

Lex Autolease Limited
Annual Report and Accounts
2023

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2023

The Directors present their Strategic report and audited financial statements of Lex Autolease Limited (the "Company") for the year ended 31 December 2023.

Business overview

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

The directors consider the level of new business written in the year to be satisfactory and in line with expectations. New business has increased by 30% (2022: (1)% decrease) with new vehicle supply limitations from 2022 starting to ease and new vehicle deliveries coming from an elevated order book. The value of the total funded vehicles grew by 14% (2022: 16%) in the year due to increases in the cost of new vehicles and customer interest switching to more expensive electric vehicles or hybrid systems. The Company's market share of deliveries increased to 17% for 2023 (2022: 15%).

The Company's result for the year shows a decreased profit before tax of £124,468,000 (2022: £544,291,000) and a gross profit of £413,477,000 (2022: £708,066,000). The decrease in the Company's reported profit is principally driven by increased underlying depreciation charges on the growing funded fleet, lower profit on disposal of motor vehicles due to market conditions in the second hand car market and increased interest expense on the Company's borrowings due to the increase in interest rates during the current year.

The total equity for the Company reduced by £346,303,000 from £536,347,000 at 31 December 2022 to £190,044,000 at 31 December 2023 due to dividend payments made of £439,000,000 offset by current year retained profit.

The directors of Lloyds Banking Group plc manage the operations of Lloyds Banking Group (the "Group") on a divisional basis. The Company is included within the Transport business, which sits within the Consumer lending business unit, within the Retail Division of the Group. The Retail Division is a portfolio of businesses and operates in a number of specialist markets providing consumer lending and contract hire to personal and corporate customers. The Company is funded entirely by other companies within the Group.

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. There remains further uncertainty on the UK economy, which is experiencing the impacts of inflation pressures and rising energy costs, creating financial challenges across the country. This could adversely affect the performance of the Company, as small and medium sized business profits are impacted. Increased new deliveries illustrate an easing of the supply issues faced through 2022 and with this the volume of operating lease vehicles in informal extension have fallen by 8%. However, we anticipate a continued heightened propensity for customers to enter into informal extension or request formal extensions to their current leases due to the increased cost of leasing a new vehicle compared to their current monthly rental payments. This situation will continue to be closely monitored in 2024.

Vehicle returns increased in 2023 along with the increase to new vehicle deliveries. With a elevated order bank remaining at 2023 year end it is expected that returns will continue to normalise in 2024. The order bank represents the commitments of the company to acquire motor vehicles to satisfy customer orders. Details of the capital commitments of the Company are contained in note 22 to the financial statements.

Pressure on new business margins are expected to remain in 2024 due to elevated cost of funding from fellow Group undertakings as a result of increases in the Bank of England base rate through 2023. Margins on new and existing contracts will be carefully managed to protect against changes and uncertainties in the economic environment.

The Company is also focused on achieving its objectives around the climate change agenda and is working with its customers to develop products and propositions to facilitate the switch to electric vehicles. In 2023 electric vehicle sales accounted for 46% (2022: 47%) of the new orders placed. The Company expects the current growth in electric vehicles to continue as corporate customers take action to meet net zero emissions targets.

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.

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.

The directors consider that one of the key drivers of performance for the Company are the fluctuations in the residual values of fleet vehicles. Residual values are impacted by the UK economy along with supply constraints, which influence the performance on disposal of ex-fleet vehicles in the second-hand car market. Additional volatility exists with battery electric vehicles ("BEV") which have historically being priced at a premium to internal combustion engine vehicles, however, significant price reductions have been seen through 2023 as significant volumes of BEVs have come into the used car market for the first time.

Credit risk, liquidity risk, market risk and interest rate risk are managed and monitored by risk teams internal to the Group. Further details of these risks and the risk management policy are contained in note 20 of the financial statements.

Strategic report (continued)
For the year ended 31 December 2023

Principal risks and uncertainties (continued)

Credit risk

Credit risk arises on the individual customer balances on the Loans and advances to customers and Trade and other receivables. These loans and operating lease rentals receivable are continually monitored by the Group's internal risk teams for credit performance and to ensure compliance with current regulations and that customers are being treated fairly. Further information can be found included in note 20.1.

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 20.2.

Market risk

Market risk is the risk surrounding the market factors that management has applied in estimating the anticipated residual values of operating lease agreements where the Company retains title of the asset. The Company is exposed to fluctuations in the value of second hand motor vehicles and will be adversely impacted if disposal proceeds are less than the forecasted net book value.

The Company holds larger residual value impairment provision against electric cars which reflects uncertainty around technological development, the lack of market data on second hand electric vehicles and the fall in used prices through 2023. The growing popularity in electric vehicles along with manufacturers increasing volumes on BEVs in the UK in line with Zero Emission Vehicle ("ZEV") mandate increases the Company's exposure to electric vehicle residual value risk. Further information can be found in note 20.3.

Interest rate risk

Interest rate risk exists where the assets and liabilities have returns set under a different basis or are reset at different times. Interest rate risk for the Company includes customer lending and intragroup funding obligations. The Company changed its approach to funding in 2022, with the funding for loans and advances and operating leases now being at fixed rates rather than variable rates as in previous reporting periods. This risk is monitored and managed closely by the Group's Corporate Treasury Team. Further information can be found in note 20.4.

Key performance indicators ("KPIs")

The directors consider that the key drivers of performance for the Company are Profit before tax, overall value of the total funded vehicle assets, the value of new operating lease business, deliveries, net income and disposal profit.

KPI	2023	2022	Analysis
Profit before tax (£'000)	124,468	544,291	The decrease in profit before tax is principally driven by increased underlying depreciation charges on the growing funded fleet, lower profit on disposal of motor vehicles due to market conditions in the second hand car market and increased interest expense on the Company's borrowings due to the increase in interest rates during the current year.
Total fleet size	281,362	275,281	The fleet size has increased due to an increase in new business in the year. The main component of the Company's vehicle assets relates to operating leases, accounting for 92% of the total funded fleet (2022: 92%). The remaining 8% of the fleet is made up of vehicles assets under finance leases, contract purchase agreements and employee car ownership schemes (2022: 8%).
Contract hire fleet size	259,373	255,111	The total contract hire fleet size has remained stable increasing by 2%.
Informal extensions	35,770	38,991	Informal extensions decreased due to the eased supply constraints enabling an increase in deliveries as noted below. Deliveries are now being fulfilled quicker reducing the need for informal extensions while waiting for delivery.
Deliveries	77,937	59,794	Deliveries have increased as a result of new vehicle supply limitations from 2022 starting to ease and new vehicle deliveries coming from an elevated order book.
Net income (£'000) (Gross profit less net interest expenses)	258,994	651,562	The decrease is principally driven by increased underlying depreciation charges on the growing funded fleet, lower profit on disposal of motor vehicles due to market conditions in the second hand car market and increased interest expense on the Company's borrowings due to the increase in interest rates during the current year.
Disposal profit (£'000)	54,445	163,479	Used vehicle prices have fallen through 2023 leading to lower disposal profits being obtained when vehicles are sold at the end of their agreement along side additional depreciation due to changes in accounting, new BEV acquisitions and revaluations for the Non-BEV portfolio, reflecting the fall in used car prices.

Strategic report (continued)

For the year ended 31 December 2023

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. The directors remain mindful in all their deliberations of the long-term consequences of their decisions, as well as the importance of maintaining a reputation for high standards of business conduct and taking account of the views of key stakeholders.

Statement of engagement with employees and other stakeholders

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

Customers

The directors ensure the Company, as part of the Group, works toward achieving the Group'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 and customer pricing, to understand areas where improvements can be made.

The Company is an active participant in broader Transport business initiatives. These include 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 the Group, are supported by and make use of the Group's supplier oversight model. This oversight assesses managed suppliers' activities against a set of risks that their activity poses. The business works with the Group'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 focused 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.

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

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

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of the Group's 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 Lloyds Banking Group plc as the Company's ultimate parent company are duly acknowledged.

Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic report within the Lloyds Banking Group plc Annual Report and Accounts for 2023, which does not form part of this report, available on the Lloyds Banking Group plc website: <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

Communities and the environment

The Company continues to support Lloyds Banking Group plc related initiatives, including Helping Britain Prosper, by actively managing its current book of contract hire products and other loans. In addition, the Company is an integral part of supporting the Group'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 the Group's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic report within the Lloyds Banking Group plc's Annual Report and Accounts for 2023, which does not form part of this report. Additional information on the Group'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>

Strategic report (continued)
For the year ended 31 December 2023

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: <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

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 the Group, is to effectively manage its customer base to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct to maintain Company reputation.

During 2023 an area of particular focus for the directors has been to steer through the challenges of the emerging cost of living crisis, from both an operational and customer perspective, ensuring alignment with guidance from Lloyds Banking Group plc 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 because 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.

Emerging risks

The impact of the climate change agenda on the Company's ability to facilitate a switch from vehicles with internal combustion engines to electric vehicles remains an emerging risk. The growth of the electric vehicle market poses a risk of uncertainty in the residual value estimates that the Company assumes in pricing, especially in the second hand electric vehicle market which is still relatively immature and has been seen to be volatile through 2023. 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 exempt from the Streamlined Energy and Carbon Reporting ("SECR") requirement, as it does not have to report on SECR in its own Directors' report where included in the Group SECR statement of a UK Group report. Further information in respect of SECR is included within the Lloyds Banking Group plc 2023 Annual Report and Accounts, which does not form part of this report, available on the Lloyds Banking Group plc website: <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

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:



N A Williams

Director

5 August 2024

Directors' report

For the year ended 31 December 2023

The directors present their Annual report and accounts of the Company for the year ended 31 December 2023.

General information

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

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

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 2023 Annual report and Accounts, 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

A dividend of £439,000,000 representing a dividend of £73.62 per share, was proposed and paid during the year ended 31 December 2023.

Dividends totalling £708,000,000 were paid during the year ended 31 December 2022 comprising of a dividend of £269,000,000, representing a dividend of £45.11 per share, which was proposed during the year ended 31 December 2021 and paid in the year ended 31 December 2022 and a dividend of £439,000,000, representing a dividend of £73.62 per share, which was proposed and paid during the year ended 31 December 2022.

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. Thus they continue to adopt the going concern basis of accounting in preparing the Annual Report and Accounts. Further details regarding the adoption of the going concern basis can be found in the note 1.1 to the financial statements.

Post balance sheet events

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

Registered office

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

Directors

The current directors of the Company are shown below.

A B Ambani
G D Gould
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:

I S Perez (resigned 24 February 2023)
A B Ambani (appointed 8 March 2023)

Company Secretary

The following changes have also 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 and resigned 31 July 2024)
R Beattie (appointed 31 July 2024)

Information included in the Strategic report

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

Directors' report (continued)

For the year ended 31 December 2023

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 3 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 these financial statements. The board also assumes responsibilities for the management of the culture, values and wider standards of the Company, within the equivalent standards set by the Group, which are discussed in the 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>.

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 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>.

Principle Two – Board composition

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

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 principal risks are discussed further within note 20.

Directors' report (continued)

For the year ended 31 December 2023

Approach to Corporate Governance (continued)

Principle Five – Remuneration

The Remuneration Committee of the Group assumes responsibility for the approach to remuneration for certain of its subsidiaries, including that of the Company. This includes reviewing and making recommendations to the Group board on remuneration policy. Whilst the Company has no direct employees (2022: no direct employees), all staff are employed by an intermediate parent undertaking, either Lloyds Bank Asset Finance Limited, Lloyds Bank plc or HBOS plc, 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 LBG 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 Lloyds Banking Group plc. In addition, the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are 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.

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.

Directors' report (continued)
For the year ended 31 December 2023

Statement of disclosure of information to auditor

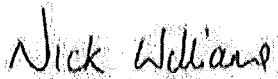
In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the Directors' report is approved:

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

Independent auditor

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

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



N A Williams
Director

5 August 2024

Statement of comprehensive income
For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Revenue		2,274,416	2,051,205
Direct costs		(1,860,939)	(1,343,139)
Gross profit	3	413,477	708,066
Interest income		—	63
Interest expense		(154,483)	(56,567)
Net interest expenses	4	(154,483)	(56,504)
Other operating expenses	3	(134,526)	(107,271)
Profit before tax		124,468	544,291
Taxation	8	(31,771)	(133,213)
Profit for the year, being total comprehensive income		92,697	411,078

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

Balance sheet
As at 31 December 2023

	Note	2023 £'000	2022 £'000
ASSETS			
Cash and cash equivalents		46,178	70,895
Trade and other receivables	9	308,380	255,796
Loans and advances to customers	10	243,183	201,631
Property, plant and equipment	11	5,443,289	4,798,921
Intangible assets	12	1,429	3,007
Deferred tax asset	16	58,385	100,420
Total assets		6,100,844	5,430,670
LIABILITIES			
Borrowed funds	13	5,414,380	4,338,410
Trade and other payables	14	432,145	409,631
Provision for liabilities and charges	15	39,952	49,378
Current tax liability		24,323	96,904
Total liabilities		5,910,800	4,894,323
EQUITY			
Share capital	18	5,963	5,963
Retained earnings		184,081	530,384
Total equity		190,044	536,347
Total equity and liabilities		6,100,844	5,430,670

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

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

Nick Williams

N A Williams
Director
5 August 2024

Statement of changes in equity
For the year ended 31 December 2023

	Note	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2022		5,963	827,306	833,269
Profit for the year being total comprehensive income		—	411,078	411,078
Dividend paid	17	—	(708,000)	(708,000)
At 31 December 2022		5,963	530,384	536,347
Profit for the year being total comprehensive income		—	92,697	92,697
Dividend paid	17	—	(439,000)	(439,000)
At 31 December 2023		5,963	184,081	190,044

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

Cash flow statement
For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Net cash used in operating activities			
Profit before tax		124,468	544,291
Adjustments for:			
- Interest income	4	—	(63)
- Interest expense	4	154,483	56,567
- Depreciation and impairment on property, plant and equipment and land and buildings	3	905,134	585,703
- Amortisation of intangible assets	3	1,578	2,176
- Purchase of property, plant and equipment	11	(2,391,982)	(1,932,911)
- Net book value of disposal of Property, plant and equipment	11	842,479	659,279
Changes in operating assets and liabilities			
- Net (increase)/decrease in Loans and advances to customers	10	(41,552)	1,337
- Net (increase) in Trade and other receivables	9	(52,584)	(11,253)
- Net increase in Trade and other payables	14	22,514	54,526
- Net decrease in Provision for liabilities and charges	15	(9,426)	(4,761)
Cash used in operations		(444,888)	(45,109)
Tax paid		(62,317)	—
Net cash used in from operating activities		(507,205)	(45,109)
Cash flows generated from investing activities			
Interest received	4	—	63
Net cash generated from investing activities		—	63
Cash flows generated/(used in) financing activities			
Increase in net borrowings with Group undertakings	13	1,075,970	720,757
Dividends paid	17	(439,000)	(708,000)
Interest paid	4	(154,483)	(56,567)
Net cash generated/(used in) financing activities		482,487	(43,810)
Change in Cash and cash equivalents		(24,718)	(88,856)
Cash and cash equivalents at beginning of year	19	70,895	159,751
Cash and cash equivalents at end of year		46,177	70,895

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

Notes to the financial statements

For the year ended 31 December 2023

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 comply with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRS comprises accounting standards prefixed IFRS issued by IASB and those prefixed International Accounting Standard ("IAS") issued by the IASB's predecessor body as well as interpretations issued by the IFRS Interpretations Committee and its predecessor body.

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

No new IFRS pronouncements that had a material impact have been adopted in 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 24. No standards have been early adopted.

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

The financial statements have been prepared the historical cost 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 £190,044,000 (2022: £536,347,000);
- 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; and
- 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

Revenue

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

Included within Revenue is income in respect of vehicle maintenance agreements. Customers can purchase service packages for their leased vehicles, paid for through a fixed amount each month over the duration of the contract. The Company's performance obligation to the customer is to provide maintenance services on an ongoing basis in line with manufacturer set service intervals or repairs as and when the need arises. This obligation is deemed to be satisfied on the completion of the MOT, mileage interval service, or repair which can be at any point during the contract term. Due to usage, ageing and wear and tear, the majority of costs are typically incurred in the later stages of the contract term. The Company recognises a small percentage of the revenue on a monthly basis in the Statement of comprehensive income to cover the other support and technical overheads, with the remainder of the revenue being deferred to the Balance sheet. When the maintenance expenditure is incurred, the cost and associated deferred revenue are recognised in the Statement of comprehensive income.

The Company recognises all remaining deferred income or excess maintenance spend at the point of vehicle de-hire on an individual basis and these amounts are taken to the Statement of comprehensive income through Direct costs in the period the contract terminates.

These services are provided on a principal basis as the Company has primary responsibility for the provision of the service, controls what maintenance services are provided to the customer and takes the risk of over and under spend including inflationary impacts and the customers have no ongoing relationship with the garages performing the service. The Company does not refund maintenance rentals paid if the customer terminates the contract early.

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

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 1. Material accounting policies (continued)

Note 1.2. Income recognition (continued)

Revenue (continued)

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

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

Lease Classification

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

Lease agreements, which do not represent finance leases, are classified as operating leases. Assets leased to customers under such agreements are included in Property, plant and equipment and are depreciated over their lease term down to their anticipated realisable value on a straight line basis. Anticipated realisable values are regularly reassessed and the impact upon the depreciation charge is adjusted prospectively.

Note 1.3. Financial assets and liabilities

Financial assets comprise Cash and cash equivalents, Trade and other receivables and Loans and advances to customers. Financial liabilities comprise Borrowed funds and Trade and other payables.

On initial recognition, all 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.

Financial instruments measured at amortised cost

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

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

Note 1.4. Impairment

Trade receivables and impairment of trade receivables

Owned vehicles leased to customers under operating leases reflect the Company's principal trading activity, accounting for more than 90% of the Company's funded fleet and associated activities.

Trade receivables represent amounts outstanding from operating lease customers in relation to rentals due. Provisions held against these trade receivables make up the majority of the impairment on financial assets.

A simplified model for impairment is applied to provide for lifetime expected credit losses when a customer has defaulted or the debt is overdue by 4 months or more.

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 1. Material accounting policies (continued)

Note 1.4. Impairment (continued)

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. ECL are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default ("PD"), adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any repayments and including the impact of discounting using the effective interest rate.

Impairment of loans and advances

At initial recognition, allowance or provision in the case of some loan commitments 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, allowance (or provision) is made for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). 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 are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default movements linked to internal credit ratings together with qualitative indicators and other indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensure alignment between the assessment of staging and the Company's management of credit risk which utilises these internal metrics within risk management practices. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due.

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.

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 1.5. Cash and cash equivalents

For the purposes of the Balance Sheet and Cash Flow Statement, Cash and cash equivalents comprise balances with less than three months' maturity.

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 1. Material accounting policies (continued)

Note 1.6. Taxation, including deferred income taxes

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

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

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

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

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

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

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

Note 1.7. Dividends paid

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

Note 1.8. Property, plant and equipment

Property, plant and equipment includes Freehold land and buildings, Owned vehicles not leased to customers and Owned vehicles leased to customers.

Owned vehicles not leased to customers are stated at cost and not depreciated until they are leased to a customer, whereupon they are transferred to Owned vehicles leased to customers.

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

The residual values of Property, plant and equipment are regularly reviewed, any changes in forecast residual values are accounted for in forward looking depreciation over the life of the asset.

Buildings are stated at cost and are depreciated using the straight line method to allocate the difference between the cost and expected residual value over the estimated useful life. Land is not depreciated.

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 1. Material accounting policies (continued)

Note 1.8. Property, plant and equipment (continued)

Impairment of Property, plant and equipment

Impairment of owned vehicles leased to customers under operating leases is assessed by comparing the carrying amount with the recoverable amount. Any impairment identified in this way is charged immediately to the Statement of comprehensive income.

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

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

Note 1.9. 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.

Intangible fixed assets are subject to impairment review, any resulting impairment charge is taken to the Statement of comprehensive income when identified.

Note 1.10. Provision for liabilities, charges and contingent liabilities

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.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

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 which have the most significant effect on the amounts recognised in the financial statements:

Owned vehicles leased to customers

The Company views the residual value of its operating leases as a key source of estimation uncertainty which also relies on a critical accounting judgement, and as a result regularly reviews and estimates the residual value of its operating lease assets net of selling costs at the end of contract by reference to independent market value data and the prevailing economic conditions. The adjustment arising from the reviews are dealt with as set out in note 1.8.

Impairment of Property, plant and equipment for changes in residual value

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 adjustments to reflect Company specific knowledge and experience. The expected market price determined in this manner is the most significant assumption impacting the expected residual value of vehicles net of selling costs, realised at the point of sale at the end of the lease contract. Whilst the likely future used vehicle prices are determined based on management's best estimate, it is possible that the actual outcome will be different, therefore this is considered to be a key source of estimation uncertainty.

The relationship between used vehicle prices and the level of impairment required is non-linear. On a fleet basis, vehicles will become impaired at different levels of used vehicle price reduction and vehicles already impaired will see the impact of incremental reductions to used vehicle prices reduced by the discount rate applied. When the lease contract is impaired there is an immediate impact on profit and loss.

Further, for the purpose of performing impairment testing a critical accounting judgement used is the discount rate to determine future cashflows for which Weighted Average Cost of Capital is used.

Notes to the financial statements (continued)
For the year ended 31 December 2023

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

Impairment of Property, plant and equipment for changes in residual value (continued)

Set out below is an indication of the sensitivity of the impact to adjustments to the impairment at the Balance sheet date based on potential changes in the average future price of used cars.

Management identify different market factors that impact the future values of internal combustion engines compared with battery electric vehicles and make specific considerations when determining the level of impairment. The table below shows the combined sensitivity across the whole fleet including both internal combustion engines and battery electric vehicles.

	1pp		2pp		5pp	
	Increase £	Decrease £	Increase £	Decrease £	Increase £	Decrease £
2023	(17,909,000)	18,498,000	(35,254,585)	37,540,000	(83,810,768)	97,635,802
2022	(8,335,000)	9,172,000	(15,878,000)	19,250,000	(34,274,000)	55,447,000

Note 3. Profit before tax

	2023 £'000	2022 £'000
Revenue		
Aggregate rentals receivable from operating lease contracts	1,357,879	1,216,511
Interest receivable on finance lease agreements	12,687	10,527
Interest receivable on contract purchase agreements	2,283	2,588
Interest receivable on credit sale agreements	229	480
Fleet management fees	6,430	6,525
Proceeds from disposal of property, plant and equipment	875,481	796,449
Other revenue	19,427	18,125
	2,274,416	2,051,205
Direct costs		
Depreciation and impairment on owned vehicles leased to customer (see note 11)	904,822	585,391
Cost of sale on disposal of Property, plant and equipment	821,036	632,970
Impairment of Loans and advances to customers (see note 5)	(146)	(1,584)
Impairment of Trade receivables (see note 5)	3,027	2,394
Other costs	132,200	123,968
	1,860,939	1,343,139
Other operating expenses		
Staff costs (see note 6)	42,968	41,187
Depreciation on freehold land and buildings (see note 11)	312	312
Amortisation of Intangible assets (see note 12)	1,578	2,176
Auditors remuneration - Audit of Company financial statements	141	110
Other costs	89,527	63,486
	134,526	107,271

Included within Aggregate rentals receivable from operating lease contracts is revenue recognised that was included in the vehicle maintenance agreements contract liability balance at the beginning of the period of £29,035,000 (2022: £32,237,000).

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 4. Net interest expense

	2023	2022
	£'000	£'000
Interest income on intercompany deposits	–	63
Interest expense on intercompany borrowings	(154,483)	(56,567)
Net interest expense	(154,483)	(56,504)

Note 5. Credit impairment losses

	Stage 1	Stage 2	Stage 3	Total
31 December 2023	£'000	£'000	£'000	£'000
Trade receivables	–	(1,430)	4,457	3,027
Loans and advances to customers	(146)	–	–	(146)
	(146)	(1,430)	4,457	2,881
	Stage 1	Stage 2	Stage 3	Total
31 December 2022	£'000	£'000	£'000	£'000
Trade receivables	–	(83)	2,477	2,394
Loans and advances to customers	(1,584)	–	–	(1,584)
	(1,584)	(83)	2,477	810

Note 6. Staff costs

	2023	2022
	£'000	£'000
Wages and salaries	33,602	32,043
Social security costs	3,475	3,575
Share based payments	1,025	649
Pension Costs	4,866	4,920
	42,968	41,187

The Company has no direct employees. The staff costs disclosed above were paid in respect of employees directly allocated to the Company from other group companies. The average monthly number of allocated employees during the year was 784 (2022: 80). Whilst all staff contracts of service are with either Lloyds Bank Asset Finance Limited, Lloyds Bank plc or HBOS plc, these employees are involved directly in the day to day operations of the Company and therefore 100% of associated costs are allocated.

The above staff costs do not include any employees who are considered part of Group central functions including finance, tax, human resources and legal, whose costs are recharged on a proportional basis, as per the cost allocation model, and whose costs are therefore included as part of operating expenses shown in note 3.

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>.

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 7. Directors' emoluments

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

	2023	2022
	£'000	£'000
Aggregate emoluments	529	261
Aggregate post-employment benefits	19	25
	548	286

Highest paid director:

Aggregate emoluments	405	101
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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 four directors (2022: three) in respect of defined contribution schemes. Two directors accrued benefits under a defined benefit scheme (2022: one). Five directors received shares in Lloyds Banking Group plc under long term incentive plans during the year (2022: seven). No directors exercised share options in the ultimate parent company during the year (2022: none). During the year three directors leased or purchased a vehicle from the Company (2022: two). The number and total amount of the outstanding loans to directors, officers and connected persons as at 31 December 2023 was £nil (2022: £nil).

No directors (2022: two) consider that their services to the Company are incidental to their responsibilities within the Group. £9,000 compensation was received by the directors for loss of office (2022: £nil).

Note 8. Taxation

a) Analysis of charge for the year

	2023	2022
	£'000	£'000
UK corporation tax:		
- Current tax on taxable profit for the year	(10,600)	18,885
- Adjustments in respect of prior years	336	(8,789)
Current tax (credit)/charge	(10,264)	10,096
UK deferred tax:		
- Origination and reversal of timing differences	39,928	84,594
- Due to change in UK corporation tax rate	2,549	26,713
- Adjustments in respect of prior years	(442)	11,810
Deferred tax charge (see note 16)	42,035	123,117
Tax charge	31,771	133,213

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

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 8. Taxation (continued)

b) Factors affecting the tax charge for the year

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

	2023	2022
	£'000	£'000
Profit before tax	124,468	544,291
Tax charge thereon at UK corporation tax rate of 23.50% (2022: 19.00%)	29,250	103,415
Factors affecting charge:		
- Due to change in UK corporation tax rate	2,549	26,714
- Disallowed and non-taxable items	78	63
- Adjustments in respect of prior years	(106)	3,021
Tax charge on profit on ordinary activities	31,771	133,213
Effective rate	25.53%	24.47%

Note 9. Trade and other receivables

	2023	2022
	£'000	£'000
Trade receivables	228,150	158,735
Prepayments and accrued income	22,203	37,036
Other debtors	58,027	60,025
	308,380	255,796

Trade receivables of £10,047,000 (2022: £8,578,000) were considered to be impaired and have been provided for, reflecting the lifetime expected credit losses.

Note 10. Loans and advances to customers

Note 10.1. Loans and advances to customers - maturity

	2023	2022
	£'000	£'000
Advances under finance lease and hire purchase contracts	221,860	179,103
Amounts receivable on credit sales agreements	1,148	2,473
Other loans and advances to customers	20,632	20,658
Gross loans and advances to customers	243,640	202,234
Less: allowances for losses on loans and advances	(457)	(603)
Net loans and advances to customers	243,183	201,631
of which:		
Due within one year	137,989	149,215
Due after one year	105,194	52,416
	243,183	201,631

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 10. Loans and advances to customers (continued)

Note 10.1. 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	124,888	137,651
- later than one year and no later than two years	53,821	31,676
- later than two years and no later than three years	19,966	15,499
- later than three years and no later than four years	25,948	7,049
- later than four years and no later than five years	21,151	1,950
- later than five years	695	—
	246,269	193,825
Unearned future finance income on finance lease and hire purchase contracts	(24,409)	(14,722)
Net investment in finance lease and hire purchase contracts	221,860	179,103

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

	2023	2022
	£'000	£'000
- no later than one year	120,987	130,597
- later than one year and no later than two years	47,343	27,744
- later than two years and no later than three years	16,432	13,269
- later than three years and no later than four years	20,104	5,892
- later than four years and no later than five years	16,420	1,601
- later than five years	574	—
	221,860	179,103

The Company provides a range of finance lease products in connection with the financing of motor vehicles and equipment. The leases typically run for periods of between 1 and 5 years. Further analysis of Loans and advances to customers is provided in note 20.

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2022: £nil) and there is no allowance for uncollectable minimum lease payments receivable (2022: £nil).

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 10. Loans and advances to customers (continued)

Note 10.2. Loans and advances to customers – movement over time

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2023	202,092	15	127	202,234
Transfers to Stage 2	(42)	42	—	—
Net increase/(decrease) in loans and advances to customers	41,448	—	(42)	41,406
Gross loans and advances to customers at 31 December 2023	243,498	57	85	243,640
Less: allowances for losses on loans and advances	(457)	—	—	(457)
Net loans and advances to customers at 31 December 2023	243,041	57	85	243,183

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2022	205,051	38	66	205,155
Transfers to Stage 2	(18)	18	—	—
Transfers to Stage 3	(8)	—	8	—
Net increase/(decrease) in loans and advances to customers	(2,933)	(41)	53	(2,921)
Gross loans and advances to customers at 31 December 2022	202,092	15	127	202,234
Less: allowances for losses on loans and advances	(603)	—	—	(603)
Net loans and advances to customers at 31 December 2022	201,489	15	127	201,831

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 11. Property, plant and equipment

	Freehold land and buildings £'000	Owned vehicles not leased to customers £'000	Owned vehicles leased to customers £'000	Total £'000
Cost				
At 1 January 2022	10,917	4,394	6,042,090	6,057,401
Additions	—	53,120	1,879,791	1,932,911
Disposals	—	—	(1,290,065)	(1,290,065)
At 31 December 2022	10,917	57,514	6,631,816	6,700,247
Additions	—	19,606	2,372,376	2,391,982
Disposals	—	—	(1,546,231)	(1,546,231)
Transfers to Owned vehicles leased to customers	—	(57,514)	57,514	—
At 31 December 2023	10,917	19,606	7,515,475	7,545,998
Accumulated depreciation and impairment				
At 1 January 2022	912	—	1,945,497	1,946,409
Depreciation charge for the year	312	—	596,279	596,591
Disposals	—	—	(630,786)	(630,786)
Impairment credit	—	—	(10,888)	(10,888)
At 31 December 2022	1,224	—	1,900,102	1,901,326
Depreciation charge for the year	312	—	662,546	662,858
Disposals	—	—	(703,752)	(703,752)
Impairment charge	—	—	242,277	242,277
At 31 December 2023	1,536	—	2,101,173	2,102,709
Balance sheet amount at 31 December 2023	9,381	19,606	5,414,302	5,443,289
Balance sheet amount at 31 December 2022	9,693	57,514	4,731,714	4,798,921

Impairment charges are calculated in accordance with the accounting policy described in note 1.8.

At 31 December 2023 the future minimum rentals receivable under non-cancellable operating leases were as follows:

	2023 £'000	2022 £'000
Receivable within one year	1,050,083	898,255
Receivable between two to five years	1,387,284	1,026,570
Receivable later than five years	2,317	463
	2,439,684	1,925,288

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 12. Intangible assets

	Software
	£'000
Cost	
As at 1 January 2022	18,464
Disposals and write offs	(6,140)
As at 31 December 2022	12,324
Disposals and write offs	(4,078)
At 31 December 2023	8,248
Amortisation	
At 1 January 2022	13,281
Charge for the year (see note 3)	2,176
Disposals and write offs	(6,140)
At 31 December 2022	9,317
Charge for the year (see note 3)	1,578
Disposals and write offs	(4,076)
At 31 December 2023	6,819
Balance sheet amount at 31 December 2023	1,429
Balance sheet amount at 31 December 2022	3,007

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

Note 13. Borrowed funds

	2023	2022
	£'000	£'000
Amounts due to Group undertakings (see note 19)	5,414,380	4,338,410

Amounts due to Lloyds Bank plc of £887,589,000 (2022: £859,593,000) 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 £4,526,792,000 (2022: £3,478,561,000) are unsecured interest bearing at fixed rates of which £1,535,687,000 (2022: £1,217,630,000) is repayable within one year and £2,991,104,000 (2022: 2,260,931,000) is repayable in greater than one year. The remaining balances due to Group undertakings are unsecured, repayable on demand and non-interest bearing. All other balances are non-interest bearing.

Note 14. Trade and other payables

	2023	2022
	£'000	£'000
Trade payables	15,456	18,467
Accruals and deferred income	416,889	391,164
	432,145	409,631

Accruals and deferred income include £121,474,000 which is due after more than one year (2022: £111,428,000). Accruals and deferred income includes deferred income amounts held in respect of future maintenance obligations of £50,551,000 (2022: £52,473,000). The Company expects to recognise £31,199,000 of this deferred income as revenue within one year (2022: £33,960,000).

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 15. Provision for liabilities and charges

	Under-mileage provision £'000
At 1 January 2022	54,139
Charge for the year	14,062
Utilised during the year	(18,823)
At 31 December 2022	49,378
Charge for the year	13,392
Utilised during the year	(22,818)
At 31 December 2023	39,952

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.

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

Estimates of the timing of the outflows are based on contract term. The average term of contracts added in 2023 was 3.8 years (2022: 4 years) with a range of terms from 6 months to 8 years (2022: 6 months to 7 years).

Note 16. Deferred tax asset

The movement in the deferred tax asset is as follows:

	2023 £'000	2022 £'000
Brought forward	100,420	223,537
Charge for the year (see note 8)	(42,035)	(123,117)
	58,385	100,420

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

	2023 £'000	2022 £'000
Accelerated capital allowances	(42,035)	(123,117)
	(42,035)	(123,117)

Deferred tax asset comprises:

	2023 £'000	2022 £'000
Accelerated capital allowances	58,385	100,420
	58,385	100,420

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

At the Balance sheet date, a deferred tax asset of £58,385k has been recognised (2022: £100,420k) based on the expectation that the Company will be able to benefit from group relief with connected companies.

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 17. Dividends

A dividend of £439,000,000 representing a dividend of £73.62 per share, was proposed and paid during the year ended 31 December 2023.

Dividends totalling £708,000,000 were paid during the year ended 31 December 2022 comprising of a dividend of £269,000,000, representing a dividend of £45.11 per share, was proposed during the year ended 31 December 2021 and paid in the year ended 31 December 2022 and a dividend of £439,000,000, representing a dividend of £73.62 per share, was proposed and paid during the year ended 31 December 2022.

Note 18. Share capital

	2023	2022
	£'000	£'000
Allotted, issued and fully paid		
5,963,379 ordinary shares of £1 each	5,963	5,963

The Company's parent manages the Company's capital structure and makes adjustments as a result of changes in economic conditions and the risk characteristics of the underlying assets.

Note 19. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. These include loan, fee and lease transactions. 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
Cash and cash equivalents held with Group undertakings		
Lloyds Bank plc	46,178	70,895
Amounts due to Group undertakings		
Lloyds Bank plc	5,413,733	4,338,155
Bank of Scotland plc	468	76
A.C.I. Limited	100	100
HVF limited	68	68
Lex Autolease (VC) Limited	10	10
Lex Autolease (CH) Limited	1	1
Total Amounts due to Group undertakings (see note 13)	5,414,380	4,338,410
Revenue		
Lloyds Bank plc	18,872	12,271
Bank of Scotland plc	1,594	3,387
Lloyds Bank Commercial Finance Limited	49	106
Total revenue with related parties	20,515	15,764
Other operating expenses		
Lloyds Bank plc	59,082	48,282
Interest income		
Lloyds Bank plc (see note 4)	—	63
Interest expense		
Lloyds Bank plc (see note 4)	154,483	56,567
Dividend paid		
ACL Autolease (Holdings) Limited (see note 17)	439,000	708,000

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 amounts reported in Revenue reflect the rentals paid to the Company in respect of leases taken out by Group companies for use in their operational activities. The amounts reported in Other operating expenses relate to central costs recharged by the Group to the Company in respect of Group central functions, capital expenditure and ancillary costs.

Notes to the financial statements (continued)

For the year ended 31 December 2023

Note 19. 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 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
Salaries and short term employee benefits	872	572
Post employment benefits	19	26
	891	598

Note 20. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, market risk, interest rate risk and business risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the Retail Division, and the ultimate parent, Lloyds Banking Group plc. The liquidity risk faced by the Company is in substance managed by other Group undertakings which fund the Company and credit risk is carefully monitored by the Retail Division's credit committee and credit functions. Interest rate risk is monitored and managed closely by the Group's Corporate Treasury Team. 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 20.1. Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Loans and advances to customers and Trade and other receivables is managed through the application of strict underwriting criteria, determined by the Retail Division's credit committee and credit functions. Furthermore, the Company has designated credit controllers monitoring customer credit capabilities. 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 note 1.4.

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

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.
- **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.

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 20. Financial risk management (continued)

Note 20.1. Credit risk (continued)

Credit concentration – Trade receivables

The Company provides operating lease arrangements and other funded products to customers geographically located in the United Kingdom.

Credit concentration – Loans and advances to customers

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

Gross financial assets subject to credit risk

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

	2023	2022
	£'000	£'000
Trade receivables	232,583	166,529
Loans and advances to customers	243,640	202,234
	476,223	368,763

Loans and advances to customers – gross carrying amount

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

At 31 December 2023		Stage 1	Stage 2	Stage 3	Total
	PD Range	£'000	£'000	£'000	£'000
CMS 1-10	0.00-0.50%	13,353			13,353
CMS 11-14	0.51-3.00%	52,753	—		52,753
CMS 15-18	3.01-20.00%	177,379			177,379
CMS 19	20.01-99.99%	13	57		70
CMS 20-23	100%	—	—	85	85
Total		243,498	57	85	243,640

At 31 December 2022		Stage 1	Stage 2	Stage 3	Total
	PD Range	£'000	£'000	£'000	£'000
CMS 1-10	0.00-0.50%	12,972	—	—	12,972
CMS 11-14	0.51-3.00%	62,688	15	—	62,703
CMS 15-18	3.01-20.00%	126,377	—	—	126,377
CMS 19	20.01-99.99%	55	—	—	55
CMS 20-23	100%	—	—	127	127
Total		202,092	15	127	202,234

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

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 from Group undertakings are impaired (2022: £nil).

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 20. Financial risk management (continued)

Note 20.1. Credit risk (continued)

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2023	803	1,430	6,365	8,398
(Credit)/charge for the year (including recoveries)	(146)	(1,430)	4,457	2,881
Advances written off	—	—	(6,389)	(6,389)
At 31 December 2023	457	—	4,433	4,890

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Trade receivables	—	—	4,433	4,433
Loans and advances to customers	457	—	—	457
At 31 December 2023	457	—	4,433	4,890

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2022	2,187	1,513	11,561	15,261
(Credit)/charge for the year (including recoveries)	(1,584)	(83)	2,477	810
Advances written off	—	—	(7,674)	(7,674)
Reinstatement of provisions previously written off	—	—	1	1
At 31 December 2022	603	1,430	6,365	8,398

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Trade receivables	—	1,430	6,365	7,795
Loans and advances to customers	603	—	—	603
At 31 December 2022	603	1,430	6,365	8,398

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 20. Financial risk management (continued)

Note 20.2. Liquidity risk

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

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 20.3. Market risk

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

The Company's activities expose it to movement in the used values of motor vehicles as the sale proceeds arising from the disposal of returned vehicles are important to the profitability of the Company. Residual values, which are set at lease inception, are determined by reference to the latest available industry data and are subject to regular review by the Company's Pricing Committee, which comprises members of the management team with significant industry experience. Thereafter, residual values are subject to regular review by reference to independent market value data and the prevailing economic conditions (see note 1.4 and note 2).

Note 20.4. Interest rate risk

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

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 to Group undertakings include amounts that are interest bearing at fixed rates for funding of long term loans and advances and long term operating lease agreements, and variable rates for other borrowings.

Interest rate risk – sensitivity analysis

The sensitivity analysis is based on the Company's interest-bearing Amounts due to Group undertakings and takes account of movement in SONIA (Sterling Overnight Index Average), 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 to 1.76% (2022: decrease to 0.10%) is used to assess the possible decrease in Interest expense.

If SONIA increased by 1.76% (2022: 3.23%) and all other variables remain constant this would increase Interest expense by £21,579,000 (2022: £34,129,000). If SONIA decreased to 1.76% and all other variables remain constant this would decrease Interest expense by £21,579,000 (2022: a decrease in SONIA to 0.10% would decrease interest expense by £8,406,000).

Note 20.5. Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy. In assessing business risk consideration is given to internal and external factors such as products, funding, resource capability and economic, political and regulatory factors. Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary.

Note 20.6. Financial strategy

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

Note 20.7. Fair values of financial assets and liabilities

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

Fair values of Loans and advances to customers are considered to be level 3 in the valuation hierarchy due to significant unobservable inputs used in the valuation models.

The aggregated fair value of Loans and advances to customers is approximately £226,822,000 (2022: £201,866,000).

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

Notes to the financial statements (continued)
For the year ended 31 December 2023

Note 21. 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.

Note 22. Contingent liabilities and capital commitments

The Company has commitments to acquire motor vehicles with a cost of £1,038,404,000 to satisfy customer orders at 31 December 2023 (2022: £1,591,161,000).

As detailed in the Directors' report it is the intention of Lloyds Bank plc to continue to provide support to the Company if required.

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded its enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it appealed to the First Tier Tax Tribunal, with a hearing having taken place in May 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in current tax liabilities for the company of approximately £134,859,000k (including interest). The Group, following conclusion of the hearing and having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Note 23. Post balance sheet events

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

Note 24. 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 IFRS16 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 25. Ultimate parent undertaking and controlling party

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

Independent auditor's report to the members of Lex Autolease Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Lex Autolease 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 profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Basis for opinion

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

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

Conclusions relating to going concern

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

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 cash inflows from operating leases to cash outflows for funding liabilities;
- Evaluating the risk related to loss on disposal and volatility of market prices for used cars; and
- Consideration of the availability of funding and financial support from within the Lloyds Banking Group plc group to fund the existing assets and 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.

Independent auditor's report to the members of Lex Autolease Limited (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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. 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 determining 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;

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- 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

In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and 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, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom

5 August 2024