Black Horse Limited
Annual Report and Accounts
2023

Member of Lloyds Banking Group

The directors present their Strategic Report and audited financial statements of Black Horse Limited (the "Company") for the year ended 31 December 2023.

Principal activities

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

The Company forms part of Lloyds Banking Group ("the Group").

Business overview

The Company's result for the year shows a loss before tax of £(326,983,000) (2022: profit before tax £267,994,000) and net interest income of £270,336,000 (2022: £351,120,000). The decrease in net interest income is a result of increases in the bank base rate which has increased the cost of the fixed funding put in place during the year compared to historical funding rates. During the year a provision of £324,000,000 was recognised for the potential impact of the FCA review into historical motor finance commission arrangements and sales (see below and note 21 for more details). This, along with an increase in impairment losses are the principal reasons for the in year loss. The Company holds net assets of £145,102,000 (2022: £396,777,000).

The Company experienced an increase in loans and advances to customers of £587,551,000 (2022: £421,062,000) during the year. This is mainly due to strong business performance and higher stocking balances. The Company has made a credit impairment loss of £52,582,000 (2022: £2,388,000) and a market impairment loss of £98,603,000 (2022: £1,276,000) during the year. Current year impairment losses are higher than prior year, largely due to increases in Residual Value ("RV") and Voluntary Termination ("VT") provisions, and increased loss expectations as a result of worsening used car prices. The underlying charge remains in line with pre-Covid levels.

Future outlook

The Company has recently observed that supply challenges have largely been resolved and does not foresee an industry wide supply issue going forward. Average values remain elevated and returns are expected to remain robust going forward as the business will focus on margin management and its used car business. Used vehicle prices have fallen in 2023 across all fuel types and further volatility can be expected going forward as the industry deals with the transition to electric and the impacts of new vehicle supply reductions since 2020. This, along with enduring cost of living pressures on consumers will be closely monitored by management.

In addition, the Company is continuing to engage with the Financial Conduct Authority ("FCA") and Financial Ombudsman Service ("FOS") on the historical motor commission arrangements as mentioned below.

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

Motor Commission Review

The Company recognised a £324,000,000 provision for the potential impact of the FCA review into historical motor finance commission arrangements and sales.

The Company continues to receive a number of court claims and complaints in respect of motor finance commissions and is actively engaging with the FOS in its assessment of these complaints. On 10 January 2024, the FOS issued its Final Decision on a complaint relating to the Company, as well as decisions relating to other industry participants. On 11 January 2024, the FCA announced a section 166 review of historical motor finance commission arrangements and sales and that it planned to communicate a decision on next steps in the third quarter of 2024 on the basis of the evidence collated in the review. The FCA has indicated that such steps could include establishing an industry-wide consumer redress scheme and/or applying to the Financial Markets Test Case Scheme, to help resolve any contested legal issues of general importance.

Following the FCA Motor Market Review in March 2019, the FCA issued a policy statement in July 2020 prohibiting the use of discretionary commission models from 28 January 2021, which the Company adhered to. The Company continues to believe that its historical practices were compliant with the law and regulations in place at that time.

As noted above, in response to both the FOS decisions and the FCA announcement the Company has recognised a provision of £324,000,000. This includes estimates for operational and legal costs, including litigation costs, together with estimates for potential awards, based on various scenarios using a range of assumptions, including for example, commission models, commission rates, applicable time periods (between 2007 and 2021), response rates and uphold rates. Costs and awards could arise in the event that the FCA concludes there has been misconduct and customer loss that requires remediation, or from adverse litigation decisions. However, while the FCA review is progressing there is significant uncertainty as to the extent of misconduct and customer loss, if any, the nature and extent of any remediation action, if required, and its timing. The ultimate financial impact could therefore materially differ from the amount provided, both higher or lower. The Company welcomed the FCA intervention through an independent section 166 review.

Economic environment

The current financial year has been a year of change and economic uncertainty, with elevated inflation rate, rising bank base rates, heightened geopolitical tensions, and an ongoing climate emergency. These factors have all contributed to increasing the cost of living which impacts the Group and customers of its subsidiaries.

Economic environment (continued)

In line with the Group's purpose of Helping Britain Prosper and its clear customer focus, the Group aims to provide support to those most affected by changes to the economic environment. The Company will continue to monitor the situation and risks to the business.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group. While these risks are not managed separately for the Company, the Company is a main trading company of the Group's Transport business. Liquidity risk and interest rate risk are managed and monitored by Internal Risk teams. Further details of these risks and the risk management policy are contained in note 25 to the financial statements.

Credit risk

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

Liquidity risk

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

Market risk

Market risk exists through residual value volatility within finance lease agreements. The lessee has a contractual right to return the vehicle at the end of the contract term under a PCP agreement and is economically incentivised to do so where the residual value is lower than the contractual Guaranteed Future Value (GFV). The Company prices the (GFV) to reduce the likelihood of the market risk resulting in a residual value loss and provisions are made where residual value losses are anticipated. The Company holds larger residual value provisions against electric cars and their growing popularity could increase the Company's residual value risk. Further information can be found in note 25.3.

Interest rate risk

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

Other risks

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

Key performance indicators ("KPIs")

The Company's key objective is to support the dealer network in Keeping Britain Mobile, a sub set of the Group strategic objective of Helping Britain Prosper. The level of overall lending balances across both new and used vehicle financing are seen as important measures of success. Credit risk management, aligned with helping customers ensure they have a product suitable for their needs, is fundamental to the success of the business. Impairment losses and interest income are considered to be relevant measures in relation to this. The key performance indicators considered for the Company are listed below:

KPI	2023	2022	Analysis
Net interest income (£'000)	**270,336**	351,120	Decrease in net interest income from prior year due to rising SONIA rates which has increased both the cost of new fixed term funding and the interest rate charged on the call account driving an increase in group interest expense when compared to historical rates.
Net interest margin	**2.1%**	2.9%	Decrease in Net interest margin has been driven by higher funding cost from fixed term funding deals written in the year
Loans and advances to customers (£'000)	**12,861,655**	12,274,104	Increase in loans and advances to customers is driven by strong new business performance and higher stocking balances.
Expected Credit Loss ("ECL") coverage	**1.00%**	1.07%	The proportion of the assets held in Stage 1 has increased in comparison to 2022. These balances incur a smaller loss allowance, which in turn has led to a decrease in the overall coverage.
Cost: Income ratio	**43.5%**	23.2%	Cost: income ratio has increased largely due to a rise in Group interest expense following increases in bank base rate and platform costs.
Asset quality ratio	**(1.18)%**	(0.03)%	Decrease the asset quality ratio is largely driven by increases in RV and VT provisions and forward looking loss expectation as a result of worsening used car prices.

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act") for the year ended 31 December 2023 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 stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the following statement also provides details of how the directors have engaged with, and had regard to the interest of key stakeholders as the Company has no direct employees. The Company is a subsidiary of the Group, and as such follows many of the processes and practices of the Group, which are further referred to in this statement where relevant.

The directors' acknowledge that one of the primary responsibilities of the board is to ensure the strategy of the Company, as aligned to that of the Group, achieves long-term success and generates 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. This approach has during the course of the year been central to the activities of the directors, as discussed below.

Customers

The directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions by focussing on customer fair value and by treating customers fairly. The board meets on a regular basis and directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made. 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 through the later part of 2023. Our 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 business 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 directors ensure the Company, as part of Lloyds Banking Group plc, are supported by and make use of Lloyds Banking Group plc's supplier oversight model. This oversight assesses managed suppliers' activities against a set of risks that their activity poses. The business works with Lloyds Bank Group plc's Consumer Lending Chief Operating Office to understand and agree a supplier risk oversight routine; one which regularly reviews and shares supplier performance and considers risks and mitigations across resiliency of service provision, supplier conduct in delivering customer treatment, alongside data handling and cyber risk oversight. This oversight extends to ensuring we pay our suppliers the due amount in a timely manner, to help our supplier base prosper.

This risk framework is currently focussed on those suppliers considered today to present the highest risk, and the work to understand and mitigate the risk profile of the current supplier base is continual. In the prior period, market conditions have presented significant risks in the flow of vehicles to the market, constrained by supply of new vehicles, and driving up the value and age.

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 Group board agreed how the Group, including the Company, would engage the workforce, which has remained unchanged. The definition of 'workforce', as agreed by the Group board is permanent employees, contingent workers and third-party suppliers that work on premises of the Group delivering services to customers and supporting key business operations.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of the Consumer Lending Business Unit. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of the Group, ensuring that the interests of the Group as the Company's ultimate parent company are duly acknowledged. Further information in respect of the relationship of the Group with its shareholders is included within the Strategic Report within the the Lloyds Banking Group plc's Annual Report and Accounts for 2023, which does not form part of this report, available on the the Lloyds Banking Group plc website.

Communities and the environment

The Company continues to support Lloyds Banking Group plc's related initiatives, including Helping Britain Prosper by actively managing its current book of hire purchase products and other loans. In addition, the Company is an integral part of supporting the Group's desire to transition to electric vehicles, forming part of a number of commitments it has made to support the green agenda, for example developing and growing relationships with key strategic Electric Vehicle Original Equipment Manufacturers. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2023, which does not form part of this report. Additional information on Lloyds Banking Group plc's role in supporting the country and its people is available on the Lloyds Banking Group plc website within the Society and Environment section of the annual report: https://www.lloydsbankinggroup.com/investors/financial-downloads.html

Section 172(1) statement (continued)

Regulators

The Company provides quarterly updates to relevant regulators including disclosures on its capital position. During 2023 the Company's directors had meetings with the regulators, representing the interests of Lloyds Banking Group plc and its subsidiaries as required. The status of regulatory relationships continues to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of Lloyds Banking Group plc, including that of the Company, to manage regulatory change is detailed further in the Lloyds Banking Group plc Annual Report and Accounts for 2023, which does not form part of this report, available on the Lloyds Banking Group plc website.

How stakeholder interest has influenced decision making

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

An area of particular focus for the directors has been to steer through the challenges of the continuing cost of living crisis, from both an operational and customer perspective, ensuring alignment with guidance from the Group 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. Despite uncertainty in this market segment, to meet customer demand for sustainable motoring the Company continues to enhance its electric vehicle proposition.

As noted in the strategic report and notes 2 and 21, the board has continued to engage with FOS and the FCA during 2023 and subsequently. In response to both the FOS decisions and the FCA announcement, the directors decided to recognise a provision.

Emerging risks

The directors consider the following to be risks that have the potential to increase in significance and affect the performance of the Company.

The key risks are financial, derived from both physical risks (climate and weather-related events) and transition risks resulting from the process of adjustment towards a low carbon economy. Climate change extends across multiple risk types e.g. credit, market, conduct and operational. For example physical and transition risks could result in the impairment of asset values, which may impact the creditworthiness of our clients, and the products and services our customers require.

The focus on these risks by key stakeholders including businesses, clients, shareholders, governments and regulators is increasing, aligned to the evolving societal, regulatory and political landscape. There also remains a risk that the level and pace of responses taken by the Group are insufficient to mitigate these risks. This could lead to campaign groups or other bodies seeking to take action against the Group or the financial services industry for funding organisations that they deem to be contributing to climate change.

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

The Company is out of scope of the Streamlined Energy and Carbon Reporting ("SECR"), as it does not have to report on SECR in its own Director's Report where included in the Group's SECR statement of a UK Group report. Further information in respect of SECR is included within the Lloyds Banking Group plc Annual Report and Accounts for 2023, which does not form part of this report, available on the Lloyds Banking Group plc website.

General

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

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

Nick Williams

N A Williams
Director

21 June 2024

The directors present their Annual Report and Accounts for the year ended 31 December 2023.

General information

The Company is a private company limited by shares, incorporated and domiciled in England and Wales (registered number: 00661204).

Registered office

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

Employees

The Company has no direct employees (2022: nil). All staff are employed by other companies within the Group and the relevant staff costs are recharged to the Company. Full details of policies relating to disabled persons, together with details of actions taken regarding the provision of information to employees, their consultation and involvement, are shown in the Lloyds Banking Group plc Annual Report and Accounts for 2023, which does not form part of this report, and is available on the Lloyds Banking Group plc website: https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Dividends

No dividends were paid or proposed during the year.

In 2022, distributions of £777,000,000 were declared and paid to the Company's parent Black Horse Group Limited. The directors considered £425,000,000 of these distributions to represent the return of capital injected by Black Horse Group Limited in 2019, with the remaining £352,000,000 representing a distribution of income.

Events after the reporting date

There are no material events after the reporting date requiring disclosure in these financial statements.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the accounts. As set out in the Strategic report, the Company has uncertainty in relation to the outcomes of the FCA review into historical motor finance commission arrangements and sales. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the directors have considered a number of key dependencies which are set out in the risk management note (note 25) as well as the courses of action available to the Company in the event of adverse outcomes from the FCA review, which may include capital injections from its parent. Having consulted on these, the directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found in note 1.1 to the financial statements.

Directors

The current directors of the Company are shown below.

A B Ambani	(appointed 8 March 2023)
G D Gould	
C Gowland (Chair) *	
J McCaffrey	
K Morris	
N A Williams	

The following changes have also taken place between the beginning of the reporting period and the approval of the Annual Report and Accounts.

J K Harris *	(resigned 30 April 2023)
I S Perez	(resigned 24 February 2023)

*Non executive director

Company Secretary

The Company Secretary is P Gittins.

The following changes have taken place between the beginning of the reporting period and the approval of the Annual Report and Accounts.

D D Hennessey	(resigned 8 January 2024)
P Gittins	(appointed 19 January 2024)

Information included in the Strategic report

The disclosures for future outlook, principal risks and uncertainties, and key performance indicators that would otherwise be required to be disclosed in the Directors' Report can be found in the Strategic Report on pages 1 to 4.

Statement of engagement with employees and other stakeholders

A statement of engagement with employees and other stakeholders is included in the Strategic report on pages 2 and 4.

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "Regulations"), for the year ended 31 December 2023, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles"), which are available at frc.org.uk. The following section explains the Company's approach to corporate governance, and its application of the Principles.

Principle One – Purpose and Leadership

The board is collectively responsible for the long term success of the Company. It achieves this by agreeing the Company's strategy, within the wider strategy of Lloyds Banking Group plc, and overseeing delivery against it. The Company's strategy is discussed further in the Strategic Report on pages 1 to 4 of this annual report and the accounts. The board also assumes responsibilities for the management of the culture, values and wider standards of the Company, within the equivalent standards set by the Group, which are discussed in the Group annual report and accounts for 2023, which does not form part of this report, and is available on the Lloyds Banking Group plc website: https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Consideration of the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers is a vital part of the corporate culture. The Company's approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for customers. To this end, the board plays a role in establishing, promoting and monitoring the Company's corporate culture and values, aligning to the culture and values of the Group, which are discussed in more detail on page 2 and 3 of the Group annual report and accounts for 2023, which does not form part of this report, and is available on the Lloyds Banking Group plc website. The Lloyds Banking Group plc financial statements may be downloaded via https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Principle Two – Board Composition

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

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

Principle Three – Director Responsibilities

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

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

Approach to Corporate Governance (continued)

Principle Four – Opportunity and Risk

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

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

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

Principle Five – Remuneration

The Remuneration Committee of the Group assumes responsibility for the approach to remuneration for certain subsidiaries, including that of the Company. This includes reviewing and making recommendations to the Group board on remuneration policy. Whilst the Company has no direct employees (2022: no direct employees), all staff are employed by an intermediate parent undertaking, Lloyds Bank Asset Finance Limited, and all staff costs are recharged to the Company.

Principle Six – Stakeholders

The Company, as part of the Group, operates under the Group's wider Responsible Business approach, as overseen by the Lloyds Banking Group plc Responsible Business Committee. The purpose of the Committee is to support the board in overseeing the Company's policies, performance and priorities as a responsible business including embedding purpose, social and environmental matters, culture, workforce engagement and duty to customers and stakeholders.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the directors who joined the board of the Company during the financial year. Directors no longer in office but who served on the board of the Company at any time in the financial year had the benefit of this deed of indemnity during that period of service.

The deed for existing directors is available for inspection at the registered office of the group. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' and Strategic Reports and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:

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

Statement of directors' responsibilities (continued)

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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the directors, as listed in the Directors' Report, confirm to the best of their knowledge that:

- the Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risk and uncertainties that it faces.

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

- the director has taken all the steps that they ought to have taken as a director in order to make themself 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:

Nick Williams

N A Williams
Director

21 June 2024

Statement of Comprehensive Income
For the year ended 31 December 2023

	Note	**2023**	2022
		£'000	£'000
Interest income		**709,937**	553,220
Interest expense		**(439,601)**	(202,100)
Net interest income	3	**270,336**	351,120
Fee and commission income		**1,509**	1,379
Fee and commission expense		**(3,242)**	(67)
Net fee and commission (expense)/income	4	**(1,733)**	1,312
Other operating income	5	**3,658**	2,955
Provisions for liabilities and charges - charge for the year	21	**(327,703)**	(361)
Credit impairment losses	6	**(52,582)**	(2,388)
Market impairment losses	7	**(98,603)**	(1,276)
Other operating expenses	8	**(120,356)**	(83,368)
(Loss)/profit before tax		**(326,983)**	267,994
Taxation	11	**75,308**	(51,070)
(Loss)/profit for the year being total comprehensive (expense)/income		**(251,675)**	216,924

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

Balance Sheet
As at 31 December 2023

	Note	**2023**	2022
		£'000	£'000
ASSETS			
Cash and cash equivalents		**112,517**	111,081
Amounts due from group undertakings	13	**727,756**	764,558
Trade and other receivables	14	**96,545**	55,870
Loans and advances to customers	15	**12,861,655**	12,274,104
Inventories		**7,700**	4,261
Investment in unlisted investments		**54**	54
Property, plant and equipment	16	**–**	4
Intangible assets	17	**300**	891
Current tax asset		**77,270**	–
Deferred tax asset	18	**3,196**	3,931
Total assets		**13,886,993**	13,214,754
LIABILITIES			
Borrowed funds	19	**13,325,102**	12,671,899
Trade and other payables	20	**77,946**	81,849
Provision for liabilities and charges	21	**338,843**	13,970
Current tax liability		**–**	50,259
Total liabilities		**13,741,891**	12,817,977
EQUITY			
Share capital	22	**–**	–
Retained earnings		**145,102**	396,777
Total equity		**145,102**	396,777
Total equity and liabilities		**13,886,993**	13,214,754

The accompanying notes 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:

Nick Williams

N A Williams
Director
21 June 2024

Statement of Changes in Equity
For the year ended 31 December 2023

	Note	Share capital	Share premium account	Retained earnings	Total equity
		£'000	£'000	£'000	£'000
At 1 January 2022		880,907	4,615	71,331	956,853
Profit for the year being total comprehensive income		–	–	216,924	216,924
Share capital reduction	22	(880,907)	(4,615)	885,522	—
Distributions to shareholder	12		—	(777,000)	(777,000)
At 31 December 2022		–	–	396,777	396,777
Loss for the year being total comprehensive income		**–**	**–**	**(251,675)**	**(251,675)**
At 31 December 2023		**–**	**–**	**145,102**	**145,102**

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

Cash Flow Statement
For the year ended 31 December 2023

	Note	2023	2022
		£'000	£'000
Cash flows used in operating activities			
(Loss)/profit before tax		**(326,983)**	267,994
Adjustments for:			
- Interest expense	3	**439,601**	202,100
- Depreciation of Property, plant and equipment	16	**–**	3
- Net book value of disposal of Property, plant and equipment	16	**4**	–
- Amortisation of intangible assets	17	**591**	1,348
- Increase/(decrease) in Provision for liabilities and charges	21	**324,873**	(10,742)
Changes in operating assets and liabilities:			
- Net increase in Loans and advances to customers	15	**(587,551)**	(421,062)
- Net increase in Inventories		**(3,439)**	(2,202)
- Net increase in Trade and other receivables	14	**(40,675)**	(14,226)
- Net decrease in Trade and other payables	20	**(3,903)**	(6,453)
Cash generated from operations		**(197,482)**	16,760
Tax paid		**(51,486)**	(94,314)
Net cash used in operating activities		**(248,968)**	(77,554)
Cash flows generated from financing activities			
Proceeds from net borrowings with group undertakings		**690,005**	1,106,199
Distributions to shareholder	12	**–**	(777,000)
Interest paid	3	**(439,601)**	(202,100)
Net cash generated from financing activities		**250,404**	127,099
Change in Cash and cash equivalents		**1,436**	49,545
Cash and cash equivalents at beginning of year		**111,081**	61,536
Cash and cash equivalents at end of year		**112,517**	111,081

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

Note 1. Material accounting policies

The material 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.

Note 1.1. Basis of preparation

The financial statements of the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have also been prepared in accordance with International Financial Reporting Standards ("IFRS"s) as issued by the International Accounting Standards Board ("IASB").

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

No new IFRS pronouncements which have been adopted resulted in a material impact within these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2023 and which have not been applied in preparing these financial statements are given in note 29. 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 under the historical costs convention.

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

- There is a net asset position of £145,102,000 (2022: £396,777,000).
- The Company does not have external debt and is funded by other companies within the Group.
- The Company will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on further funding as required from its intermediate parent, Lloyds Bank plc.
- That it is the intention of Lloyds Bank plc, to continue to provide adequate access to liquidity for the foreseeable future.

Note 1.2. Income recognition

Interest income and expense from financial assets and liabilities

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

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

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

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

Lease classification

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

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

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

Note 1. Material accounting policies (continued)

Note 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.

Fee and commission income and expense

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

Note 1.3. Financial assets and liabilities

Financial assets comprise amounts due from Group undertakings, loans and advances to customers, trade and other receivables and cash and cash equivalents. Financial liabilities comprise amounts due to Group undertakings and trade and other payables.

On initial recognition, financial assets are classified and measured at amortised cost. All financial liabilities are measured at amortised cost. The Company initially recognises financial assets and liabilities when the Company becomes a party to the contractual provisions of the instrument.

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

Note 1.4. Impairment of financial assets

(i) Credit impairment losses

Loans and advances to customers

The impairment charge in the Statement of Comprehensive Income includes the change in expected credit losses and certain write-offs and recoveries. Expected credit losses ("ECL") are recognised for loans and advances to customers and other financial assets held at amortised cost, together with any loan commitments. ECL is 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 since origination ("SICR"), 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 significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. The collective assessment of impairment aggregates financial instruments with similar risk characteristics.

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.

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.

Note 1. Material accounting policies (continued)

Note 1.4. Impairment of financial assets (continued)

(i) Credit losses (continued)

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, 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 significant increase in credit risk since initial recognition are in Stage 2; and other financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

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

Definition of default

The 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.

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.

A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no general probation period is applied to assets in 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.

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.

Note 1. Material accounting policies (continued)

Note 1.4. Impairment of financial assets (continued)

(iii) Allowance for credit impairment losses (continued)

Significant increase in credit risk

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. In determining whether there has been a significant change in credit risk, 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. A deterioration in the Retail Master Scale ("RMS") (default model that segments customer loans into a number of ratings grades, each representing a defined range of default probabilities) of three grades for retail loans treated as a SICR. 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.

For non-retail a doubling of PD with a minimum increase in PD of 1 per cent and a resulting change in the underlying grade is treated as a SICR.

Application of judgement in adjustments to modelled ECL

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

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

Generation of Multiple Economic Scenarios ("MES")

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.

Base Case and MES Economic Assumptions

The Company's base case economic scenario has been updated to reflect ongoing geopolitical developments, and further evidence of easing of inflationary pressures allowing shifts to less restrictive monetary policies globally. The Company's updated base case scenario has three conditioning assumptions: first, the wars in Ukraine and the Middle East remain geographically contained and do not lead to a major escalation in energy prices; second, China's economic stabilisation policy is effective; and third, less restrictive monetary and fiscal policy throughout this year.

Based on these assumptions and incorporating the economic data published in the fourth quarter, the Company's base case scenario is for slow expansion in GDP and a rise in the unemployment rate. Following a reduction in inflationary pressures, UK bank rate is expected to be lowered during 2024. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

The Company has accommodated the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the fourth quarter of 2023, for which actuals may have since emerged prior to publication.

Note 1. Material accounting policies (continued)

Note 1.5. Inventories

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

Note 1.6. 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.

Note 1.7. 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 or loss 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 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.

Note 1.8. Dividends paid

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

Note 1.9. Investments

Investment in unlisted investments

Investment in unlisted investments is stated in the Balance Sheet at cost less any provision for impairment. The investment in unlisted investments comprise debenture holdings in the Wales Rugby Union and the Scotland Rugby Union.

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

Note 1.10. Property, plant and equipment

Property, plant and equipment is included at historical purchase cost less depreciation and any impairment allowance. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight line method to allocate the difference between the cost and expected residual value over their estimated useful lives, as follows:

Office and other equipment - between 2 and 10 years.

Note 1. Material accounting policies (continued)

Note 1.11. Intangible assets

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

Note 1.12. Provision for liabilities and charges

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

Note 1.13. Deemed securitisation loans

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

The initial amount of the deemed loans from Cardiff Auto Receivables Securitisation 2022-1 plc ("CARS 2022-1 plc") correspond to the consideration paid by CARS 2022-1 plc for the loans and advances to customers (less the subordinated loan granted by the Company for CARS 2022-1 plc). CARS 2022-1 plc recognise principal and interest cash flows from the underlying pool of loans and advances to customers only to the extent that they are entitled to retain such cash flows. Additionally, the directors of the Company consider that the subordinated loan owed to the Company by CARS 2022-1 plc does not meet the definition of a liability as CARS 2022-1 plc will repay the subordinated loan to the Company only if it first receives an equivalent amount from the Company.

The deemed loans to the Company from CARS 2022-1 plc are classified within amounts due from group undertakings. The amounts represent the net position of the deemed loans and assets as per IFRS 9 which permits the elimination of both the deemed loans and the retained notes within the Company as a self retained transaction. The initial measurements are at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest on the deemed loans are calculated with reference to the interest earned on the beneficial interest in the loans portfolio.

Note 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:

Motor commission review provision

The Company continues to receive a number of court claims and complaints in respect of motor finance commissions and is actively engaging with the FOS in its assessment of these complaints. On 10 January 2024, the FOS issued its Final Decision on a complaint relating to the Company, as well as decisions relating to other industry participants. On 11 January 2024, the FCA announced a section 166 review of historical motor finance commission arrangements and sales and that it planned to communicate a decision on next steps in the third quarter of 2024 on the basis of the evidence collated in the review. The FCA has indicated that such steps could include establishing an industry-wide consumer redress scheme and/or applying to the Financial Markets Test Case Scheme, to help resolve any contested legal issues of general importance.

A critical accounting judgement has been made by the Company to establish a £324,000,000 provision for the potential impact of the recently announced FCA review into historical motor finance commission arrangements and sales.

As noted above, in response to both the FOS decisions and the FCA announcement the Company has recognised a charge of £324,000,000. This includes estimates for operational and legal costs, including litigation costs, together with estimates for potential awards, based on various scenarios using a range of assumptions, including for example, commission models, commission rates, applicable time periods (between 2007 and 2021), response rates and uphold rates. Costs and awards could arise in the event that the FCA concludes there has been misconduct and customer loss that requires remediation, or from adverse litigation decisions. However, while the FCA review is progressing there is significant uncertainty as to the extent of misconduct and customer loss, if any, the nature and extent of any remediation action, if required, and its timing. The ultimate financial impact could therefore materially differ from the amount provided, both higher or lower.

Allowance for Market impairment losses

As set out in note 25.3 the Company's leasing arrangements expose it to market risk in the form of motor vehicle residual value primarily relating to the PCP product and to customer voluntary termination. In order to assess an impairment loss relating to these risks the directors use assumptions to reassess the likely future value of the vehicles financed. The used car market in the UK is mature with prices dependent upon a broad range of economic and vehicle specific factors. These factors are taken into consideration by means of the data provided by market specialists, overlaid with adjustment to reflect Company specific knowledge and experience. The expected market price determined in this manner impacts upon the extent to which customers are expected to return vehicles either at the end of the contract or, in the case of voluntary terminations, during the term of the contract. In order to assess the level of expected returns associated with the assessed future value of the vehicles financed, the Company references historic experience of actual returns.

Whilst the likely future used car prices are determined based on management's best estimate, it is possible that the actual outcome will be different, therefore this is considered to be a key source of estimation uncertainty. The market risk provision included within the accounts is £179,578,000 (2022: £87,397,000).

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

	1 percentage point		2 percentage point		5 percentage point	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	£'000	£'000	£'000	£'000	£'000	£'000
2023	**14,633**	**15,394**	**28,433**	**31,640**	**64,524**	**85,595**
2022	9,180	10,465	17,076	22,465	35,051	68,100

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 reflect the possibility of future volatility in the used car market, where values differ from our base-case expectation.

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

ECL sensitivity to economic assumptions

The table below shows the Company's ECL for loans and advances to customers and loan commitment for the upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall scenario probability-weighted PD and, hence, the staging of assets is constant across all the scenarios. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of MES relative to the base case.

	Probability-weighted	Upside	Base	Downside	Severe downside
	£'000	£'000	£'000	£'000	£'000
2023	**133,628**	**122,342**	**129,750**	**140,143**	**159,582**
2022	135,211	122,539	131,512	140,987	167,178

Note 3. Net interest income

	2023	2022
	£'000	£'000
Interest income		
From finance lease and hire purchase contracts	**612,910**	506,649
From other loans and advances	**69,559**	26,935
Group interest income (see note 24)	**27,468**	19,636
	709,937	553,220
Interest expense		
Group interest expense (see note 24)	**(439,601)**	(202,100)
Net interest income	**270,336**	351,120

Note 4. Net fee and commission (expense)/income

	2023	2022
	£'000	£'000
Fee and commission income		
Loan fees receivable	**693**	731
Commission receivable	**816**	648
	1,509	1,379
Fee and commission expense		
Other fees and commission payable	**(3,242)**	(67)
Net fee and commission (expense)/income	**(1,733)**	1,312

Note 5. Other operating income

	2023	2022
	£'000	£'000
Management fees receivables (see note 24)	**3,635**	2,924
Agency fee income (see note 24)	**23**	31
	3,658	2,955

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

Note 6. Credit impairment (gains)/losses

31 December 2023	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Loans and advances to customers	**1,695**	**1,629**	**48,549**	**51,873**
Undrawn loan commitments	**709**	**—**	**—**	**709**
	2,404	**1,629**	**48,549**	**52,582**

31 December 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loans and advances to customers	(6,106)	(1,761)	10,326	2,459
Undrawn loan commitments	(71)	—	—	(71)
	(6,177)	(1,761)	10,326	2,388

Note 7. Allowance for market losses

	2023 £'000	2022 £'000
Brought forward at 1 January	**87,397**	88,751
Utilised during the year	**(6,422)**	(2,630)
Charge for the year	**98,603**	1,276
Carried forward at 31 December (see note 15.1)	**179,578**	87,397

Note 8. Other operating expenses

	2023 £'000	2022 £'000
Staff costs (see note 9)	**40,676**	33,149
Depreciation (see note 16)	**—**	3
Other operating expenses	**79,089**	49,335
Amortisation of Intangible assets (see note 17)	**591**	1,348
Impairment on Amounts due from group undertakings	**—**	(467)
	120,356	83,368

Other operating expenses is shown net of costs recharged to other Group companies for services provided under agency. During 2023, the Company recharged £300,000 to Lloyds Bank plc (2022: £412,000), £5,743,000 to United Dominions Trust Limited (2022: £3,518,000) and £739,000 to United Dominions Leasing Limited (2022: £586,000).

Fees payable to the Company's auditors for the audit of the financial statements of £361,000 (2022: £347,000) have been borne by a fellow Group undertaking and are recharged to the Company, no non-audit services were provided to the Company by the auditor. Accounting and administration services are provided by a fellow Group undertaking and are recharged to the Company.

Note 9. Staff costs

	2023	2022
	£'000	£'000
Wages and salaries	35,529	28,221
Wages and salaries recharge*	(1,817)	(1,642)
Social security costs	3,280	3,381
Social security costs recharge *	(168)	(197)
Share based payments	845	873
Share based payments recharge *	(43)	(51)
Pension costs – defined contribution plans	3,214	2,722
Pension costs – defined contribution plans recharge *	(164)	(158)
	40,676	33,149

- As referenced in note 5, the staff costs are subject to a recharge under the terms of the agency agreement between the Company and Lloyds Bank plc that ran until 31 March 2017, this is expected to continue until the related loan book expires.

The Company's employees are employed by Lloyds Bank Asset Finance Limited. The average monthly number of employees during the year was 562 (2022: 605). All staff are located in the United Kingdom and provide management, administration and sales support. All staff contracts of service are with Lloyds Bank Asset Finance Limited. However, the staff costs shown above were paid by the Company in respect of staff identified as providing services to the Company.

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the Group. The Company's ultimate parent company operates a number of group wide, equity settled, share based compensation plans and share based payment schemes. Further details in respect of the schemes can be found in the 2023 financial statements of the Company's ultimate parent undertaking, copies of which may be obtained from the Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Note 10. Directors' emoluments

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

	2023	2022
	£'000	£'000
Aggregate emoluments	556	295
Aggregate post-employment benefits	19	28
	575	323

Highest paid director

	2023	2022
	£'000	£'000
Aggregate emoluments	405	101
Aggregate post-employment benefits	—	—
	405	101

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

During the year, retirement benefits were accruing to six directors (2022: four) in respect of defined contribution schemes. Two directors accrued under a defined benefit scheme (2022: two directors). Seven directors received shares in Lloyds Banking Group plc under long term incentive plans during the year (2022: seven directors). One director leased or purchased a vehicle from the Company (2022: one director). No directors exercised share options (2022: no directors). The number and total amount of the outstanding loans to directors, officers and connected persons as at 31 December 2023 was £nil (2022: £nil).

The directors are employed by other companies within the Group and no directors (2022: no directors) consider that their services to the Company are incidental to their other responsibilities within the Group. In 2023, £9,000 compensation was received by the directors for loss of office (2022: £nil).

Note 11. Taxation

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

	2023	2022
	£'000	£'000
UK corporation tax:		
- Current tax on taxable (loss)/profit for the year	**(77,270)**	50,195
- Adjustments in respect of prior years	**1,227**	64
Current tax (credit)/charge	**(76,043)**	50,259
UK deferred tax:		
- Origination and reversal of timing differences	**722**	728
- Impact of deferred rate change	**13**	83
Deferred tax charge (see note 18)	**735**	811
Tax (credit)/charge	**(75,308)**	51,070

Corporation tax is calculated at a rate of 23.50% (2022: 19.00%) of the taxable (loss)/profit for the year.

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

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

	2023	2022
	£'000	£'000
(Loss)/profit before tax	**(326,983)**	267,994
Tax (credit)/charge thereon at UK corporation tax rate of 23.50% (2022: 19.00%)	**(76,841)**	50,919
Factors affecting (credit)/charge:		
- Due to change in UK corporation tax rate	**13**	83
- Disallowed and non-taxable items	**292**	4
- Adjustments in respect of prior years	**1,227**	64
- Realised losses not taxable	**1**	—
Tax (credit)/charge on (loss)/profit on ordinary activities	**(75,308)**	51,070
Effective rate	**23.03%**	19.06%

Note 12. Dividends

No dividends were paid or proposed during the year .

In 2022, distributions of £777,000,000 were declared and paid to the Company's parent Black Horse Group Limited. This represented £194,250,000 per share.

The directors considered £425,000,000 of these distributions to represent the return of capital injected by Black Horse Group Limited in 2019, with the remaining £352,000,000 representing a distribution of income. See note 22.

Note 13. Amounts due from group undertakings

	2023	2022
	£'000	£'000
Amounts due from group undertakings (see note 24)	**727,756**	764,558

Deposit due from Lloyds Bank plc of £149,707,000 (2022: £149,605,000) in respect of CARS 2022-1 plc is unsecured, interest bearing at fixed rates.

Other amounts of £553,239,000 (2022: £564,802,000) are unsecured, repayable on demand, and interest bearing at fixed rates for funding of long term loans and advances to customers. The remainder of £24,810,000 (2022: £50,151,000) are unsecured, repayable and non interest bearing.

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

Note 14. Trade and other receivables

	2023	2022
	£'000	£'000
Other debtors	**58,558**	19,968
Items in the course of collection	**37,987**	35,902
	96,545	55,870

Note 15. Loans and advances to customers

Note 15.1. Loans and advances to customers - maturity

	2023	2022
	£'000	£'000
Advances under finance lease and hire purchase contracts	**11,830,847**	11,613,881
Personal loans to customers	**—**	36
Other loans and advances to customers	**1,342,106**	881,596
Gross loans and advances to customers	**13,172,953**	12,495,513
Less: allowances for Credit losses on loans and advances	**(131,720)**	(134,012)
Less: allowances for Market losses on loans and advances (see note 7)	**(179,578)**	(87,397)
Net loans and advances to customers	**12,861,655**	12,274,104
of which:		
Due within one year	**4,274,125**	3,889,525
Due after one year	**8,587,530**	8,384,579
	12,861,655	12,274,104

Note 15.1. Loans and advances to customers - maturity (continued)

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

	2023	2022
	£'000	£'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**3,344,360**	3,343,865
- later than one year and no later than two years	**3,268,512**	3,086,037
- later than two years and no later than three years	**3,470,219**	2,806,672
- later than three years and no later than four years	**2,678,326**	2,835,730
- later than four years and no later than five years	**358,484**	407,935
- later than five years	**374,804**	430,756
	13,494,705	12,910,995
Unearned future finance income on finance lease and hire purchase contracts	**(1,663,858)**	(1,297,114)
Net investment in finance lease and hire purchase contracts	**11,830,847**	11,613,881

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

	2023	2022
	£'000	£'000
- no later than one year	**2,932,010**	3,007,921
- later than one year and no later than two years	**2,865,514**	2,775,996
- later than two years and no later than three years	**3,042,351**	2,524,698
- later than three years and no later than four years	**2,348,096**	2,550,836
- later than four years and no later than five years	**314,284**	366,952
- later than five years	**328,592**	387,478
	11,830,847	11,613,881

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

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of Comprehensive Income (2022: £nil).

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

Note 15.2. Loans and advances to customers - movement over time

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2023	10,213,258	2,148,524	133,731	12,495,513
Transfers to stage 1	606,854	(606,780)	(74)	—
Transfers to stage 2	(868,821)	881,772	(12,951)	—
Transfers to stage 3	(47,698)	(68,806)	116,504	—
Net increase/(decrease) in loans and advances to customers	1,214,529	(400,352)	(73,190)	740,987
Financial assets that have been written off during the year	—	—	(67,531)	(67,531)
Recoveries of prior advances written off	—	—	3,984	3,984
Gross loans and advances to customers at 31 December 2023	11,118,122	1,954,358	100,473	13,172,953
Less: allowances for Credit losses on loans and advances	(22,497)	(56,751)	(52,472)	(131,720)
Less: allowances for Market losses on loans and advances	(149,573)	(30,005)	—	(179,578)
Net loans and advances to customers at 31 December 2023	**10,946,052**	**1,867,602**	**48,001**	**12,861,655**

Note 15.2. Loans and advances to customers - movement over time (continued)

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2022	10,196,808	1,740,309	166,245	12,103,362
Transfers to stage 1	347,737	(347,726)	(11)	—
Transfers to stage 2	(785,682)	810,060	(24,378)	—
Transfers to stage 3	(33,534)	(58,882)	92,416	—
Net increase/(decrease) in loans and advances to customers	487,929	4,763	(64,182)	428,510
Financial assets that have been written off during the year	—	—	(37,364)	(37,364)
Recoveries of prior advances written off	—	—	1,005	1,005
Gross loans and advances to customers at 31 December 2022	10,213,258	2,148,524	133,731	12,495,513
Less: allowances for Credit losses on loans and advances	(15,450)	(54,054)	(64,508)	(134,012)
Less: allowances for Market losses on loans and advances	(70,300)	(17,097)	—	(87,397)
Net loans and advances to customers at 31 December 2022	10,127,508	2,077,373	69,223	12,274,104

Note 15.3. Securitisation transactions

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

On 11 February 2022, the Company securitised loans and advances to customers with a gross value of £610,000,000. On this date the securitisation vehicle, CARS 2022-1 plc, issued asset backed loan notes with a par value of £610,000,000 with a final redemption date falling in October 2028. The Company purchased notes from the securitisation vehicle with a par value of £610,000,000 and provide credit enhancement of £45,750,000 in the form of subordinated loan.

	Loans and advances securitised	**Notes in issue**	Loans and advances securitised	Notes in issue
	2023	**2023**	2022	2022
	£'000	**£'000**	£'000	£'000
Loans and advances to customers	**179,326**	**47,649**	393,180	264,962
Less held by the Company	**—**	**(45,820)**	—	(264,962)
Total securitisation transactions	**179,326**	**1,829**	393,180	—

In keeping with normal market practice, the Company enters into securities lending transactions and repurchase agreements, whereby cash and securities are temporarily received or transferred as collateral. Where the securities sold are subject to repurchase or pledged as collateral and are retained on the Balance Sheet, the funds received under these arrangements are recognised as liabilities. At the year end, £1,829,000 of assets were subject to repurchase agreements (2022: £nil).

Note 16. Property, plant and equipment

	Office and other equipment £'000
Cost	
1 January 2022	33
Disposals	(10)
At 31 December 2022	23
Disposals	**(23)**
At 31 December 2023	**—**
Accumulated depreciation	
At 1 January 2022	26
Charge for the year (see note 8)	3
Disposals	(10)
At 31 December 2022	19
Charge for the year (see note 8)	**—**
Disposals	**(19)**
At 31 December 2023	**—**
Balance sheet amount at 31 December 2023	**—**
Balance sheet amount at 31 December 2022	4

No property, plant and equipment has been revalued in the year (2022: £nil). There are no contractual commitments for the capital acquisition of Property, plant and equipment in the year (2022: £nil).

Note 17. Intangible assets

	Software £'000
Cost	
At 1 January 2022	12,496
Disposal	(3,918)
At 31 December 2022	8,578
Disposal	**(6,218)**
At 31 December 2023	**2,360**
Amortisation	
At 1 January 2022	10,257
Charge for the year (see note 8)	1,348
Disposal	(3,918)
At 31 December 2022	7,687
Charge for the year (see note 8)	**591**
Disposal	**(6,218)**
At 31 December 2023	**2,060**
Balance sheet amount at 31 December 2023	**300**
Balance sheet amount at 31 December 2022	891

The Company's intangible assets relate to software enhancement costs.

Note 18. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2023	2022
	£'000	£'000
Brought forward	**3,931**	4,742
Charge for the year (see note 11)	**(735)**	(811)
	3,196	3,931

The deferred tax charge in the Statement of Comprehensive Income comprises the following temporary differences:

	2023	2022
	£'000	£'000
Accelerated capital allowances	**208**	253
Accounting provisions disallowed	**—**	20
Other temporary differences	**527**	538
	735	811

Deferred tax asset comprises:

	2023	2022
	£'000	£'000
Accelerated capital allowances	**959**	1,167
Other temporary differences	**2,237**	2,764
	3,196	3,931

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

Note 19. Borrowed funds

	2023	2022
	£'000	£'000
Amounts due to group undertakings (see note 24)	**13,325,102**	12,671,899

Amounts due to Lloyds Bank plc of £2,544,799,000 (2022: £2,825,826,000) and amounts due to other group undertakings of £10,142,000 (2022: £11,035,000) are interest-bearing at variable rates, and are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to Lloyds Bank plc of £10,638,484,000 (2022: £9,657,404,000) are unsecured, interest-bearing at fixed rates of which £215,000,000 (2022: £2,257,690,000) is repayable within one year.

Deemed loans with securitisation vehicles of £179,326,000 (2022: £393,180,000) are secured, interest-bearing based on Sterling Overnight Interest Average ("SONIA") interest rate benchmark with a margin attached and repayable in tranches based on contractual maturity dates. Loan notes due from securitisation vehicles of £47,649,000 (2022: £264,962,000) are secured, interest bearing at fixed rates and repayable in tranches based on contractual maturity dates. Loan notes due from securitisation vehicles are classified within borrowed funds as discussed in note 1.13.

Note 20. Trade and other payables

	2023	2022
	£'000	£'000
Customer deposit accounts	**7,496**	7,496
Other payables	**8,195**	16,858
Accruals and deferred income	**62,255**	57,495
	77,946	81,849

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

Note 21. Provision for liabilities and charges

	Undrawn loan commitments	Payment protection insurance	Motor commission review	Inaccurate interest rate	Other provisions	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	1,270	23,076	—	—	366	24,712
Charge/(credit) for the year	(71)	5,921	—	—	2	5,852
Utilised during the year	—	(11,032)	—	—	—	(11,032)
Reversal of unused provision	—	(5,562)	—	—	—	(5,562)
At 31 December 2022	1,199	12,403	—	—	368	13,970
Charge/(credit) for the year	**709**	**3,703**	**324,000**	**4,952**	**(366)**	**332,998**
Utilised during the year	**—**	**(8,123)**	**—**	**—**	**(2)**	**(8,125)**
At 31 December 2023	**1,908**	**7,983**	**324,000**	**4,952**	**—**	**338,843**

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

Undrawn loan commitments provision

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

As at 31 December 2023, the provision of £1,908,000 (2022: £1,199,000) was all categorised as Stage 1 of impairment per the expected credit loss methodology under IFRS 9.

Payment protection insurance ("PPI") provision

As at 31 December 2023, the PPI provision comprises £7,983,000 (2022: £12,403,000) for the cost of making redress payments to customers, the related administration costs and the costs associated with litigation activity to date.

Motor commission review provision

Following the FCA Motor Market Review in March 2019, the FCA issued a policy statement in July 2020 prohibiting the use of discretionary commission models from 28 January 2021, which the Company adhered to.

The Company continues to receive a number of court claims and complaints in respect of motor finance commissions and is actively engaging with the FOS in its assessment of these complaints. On 10 January 2024, the FOS issued its Final Decision on a complaint relating to the Company, as well as decisions relating to other industry participants. On 11 January 2024, the FCA announced a section 166 review of historical motor finance commission arrangements and sales and that it planned to communicate a decision on next steps in the third quarter of 2024 on the basis of the evidence collated in the review.

In response to both the FOS decisions and the FCA announcement, the Company has recognised a provision for £324,000,000 as at 31 December 2023 for costs including estimates for operational and legal costs, including litigation costs, together with estimates for potential awards.

Note 21. Provision for liabilities and charges (continued)

Inaccurate interest rate provision

As at 31 December 2023, the provision of £4,952,000 is for the cost of making redress payments to customers in relation to an incorrect interest rate calculation which has resulted in customer detriment.

Note 22. Share capital

	2023	2022
	£'000	£'000
Allotted, issued and fully paid		
4 ordinary shares (2022: 4) of £0.25 each	**—**	—

All ordinary shares are owned by Black Horse Group Limited. The Company's authorised number of shares is 3,523,628,072.

In January 2022, the Company converted all except £1 of its share capital into distributable reserves. The Company used these distributable reserves to pay distributions of £777,000,000 to its parent company Black Horse Group Limited.

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

Note 23. Transfer of financial assets

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

As set out within note 15.3, included within loans and advances to customers are loans securitised under Lloyds Banking Group plc's securitisation programmes. The Company retains substantially all of the risks and rewards associated with these loans and they are retained on the Company's Balance Sheet. Assets transferred into the securitisation programmes are not available to be used by the Company during the term of those arrangements.

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

Loan notes subject to repurchase	**Carrying value of transferred assets**	**Carrying value of associated liabilities**
	£'000	**£'000**
At 31 December 2023	**1,829**	**1,829**
At 31 December 2022	—	—

Note 24. 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 income and expense for the year is set out below.

	2023	2022
	£'000	£'000
Amounts due from group undertakings		
Suzuki Financial Services Limited	**405,484**	388,090
Lloyds Bank plc	**163,121**	189,129
International Motors Finance Limited	**128,560**	117,299
Other group undertakings	**30,591**	70,040
Total Amounts due from group undertakings (see note 13)	**727,756**	764,558
Amounts due to group undertakings		
Lloyds Bank plc	**13,183,283**	12,532,738
Securitisation vehicles	**131,677**	128,218
Other group undertakings	**10,142**	10,943
Total Amounts due to group undertakings (see note 19)	**13,325,102**	12,671,899
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**112,517**	111,081
Interest income		
International Motors Finance Limited	**5,023**	1,533
Lloyds Bank plc	**6,949**	3,367
Securitisation vehicles	**3,924**	8,444
Suzuki Financial Services Limited	**11,353**	5,510
Other group undertakings	**219**	782
Total Interest income (see note 3)	**27,468**	19,636

	2023	2022
	£'000	£'000
Interest expense		
Lloyds Bank plc	**425,748**	185,516
Securitisation vehicles	**13,853**	16,584
Total Interest expense (see note 3)	**439,601**	202,100
Other operating income		
Lloyds Bank plc	**23**	31
Other group undertakings	**3,635**	2,924
Total Other operating income (see note 5)	**3,658**	2,955

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.

The Company has commission receivable of £nil (2022: £648,000) under the terms of the Company's agreement with Lloyds Bank General Insurance Limited, a fellow subsidiary of Lloyds Banking Group plc.

Note 24. Related party transactions (continued)

Key management personnel

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

Key management personnel emoluments

	2023	2022
	£'000	£'000
Short term employee benefits	**631**	361
Post employment benefits	**19**	29
	650	390

25. Financial risk management

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

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

Note 25.1 Credit risk

Credit risk management

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

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

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

Credit risk mitigation

- Credit principles and policy: The independent Risk division sets out the credit principles, credit risk policies and credit risk appetite statements. These are subject to regular review and governance, with any changes subject to an approval process. Risk teams monitor credit performance trends and the outlook. Risk teams also test the adequacy of and adherence to credit risk policies and processes throughout the Group. This includes tracking portfolio performance against an agreed set of credit risk appetite tolerances.

- Credit scoring: Credit risk is measured from different perspectives using a range of appropriate modelling and scoring techniques at a number of levels of granularity, including total balance sheet, individual portfolio, pertinent concentrations and individual customer – for both new business and existing exposure. Key metrics, which may include but are not limited to, total exposure, ECL, risk-weighted assets, new business quality, concentration risk and portfolio performance, are reported monthly to risk committees and forums.

25. Financial risk management (continued)

Note 25.1 Credit risk (continued)

Credit risk mitigation (continued)

- Concentration Risk: There are portfolio controls on certain industries, sectors and products to reflect risk appetite as well as individual, customer and bank limit risk tolerances. Credit policies, appetite statements and mandates are aligned to the Group's risk appetite and restrict exposure to potentially vulnerable sectors and asset classes. Exposures are monitored to prevent both an excessive concentration of risk and single name concentrations. These concentration risk controls are not necessarily in the form of a maximum limit on exposure, but may instead require new business in concentrated sectors to fulfil additional minimum policy and/or guideline requirements.

- Stress testing: The Group's credit portfolios are subject to regular stress testing. In addition to the Group-led, PRA and other regulatory stress tests, exercises focused on individual divisions and portfolios are also performed.

- Individual credit assessment: Credit risk in wholesaler portfolios is subject to approval by the independent Risk division, which considers the strengths and weaknesses of individual transactions, the balance of risk and reward, and how credit risk aligns to the Group and divisional risk appetite. Exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of credit authority delegations and risk-based credit limit guidances per client group for larger exposures. Approval requirements for each decision are based on a number of factors including, but not limited to, the transaction amount, the customer's aggregate facilities, any risk mitigation in place, credit policy, risk appetite, credit risk ratings and the nature and term of the risk.

Credit concentration - loans and advances to customers

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

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

Loans and advances to customers – maximum exposure

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

	As at 31 December 2023		As at 31 December 2022	
	Maximum Exposure	**Net Exposure**	Maximum Exposure	Net Exposure
	£'000	**£'000**	£'000	£'000
Loans and advances to customers, net[1]	**12,861,655**	**12,861,655**	12,274,104	12,274,104
Off balance sheet items:				
Commitments to lend	**1,129,081**	**1,129,081**	1,468,425	1,468,425
	13,990,736	**13,990,736**	13,742,529	13,742,529

[1] Amounts shown net of impairment balances.

Note 25. Financial risk management (continued)

Note 25.1 Credit risk (continued)

Loans and advances to customers - gross carrying amount

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

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

At 31 December 2023		**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	PD Range	**£'000**	**£'000**	**£'000**	**£'000**
Retail					
RMS 1-6	0.00-4.50%	**9,705,177**	**1,513,699**	**—**	**11,218,876**
RMS 7-9	4.51-14.00%	**74,061**	**222,098**	**—**	**296,159**
RMS 10	14.01-20.00%	**—**	**61,626**	**—**	**61,626**
RMS 11-13	20.01-99.99%	**1,457**	**156,848**	**—**	**158,305**
RMS 14	100%	**—**	**—**	**99,631**	**99,631**
Total		**9,780,695**	**1,954,271**	**99,631**	**11,834,597**
Wholesale					
CMS 1-10	0.00-0.50%	**228,028**	**—**	**—**	**228,028**
CMS 11-14	0.51-3.00%	**883,166**	**—**	**—**	**883,166**
CMS 15-18	3.01-20.00%	**226,222**	**7**	**—**	**226,229**
CMS 19	20.01-99.99%	**11**	**80**	**—**	**91**
CMS 20-23	100%	**—**	**—**	**842**	**842**
Total		**1,337,427**	**87**	**842**	**1,338,356**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Total loans and advances to customers	**11,118,122**	**1,954,358**	**100,473**	**13,172,953**

Note 25. Financial risk management (continued)

Note 25.1 Credit risk (continued)

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

At 31 December 2022	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Retail					
RMS 1-6	0.00-4.50%	9,267,386	1,606,355	—	10,873,741
RMS 7-9	4.51-14.00%	89,776	282,101	—	371,877
RMS 10	14.01-20.00%	—	95,706	—	95,706
RMS 11-13	20.01-99.99%	1,776	138,859	—	140,635
RMS 14	100%	—	—	131,957	131,957
Total		9,358,938	2,123,021	131,957	11,613,916
Wholesale					
CMS 1-10	0.00-0.50%	99,147	—	—	99,147
CMS 11-14	0.51-3.00%	688,307	—	—	688,307
CMS 15-18	3.01-20.00%	66,846	25,503	—	92,349
CMS 19	20.01-99.99%	20	—	—	20
CMS 20-23	100%	—	—	1,774	1,774
Total		854,320	25,503	1,774	881,597

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Total loans and advances to customers	10,213,258	2,148,524	133,731	12,495,513

Commitments to lend

At 31 December 2023	**PD Range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Wholesale					
CMS 1-10	0.00-0.50%	**144,214**	**—**	**—**	**144,214**
CMS 11-14	0.51-3.00%	**744,410**	**—**	**—**	**744,410**
CMS 15-18	3.01-20.00%	**238,346**	**—**	**—**	**238,346**
CMS 19	20.01-99.99%	**2,111**	**—**	**—**	**2,111**
		1,129,081	**—**	**—**	**1,129,081**

Note 25. Financial risk management (continued)

Note 25.1 Credit risk (continued)

Commitments to lend (continued)

At 31 December 2022	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Wholesale					
CMS 1-10	0.00-0.50%	185,977	—	—	185,977
CMS 11-14	0.51-3.00%	951,774	—	—	951,774
CMS 15-18	3.01-20.00%	330,674	—	—	330,674
CMS 19	20.01-99.99%	—	—	—	—
		1,468,425	—	—	1,468,425

Retail commitments to lend were £nil at both 31 December 2023 and 31 December 2022.

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. All loans and advances to customers are assessed for impairment. No amounts due to group undertakings are impaired (2022: £nil).

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2023	**15,450**	**54,054**	**64,508**	**134,012**
Transfers to Stage 1	**11,362**	**(11,329)**	**(33)**	**—**
Transfers to Stage 2	**(8,693)**	**14,877**	**(6,184)**	**—**
Transfers to Stage 3	**(739)**	**(7,300)**	**8,039**	**—**
Impact of transfer between stages	**373**	**18,420**	**25,047**	**43,840**
Other items (credited)/charged to Statement of Comprehensive Income	**(608)**	**(13,039)**	**21,680**	**8,033**
Charge for the year (including recoveries)	**1,695**	**1,629**	**48,549**	**51,873**
Financial assets that have been written off during the year	**—**	**—**	**(67,531)**	**(67,531)**
Recoveries of prior advances written off	**5,352**	**1,068**	**3,986**	**10,406**
Unwind of discount	**—**	**—**	**2,960**	**2,960**
At 31 December 2023	**22,497**	**56,751**	**52,472**	**131,720**

In respect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2023	**1,199**	**—**	**—**	**1,199**
Charge for year (including recoveries)	**709**	**—**	**—**	**709**
At 31 December 2023	**1,908**	**—**	**—**	**1,908**
Total	**24,405**	**56,751**	**52,472**	**133,628**

Note 25. Financial risk management (continued)

Note 25.1 Credit risk (continued)

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

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2022	19,438	55,303	86,828	161,569
Transfers to Stage 1	7,006	(7,000)	(6)	—
Transfers to Stage 2	(7,501)	19,852	(12,351)	—
Transfers to Stage 3	(391)	(6,502)	6,893	—
Impact of transfer between stages	(3,046)	7,481	22,058	26,493
Other items (credited)/charged to Statement of Comprehensive Income	(2,174)	(15,592)	(6,268)	(24,034)
(Credit)/charge for the year (including recoveries)	(6,106)	(1,761)	10,326	2,459
Financial assets that have been written off during the year	—	—	(37,364)	(37,364)
Reinstatement of provisions previously written off	2,118	512	1,005	3,635
Unwind of discount	—	—	3,713	3,713
At 31 December 2022	15,450	54,054	64,508	134,012

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2022	1,270	—	—	1,270
Credit for year (including recoveries)	(71)	—	—	(71)
At 31 December 2022	1,199	—	—	1,199
Total	16,649	54,054	64,508	135,211

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.

Note 25.2 Liquidity risk

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

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

Note 25. Financial risk management (continued)

Note 25.2 Liquidity risk (continued)

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

As at 31 December 2023	**Up to 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Borrowed funds	**3,015,838**	**991,160**	**2,715,479**	**6,602,625**	**13,325,102**
Contractual interest payments	**31,450**	**55,692**	**203,093**	**367,271**	**657,506**
	3,047,288	**1,046,852**	**2,918,572**	**6,969,896**	**13,982,608**

As at 31 December 2022	Up to 1 month	1–3 months	3–12 months	1–5 years	Total
	£'000	£'000	£'000	£'000	£'000
Borrowed funds	2,922,651	726,345	2,825,511	6,197,392	12,671,899
Contractual interest payments	20,660	36,842	155,770	256,382	469,654
	2,943,311	763,187	2,981,281	6,453,774	13,141,553

Note 25.3 Market risk

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

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

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

Included in loans and advances to customers is a provision of £179,578,000 (2022: £87,397,000) relating to market risk impairment.

Note 25.4 Interest rate risk

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

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 income on the Company's loans and advances to customers is fixed, therefore a movement in interest rates will not immediately effect the return on the portfolio.

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

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

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's interest-bearing amounts due to group undertakings and takes account of movement in the SONIA rate, which is the basis for the interest charged on such balances. The actual movement in the SONIA rate across the year is 1.76% (2022: 3.23%). This rate is used to assess the possible increase in interest expense. A decrease in the SONIA rate by 1.76% (2022: decrease to 0.1%) is used to assess the possible decrease in interest expense. This rate is appropriate as it is the amount by which the SONIA rate increased in the year.

If SONIA increased by 1.76% (2022: 3.23%) and all other variables remain constant this would increase interest expense by £64,709,000 (2022: £129,304,000). If SONIA decreased to 1.76% and all other variables remain constant this would decrease interest expense by £64,709,000 (2022: a decrease to 0.1% in SONIA would decrease interest expense by £34,476,000).

Note 25. Financial risk management (continued)

Note 25.5 Business risk

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

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

Note 25.6 Financial strategy

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

Note 25.7 Fair values of financial assets and liabilities

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

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

The aggregated fair value of loans and advances to customers is approximately £12,614,389,000 (2022: £12,563,351,000).

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

Note 26. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern whilst providing an adequate return to its shareholders, commensurate with the level of risk.

The board of directors manages the Company's capital in line with policy set by the Company's ultimate parent, which also 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 Company's Balance Sheet. In order to adjust the Company's capital the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders or issue new shares. It can also take actions to adjust the risk characteristics of the company's Balance Sheet, for example by selling assets.

The Company's capital includes all components of its equity, movements in which appear in the Statement of Changes in Equity. The Company is funded by its fellow Group undertakings and does not raise funding from sources external to the Group.

The managed capital of the Company constitutes total equity. This consists entirely of issued share capital, share premium account and retained earnings. As at 31 December 2023, total managed capital was £145,102,000 (2022: £396,777,000).

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

Note 27. Contingent liabilities and capital commitments

During the ordinary course of business the Company is subject to other complaints as well as legal and regulatory reviews, challenges and investigations. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant Balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. The Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

The Company's undrawn formal standby facilities, credit facilities and other commitments to lend were £1,129,081,000 (2022: £1,468,425,000).

Note 28. Post balance sheet events

On 4 June 2024, the Company entered into an Indemnity agreement with other Group subsidiaries (AG Finance Limited, Black Horse TRF Limited, Hyundai Car Finance Limited, Lex Autolease Carselect Limited, London Taxi Finance Limited, Lotus Finance Limited and Proton Finance Limited) such that the Company will accept responsibility and pay for any future claims that may be made against these specific subsidiaries. This is not expected to have a material impact on the Company..

Note 29. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2023 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 2024 including IFRS 16 Lease liability in sale and leaseback, IAS 1 Non-current liabilities with covenants, and IAS 1 Classification of liabilities as current or non-current.	Annual periods beginning on or after 1 January 2024.

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.

Note 30. Ultimate parent undertaking and controlling party

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

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Black Horse Limited (the ‘company’):

- give a true and fair view of the state of the company’s affairs as at 31 December 2023 and of its loss 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; and
- the related notes 1 to 30.

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.

Emphasis of matter – uncertainty over motor commission review provision

We draw attention to note 2 in the financial statements, concerning the uncertainty arising from the Financial Conduct Authority’s (the ‘FCA’s’) review of historical motor commission arrangements. The financial statements include a provision of £324 million for the estimated redress and operational costs. However, while the FCA review is progressing, there is significant uncertainty as to the extent of the misconduct and customer loss, if any, the nature and extent of any remediation action, if required, and its timing. The ultimate financial impact could therefore materially differ from the amount provided, both higher or lower. Our opinion is not modified in respect of this matter.

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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Comparing the maturity profile of customer receivables to cash outflows for funding liabilities;
- The extent of risks related to credit, used car market prices and discretionary commissions; and
- Consideration of the availability of funding and financial support from within the Lloyds Banking Group plc group to fund the existing receivables and exposures, as well as funding new business.

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors 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. This included UK 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, forensic and credit specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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

- The risk that the electric vehicle overlay applied by management to reflect the uncertainty in used electric vehicle residual values within impairment calculations might not be appropriate and/or not reliably measured due to bias or error. Our work included:
    - Using independent market data to determine the extent of differences between used car values for electric vehicles and traditional internal combustion vehicles; and
    - Considering market analysis, determine an independent range of potential outcomes for the exposure if electric vehicle and traditional vehicle used car prices converge over time.
- The risk that the non-electric vehicle volatility overlay applied by management to reflect risk in the used car residual values in determing provisions for residual value or voluntary termination losses might not be appropriate and/or reliably measured due to bias or error. Our work included:
    - Making inquiries of management to understand the composition and rationale for the overlays applied. Validating the data points used against sufficient and appropriate audit evidence;
    - Performing 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
    - Developing a range of possible outcomes using alternative probability weightings against management's identified scenarios to assess the potential impact on the provision value.

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 legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and correspondence with the FCA.

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 has been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

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

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

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

21 June 2024