Suzuki Financial Services Limited

Report and Accounts

2022

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2022

The directors present their Strategic report and the audited financial statements of Suzuki Financial Services Limited (the "Company") for the year ended 31 December 2022.

Business overview

The Company's result for the year shows a Profit before tax of £19,714,000 (2021: £21,344,000) and Net interest income of £23,298,000 (2021: £26,152,000).

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

Future outlook

The Company foresees some continued pressures on the supply of new cars due to stock shortages, however these pressures are expected to ease throughout the year and thus the level of new business is expected to increase. These issues, plus inflationary pressures and rising interest rates are expected to continue to influence new business levels but returns are expected to remain robust going forward by pricing appropriately to maintain agreed margins.

Any adverse changes affecting the United Kingdom ("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 or acts of war or terrorism, could have a material adverse effect on the Company's results.

Suzuki GB plc will begin to introduce electric cars to the UK market by 2025, with a range of electric vehicles due to be launched by 2030. See 2022 Group financial statements for further details of the Group's climate change goals at:
www.lloydsbankinggroup.com/investors/financial-downloads.

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 Transport Finance business within the Retail Division. The Retail Division is a portfolio of businesses and operates in a number of specialist markets providing both consumer lending and contract hire to personal and corporate customers. Further details of these risks and the risk management policy are contained in note 20 to the financial statements.

The ongoing issue of stock shortages and supply chain constraints provides a continued risk to stocking levels and new business sales. Higher fuel prices and the continued popularity of electric vehicles could also influence sales. The Company is also aware of the emerging risks regards emission claims in the vehicle industry. These risks are monitored by the Transport Finance business.

Key performance indicators ("KPIs")

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

KPI	2022	2021	Analysis
Net interest income (£'000)	23,298	26,152	The reduction in Interest income is mainly driven by lower new business volumes due to continued stock shortages and supply chain constraints.
Profit before tax (£'000)	19,714	21,344	The decrease in Profit before tax is mainly due to lower new business sales achieved compared with prior year.
Loans and advances to customers (£'000)	414,229	455,161	Loans and advances to customers has decreased due to reduction in sales, partly due to continued stock shortages and supply chain constraints.
Expected credit losses ("ECL") coverage	0.65%	0.75%	Decrease in ECL coverage is due to continued improved assessment of defaults and higher used car prices.

Strategic report (continued)

For the year ended 31 December 2022

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2022, the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of engagement with employees and other stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the directors have engaged with, and had regard to, the interest of key stakeholders and employees. Black Horse Group Limited, a wholly owned subsidiary of LBG, holds 51% of the issued share capital. As such, the Company follows many of the processes and practices of the Group whilst being mindful of the requirements of Suzuki GB plc which holds 49% of the Company's issued share capital.

The Company has a number of partners it relies on for important aspects of its operations and customer service provision and recognises the importance of these supplier relationships in achieving the Company's wider ambitions. As part of LBG the Company shares many of its suppliers and the wider engagement with suppliers includes:

- the Group Board's Audit Committee considered reports from the Group's Sourcing and Finance teams on the efficiency of supplier payment practices, including those relating to the Group's key suppliers, ensuring our approach continued to meet wider industry standards.
- the Group's Board continued to oversee resilience in the supply chain, ensuring our most important supplier relationships were not impacted by potential material events.
- the Board has an ongoing zero tolerance approach towards modern slavery in our supply chain and receives updates on ongoing enhancements to the Group's supplier practices, including measures to address the risk of human trafficking and modern slavery in our wider supply chain.

Customers

The directors ensure the Company, as part of LBG, works toward achieving LBG'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. Affordability defences have been tightened in response to cost of living pressures driven by the geopolitical uncertainty as a result of the conflict between Russian and Ukraine, this includes increasing living costs in line with inflation and adjusting the energy cost component to reflect the increased energy cap. The Company supports 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. Lead times for new vehicles continue to be extended due to the supply challenges, with some signs of this easing in the fourth quarter of 2022. A balloon refinance proposition is offered as an option for customers to finance their existing vehicle for longer.

The Company is an active participant in the broader Transport Finance Group initiatives. This includes continued investment in enhancing the customer journey and proposition for its strategic partners and dealer introduced customers, and a longer term project to move onto a new lending platform. The Company is also focussed on enhancing retention capabilities to support Suzuki franchise dealers and customers as well as improving the experience and options when it comes to handing the vehicle back.

Employees

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

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.

Section 172(1) statement (continued)

Shareholders

The Company is jointly owned by Black Horse Group Limited, a wholly owned subsidiary of LBG, and Suzuki GB plc. The Company and both shareholders are party to a shareholders' agreement which sets out the overall objectives of the arrangement and the respective obligations of each of the parties in terms of meeting those objectives. The directors ensure that the strategy, priorities, processes and practices of the Company are aligned to the requirements of the shareholders' agreement and, where required, to those of LBG as the Company's controlling shareholder. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic report within the LBG Annual Report and Accounts for 2022 which does not form part of this report, available on the LBG website: www.lloydsbankinggroup.com/investors/financial-downloads.

Communities and the environment

Whilst the Company has limited physical presence, the financing of motor vehicles impacts on both the community and the environment. The Company is supporting Suzuki GB plc in its introduction of electric vehicles to the UK market and continues to explore ways to contribute to the LBG target of reducing carbon emissions financed by the Group by 50% by 2030. In addition, the Company continues to support LBG's initiatives, including Helping Britain Prosper by actively managing its current loan book and will continue to support Suzuki GB plc as the UK transitions to no new sales of petrol and diesel vehicles from 2030 (with the exception of plug-in hybrid vehicles which aim to be phased out by 2035).

Regulators

The Company is regulated by the Financial Conduct Authority ("FCA") as part of its regulation of the broader activity of the Group. As set out within the customer section above, a key focus for the Company is treating customers fairly. The approach of the Group, including that of the Company, to managing regulatory change is detailed within the LBG Annual Report and Accounts for 2022, which does not form part of this report, available on the LBG website: www.lloydsbankinggroup.com/investors/financial-downloads.

How stakeholder interest has influenced decision making

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

During 2022 an area of particular focus for the directors has been to steer through the challenges of the emerging cost of living crisis, 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 financial difficulties as a result of inflationary pressures.

Emerging risks

A key risk continues to be the geopolitical implications of the conflict between Russia and Ukraine, which 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.

The Company is aware of the emerging risks regards emission claims in the vehicle industry and is monitoring the situation.

Additionally, the growth of the electric vehicle market as customers transition from Internal Combustion Engine vehicles poses a risk of uncertainty. The Company doesn't currently offer an electric vehicle option so this could impact the Company's relative competitiveness in the market.

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:

J. McCaffrey

J McCaffrey
Director

26 May 2023

Directors' report

For the year ended 31 December 2022

The directors present their report for the year ended 31 December 2022.

General information

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

The Company provides a range of finance lease and hire purchase products, generally in connection with the financing of Suzuki motor cars. The Company is funded entirely by other companies within the Group.

Dividends

A dividend of £22,118,000 (2021: £14,200,000), representing a dividend of £2,211.80 per share (2021: £1,420.00), was declared and paid during the year.

Going concern

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

- the Company is in a net asset position and 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 parent, Black Horse Group Limited via fellow group company Black Horse Limited.

- that it is the intention of Black Horse Group Limited to continue to provide adequate access to liquidity, via fellow group company Black Horse Limited, for the foreseeable future.

Registered office

The Company's registered office is St William House, Tresillian Terrace, Cardiff, CF10 5BH.

Directors

The current directors of the Company are as follows:

A B Ambani	(appointed 15 March 2023)
J Fulker	
D F Houston	
M D Lloyd	(appointed 30 May 2022)
J McCaffrey	
N A Williams	(appointed 29 October 2022)
D Wyatt	

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

R A Jones	(resigned 28 October 2022)
I S Perez	(resigned 24 February 2023)
N Suyama	(resigned 12 April 2023)

Directors' indemnities

LBG has granted to Messrs A B Ambani, J Fulker, J McCaffrey and N A Williams, the directors of the Company appointed by and representing the Group, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force during the whole of the financial year and at the date of approval of the financial statements 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 benefits of this deed of indemnity during that period of service. The deed for existing Group directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate Group Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Directors' report (continued)

For the year ended 31 December 2022

Directors' indemnities (continued)

Suzuki GB plc has in place appropriate Directors and Officers Liability and Company Reimbursement Liability Insurance. This has been in place since 7 November 2019 and is in place at the date of approval of the financial statements. Mr D F Houston and Mr D Wyatt have had the benefit of this cover since 7 November 2019. Mr M D Lloyd has had the benefit of this cover from his appointment on 30 May 2022. Mr N Suyama had the benefit of this cover until his resignation on 12 April 2023.

Climate change

The Company is out of scope of the Streamlined Energy and Carbon Reporting ("SECR"), as it does not have to report on SECR in its own Directors' report where included in the Group SECR statement of a UK Group report. Further information in respect of SECR is included within the LBG Annual Report and Accounts for 2022, which does not form part of this report, available on the LBG website, see: www.lloydsbankinggroup.com/investors/financial-downloads.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts 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. 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 of the financial reporting framework 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

Independent auditor

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:

J. McCaffrey

J McCaffrey
Director

26 May 2023

Statement of comprehensive income

For the year ended 31 December 2022

	Note	**2022 £'000**	2021 £'000
Interest income		**28,809**	32,678
Interest expense		**(5,511)**	(6,526)
Net interest income	3	**23,298**	26,152
Fee and commission income	4	**238**	314
Provision for liabilities and charges - credit for the year	17	**148**	-
Credit impairment gains	5	**549**	1,603
Market impairment gains/(losses)	6	**1,181**	(519)
Other operating expenses	7	**(5,700)**	(6,206)
Profit before tax		**19,714**	21,344
Taxation	10	**(3,747)**	(3,999)
Profit for the year, being total comprehensive income		**15,967**	17,345

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

Balance sheet

As at 31 December 2022

	Note	**2022 £'000**	2021 £'000
ASSETS			
Trade and other receivables	12	**1,384**	706
Loans and advances to customers	13	**414,229**	455,161
Deferred tax asset	14	**248**	286
Total assets		**415,861**	456,153
LIABILITIES			
Borrowed funds	15	**388,146**	420,047
Trade and other payables	16	**1,942**	408
Current tax liability		**3,711**	7,331
Provision for liabilities and charges	17	**85**	239
Total liabilities		**393,884**	428,025
EQUITY			
Share capital	18	**10**	10
Retained earnings		**21,967**	28,118
Total equity		**21,977**	28,128
Total equity and liabilities		**415,861**	456,153

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:

J McCaffrey
Director

26 May 2023

Statement of changes in equity

For the year ended 31 December 2022

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2021	10	24,973	24,983
Profit for the year, being total comprehensive income	-	17,345	17,345
Dividend paid to equity holders of the Company (see note 11)	-	(14,200)	(14,200)
At 31 December 2021	**10**	**28,118**	**28,128**
Profit for the year, being total comprehensive income	-	15,967	15,967
Dividend paid to equity holders of the Company (see note 11)	-	(22,118)	(22,118)
At 31 December 2022	**10**	**21,967**	**21,977**

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

Cash flow statement

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows generated from operating activities			
Profit before tax		**19,714**	21,344
Adjustments for:			
- Interest expense	3	**5,511**	6,526
- Decrease in Provision for liabilities and charges	17	**(154)**	(236)
Changes in operating assets and liabilities:			
- Net decrease in Loans and advances to customers	13	**40,932**	91,272
- Net (increase)/decrease in Trade and other receivables	12	**(678)**	4,951
- Net increase in Trade and other payables	16	**1,534**	209
Cash generated from operations		**66,859**	124,066
Tax paid		**(7,329)**	-
Net cash generated from operating activities		**59,530**	124,066
Cash flows used in financing activities			
Repayment of net borrowings with group undertakings	15	**(31,901)**	(103,340)
Dividends paid	11	**(22,118)**	(14,200)
Interest paid	3	**(5,511)**	(6,526)
Net cash used in financing activities		**(59,530)**	(124,066)
Change in Cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of year		**-**	-
Cash and cash equivalents at end of year		**-**	-

There are no cash flow movements going through investing activities.

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

Notes to the financial statements

For the year ended 31 December 2022

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 properly 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 pronouncement is relevant to the Company and has 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 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2022 and which have not been applied in preparing these financial statements are given in note 24. 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 detailed in the Directors' report and under the historical cost convention.

1.2 Income recognition

Interest income and expense from financial assets

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

Lease classification

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

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

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

1. Accounting policies (continued)

1.2 Income recognition (continued)

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

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

1.3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers and Trade and other receivables. 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.

1.4 Impairment

(i) Credit losses

Loans and advances to customers

The impairment charge in the Statement of comprehensive income includes the change in ECL and certain fraud write offs and recoveries. ECL are recognised for Loans and advances to customers and other financial assets held at amortised cost, together with any loan commitments. ECL 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 ECL resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk ("SICR") since origination, allowance (or provision) is made for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL are recognised are considered to be Stage 1; financial assets which are considered to have experienced a SICR 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.

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

1.4 Impairment (continued)

(i) Credit losses (continued)

Impairment of loans and advances (continued)

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 SICR, the Company uses quantitative tests based on relative and absolute 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 and of 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 SICR since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. The Company uses the IFRS 9 rebuttable presumption that default occurs no later than when a payment is 90 days past due. The use of payment holidays is not considered to be an automatic trigger of regulatory default and therefore does not automatically trigger Stage 3. Days past due will not accumulate on any accounts that have taken a payment holiday 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 PD of an exposure, both over a 12 month period or over its lifetime is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The Company has adopted the following definition of default for all its retail products:

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

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

Impairment of other financial assets

Under IFRS 9 at initial recognition, allowance is made for expected losses resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a SICR 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 ECL are recognised are considered to be Stage 1; other financial assets which are considered to have experienced a SICR 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.

1. Accounting policies (continued)

1.4 Impairment (continued)

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

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 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.

1. Accounting policies (continued)

1.4 Impairment (continued)

(iii) Allowance for Credit impairment losses (continued)

Significant increase in credit risk - retail (continued)

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. A deterioration in the Retail Master Scale ("RMS") (default model that segments customer loans into a number of rating grades, each representing a defined range of default probabilities) of three grades for retail loans is treated as SICR. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due. Also, a deterioration of three RMS grades within the last twelve months, is considered a SICR.

A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no cure period is applied to Stage 3. If an exposure that is classified as Stage 2 no longer meets the SICR criteria, which in some cases capture customer behaviour in previous periods, it is moved back to Stage 1. 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 ECL.

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. Financial assets are classified as credit-impaired if they are 30 days past due.

A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no cure period is applied to Stage 3. If an exposure that is classified as Stage 2 no longer meets the SICR criteria, which in some cases capture customer behaviour in previous periods, it is moved back to Stage 1.

Generation of Multiple Economic Scenarios

The estimate of ECL is required to be based on an unbiased expectation of future economic scenarios. The approach used to generate the range of future economic scenarios depends on the methodology and judgements adopted. The Company’s approach is to start from a defined base case scenario, used for planning purposes, and to generate alternative economic scenarios around this base case. The base case scenario is a conditional forecast underpinned by a number of conditioning assumptions that reflect the Company’s best view of key future developments. If circumstances appear likely to materially deviate from the conditioning assumptions, then the base case scenario is updated.

The base case scenario is central to a range of future economic scenarios generated by simulation of an economic model, for which the same conditioning assumptions apply as in the base case scenario. These scenarios are ranked by using estimated relationships with industry-wide historical loss data. With the base case already pre-defined, three other scenarios are identified as averages of constituent scenarios located around the 15th, 75th and 95th percentiles of the distribution. The full distribution is therefore summarised by a practical number of scenarios to run through ECL models representing an upside, the base case, and a downside scenario weighted at 30 per cent each, together with a severe downside scenario weighted at 10 per cent. The scenario weights represent the distribution of economic scenarios and not subjective views on likelihood. The inclusion of a severe downside scenario with a smaller weighting ensures that the non-linearity of losses in the tail of the distribution is adequately captured. No material changes were made to the model in 2022.

Base Case and MES Economic Assumptions

The Company’s base case economic scenario has been revised in light of the ongoing war in Ukraine, reversals in UK fiscal policy, and continuing global shift towards a more restrictive monetary policy stance against a backdrop of elevated inflation pressures. The Company’s updated base case scenario has three conditioning assumptions: first, the war in Ukraine remains ‘local’, i.e. without overtly involving neighbouring countries, NATO or China; second, the UK labour market participation rate remains below pre-pandemic levels, impeding the economy’s supply capacity; and third, the Bank of England accommodates above-target inflation in the medium term, recognising the economic costs that might arise from a rapid return to the two per cent target.

Based on these assumptions and incorporating the economic data published in the fourth quarter, the Company's base case screnario is for a contraction in economic activity and a rise in the unemployment rate alongside declines in residential and commercial property prices, following increases in UK Bank Rate in response to persistent inflationary pressures. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

1. Accounting policies (continued)

1.4 Impairment (continued)

(iii) Allowance for Credit impairment losses (continued)

The Company has accommodated the latest available information at the reporting date in defining its base case screnario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the fourth quarter of 2022, for which actuals may have since emerged prior to publication.

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 Cash and cash equivalents

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

1.6 Taxation, including deferred income taxes

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

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

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by His 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.

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. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

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

1. Accounting policies (continued)

1.7 Dividends paid

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

1.8 Retirement benefit obligations

Defined contribution

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

Defined benefit

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. All active members of the Group's defined benefit pension plans are employed by other companies in the Group. Accordingly, the risk associated with the operation of the plans lies with other companies. The Company is recharged by a fellow group undertaking an amount equal to the cash contributions made in respect of the relevant employees included within the LBG Annual Report and Accounts for 2022, which does not form part of this report.

The LBG Annual Report is available on the LBG website: www.lloydsbankinggroup.com/investors/financial-downloads.

1.9 Share based payments

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 8. Full details of these schemes can be found in the 2022 Annual Report and the Financial Statements of the Group website: www.lloydsbankinggroup.com/investors/financial-downloads.

1.10 Provision for liabilities and charges

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

2. Critical accounting 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 20.3, the Company’s leasing arrangements expose it to market risk in the form of motor vehicle residual values 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.

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

Allowance for Market impairment losses (continued)

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 therefore this is considered to be a key source of estimation uncertainty. The market risk provision included within the accounts is £841,000 (2021: £2,030,000).

The relationship between used car prices and the level of provision required is non-linear, this is due to the options available to customer's dependent on 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.

Allowance for market losses

	1pp		**2pp**		**5pp**	
	Increase £'000	**Decrease £'000**	**Increase £'000**	**Decrease £'000**	**Increase £'000**	**Decrease £'000**
2022	**100**	**114**	**184**	**247**	**370**	**779**
2021	212	226	403	471	879	1,298

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.

ECL sensitivity to economic assumptions

The table below shows the Company's Allowance for Loans and advances to customers and loan commitments for the upside, base case, downside and severe downside scenarios. This analysis is to evaluate the ECL sensitivity in each economic scenario. 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. Whilst management judgement is used for individual assessments and post-model adjustments, it is possible that the actual outcome will be different therefore this is considered to be a key source of estimation uncertainty.

Allowance for Loans and advances to customers

	Probability-weighted £'000	Upside £'000	Base £'000	Downside £'000	Severe downside £'000
2022	**2,784**	**2,521**	**2,711**	**2,903**	**3,436**
2021	3,558	3,400	3,515	3,646	3,896

3. Net interest income

	2022 £'000	2021 £'000
Interest income		
From finance lease and hire purchase contracts	**27,553**	31,660
From other loans and advances	**1,256**	1,018
	28,809	32,678
Interest expense		
Group interest expense (see note 19)	**(5,511)**	(6,526)
	23,298	26,152

Notes to the financial statements (continued)

For the year ended 31 December 2022

4. Fee and commission income

	2022 £'000	2021 £'000
Loan fees receivable	**238**	314

5. Credit impairment gains

31 December 2022	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Impact of transfers between stages	**(101)**	**243**	**431**	**573**
Other changes in credit quality	**371**	**97**	**(295)**	**173**
Repayments	**(409)**	**(479)**	**(407)**	**(1,295)**
	(139)	**(139)**	**(271)**	**(549)**
In respect of:				
Loans and advances to customers	**(137)**	**(139)**	**(271)**	**(547)**
Undrawn loan commitments	**(2)**	**-**	**-**	**(2)**
	(139)	**(139)**	**(271)**	**(549)**

31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Impact of transfers between stages	(3)	(96)	889	790
Other changes in credit quality	(198)	(407)	(185)	(790)
Repayments	(341)	(875)	(387)	(1,603)
	(542)	(1,378)	317	(1,603)
In respect of:				
Loans and advances to customers	(505)	(1,378)	317	(1,566)
Undrawn loan commitments	(37)	-	-	(37)
	(542)	(1,378)	317	(1,603)

6. Market impairment (gains)/losses

	2022 £'000	2021 £'000
Brought forward at 1 January	**2,030**	1,675
Utilised during the year	**(8)**	(164)
(Credit)/charge for the year	**(1,181)**	519
Carried forward at 31 December (see note 13)	**841**	2,030

7. Other operating expenses

	2022 £'000	2021 £'000
Staff costs (see note 8)	**967**	787
Management charges payable (see note 19)	**4,305**	4,890
Other operating expenses	**428**	529
	5,700	6,206

Fees payable to the Company's auditors for the audit of the financial statements of £24,800 (2021: £24,000) have been borne by a fellow group company and are recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management charges.

8. Staff costs

	2022 £'000	2021 £'000
Wages and salaries	**725**	572
Social security costs	**95**	67
Other pension costs	**147**	148
	967	787

The average monthly number of employees during the year was 11 (2021: 10). All staff are located in the UK and provide management, administration and sales support. All staff contracts of service are with Lloyds Bank Asset Finance Limited. However, the staff costs shown above were paid by the Company in respect of staff identified as providing services to the Company. Other pension costs comprise solely costs for defined contribution schemes.

9. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2021: £nil). The directors are employed by other companies within the Group or companies controlled by Suzuki GB plc and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 19).

10. Taxation

	2022 £'000	2021 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**3,708**	4,018
- Adjustments in respect of prior years	**1**	-
Current tax charge	**3,709**	4,018
UK deferred tax:		
- Origination and reversal of timing differences	**38**	38
- Impact of deferred tax rate change	**-**	(57)
Deferred tax charge/(credit) (see note 14)	**38**	(19)
Tax charge	**3,747**	3,999

Corporation tax is calculated at a rate of 19.00% (2021: 19.00%) of the taxable profit for the year.

10. Taxation (continued)

b) Factors affecting the tax charge for the year

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

	2022 **£'000**	2021 £'000
Profit before tax	**19,714**	21,344
Tax charge thereon at UK corporation tax rate of 19.00% (2021: 19.00%)	**3,747**	4,056
Factors affecting charge:		
- Due to change in UK corporation tax rate	**-**	(57)
Tax charge on profit on ordinary activities	**3,747**	3,999
Effective rate	**19.00%**	18.74%

11. Dividends

In 2022, dividends of £2,211.80 per "A" share and £2,211.80 per "B" share representing a total of £22,118,000 were paid in the year (2021: £1,420.00 per "A" share and £1,420.00 per "B" share representing a total of £14,200,000).

12. Trade and other receivables

	2022 **£'000**	2021 £'000
Other debtors	**1,384**	706

Included in Other debtors is a manufacturing subsidy receivable from Suzuki GB plc of £992,000 (2021: £140,000) (see note 19). Other debtors are all due within one year.

13. Loans and advances to customers

13.1 Loans and advances to customers - maturity

	2022 **£'000**	2021 £'000
Advances under finance lease and hire purchase contracts	**378,989**	428,371
Personal loans to customers	**1**	18
Other loans and advances to customers	**38,779**	32,272
Gross loans and advances to customers	**417,769**	460,661
Less: allowances for Credit losses on loans and advances	**(2,699)**	(3,470)
Less: allowances for Market losses on loans and advances	**(841)**	(2,030)
Net loans and advances to customers	**414,229**	455,161
of which:		
Due within one year	**149,632**	155,128
Due after one year	**264,597**	300,033
	414,229	455,161

Notes to the financial statements (continued)

For the year ended 31 December 2022

13. Loans and advances to customers (continued)

13.1 Loans and advances to customers - maturity (continued)

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

	2022 £'000	2021 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**125,298**	138,234
- later than one year and no later than two years	**111,912**	145,616
- later than two years and no later than three years	**104,217**	106,500
- later than three years and no later than four years	**76,946**	78,129
- later than four years and no later than five years	**5,116**	6,279
- later than five years	**1**	6
	423,490	474,764
Unearned future finance income on finance lease and hire purchase contracts	**(44,501)**	(46,393)
Net investment in finance lease and hire purchase contracts	**378,989**	428,371

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

	2022 £'000	2021 £'000
- no later than one year	**112,132**	124,727
- later than one year and no later than two years	**100,152**	131,386
- later than two years and no later than three years	**93,266**	96,093
- later than three years and no later than four years	**68,860**	70,494
- later than four years and no later than five years	**4,578**	5,665
- later than five years	**1**	6
	378,989	428,371

The Company provides a range of finance lease products in connection with the financing of motor vehicles. The leases typically run for periods of between 2 and 4 years.

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2021: £nil).

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

13. Loans and advances to customers (continued)

13.2 Loans and advances to customers - movement over time

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance at 1 January 2022	**406,854**	**50,301**	**3,506**	**460,661**
Transfers to Stage 1	**10,317**	**(10,317)**	**-**	**-**
Transfers to Stage 2	**(23,559)**	**23,898**	**(339)**	**-**
Transfers to Stage 3	**(758)**	**(1,011)**	**1,769**	**-**
Net decrease in loans and advances to customers	**(25,984)**	**(14,637)**	**(1,847)**	**(42,468)**
Financial assets that have been written off during the year	**-**	**-**	**(489)**	**(489)**
Recoveries of prior advances written off	**-**	**-**	**65**	**65**
Gross loans and advances to customers	**366,870**	**48,234**	**2,665**	**417,769**
Less: allowances for Credit losses on loans and advances	**(369)**	**(1,031)**	**(1,299)**	**(2,699)**
Less: allowances for Market losses on loans and advances	**(766)**	**(75)**	**-**	**(841)**
Net loans and advances to customers	**365,735**	**47,128**	**1,366**	**414,229**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2021	488,644	61,415	3,482	553,541
Transfers to Stage 1	15,659	(15,659)	-	-
Transfers to Stage 2	(27,605)	27,870	(265)	-
Transfers to Stage 3	(1,981)	(2,398)	4,379	-
Net decrease in loans and advances to customers	(67,863)	(20,927)	(3,183)	(91,973)
Financial assets that have been written off during the year	-	-	(983)	(983)
Recoveries of prior advances written off	-	-	76	76
Gross loans and advances to customers	406,854	50,301	3,506	460,661
Less: allowances for Credit losses on loans and advances	(498)	(1,169)	(1,803)	(3,470)
Less: allowances for Market losses on loans and advances	(1,768)	(262)	-	(2,030)
Net loans and advances to customers	404,588	48,870	1,703	455,161

14. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2022 £'000	2021 £'000
At 1 January	**286**	267
(Charge)/credit for the year (see note 10)	**(38)**	19
At 31 December	**248**	286

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

	2022 £'000	2021 £'000
Other temporary differences	**(38)**	19

Deferred tax asset comprises:	2022 £'000	2021 £'000
Accelerated capital allowances	**2**	3
Other temporary differences	**246**	283
	248	286

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.

15. Borrowed funds

	2022 £'000	2021 £'000
Amounts due to group undertakings (see note 19)	**388,146**	420,047

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to Black Horse Limited of £388,094,000 (2021: £419,685,000) are interest bearing at variable rates based on the Sterling Overnight Index Average ("SONIA") plus a margin. Amounts due to Lloyds Bank plc of £52,000 (2021: £362,000) are non-interest bearing.

Notes to the financial statements (continued)

For the year ended 31 December 2022

16. Trade and other payables

	2022 £'000	2021 £'000
Accruals and deferred income	**504**	278
Other tax and social security	**63**	31
Other payables	**1,375**	99
	1,942	408

Other payables includes amounts in the course of transmission of £1,357,000 (2021: £nil).

17. Provision for liabilities and charges

	Undrawn loan commitment £'000	Payment protection insurance £'000	Total £'000
At 1 January 2021	124	351	475
Credit for the year (see note 5)	(37)	-	(37)
Utilised during the year	-	(199)	(199)
At 31 December 2021	87	152	239
Credit for the year (see note 5)	**(2)**	**-**	**(2)**
Reversal of unused provision	**-**	**(148)**	**(148)**
Utilised during the year	-	**(4)**	**(4)**
At 31 December 2022	**85**	**-**	**85**

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 2022, the Company carried a provision of £85,000 (2021: £87,000) for ECL on undrawn loan commitments.

As at 31 December 2022, the Company has provided £nil (2021: £152,000) against the cost of making redress payments to customers and the related administration costs in relation to the misselling of PPI.

18. Share capital

	2022 £'000	2021 £'000
Allotted, issued and fully paid		
5,100 "A" ordinary shares of £1 each	**5**	5
4,900 "B" ordinary shares of £1 each	**5**	5

At 31 December 2022, the authorised share capital of the Company was £10,000 divided into 5,100 "A" ordinary shares of £1 each and 4,900 "B" ordinary shares of £1 each. The "A" ordinary shares rank pari passu with the "B" ordinary shares, including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company. The "A" ordinary shares are held by Black Horse Group Limited, the "B" ordinary shares are held by Suzuki GB plc.

Notes to the financial statements (continued)

For the year ended 31 December 2022

19. Related party transactions

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

	2022 £'000	2021 £'000
Amounts due to group undertakings		
Black Horse Limited	**388,094**	419,685
Lloyds Bank plc	**52**	362
Total Amounts due to group undertakings (see note 15)	**388,146**	420,047
Interest expense		
Black Horse Limited (see note 3)	**5,511**	6,526
Management charges payable		
Black Horse Limited (see note 7)	**4,305**	4,890
Staff costs recharge		
Black Horse Limited (see notes 7 and 8)	**967**	787

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

Loans and advances to customers of £414,229,000 (2021: £455,161,000) includes manufacturing subsidies of £10,613,000 (2021: £3,720,000) received during the year from the non-controlling interest, Suzuki GB plc. As at 31 December 2022, an amount of £992,000 (2021: £140,000) was outstanding (see note 12).

Key management personnel

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

Notes to the financial statements (continued)
For the year ended 31 December 2022

20. Financial risk management

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

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

20.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Loans and advances to customers is managed through the application of strict underwriting criteria, determined by the 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 to customers, credit risk arises both from amounts lent and commitments to extend credit to a customer, principally loan commitments.

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

Credit risk mitigation

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

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

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

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

Credit concentration - Loans and advances to customers

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2022

20. Financial risk management (continued)

20.1 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 PDs, that have been applied, include forward-looking information and are based on 12 month values, with the exception of credit impaired.

At 31 December 2022		Gross loans and advances to customers - Loan Quality			
	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Retail					
RMS 1-6	0.00-4.50%	**324,601**	**37,743**	**-**	**362,344**
RMS 7-9	4.51-14.00%	**4,088**	**5,411**	**-**	**9,499**
RMS 10	14.01-20.00%	**-**	**1,804**	**-**	**1,804**
RMS 11-13	20.01-99.99%	**-**	**2,807**	**-**	**2,807**
RMS 14	100%	**-**	**-**	**2,594**	**2,594**
Total		**328,689**	**47,765**	**2,594**	**379,048**
Wholesale					
CMS 1-10	0.00-0.50%	**15,153**	**-**	**-**	**15,153**
CMS 11-14	0.51-3.00%	**20,436**	**-**	**-**	**20,436**
CMS 15-18	3.01-20.00%	**2,592**	**469**	**-**	**3,061**
CMS 19	20.01-99.99%	**-**	**-**	**-**	**-**
CMS 20-23	100%	**-**	**-**	**71**	**71**
Total		**38,181**	**469**	**71**	**38,721**

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%	374,408	39,868	-	414,276
RMS 7-9	4.51-14.00%	660	5,694	-	6,354
RMS 10	14.01-20.00%	-	1,382	-	1,382
RMS 11-13	20.01-99.99%	-	3,151	-	3,151
RMS 14	100%	-	-	3,309	3,309
Total		375,068	50,095	3,309	428,472
Wholesale					
CMS 1-10	0.00-0.50%	7,593	-	-	7,593
CMS 11-14	0.51-3.00%	19,171	-	-	19,171
CMS 15-18	3.01-20.00%	5,022	206	-	5,228
CMS 19	20.01-99.99%	-	-	-	-
CMS 20-23	100%	-	-	197	197
Total		31,786	206	197	32,189

20. Financial risk management (continued)

20.1 Credit risk (continued)

Commitments to lend

At 31 December 2022		**Gross loans and advances to customers - Loan Commitments**			
Wholesale	**PD Range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
CMS 1-10	0.00-0.50%	**41,395**	**-**	**-**	**41,395**
CMS 11-14	0.51-3.00%	**51,353**	**-**	**-**	**51,353**
CMS 15-18	3.01-20.00%	**10,731**	**-**	**-**	**10,731**
CMS 19	20.01-99.99%	**-**	**-**	**-**	**-**
		103,479	**-**	**-**	**103,479**
At 31 December 2021					
CMS 1-10	0.00-0.50%	35,309	-	-	35,309
CMS 11-14	0.51-3.00%	63,205	-	-	63,205
CMS 15-18	3.01-20.00%	10,735	-	-	10,735
CMS 19	20.01-99.99%	-	-	-	-
		109,249	-	-	109,249

Retail Commitments to lend were £nil at both 31 December 2022 and 31 December 2021.

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

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2022	**498**	**1,169**	**1,803**	**3,470**
Transfers to Stage 1	**146**	**(146)**	**-**	**-**
Transfers to Stage 2	**(156)**	**331**	**(175)**	**-**
Transfers to Stage 3	**(6)**	**(108)**	**114**	**-**
Impact of transfer between stages	**(85)**	**166**	**492**	**573**
Other items charged to the Statement of comprehensive income	**(36)**	**(382)**	**(702)**	**(1,120)**
Charge/(credit) for the year (including recoveries)	**(137)**	**(139)**	**(271)**	**(547)**
Advances written off	**-**	**-**	**(489)**	**(489)**
Recoveries of prior advances written off	**8**	**1**	**65**	**74**
Discount unwind	**-**	**-**	**191**	**191**
At 31 December 2022	**369**	**1,031**	**1,299**	**2,699**

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2021	860	2,526	2,047	5,433
Transfers to Stage 1	292	(292)	-	-
Transfers to Stage 2	(143)	294	(151)	-
Transfers to Stage 3	(16)	(379)	395	-
Impact of transfer between stages	(135)	281	645	791
Other items charged to the Statement of comprehensive income	(503)	(1,282)	(572)	(2,357)
Charge/(credit) for the year (including recoveries)	(505)	(1,378)	317	(1,566)
Advances written off	-	-	(983)	(983)
Recoveries of prior advances written off	143	21	76	240
Unwind of discount	-	-	346	346
At 31 December 2021	498	1,169	1,803	3,470

20. Financial risk management (continued)

20.1 Credit risk (continued)

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

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2021	124	-	-	124
Credit for the year (including recoveries)	(37)	-	-	(37)
At 31 December 2021	87	-	-	87
Credit for the year (including recoveries)	**(2)**	**-**	**-**	**(2)**
At 31 December 2022	**85**	**-**	**-**	**85**

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.

20.2 Liquidity risk

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

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

20.3 Market risk

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

PCP agreements

This is an arrangement which allows the borrower to return the vehicle to the Company or to pay the pre-agreed residual value to acquire title to the vehicle financed. As a result the Company is exposed to a risk of loss where the actual residual value falls below the pre-agreed residual value. The pre-agreed residual value is set by the pricing committee which includes members with significant knowledge and experience of the motor industry. Subsequently, residual values within the portfolio of vehicles are monitored by a residual value committee which meets on a regular basis to consider the exposure taking into account current and projected industry trends in addition to the Company's own risk management data (see note 1.4 (ii) and note 2).

Voluntary terminations

There is legislation governing certain leasing arrangements that allows lessees to return the vehicle to the lessor, without liability, once they have paid more than 50% of the finance element of the agreement. As a result the Company is exposed to a risk that the residual value of a vehicle at the time that the lessee chooses to invoke this right to return the vehicle and cease payment is insufficient to cover the net book value of the loan receivable at that date. To mitigate against this risk the Company works with dealers to make sure that voluntary termination is the right approach for the customer. In addition, contracts include provisions for excess mileage charges. A provision is also held against any potential shortfall in market value as described in note 1.4 (ii) and note 2.

20. Financial risk management (continued)

20.4 Interest rate risk

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

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

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Amounts due to group undertakings and takes account of movement in the SONIA rate, which is the basis for the interest charged on such balances. The actual movement in the SONIA rate across the year is 3.23% (2021: 0.14%). This rate is used to assess the possible increase in Interest expense. A decrease in the SONIA rate to 0.1% (2021: decrease of 0.14%) is used to assess the possible decrease in Interest expense.

If SONIA increased by 3.23% (2021: 0.14%) and all other variables remain constant this would increase Interest expense by £614,000 (2021: £90,000). If SONIA decreased to 0.1% and all other variables remain constant this would decrease Interest expense by £606,000 (2021: a 0.14% decrease in SONIA decreased interest expense by £90,000).

20.5 Business risk

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

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

20.6 Financial strategy

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

20.7 Fair values of financial assets and liabilities

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

All financial assets and liabilities are held at amortised costs rather than designated at fair value through profit and loss.

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 £427,984,000 (2021: £477,769,000). The directors consider that, for all other financial assets and liabilities, there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

21. Capital disclosures

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

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

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

22. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the Balance sheet date (2021: £nil).

Undrawn formal standby facilities, credit facilities and other commitments to lend were £103,479,000 (2021: £109,249,000).

Motor commission review

Following the Financial Conduct Authority's Motor Market review, the Company has received a number of complaints, some of which are with the Financial Ombudsman Service, in respect of historical motor commission arrangements. It is currently not possible to predict the ultimate outcome of the complaints, including the financial impact or the scope or nature of remediation requirements, if any, or any related challenges to the interpretation or validity of any of the Group's historical motor commission arrangements.

23. Post balance sheet events

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

24. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2022 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 2023 and in later years (including IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors).	Annual periods beginning on or after 1 January 2023.

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

25. Ultimate parent undertaking and controlling party

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

Independent auditor's report to the members of Suzuki Financial Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Suzuki Financial Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 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 25.

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.

Independent auditor's report to the members of Suzuki Financial Services Limited (continued)

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.

Auditors' responsibilities for the audit of the accounts

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, including those that are specific to the company's business sector.

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. This included Financial Conduct Authority (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.

Independent auditor's report to the members of Suzuki Financial Services Limited (continued)

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:

- 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 FCA.

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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have 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.

Independent auditor's report to the members of Suzuki Financial Services Limited (continued)

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.

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.

Mark Taylor

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

26 May 2023