flow of funds of a capital injection made to the Company in 2019, increasing both balances by £175,000,000. This adjustment has been removed from the comparative balances in these financial statements as shown in the table above.

29. Post balance sheet events

Share capital reduction and dividend payment

In January 2022, the Company has carried out an exercise to reduce its Share capital to £1 and Share premium account to £nil and converted these reductions into distributable reserves. The Company has declared and paid a dividend of £370,000,000.

Cardiff Auto Receivables Securitisation 2022-1 plc

In February 2022, the Company entered into a securitisation, Cardiff Auto Receivables Securitisation 2022-1 plc, to secure a pool of PCP receivables agreements. £610,000,000 of notes have been issued, with £149,450,000 sold to investors and the Class A and S notes retained internally by the Company.

30. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2021 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 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).	Annual periods beginning on or after 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.

31. Ultimate parent undertaking and controlling party

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

Independent auditor's report to the members of Black Horse Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Black Horse Limited (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditor's report to the members of Black Horse Limited (continued)

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud
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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements, for example, the Companies Act 2006; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty, for example, FCA regulation.

We discussed among the audit engagement team including relevant internal specialists such as tax, IT and credit specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- The risk that the electric vehicle overlay applied by management to reflect the uncertainty in used electric vehicle residual values within impairment calculations might not be appropriate and/or not reliably measured. Our work included:
  - Using independent market data to determine an expectation of the premium in used car values for electric vehicles over traditional internal combustion vehicles; and
  - Considering market analysis, determine an independent range of potential outcomes for the exposure if electric vehicle and traditional vehicle used car prices converge over time.
- The risk that the volatility overlay applied by management to reflect risk in the used car residual values in determing provisions for residual value or voluntary termination losses might not be appropriate and/or reliably measured. Our work included:
  - Making inquiries of management to understand the composition and rationale for the overlays applied. Validating the data points used against sufficient and appropriate audit evidence;
  - Perform external market analysis to identify third party data and compare against those used by management to assess whether there is indication of bias or error; and
  - Perform a retrospective analysis of used vehicle market fluctuations to assess the likelihood of the scenarios applied and develop and independent range of possible outcomes.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house / external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the FCA.

Independent auditor's report to the members of Black Horse Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Cleveland

Simon Cleveland, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom

7th June 2022