Suzuki Financial Services Limited

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 the audited financial statements of Suzuki Financial Services Limited (the "Company") for the year ended 31 December 2023.

Principal activities

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

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

Black Horse Limited ("BHL") is the main trading entity of the transport business and charges management fees for providing lease and loan administration services to the Company.

Business overview

The Company's result for the year shows a profit before tax of £12,420,000 (2022: £19,714,000) and net interest income of £19,195,000 (2022: £23,298,000).

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

Future outlook

Following the previous years of challenges regards stock shortages and supply chain constraints the future outlook is of a more normalised manufacturing and supply environment. Interest rates are expected to reduce marginally due to the easing of inflationary pressures with returns forecast to remain robust. The UK's transition to net zero emissions through ultra low emission vehicles will provide opportunities and challenges to the Company, as the manufacturers themselves transition to new model ranges. Suzuki GB plc will begin to introduce its first electric cars to the UK market by 2025 with a range of electric vehicles following.

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 terrorism, could have a material adverse effect on the Company's results.

The Company remains committed to the ambitious climate change goals set for the Group in 2020, see 2023 Group financial statements for further details at www.lloydsbankinggroup.com/investors/financial-downloads.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Consumer Lending, which is part of the Group. While these risks are not managed separately for the Company, the Company is a main trading company of the Transport business within Consumer Lending. Consumer Lending is a portfolio of businesses and operates in a number of specialist markets providing both consumer lending and contract hire to personal and corporate customers. Further details of these risks and the risk management policy are contained in note 20 to the financial statements.

The Company may also be subject to claims related to historical motor finance commission arrangements following the Financial Conduct Authority ("FCA") review being carried out in 2024. Further details are included in note 2.

The outlook is for more normalised supply chains, however fuel prices continue to fluctuate and the relatively immature market for electric vehicles combined with the Zero Emission Vehicles ("ZEV") mandate will have an influence on the sales channel that customers initially take for these vehicles while the market normalises in the coming years. The Company is also aware of the emerging risks regarding emission claims in the vehicle industry, these risks are monitored by the Transport Finance business.

Economic environment

The current financial year has been a year of change and economic uncertainty, with the cost of living crisis, rising bank base rates, rising geopolitical tensions, and an ongoing climate emergency.

These factors have all contributed to increasing the cost of living which impacts the Group and customers of its subsidiaries.

In line with the Group's purpose of Helping Britain Prosper and its clear customer focus, the Group aims to provide support to those most affected by changes to the economic environment.

The Company will continue to monitor the situation and risks to the business.

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

Key performance indicators ("KPIs")

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

KPI	2023	2022	Analysis
Net interest income (£'000)	19,195	23,298	Interest income has increased due increase in loans and advances to customers coupled with increasing customer yields as new business interest expense increased. However, net interest income has fallen overall due to the increased Group interest expense as a result of rising interest rates.
Profit before tax (£'000)	12,420	19,714	The decrease in profit before tax is mainly due to the increase in interest expense relating to new business in 2023, impacting on margins, coupled with a net increase in credit/market provisions versus prior year, as 2022 was a net release of provisions built during the covid pandemic.
Loans and advances to customers (£'000)	433,216	414,229	Higher stocking balances fully offset lower average retail balances.
Expected credit losses ("ECL") coverage	0.51%	0.65%	Decrease in ECL coverage is due to improvement in assessment of defaults.

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2023, the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of engagement with employees and 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) Regulation 2018), the following statement also provides details on how the directors have engaged with and had regard to, the interest of key stakeholders and employees. Black Horse Group Limited, a wholly owned subsidiary of Lloyds Banking Group plc ("LBG"), holds 51% of the issued share capital. As such, the Company follows many of the processes and practices of the Group whilst being mindful of the requirements of Suzuki GB plc which holds 49% of the Company's issued share capital.

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

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

Customers

The directors ensure the Company, as part of LBG, works toward achieving LBG's customer ambitions by focussing on customer fair value and by treating customers fairly. The board meets on a regular basis and directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made. Affordability defences are utilised in response to the cost of living pressures and are tightened or loosened when appropriate such as changes in the energy cap. The Company supports customers in longer term financial difficulty with a range of debt management options including repayment plans which allows customers to make reduced payments for 6 to 12 months.

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

Section 172(1) statement (continued)

Employees

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

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

Shareholders

The Company is jointly owned by Black Horse Group Limited, a wholly owned subsidiary of LBG, and Suzuki GB plc. The Company and both shareholders are party to a shareholders' agreement which sets out the overall objectives of the arrangement and the respective obligations of each of the parties in terms of meeting those objectives. The directors ensure that the strategy, priorities, processes and practices of the Company are aligned to the requirements of the shareholders' agreement and, where required, to those of LBG as the Company's controlling shareholder. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic Report within the LBG Annual Report and Accounts for 2023 which does not form part of this report, available on the LBG website: www.lloydsbankinggroup.com/investors/financial-downloads.

Communities and the environment

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

Regulators

The Company is regulated by the FCA as part of its regulation of the broader activity of the Group. As set out within the customer section above, a key focus for the Company is treating customers fairly. The approach of the Group, including that of the Company, to managing regulatory change is detailed within the LBG Annual Report and Accounts for 2023, which does not form part of this report, available on the LBG website: www.lloydsbankinggroup.com/investors/financial-downloads.

How stakeholder interest has influenced decision making

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

Continuing into 2023 an area of focus for the directors has been to steer through the challenges of the emerging cost of living crisis, from both an operational and customer perspective, ensuring alignment with guidance from LBG and the regulators. For example, working with our Customer Financial Assistance teams to ensure appropriate support measures are in place for customers experiencing financial difficulties as a result of inflationary pressures.

Emerging risks

The continued risk of geopolitical implications of conflicts between Russia and Ukraine, the Middle East, including the Red Sea, have impacts on the supply of new vehicles and parts. Additionally, the cost of living pressures continue to have affordability issues, with measures to curtail inflation increasing interest rates and thus costs to customers. The Company has the agility to flex operational support to meet any changing needs in customer demand/support throughout the customer lifecycle.

Additionally, the growth of the electric vehicle market as customers transition from internal combustion engine (”ICE”) vehicles poses a risk of uncertainty. Suzuki GB plc will introduce an electric vehicle model in 2025 but its current offerings of ICE vehicles are expected to maintain the Company’s competitiveness in the new car market.

Strategic Report (continued)

For the year ended 31 December 2023

General

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

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

J McCaffrey
Director

15 July 2024

Directors' Report

For the year ended 31 December 2023

The directors present their report for the year ended 31 December 2023.

General information

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

Dividends

A dividend of £15,967,000 (2022: £22,118,000), representing a dividend of £1,596.70 per share (2022: £2,211.80), was declared during the year. £7,824,000 was paid during the year and a related party liability £8,143,000 has been recognised in the Company in lieu of cash settlement.

No dividend were proposed after the year ended 31 December 2023.

Events after the reporting date

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

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the accounts. As set out in note 2, the Company has uncertainty in relation to the outcomes of the FCA review into historical motor finance commission arrangements and sales. The directors have considered the support available to cover any liability that should arise in the Company in the event of adverse outcomes from the FCA review and having consulted on this, conclude that it is appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found in note 1.1 to the financial statements.

Streamlined Energy and Carbon Reporting

The Company is out of scope for Streamlined Energy and Carbon Reporting ("SECR").

Registered office

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

Directors

The current directors of the Company are as follows:

A B Ambani	(appointed 15 March 2023)
J Fulker	
D F Houston	
M D Lloyd	
J McCaffrey	
N A Williams	
D Wyatt	
T Suzuki	(appointed 14 November 2023)

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)
N Suyama	(resigned 12 April 2023)

Company Secretary

The current Company Secretary is shown below:

P Gittins

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

D D Hennessey	(resigned 8 January 2024)
P Gittins	(appointed 5 February 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 page 1 to 4.

Directors' indemnities

LBG has granted to Messrs A B Ambani, J Fulker, J McCaffrey and N A Williams, the directors of the Company appointed by and representing the Group, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the director who joined the board of the Company during the financial year. Directors no longer in office but who served on the board of the Company at any time in the financial year had the benefits of this deed of indemnity during that period of service. The deed for existing Group directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate Group Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Suzuki GB plc has in place appropriate Directors and Officers Liability and Company Reimbursement Liability Insurance. This has been in place since 7 November 2019 and is in place at the date of approval of the financial statements. Mr D F Houston and Mr D Wyatt have had the benefit of this cover since 7 November 2019. Mr M D Lloyd has had the benefit of this cover from his appointment on 30 May 2022. Mr T Suzuki has had the benefit of this cover from his appointment on 14 November 2023. Mr N Suyama had the benefit of this cover until his resignation on 12 April 2023.

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.

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

Directors' Report (continued)

For the year ended 31 December 2023

Statement of disclosure of information to auditor

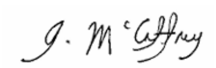
In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the Directors' Report is approved:

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

Independent auditor

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

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



J McCaffrey
Director

15 July 2024

Statement of Comprehensive Income

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Interest income		**30,548**	28,809
Interest expense		**(11,353)**	(5,511)
Net interest income	3	**19,195**	23,298
Fee and commission income	4	**303**	238
Provision for liabilities and charges - credit for the year	17	**-**	148
Credit impairment (losses)/gains	5	**(708)**	549
Market impairment (losses)/gains	6	**(861)**	1,181
Other operating expenses	7	**(5,509)**	(5,700)
Profit before tax		**12,420**	19,714
Taxation	10	**(2,916)**	(3,747)
Profit for the year, being total comprehensive income		**9,504**	15,967

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			
Trade and other receivables	12	**756**	1,384
Loans and advances to customers	13	**433,216**	414,229
Deferred tax asset	14	**201**	248
Total assets		**434,173**	415,861
LIABILITIES			
Borrowed funds	15	**413,760**	388,146
Trade and other payables	16	**1,911**	1,942
Provision for liabilities and charges	17	**116**	85
Current tax liability		**2,872**	3,711
Total liabilities		**418,659**	393,884
EQUITY			
Share capital	18	**10**	10
Retained earnings		**15,504**	21,967
Total equity		**15,514**	21,977
Total equity and liabilities		**434,173**	415,861

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

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

J. McCaffrey

J McCaffrey
Director

15 July 2024

Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 January 2022	10	28,118	28,128
Profit for the year, being total comprehensive income	-	15,967	15,967
Dividend paid to equity holders of the Company (see note 11)	-	(22,118)	(22,118)
At 31 December 2022	**10**	**21,967**	**21,977**
Profit for the year, being total comprehensive income	**-**	**9,504**	**9,504**
Dividend paid to equity holders of the Company (see note 11)	**-**	**(15,967)**	**(15,967)**
At 31 December 2023	**10**	**15,504**	**15,514**

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
Cash flows generated from operating activities			
Profit before tax		**12,420**	19,714
Adjustments for:			
- Interest expense	3	**11,353**	5,511
- Increase/(decrease) in Provision for liabilities and charges	17	**31**	(154)
Changes in operating assets and liabilities:			
- Net (increase)/decrease in Loans and advances to customers	13	**(18,987)**	40,932
- Net decrease/(increase) in Trade and other receivables	12	**628**	(678)
- Net (decrease)/ increase in Trade and other payables	16	**(31)**	1,534
Cash generated from operations		**5,414**	66,859
Tax paid		**(3,708)**	(7,329)
Net cash generated from operating activities		**1,706**	59,530
Cash flows used in financing activities			
Proceeds from/(increase in) net borrowings with group undertakings*	15	**17,471**	(31,901)
Dividends paid*	11	**(7,824)**	(22,118)
Interest paid	3	**(11,353)**	(5,511)
Net cash used in financing activities		**(1,706)**	(59,530)
Change in Cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of year		**-**	-
Cash and cash equivalents at end of year		**-**	-

*For dividends paid, a related party liability £8,143,000 has been recognised in the Company in lieu of cash settlement.

There are no cash flow movements going through investing activities.

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

Notes to the financial statements

For the year ended 31 December 2023

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.

1.1 Basis of preparation

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

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

There are no new IFRS pronouncements relevant to the Company requiring adoption 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 under 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:

- the Company is in a net asset position and will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on further funding as required from its parent, Black Horse Group Limited via fellow group company Black Horse Limited.

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

1.2 Income recognition

Interest income and expense from financial assets

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

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

Lease classification

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

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

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

1. Material accounting policies (continued)

1.2 Income recognition (continued)

Finance lease income

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

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

Fee and commission income

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

1.3 Financial assets and liabilities

Financial assets comprise loans and advances to customers and trade and other receivables. Financial liabilities comprise amounts due to group undertakings and trade and other payables.

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

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

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

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

1.4 Impairment

(i) Credit losses

Loans and advances to customers

The impairment charge in the Statement of Comprehensive Income includes the change in ECL and certain write offs and recoveries. ECL are recognised for loans and advances to customers and other financial assets held at amortised cost, together with any loan commitments. ECL are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default ("PD"), adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any repayments and including the impact of discounting using the effective interest rate.

Impairment of loans and advances

At initial recognition, allowance (or provision) is made for ECL resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk ("SICR") since origination, allowance (or provision) is made for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL are recognised are considered to be Stage 1; financial assets which are considered to have experienced a SICR since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. The collective assessment of impairment aggregates financial instruments with similar risk characteristics.

1. Material accounting policies (continued)

1.4 Impairment (continued)

(i) Credit losses (continued)

Impairment of loans and advances (continued)

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.

(ii) Market losses

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

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

If there is objective evidence that a market loss has been incurred, a provision is established which is calculated as the difference between the Balance Sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate. If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset or group of assets reflects the cash flows that may result from recovery and sale of collateral, less any costs incurred. The provision calculation also considers the likelihood that a customer may voluntary terminate based on the predicted level of loss during the period of eligibility.

(iii) Allowance for Credit impairment losses

The calculation of the Company's ECL allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

Definition of default

The PD of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. The Company uses the IFRS 9 rebuttable presumption that default occurs no later than when a payment is 90 days past due.

A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no cure period is applied to Stage 3. If an exposure that is classified as Stage 2 no longer meets the SICR criteria, which in some cases capture customer behaviour in previous periods, it is moved back to Stage 1. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.

1. Material accounting policies (continued)

1.4 Impairment (continued)

(iii) Allowance for Credit impairment losses (continued)

Lifetime of an exposure

The PD of a financial asset is dependent on its expected life using the full contractual life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product’s expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. For loans and advances to customers, the Company has assumed the expected life for each product to be the time taken for all losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off. Changes to the assumed expected lives of the Company’s assets could have a material effect on the ECL allowance recognised by the Company. The assessment of SICR and corresponding lifetime loss, and the PD, of a financial asset designated as Stage 2, or Stage 3, is dependent on its expected life.

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

Significant increase in credit risk

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. In determining whether there has been a SICR, the Company uses quantitative tests based on relative and absolute PD movements linked to internal credit ratings together with qualitative indicators and other indicators of historical delinquency, credit weakness or financial difficulty. A deterioration in the Retail Master Scale (“RMS”) (default model that segments customer loans into a number of ratings grades, each representing a defined range of default probabilities) of three grades for retail loans treated as a SICR. The use of internal credit ratings and qualitative indicators ensure alignment between the assessment of staging and the Company's management of credit risk which utilises these internal metrics within risk management practices. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due.

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

Application of judgement in adjustments to modelled ECL

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

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

Generation of Multiple Economic Scenarios

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

1. Material accounting policies (continued)

1.4 Impairment (continued)

(iii) Allowance for Credit impairment losses (continued)

Generation of Multiple Economic Scenarios (continued)

The base case scenario is central to a range of future economic scenarios generated by simulation of an economic model, for which the same conditioning assumptions apply as in the base case scenario. These scenarios are ranked by using estimated relationships with industry-wide historical loss data. With the base case already pre-defined, three other scenarios are identified as averages of constituent scenarios located around the 15th, 75th and 95th percentiles of the distribution. The full distribution is therefore summarised by a practical number of scenarios to run through ECL models representing an upside, the base case, and a downside scenario weighted at 30 per cent each, together with a severe downside scenario weighted at 10 per cent. The scenario weights represent the distribution of economic scenarios and not subjective views on likelihood. The inclusion of a severe downside scenario with a smaller weighting ensures that the non-linearity of losses in the tail of the distribution is adequately captured.

Base Case and MES Economic Assumptions

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

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

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

1.5 Cash and cash equivalents

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

1.6 Taxation, including deferred income taxes

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

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

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

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

1. Material accounting policies (continued)

1.6 Taxation, including deferred income taxes (continued)

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

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

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

1.7 Dividends paid

Dividends on ordinary shares are recognised through equity in the period in which an obligation to pay has been established. Where the parent company does not have a bank account, a related party payable is recognised in the Company and a related party receivable is recognised in the parent company in lieu of cash settlement.

1.8 Retirement benefit obligations

Defined contribution

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

Defined benefit

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. All active members of the Group's defined benefit pension plans are employed by other companies in the Group. Accordingly, the risk associated with the operation of the plans lies with other companies. The Company is recharged by a fellow group undertaking an amount equal to the cash contributions made in respect of the relevant employees included within the LBG Annual Report and Accounts for 2023, which does not form part of this report.

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

1.9 Share based payments

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 8. Full details of these schemes can be found in the 2023 Annual Report and the Financial Statements of the Group website: www.lloydsbankinggroup.com/investors/financial-downloads.

1.10 Provision for liabilities and charges

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

The following are the key sources of estimation uncertainty that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Allowance for Market impairment losses

As set out in note 20.3, the Company's leasing arrangements expose it to market risk in the form of motor vehicle residual values primarily relating to the PCP product and to customer voluntary termination. In order to assess an impairment loss relating to these risks the directors use assumptions to reassess the likely future value of the vehicles financed. The used car market in the UK is mature with prices dependent upon a broad range of economic and vehicle specific factors. These factors are taken into consideration by means of the data provided by market specialists, overlaid with adjustment to reflect Company specific knowledge and experience. The expected market price determined in this manner impacts upon the extent to which customers are expected to return vehicles either at the end of the contract or, in the case of voluntary terminations, during the term of the contract. In order to assess the level of expected returns associated with the assessed future value of the vehicles financed, the Company references historic experience of actual returns.

Whilst the likely future used car prices are determined based on management's best estimate, it is possible that the actual outcome will be different therefore this is considered to be a key source of estimation uncertainty. The market risk provision included within the accounts is £1,684,000 (2022: £841,000).

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

Allowance for market losses

	1pp		2pp		5pp	
	Increase £'000	**Decrease £'000**	**Increase £'000**	**Decrease £'000**	**Increase £'000**	**Decrease £'000**
2023	**173**	**183**	**327**	**386**	**719**	**1,056**
2022	100	114	184	247	370	779

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

ECL sensitivity to economic assumptions

The table below shows the Company's ECL for loans and advances to customers and loan commitments for the upside, base case, downside and severe downside scenarios and therefore is considered a key source of estimation uncertainty. This analysis is to evaluate the ECL sensitivity in each economic scenario. The stage allocation for an asset is based on the overall scenario probability-weighted PD and, hence, the staging of assets is constant across all the scenarios. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case.

Allowance for loans and advances to customers and loan commitments

	Probability-weighted £'000	Upside £'000	Base £'000	Downside £'000	Severe downside £'000
2023	**2,365**	**2,129**	**2,279**	**2,497**	**2,933**
2022	2,784	2,521	2,711	2,903	3,436

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

Motor commission review

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

BHL has recognised a provision at 31 December 2023 for the potential impact of the FCA review on Lloyds Banking Group's Transport customers, which includes the customers of this Company. There is continued uncertainty over the final outcome of the review and the value that may be related to past customers of the Company. BHL has not yet decided if potential costs for claims made in respect of business written by this company will be recharged. A judgement has been made by the Company that given the continued significant uncertainty the Company is unable to make a reliable estimate of its obligation at this point in time and therefore no provision has been recognised for the year ended 31 December 2023. A contingent liability has been recognised by the Company for this exposure as detailed in note 22.

3. Net interest income

	2023 £'000	2022 £'000
Interest income		
From finance lease and hire purchase contracts	**27,004**	27,553
From other loans and advances	**3,544**	1,256
	30,548	28,809
Interest expense		
Group interest expense (see note 19)	**(11,353)**	(5,511)
	19,195	23,298

4. Fee and commission income

	2023 £'000	2022 £'000
Loan fees receivable	**303**	238

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

5. Credit impairment (losses)/gains

31 December 2023	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Loans and advances to customers	**300**	**(202)**	**579**	**677**
Undrawn loan commitments	**31**	**-**	**-**	**31**
	331	**(202)**	**579**	**708**

31 December 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loans and advances to customers	(137)	(139)	(271)	(547)
Undrawn loan commitments	(2)	-	-	(2)
	(139)	(139)	(271)	(549)

6. Market impairment (losses)/gains

	2023 £'000	2022 £'000
Brought forward at 1 January	**841**	2,030
Utilised during the year	**(18)**	(8)
(Credit)/charge for the year	**861**	(1,181)
Carried forward at 31 December (see note 13)	**1,684**	841

7. Other operating expenses

	2023 £'000	2022 £'000
Staff costs (see note 8)	**931**	967
Management charges payable (see note 19)	**4,184**	4,305
Other operating expenses	**394**	428
	5,509	5,700

Fees payable to the Company's auditors for the audit of the financial statements of £24,800 (2022: £24,800) have been borne by a fellow group company and are recharged to the Company, no non-audit services were provided to the Company by auditors. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management charges.

8. Staff costs

	2023 £'000	2022 £'000
Wages and salaries	**692**	725
Social security costs	**89**	95
Other pension costs	**150**	147
	931	967

The average monthly number of employees during the year was 11 (2022: 11). All staff are located in the UK and provide management, administration and sales support. All staff contracts of service are with Lloyds Bank Asset Finance Limited. However, the staff costs shown above were paid by the Company in respect of staff identified as providing services to the Company. Other pension costs comprise solely costs for defined contribution schemes.

9. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2022: £nil). The directors are employed by other companies within the Group or companies controlled by Suzuki GB plc and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 19).

10. Taxation

	2023 £'000	2022 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**2,869**	3,708
- Adjustments in respect of prior years	**-**	1
Current tax charge	**2,869**	3,709
UK deferred tax:		
- Origination and reversal of timing differences	**47**	38
- Impact of deferred tax rate change	**-**	-
Deferred tax charge (see note 14)	**47**	38
Tax charge	**2,916**	3,747

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

b) Factors affecting the tax charge for the year

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

	2023 £'000	2022 £'000
Profit before tax	**12,420**	19,714
Tax charge thereon at UK corporation tax rate of 23.50% (2022: 19.00%)	**2,916**	3,747
Tax charge on profit on ordinary activities	**2,916**	3,747
Effective rate	**23.50%**	19.00%

11. Dividends

A dividend of £15,967,000 (2022: £22,118,000), representing a dividend of £1,596.70 per share (2022: £2,211.80), was declared during the year. £7,824,000 was paid during the year and a related party liability £8,143,000 has been recognised in the Company in lieu of cash settlement.

12. Trade and other receivables

	2023 £'000	2022 £'000
Other debtors	**756**	1,384

Included in Other debtors is a manufacturing subsidy receivable from Suzuki GB plc of £459,000 (2022: £992,000) (see note 19). Other debtors are all due within one year.

13. Loans and advances to customers

13.1 Loans and advances to customers - maturity

	2023 **£'000**	2022 £'000
Advances under finance lease and hire purchase contracts	**360,236**	378,989
Personal loans to customers	**-**	1
Other loans and advances to customers	**76,913**	38,779
Gross loans and advances to customers	**437,149**	417,769
Less: allowances for Credit losses on loans and advances	**(2,249)**	(2,699)
Less: allowances for Market losses on loans and advances	**(1,684)**	(841)
Net loans and advances to customers	**433,216**	414,229
of which:		
Due within one year	**166,482**	149,632
Due after one year	**266,734**	264,597
	433,216	414,229

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

	2023 **£'000**	2022 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**105,073**	125,298
- later than one year and no later than two years	**116,278**	111,912
- later than two years and no later than three years	**105,370**	104,217
- later than three years and no later than four years	**82,359**	76,946
- later than four years and no later than five years	**6,495**	5,116
- later than five years	**1**	1
	415,576	423,490
Unearned future finance income on finance lease and hire purchase contracts	**(55,340)**	(44,501)
Net investment in finance lease and hire purchase contracts	**360,236**	378,989

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

	2023 **£'000**	2022 £'000
- no later than one year	**91,081**	112,132
- later than one year and no later than two years	**100,794**	100,152
- later than two years and no later than three years	**91,339**	93,266
- later than three years and no later than four years	**71,392**	68,860
- later than four years and no later than five years	**5,630**	4,578
- later than five years	**-**	1
	360,236	378,989

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

13. Loans and advances to customers (continued)

13.1 Loans and advances to customers - maturity (continued)

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

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

13.2 Loans and advances to customers - movement over time

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance at 1 January 2023	**366,870**	**48,234**	**2,665**	**417,769**
Transfers to Stage 1	**12,392**	**(12,392)**	**-**	**-**
Transfers to Stage 2	**(16,665)**	**16,844**	**(179)**	**-**
Transfers to Stage 3	**(528)**	**(844)**	**1,372**	**-**
Net increase / (decrease) in loans and advances to customers	**37,089**	**(15,283)**	**(1,155)**	**20,651**
Financial assets that have been written off during the year	**-**	**-**	**(1,313)**	**(1,313)**
Recoveries of prior advances written off	**-**	**-**	**42**	**42**
Gross loans and advances to customers	**399,158**	**36,559**	**1,432**	**437,149**
Less: allowances for Credit losses on loans and advances	**(687)**	**(831)**	**(731)**	**(2,249)**
Less: allowances for Market losses on loans and advances	**(1,540)**	**(144)**	**-**	**(1,684)**
Net loans and advances to customers at 31 December 2023	**396,931**	**35,584**	**701**	**433,216**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2022	406,854	50,301	3,506	460,661
Transfers to Stage 1	10,317	(10,317)	-	-
Transfers to Stage 2	(23,559)	23,898	(339)	-
Transfers to Stage 3	(758)	(1,011)	1,769	-
Net decrease in loans and advances to customers	(25,984)	(14,637)	(1,847)	(42,468)
Financial assets that have been written off during the year	-	-	(489)	(489)
Recoveries of prior advances written off	-	-	65	65
Gross loans and advances to customers	366,870	48,234	2,665	417,769
Less: allowances for Credit losses on loans and advances	(369)	(1,031)	(1,299)	(2,699)
Less: allowances for Market losses on loans and advances	(766)	(75)	-	(841)
Net loans and advances to customers at 31 December 2022	365,735	47,128	1,366	414,229

14. Deferred tax asset

The movement in the deferred tax asset is as follows:

	2023 **£'000**	2022 £'000
At 1 January	**248**	286
Charge for the year (see note 10)	**(47)**	(38)
At 31 December	**201**	248

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

	2023 **£'000**	2022 £'000
Other temporary differences	**(47)**	(38)

Deferred tax asset comprises:	**2023** **£'000**	2022 £'000
Accelerated capital allowances	**2**	2
Other temporary differences	**199**	246
	201	248

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.

15. Borrowed funds

	2023 **£'000**	2022 £'000
Amounts due to group undertakings (see note 19)	**413,760**	388,146

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to Black Horse Limited of £74,432,000 (2022: £37,322,000) are interest bearing at variable rates based on the Sterling Overnight Index Average ("SONIA") interest rate benchmark plus a margin. The remaining amounts due to Black Horse Limited of £331,052,000 (2022: £350,772,000) are interest bearing with interest rates that are fixed on a rolling monthly basis plus a margin. Amounts due to Lloyds Bank plc of £133,000 (2022: £52,000) and Black Horse Group Limited of £8,143,000 (2022: £nil) are non-interest bearing.

16. Trade and other payables

	2023 **£'000**	2022 £'000
Accruals and deferred income	**1**	504
Other tax and social security	**90**	63
Other payables	**1,820**	1,375
	1,911	1,942

Other payables includes amounts in the course of transmission of £1,717,000 (2022: £1,357,000).

17. Provision for liabilities and charges

	Undrawn loan commitment £'000	Payment protection insurance £'000	Total £'000
At 1 January 2022	87	152	239
Credit for the year (see note 5)	(2)	-	(2)
Reversal of unused Indemnity provision	-	(148)	(148)
Utilised during the year	-	(4)	(4)
At 31 December 2022	85	-	85
Charge for the year (see note 5)	**31**	**-**	**31**
At 31 December 2023	**116**	**-**	**116**

Undrawn loan commitment provision relates to the expected loss on the loan commitments that the Company has made to its customers for undrawn balances at the year-end. As at 31 December 2023, the Company carried a provision of £116,000 (2022: £85,000) for ECL on undrawn loan commitments.

18. Share capital

	2023 £'000	2022 £'000
Allotted, issued and fully paid		
5,100 "A" ordinary shares of £1 each	**5**	5
4,900 "B" ordinary shares of £1 each	**5**	5
	10	**10**

At 31 December 2023, the authorised share capital of the Company was £10,000 divided into 5,100 "A" ordinary shares of £1 each and 4,900 "B" ordinary shares of £1 each. The "A" ordinary shares rank pari passu with the "B" ordinary shares, including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company. The "A" ordinary shares are held by Black Horse Group Limited, the "B" ordinary shares are held by Suzuki GB plc.

19. Related party transactions

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

	2023 £'000	2022 £'000
Amounts due to group undertakings		
Black Horse Group Limited	**8,143**	-
Black Horse Limited	**405,484**	388,094
Lloyds Bank plc	**133**	52
Total Amounts due to group undertakings (see note 15)	**413,760**	388,146
Interest expense		
Black Horse Limited (see note 3)	**11,353**	5,511

19. Related party transactions (continued)

	2023 £'000	2022 £'000
Management charges payable		
Black Horse Limited (see note 7)	**4,184**	4,305
Staff costs recharge		
Black Horse Limited (see notes 7 and 8)	**931**	967

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

Loans and advances to customers of £433,216,000 (2022: £414,229,000) includes manufacturing subsidies of £5,072,000 (2022: £10,613,000) received during the year from the non-controlling interest, Suzuki GB plc. As at 31 December 2023, an amount of £459,000 (2022: £992,000) was outstanding (see note 12).

Key management personnel

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

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 Consumer Lending, and the ultimate parent, LBG. Interest rate risk and liquidity risk faced by the Company are in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by Consumer Lending's credit committee and credit functions. Market risk is managed by the Company through the terms negotiated in commercial agreements and management regularly reviewing its portfolio of leases for impairment. Business risk is managed through regular reporting and oversight.

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

20.1 Credit risk

Credit risk management

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

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

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

20. Financial risk management (continued)

20.1 Credit risk (continued)

Credit risk mitigation

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

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

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

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

Credit concentration - Loans and advances to customers

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

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

Loans and advances to customers - gross carrying amount

The analysis of lending has been prepared by applying the Group's rating scales to the Company's impairment model. The internal credit ratings systems are set out below. The Group's 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		**Gross loans and advances to customers - Loan Quality**			
	PD Range	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Retail					
RMS 1-6	0.00-4.50%	**321,861**	**29,241**	**-**	**351,102**
RMS 7-9	4.51-14.00%	**2,941**	**3,181**	**-**	**6,122**
RMS 10	14.01-20.00%	**-**	**845**	**-**	**845**
RMS 11-13	20.01-99.99%	**-**	**2,470**	**-**	**2,470**
RMS 14	100%	**-**	**-**	**1,415**	**1,415**
Total		**324,802**	**35,737**	**1,415**	**361,954**
Wholesale					
CMS 1-10	0.00-0.50%	**25,558**	**-**	**-**	**25,558**
CMS 11-14	0.51-3.00%	**41,404**	**-**	**-**	**41,404**
CMS 15-18	3.01-20.00%	**6,497**	**822**	**-**	**7,319**
CMS 19	20.01-99.99%	**897**	**-**	**-**	**897**
CMS 20-23	100%	**-**	**-**	**17**	**17**
Total		**74,356**	**822**	**17**	**75,195**

20. Financial risk management (continued)

20.1 Credit risk (continued)

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

At 31 December 2022

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

Commitments to lend

At 31 December 2023		**Gross loans and advances to customers - Loan Commitments**			
Wholesale	**PD Range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
CMS 1-10	0.00-0.50%	**24,617**	**-**	**-**	**24,617**
CMS 11-14	0.51-3.00%	**36,310**	**-**	**-**	**36,310**
CMS 15-18	3.01-20.00%	**6,874**	**-**	**-**	**6,874**
CMS 19	20.01-99.99%	**683**	**-**	**-**	**683**
CMS 20-23	100%	**-**	**-**	**-**	**-**
		68,484	**-**	**-**	**68,484**
At 31 December 2022					
CMS 1-10	0.00-0.50%	41,395	-	-	41,395
CMS 11-14	0.51-3.00%	51,353	-	-	51,353
CMS 15-18	3.01-20.00%	10,731	-	-	10,731
CMS 19	20.01-99.99%	-	-	-	-
CMS 20-23	100%	-	-	-	-
		103,479	-	-	103,479

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2023

20. Financial risk management (continued)

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	**369**	**1,031**	**1,299**	**2,699**
Transfers to Stage 1	**124**	**(124)**	**-**	**-**
Transfers to Stage 2	**(78)**	**163**	**(85)**	**-**
Transfers to Stage 3	**(4)**	**(92)**	**96**	**-**
Impact of transfer between stages	**(59)**	**147**	**315**	**403**
Other items charged to the Statement of Comprehensive Income	**317**	**(296)**	**253**	**274**
Charge/(credit) for the year (including recoveries)	**300**	**(202)**	**579**	**677**
Advances written off	**-**	**-**	**(1,313)**	**(1,313)**
Recoveries of prior advances written off	**18**	**2**	**40**	**60**
Discount unwind	**-**	**-**	**126**	**126**
At 31 December 2023	**687**	**831**	**731**	**2,249**

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

In respect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2022	87	-	-	87
Credit for the year (including recoveries)	(2)	-	-	(2)
At 31 December 2022	85	-	-	85
Charge for the year (including recoveries)	**34**	**-**	**-**	**34**
Financial assets that have been derecognised during the year	**(3)**	**-**	**-**	**(3)**
At 31 December 2023	**116**	**-**	**-**	**116**

20. Financial risk management (continued)

20.1 Credit risk (continued)

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

Repossessed collateral

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

20.2 Liquidity risk

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

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

20.3 Market risk

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

PCP agreements

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

Voluntary terminations

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

20.4 Interest rate risk

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

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

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Amounts due to group undertakings and takes account of movement in the SONIA rate, which is the basis for the interest charged on such balances. The actual movement in the SONIA rate across the year is 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 0.1%) 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 £1,035,000 (2022: £614,000). If SONIA decreased by 1.76% and all other variables remain constant this would decrease Interest expense by £1,035,000 (2022: a decrease to 0.1% in SONIA decreased interest expense by £606,000).

20. Financial risk management (continued)

20.5 Business risk

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

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

20.6 Financial strategy

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

20.7 Fair values of financial assets and liabilities

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

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

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

The aggregated fair value of loans and advances to customers is approximately £429,837,000 (2022: £427,984,000). The directors consider that, for all other financial assets and liabilities, there are no significant differences between the carrying amounts shown in the Balance Sheet and the fair value.

21. Capital disclosures

The Company’s objectives when managing capital are to safeguard the entity’s ability to continue as a going concern 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.

22. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the Balance Sheet date (2022: £nil).

Undrawn formal standby facilities, credit facilities and other commitments to lend were £68,484,000 (2022: £103,479,000).

22. Contingent liabilities and capital commitments (continued)

Motor commission review

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

BHL has recognised a provision at 31 December 2023 for the potential impact of the FCA review on Lloyds Banking Group's Transport customers, which includes the customers of this Company. There is continued uncertainty over the the review and the value that may be related to past customers of the Company. BHL has not yet decided if potential costs for claims made in respect of business written by this company will be recharged. As such, the Company recognises that there is a contingent liability for this exposure at 31 December 2023. Whilst it is not possible to determine the possible amount, it may be material to the Company.

23. Post balance sheet events

There are no post Balance Sheet events requiring disclosure in these financial statements.

24. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2023 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2024, including IFRS 16 Lease liability in a 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.

25. Ultimate parent undertaking and controlling party

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

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

Report on the audit of the financial statements

Opinion

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

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

We discussed among the audit engagement team including tax, IT, forensic 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 relates to the volatility overlay applied by management to reflect risk in the used car residual values in determining provisions for residual value or voluntary termination losses and the risk that this might not be appropriate and/or reliably measured, and our procedures performed to address them are described below:

- Making inquiries of management to understand the composition and rationale for the overlays applied. Validating the data points used against sufficient and appropriate audit evidence;
- 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
- Performing a retrospective analysis of used vehicle market fluctuations to assess the likelihood of the scenarios applied and develop and independent range of possible outcomes.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Mark Taylor

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

25 July 2024