PSA FINANCE UK LIMITED

Registered in England and Wales
No: 01024322

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED
31 DECEMBER 2018

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Report of the Directors

The Directors submit their report together with the financial statements for the year ending 31 December 2018.

Directors

The Directors who served throughout the year and to the date of this report were as follows:

Cruciano Infosino – Resigned 1 January 2018
Victor Hill
Stephen Green – Resigned 1 January 2018
Bruno Montalvo
Arnaud De Lamothe
Magalie Durreche
Adam Goldhagen – Appointed 1 January 2018
Bruno Perrin – Appointed 1 January 2018

Results and dividends

The profit for the year ended 31 December 2018 on ordinary activities after taxation amounted to £42,776,000 (2017: £43,378,000).

The Company did not pay an interim dividend for the year (2017: nil). The Directors recommend payment of a final dividend of £24,000,000 (2017: £44,000,000).

Statement of Going Concern

In accordance with International Financial Reporting Standards as endorsed by the EU and principles of corporate governance the Board is required to draw up the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business in the foreseeable future.

In view of the above, on the basis of current financial projections and the continuing support of the Shareholders, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly the going concern status has been adopted in the preparation of these financial statements.

Likely future developments

The Directors continue to monitor the impact of the UK's decision to leave the European Union. The Directors are currently unable to estimate with any certainty the impact on the level of business in the foreseeable future. This is discussed further in the Principal risks and uncertainties section of the Strategic Report.

Directors' indemnity and Directors' and officers' liability insurance

The Company maintains a Directors' and Officers' Liability Insurance policy. In accordance with the Company's Articles of Association, the Board may also indemnify a Director from the assets of the Company against any costs or liability incurred as a result of their office, to the extent permitted by law. Neither the insurance policy nor any indemnities that may be provided by the Company provide cover for fraudulent or dishonest actions by the Directors. However, costs may be advanced to Directors for their defence in investigations or legal actions.

Report of the Directors (Continued)

Disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the group's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Employees

The Group communicates business performance and significant issues to all employees via use of email, intranet and in-house publications. Feedback from employees is obtained periodically via an employee forum.

The Group is committed to the fair and equitable treatment of all its employees irrespective of gender, race, age, religion, disability or sexual orientation. Policies have been implemented across the Group to ensure that this commitment is acted on in practice.

Details of the number of employees of related costs can be found in Note 8 to the financial statements.

Appointment of auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

By Order of the Board

Kathleen Conroy
Company Secretary
For and on behalf of PSA Finance UK Ltd
Date: 17th September 2019

Adam Goldhagen
Director
For and on behalf of PSA Finance UK Ltd
Date: 17TH SEPTEMBER 2019

Strategic Report

Principal Activities and business review

PSA Finance UK Ltd (the "Company") is a joint venture between Banque PSA Finance SA and Santander Consumer (UK) plc, each shareholder owning 50% of the shares and neither having a majority interest or preference share.

The consolidated group (the "Group") includes Auto ABS UK Loans plc, a privately funded special purpose entity ('SPE') and Auto ABS UK Loans 2017 plc, an SPE funded by the issuance of debt instruments on the Irish Stock Exchange.

The principal activity of the Group remains the provision of finance facilities, predominantly finance leases, to retail and fleet customers for the purchase/lease of motor vehicles. The Company also provides funding to our UK dealer network to purchase vehicle stock, equipment and for their capital investment projects.

The Group's Management is dedicated to enable the brands of the PSA Group (Peugeot, Citroen and DS) to achieve the highest possible market share in the UK automotive market. Management aims to achieve this objective, whilst delivering sound and robust returns for each of our two shareholders, in addition to maintaining a rigorous and prudent approach to lending.

Principal risks and uncertainties

The Group's principal risks are credit risk, liquidity risk, interest rate risk and legal and regulatory risks. Further details of the Company's principal risks are set out in Notes 2 and 3 of these Financial Statements.

Brexit

The United Kingdom, under former Prime Minister Theresa May, agreed the terms of its withdrawal from the EU with the other 27 member states of the EU. However, the UK parliament, on three separate occasions, voted against approving this agreement ahead of the expiration of the two year, Article 50 deadline to leave the EU by 29 March 2019.

Due to the failures of the UK parliament to approve the withdrawal agreement, the Article 50 deadline has twice been extended. The second time, on 10 April 2019, Brexit was postponed until 31 October 2019. Before this deadline, the UK must accept the negotiated deal, leave without a deal or agree another deadline extension with the EU.

Boris Johnson replaced Theresa May as UK Prime Minister on 24 July 2019, following a leadership election within the governing Conservative party. Johnson has stated that, unless the EU are prepared to renegotiate key areas of the previously agreed withdrawal agreement (predominantly relating to the Irish border), the UK will leave the EU on 31 October without an agreement. The UK parliament is believed to be against leaving the EU without a formal agreement in place. However, it is unclear whether parliament has sufficient power or time to prevent it.

Until the political situation in the UK becomes clear and the terms of its exit from the EU are known, there is a high degree of uncertainty and consequently significant market volatility is expected. The impact of this volatility and uncertainty on the Group is not yet determinable. Any devaluation of Pound Sterling has the potential to increase the cost of cars purchased from the PSA brands in Euros, as would the introduction of import tariffs. This would impact competitiveness in the UK car market, in turn decreasing volumes of new lending business for the Group. The Directors are closely monitoring the situation but no strategic decision about the future of the Company's business has yet been taken. To date, there have been no matters that warrant an adjustment to the financial results as at 31 December 2018.

By Order of the Board

Kathleen Conroy
Company Secretary
For and on behalf of PSA Finance UK Ltd
Date: 17th September 2019

Adam Goldhagen
Director
For and on behalf of PSA Finance UK Ltd
Date: 17TH SEPTEMBER 2019

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and applicable law. 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 Group and of the Income Statement of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of PSA Finance UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, PSA Finance UK Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and company statement of financial position as at 31 December 2018; the consolidated income statement and consolidated statement of other comprehensive income, the consolidated and company statement of cash flows, and the consolidated and company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

M Anderson

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 September 2019

Consolidated Income Statement

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Interest income	4	129,224	142,187
Finance costs	5	(30,876)	(33,902)
Gross profit		**98,348**	**108,285**
Other operating (expense) / income	6	(7,803)	(7,179)
Administrative expenses	7	(37,774)	(39,758)
Impairment losses	10	(2,892)	(11,479)
Operating profit		**49,879**	**49,869**
Movements in financial instruments at fair value	11	3,292	3,784
Other finance income - pensions	12	374	556
Profit before tax		**53,545**	**54,209**
Tax	13	(10,769)	(10,831)
Profit for the year		**42,776**	**43,378**

All the activities of the Company are classed as continuing.

The accompanying notes 1 to 30 form an integral part of the accounts.

The profit after tax of the Company for the year was £48.57 million (2017: £33.14 million).
As permitted by Section 408 of the Companies Act 2006, the Company's income statement has not been presented.

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Profit for the year		**42,776**	**43,378**
Items that will not be reclassified to profit or loss:			
Gross movements on defined benefit pension plan	12	(2,867)	(5,751)
Items that may be reclassified subsequently to profit or loss:			
Gross movements on cash flow hedge		-	354
Total other comprehensive expense before tax for the year		**(2,867)**	**(5,397)**
Tax movements		521	278
Total other comprehensive income		**(2,346)**	**(5,119)**
Total comprehensive income for the year		**40,430**	**38,259**

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Tangible fixed assets	14	1,220	901
Finance lease receivables	15	1,063,581	1,102,716
Derivative financial instruments	22	7,732	2,012
Loans and receivables	16	9,136	11,572
Net employee defined benefit surplus	12	12,529	15,046
Deferred tax	18	17,128	11,128
		1,111,326	**1,143,375**
Current assets			
Inventories		3,636	2,463
Finance lease receivables	15	1,087,025	1,126,686
Loans and receivables	16	722,825	646,905
Trade and other receivables	17	79,047	109,545
Cash and cash equivalents		144,170	180,025
		2,036,703	**2,065,624**
Total assets		**3,148,029**	**3,208,999**
Current liabilities			
Trade and other payables	19	68,639	72,305
Loans payable	20	1,408,021	1,218,781
Financial guarantee contracts	21	904	904
Tax payable		7,521	7,402
		1,485,085	**1,299,392**
Non-current liabilities			
Loans payable	20	1,314,552	1,558,847
Financial guarantee contracts	21	41,091	42,680
Derivative financial instruments	22	4,994	-
		1,360,637	**1,601,527**
Total liabilities		**2,845,722**	**2,900,919**
Net assets		**302,307**	**308,080**
Equity, Capital and reserves			
Share capital	24	437	437
Share premium	24	121,864	121,864
Retained earnings		178,166	181,593
Other comprehensive income		1,840	4,186
Equity attributable to equity holders of the parent		**302,307**	**308,080**

The accompanying notes 1 to 30 form an integral part of the accounts.

The financial statements of PSA Finance UK Ltd were approved by the Board of Directors and authorised for issue on 17TH SEPTEMBER 2019. They were signed on its behalf by:

Name: ADAM GOLDHATGEN
Director

Company Statement of Financial Position

As at 31 December 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Tangible fixed assets	14	1,220	901
Finance lease receivables	15	1,063,581	1,102,716
Derivative financial instruments	22	4,415	-
Loans and receivables	16	9,136	11,572
Net employee defined benefit surplus	12	12,529	15,046
Deferred tax	18	16,409	11,584
		1,107,290	**1,141,819**
Current assets			
Inventories		2,078	2,463
Finance lease receivables	15	1,087,025	1,126,686
Loans and receivables	16	722,825	646,905
Trade and other receivables	17	111,798	156,860
Cash and cash equivalents		43,285	45,301
		1,967,011	**1,978,215**
Total assets		**3,074,301**	**3,120,034**
Current liabilities			
Trade and other payables	19	54,614	38,501
Loans payable	20	1,798,643	1,790,713
Financial guarantee contracts	21	904	904
Tax payable		7,519	7,402
		1,861,680	**1,837,520**
Non-current liabilities			
Loans payable	20	861,274	928,382
Financial guarantee contracts	21	41,091	42,680
Derivative financial instruments	22	4,416	5,631
		906,781	**976,693**
Total liabilities		**2,768,461**	**2,814,213**
Net assets		**305,840**	**305,822**
Equity, Capital and reserves			
Share capital	24	437	437
Share premium	24	121,864	121,864
Retained earnings		181,698	179,334
Other comprehensive income		1,841	4,187
Equity attributable to equity holders of the parent		**305,840**	**305,822**

The accompanying notes 1 to 30 form an integral part of the accounts.

The profit after tax of the Company for the year was £48.69 million (2017: £33.14 million).
The financial statements of PSA Finance UK Ltd were approved by the Board of Directors and authorised for issue on 17TH SEPTEMBER 2019. They were signed on its behalf by:

Name: ADAM GOLDHAGEN
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other comprehensive income £'000	Total equity £'000
Balance at 1 January 2017	**437**	**121,864**	**177,114**	**9,306**	**308,721**
Profit for the year	-	-	43,378	-	**43,378**
Total other comprehensive income before tax for the year	-	-	-	(5,397)	**(5,397)**
Dividends paid	-	-	(38,900)	-	**(38,900)**
Tax on total other comprehensive income	-	-	-	278	**278**
Balance at 31 December 2017	**437**	**121,864**	**181,592**	**4,187**	**308,080**
Adjustments on adoption of IFRS 9	-	-	(2,203)	-	(2,203)
Balance at 1 January 2018	**437**	**121,864**	**179,389**	**4,187**	**305,877**
Profit for the year	-	-	42,776	-	**42,776**
Total other comprehensive expense before tax for the year	-	-	-	(2,867)	**(2,867)**
Dividends paid	-	-	(44,000)	-	**(44,000)**
Tax on total other comprehensive expense	-	-	-	521	**521**
Balance at 31 December 2018	**437**	**121,864**	**178,165**	**1,841**	**302,307**

Other comprehensive income stated above comprises changes in the effective portion on hedging instruments in a cash flow hedge and related deferred tax as well as changes on the defined benefit pension plan.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Net cash used in operating activities	25	**21,526**	**10,072**
Investing activities			
Purchase of fixed assets	14	(737)	(860)
Net cash used in investing activities		**(737)**	**(860)**
Financing activities			
Decrease in loan payables		(55,055)	(17,419)
(Decrease) / Increase in financial guarantee contracts		(1,589)	132
Net cash from financing activities		**(56,644)**	**(17,287)**
Net decrease in cash and cash equivalents		(35,855)	(8,075)
Cash and cash equivalents at beginning of year		180,025	188,100
Cash and cash equivalents at end of year		**144,170**	**180,025**

The accompanying notes 1 to 30 form an integral part of the accounts.

Company Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other comprehensive income £'000	Total equity £'000
Balance at 1 January 2017	**437**	**121,864**	**185,100**	**9,306**	**316,707**
Profit for the year	-	-	33,134	-	**33,134**
Total other comprehensive income before tax for the year	-	-	-	(5,397)	**(5,397)**
Dividends paid	-	-	(38,900)	-	**(38,900)**
Tax on total other comprehensive income	-	-	-	278	**278**
Balance at 31 December 2017	**437**	**121,864**	**179,334**	**4,187**	**305,822**
Adjustments on adoption of IFRS 9	-	-	(2,203)	-	(2,203)
Balance at 1 January 2018	**437**	**121,864**	**177,131**	**4,187**	**303,619**
Profit for the year	-	-	48,567	-	**48,567**
Total other comprehensive expense before tax for the year	-	-	-	(2,867)	**(2,867)**
Dividends paid	-	-	(44,000)	-	**(44,000)**
Tax on total other comprehensive expense	-	-	-	521	**521**
Balance at 31 December 2018	**437**	**121,864**	**181,698**	**1,841**	**305,840**

Other comprehensive income stated above comprises changes in the effective portion on hedging instruments in a cash flow hedge and related deferred tax as well as changes on the defined benefit pension plan.

Company Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Net cash used in operating activities	25	**59,488**	**19,676**
Investing activities			
Purchase of fixed assets	14	(737)	(860)
Net cash used in investing activities		**(737)**	**(860)**
Financing activities			
Decrease in loans payables		(59,178)	(19,911)
(Decrease) / Increase in financial guarantee contracts		(1,589)	132
Net cash from financing activities		**(60,767)**	**(19,779)**
Net decrease in cash and cash equivalents		(2,016)	(963)
Cash and cash equivalents at beginning of year		45,301	46,264
Cash and cash equivalents at end of year		**43,285**	**45,301**

The accompanying notes 1 to 30 form an integral part of the accounts.

Notes to the Financial Statements

1. Significant accounting policies

The principal accounting policies adopted in the presentation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union ("EU"), and those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and pension assets, which have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in Pound Sterling, which is the Group's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented an income statement for the individual Company.

1.2 Key judgements and sources of estimation uncertainty

1.2.1 Key judgements

In the process of applying its accounting policies, the Group made the following judgements, apart from those involving estimations, that could significantly affect the amounts recognised in its financial statements:

Control of Auto ABS UK Loans plc and Auto ABS UK Loans 2017 plc

When the Group has less than a majority of the voting or similar rights in an entity, the Group considers all relevant facts and circumstances in assessing whether it has power over the entity, including contractual arrangements with shareholders and rights arising from other contractual arrangements.

Although the Group has no voting rights in Auto ABS UK Loans plc and Auto ABS UK Loans 2017 plc or representation on their boards, as structured entities Auto ABS UK Loans plc and Auto ABS UK Loans 2017 plc have been set up so that decisions by its shareholders and directors are purely administrative in nature. The Group has control over the underlying loans linked to the loan to the originator, which the Group also manages. The Group also has a contractual right to any residual profits in Auto ABS UK Loans plc and Auto ABS UK Loans 2017 plc. Based on these factors, the Group has determined that it controls Auto ABS UK Loans plc and Auto ABS UK Loans 2017 plc.

Lessor accounting - Finance lease classification

At the inception of vehicle lease contracts in which the Group is the lessor, the present value of the minimum lease payments is at least 90% of the fair value of the leased asset, with the exception of contract hire agreements, which is in line with pricing policies employed by the Group. In addition, contracts typically cover the major part of the useful economic life of the asset with ownership transferring to the lessee at contract maturity. Based on these factors, the Group has classified its net investment in leases as finance leases.

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

1.2 Key judgements and sources of estimation uncertainty (Continued)

1.2.2 Use of estimates

The preparation of financial statements in accordance with IFRSs requires the Group to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. In preparing the financial statements, the Group has applied the most appropriate and reasonable estimates and assumptions considering its business environment and past experience.

Due to the inherent uncertainty of an estimate, actual results may differ from these estimates. To limit this uncertainty, estimates and assumptions are reviewed periodically and any changes to reported amounts are recognised as required.

The Group has made the following estimates and assumptions related to major sources of estimation uncertainty at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Expected credit loss (ECL)

Application of IFRS 9 requires critical estimates in determining the expected credit losses for its finance lease receivables, loans and receivables and trade and other receivables. The following estimates in connection with the application of the Group's expected credit loss model are highly susceptible to change from period to period as assumptions are made to calculate the estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the Group's future financial performance and position:

- Significant increase in credit risk: the Group applies a combination of quantitative (both absolute and relative), qualitative and expert criteria to identify financial assets whose credit risk exposures have increased significantly since initial recognition and which are subject to assessment for lifetime expected credit losses.
- Forward-looking economic scenarios: the Group uses five forward-looking economic scenarios, comprising a central base case, two upside scenarios and two downside scenarios. The Group creates these macroeconomic scenarios based on the chosen paths of growth of the UK's gross domestic product.
- Probability weights: the Group awards the highest probability weight to the base case, whilst the extreme scenarios typically attract lower weights than the more moderate ones. In addition, due to the economic and political uncertainties the Group has applied a higher weighting to the downside scenarios.

Voluntary termination provisions

Certain lease agreements allow the customers to terminate agreements before the end of the contract. A residual loss allowance is recognised in respect of these contracts using independent, third party vehicle valuation data and historical information relating to the probability of early termination and loss due to voluntary termination. Macroeconomic stress scenarios are then applied.

Defined benefit pension plan

The cost of a defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date and the parameter most subject to change is the discount rate. In determining the appropriate discount rate, the Group considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency. This is extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates.

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

1.2 Key judgements and sources of estimation uncertainty (Continued)

1.2.2 Use of estimates (Continued)

Provisions

The Group has recognised a provision in relation to Payment Protection Insurance. This provision is based on our current best estimate of the liability, together with other ancillary costs relevant to the regulatory breach.

1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries at 31 December 2018.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

1.4 Finance Leases

Instalment Credit, Personal Contract Purchase and Contract Hire agreements, for accounting purposes, are treated as finance leases, on the basis that all risks and rewards of ownership of assets leased under these contracts are substantially transferred to the customer or a third party and do not lie with the Group.

Under Instalment Credit agreements, the Group is the legal owner of the vehicle until all repayments have been made. Under Personal Contract Purchase agreements, there is a final volume payment and the customer has three contractual options at the end of the agreement term: to make the final volume payment, to refinance the volume payment or to hand the vehicle back. Based on historical data and guaranteed future value amounts that constitute the balloon payment, the Group deems the probability to be minimal of customers exercising the option to either hand back the vehicle or voluntarily terminate the finance contract.

Finance lease receivables, are recognised in the statement of financial position at an amount equal to the net investment in leases, which represents the gross investment in leases discounted at the interest rates implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivable and include commissions paid to referral agents as well as external direct administrative expenses, which are added to the balance. Contributions received from the brands and transaction fees earned are deducted from the balance and spread over the life of the assets.

Finance lease receivables are subsequently measured using the interest rate implicit in the lease. The carrying amount of finance lease receivables reflects the best estimate of the Group's maximum credit risk exposure on finance lease receivables.

1.5 Financial instruments

The Group adopted IFRS 9 Financial Instruments (IFRS 9) on 1 January 2018. The impact of applying IFRS 9 is disclosed in Note 1.13. The accounting policies for IFRS 9 are set out below. Since comparatives have not been restated on transition to

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

1.5 Financial instruments (Continued)

IFRS 9, financial instruments for the comparative period have been recognised and measured in accordance with IAS 39 Financial Instruments: Recognition and Measurement ('IAS 39'). The accounting policies for IAS 39 are separately disclosed below.

Initial recognition

Financial assets and financial liabilities are recognised by the Group when it becomes party to the contractual provisions of the instrument.

Classification and measurement

Effective 1 January 2018, financial assets are classified in accordance with IFRS 9 in the following measurement categories:

- Amortised cost;
- Fair value through profit or loss

The Group does not hold any debt or equity financial assets that are classified and measured at fair value through other comprehensive income.

Financial assets are measured at fair value on initial recognition and, in the case of amortised cost financial assets, adjusted for transaction costs directly attributable to its acquisition or issue.

Amortised cost financial assets

Financial assets classified and measured at amortised cost are carried at their initial amount less the principal repayments, plus or minus the cumulative amortisation using the effective interest method.

Classification and measurement of financial assets at amortised cost depends on the Group's business model for managing the financial assets and the contractual characteristics of the financial asset.

Business model
The business model reflects how the financial assets are managed to generate cash flows. This may be achieved by collecting the contractual cash flows related to the financial asset, or by both collecting the contractual cash flows and selling the financial assets, or by another type of business model such as short-term profit taking. Factors considered in determining the business model include past experience on how the cash flows are collected for these financial assets, how performance of the financial asset and the related risks are evaluated, managed and reported to management.

Classification and measurement at amortised cost requires as a prerequisite that the financial assets are managed under a hold-to-collect business model.

Contractual cash flow characteristics
In addition to being managed under a hold-to-collect business model, classification and measurement at amortised cost requires that financial assets have associated contractual cash flows that are consistent with a basic lending arrangement comprising solely payments of principal and interest (i.e. interest represents consideration only for time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). When contractual cash flows have exposure to risk or variability that is inconsistent with a basic lending arrangement, the financial asset does not qualify for amortised cost measurement and is, instead, classified and measured at fair value through profit or loss. There is no bifurcation of embedded derivatives for financial assets.

Fair value through profit or loss financial instruments

Financial assets (and financial liabilities) are classified at fair value through profit or loss when they are mandatorily held at fair value through profit or loss, which includes derivative assets (and liabilities).

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

1.5 Financial instruments (Continued)

Financial assets (and financial liabilities) of the Group that are classified and measured at fair value through profit or loss are subsequently measured at fair value with gains and losses recognised in the income statement in the "movement in financial instruments at fair value" line item.

Amortised cost financial liabilities
Other liabilities at amortised cost comprise loan funding, securitised financing instruments, credit loan notes, credit default swaps and trade and other payables. Other financial liabilities are recognised initially at fair value, being the proceeds (fair value of consideration received) net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Derecognition

Financial assets are derecognised when the Group's contractual rights to the cash flows expire or when the Group has, in effect, transferred the contractual rights to receive the cash flows of the financial asset. The Group derecognises financial liabilities when the liability is extinguished i.e. when the contractual obligation is discharged or cancelled or expires.

Impairment

Effective 1 January 2018, the Group assesses impairment on financial assets at amortised cost, loan commitments and finance lease receivables on a forward looking basis using the Group's expected credit loss model. The Group applies the 3-stage impairment model of IFRS 9 to determine expected credit losses. The impairment requirements apply to assets that are performing, underperforming and non-performing.

Initially ("Stage 1"), 12-month expected credit losses on assets are recognised in the income statement, with interest revenue being calculated on the gross carrying amount. If the credit risk increases significantly ("Stage 2"), then lifetime expected credit losses on assets are recognised in the income statement, with interest revenue continuing to be calculated on the gross carrying amount. If the assets become credit-impaired ("Stage 3"), then lifetime expected credit losses on assets continue to be recognised in the income statement, with interest revenue being calculated on the net carrying amount.

The expected credit loss allowance is recognised at each reporting date based on a combination of historical credit loss experience, expert criteria and forward looking information:

The expected credit loss allowance on finance lease receivables is recognised at each reporting date using a provision matrix which has been adjusted for forward looking information and using expert criteria. The provision matrix is a probability-weighted model, which applies an expected loss percentage based on historical credit loss experience on finance lease receivables to each aged category of finance lease receivables. The aged categories are linked to the 3-stage impairment model.

The Group adjusts the provision matrix for forecast growth of the UK economy using five probability weighted forward looking economic scenarios. These scenarios consist of a central base case, two upside scenarios and two downside scenarios. In determining the initial probability weightings, the group awards the highest weight to the base case, whilst the extreme scenarios typically attract lower weights than the more moderate ones.

Stage 1 comprises all finance leases receivables and loans and receivables that are current. A finance lease receivable is considered current when it is not foreborne and is aged:

- between 0 and 15 days past due for retail customers;
- between 0 and 30 days past due for dealerships; and
- between 0 and 60 days past due for fleet customers.

Fleet customers have a history of settling in full according to their own payment cycle of up to 60 days. Loans and receivables are considered current as long as they are not 90 days or more overdue and are not placed on the watch list or determined to be within the troubled grade.

Stage 2 includes finance lease receivables and loans and receivables that are not classified as stage 1 and are aged less than 90 days past due (excluding foreborne exposures). Stage 2 also includes finance lease receivables and loans and receivables

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

1.5 Financial instruments (Continued)

that have been placed on the Watch list. When making a determination to place a finance receivable or loans and receivable on the watch list, expert criteria are applied based on behavioural scoring and other available information such as changes in credit rating, credit information from other parties and information received from the customer themselves. The Watch list includes all exposures that are forborne and are aged less than 90 days past due.

Stage 3 includes finance lease receivables and loans and receivables that are 90 days or more past due, including exposures that are forborne and are aged over 90 days past due. Stage 3 also includes exposures that have been placed on a troubled grade. When making a determination to place an exposure on a troubled grade, expert criteria are applied based on behavioural scoring and other available information such as changes in credit rating, credit information from other parties and information received from the customer themselves.

Hedging activities

The Group has elected to use the exemption to continue using IAS 39 hedge accounting rules, which has resulted in no changes to the hedge accounting policies of the Group on the adoption of IFRS 9 in the current year.

When a financial instrument is designated as a hedge, the Group formally documents the relationship at inception between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. A hedge is deemed highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. Hedges are also retrospectively tested for effectiveness on a monthly basis and at each reporting date.

Fair value hedges

The Group has designated its receive variable interest rate swap contracts as fair value hedges in respect of interest rates on the Group's fixed rate finance lease receivables. Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the Income Statement, together with changes in the fair value of the hedged finance lease receivables that are attributable to the hedged risk. The change in fair value of interest rate swaps and related hedged items is reflected in the "movement in financial instruments at fair value", line item in the income statement.

Consistent with the requirements of its ongoing interest rate risk management policy, the Group did not have open cash flow hedges in place at the reporting date.

Financial guarantee contracts

The Group is the holder of two financial guarantee contracts: a credit linked note ('CLN') and a credit default swap ('CDS'). In line with the accounting treatment of the issuers, these instruments are recognised initially at fair value using an expected loss model to determine future premiums and coupons payable, with reference to the total notional amount of each guarantee and rates agreed in the contracts. Both instruments are subsequently measured at amortised cost.

Interest income and expense

The Group accounts for interest income and expense on an accruals basis. Income from a finance lease receivable is recognised using the interest rate implicit in the lease, which is the rate that causes the present value of minimum lease payments and any unguaranteed residual value to equal the fair value of the leased asset plus any initial direct costs.

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities, other than those at fair value through profit and loss, is determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or expense over the expected life of the asset or liability. The effective interest method exactly discounts estimated future cash flows of the financial asset or liability to the initial net carrying amount. The calculation includes all fees paid or received that are integral to the contract and all other premiums and discounts.

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

1.5 Financial instruments (Continued)

Accounting policies applied before 1 January 2018

IFRS 9 has been applied retrospectively, but the Group has elected not to restate comparatives. Consequently, the comparative year has been accounted for in accordance with the Group's previous accounting policies.

Classification and measurement

Before 1 January 2018, the Group classified its financial assets on initial recognition into the following categories: Financial assets at fair value through profit and loss and Loans and receivables. The Group classified its financial liabilities on initial recognition into the following categories: Financial liabilities at fair value through profit and loss and other liabilities at amortised cost.

Financial assets or financial liabilities at fair value through profit or loss comprised derivatives within held for trading. These instruments were recognised initially and subsequently at fair value with any changes in fair value recognised in the Income Statement including any direct incremental transaction costs.

Loans and receivables comprised wholesale receivables, receivables due from third parties, trade and other receivables and cash and cash equivalents. Loans and receivables were initially recognised at fair value, including any direct and incremental transaction costs, and subsequently measured at amortised cost, using the effective interest method, less any accumulated impairment.

The treatment of other liabilities at amortised cost is in line with the accounting policy as stated for the current year in accordance with IFRS 9.

Impairment

In the prior year the Group reviewed its finance lease receivables, loans and receivables and trade and other receivables to assess whether there was objective evidence that the financial assets were impaired. In determining whether impairment had occurred, the Group considered whether there was any observable data that indicated there had been a measurable decrease in the estimate future cash flows and their timing. Such observable data included whether there has been an adverse change in the payment status of borrowers and customers, or changes in economic conditions that correlate with default on assets in the Group.

Finance lease impairment assessment and recognition

The Group recognised an impairment on sound finance lease receivables in the financial statements based on historical loss patterns. An impairment loss was recognised on sound finance lease receivables when the borrower defaulted on a single instalment (loss event). Impairment was assessed based on the probability of the outstanding finance lease receivable being classified as non-performing and on the discounted average loss rate.

The Group utilised historical loss data for non-performing finance lease receivables to determine the discounted average loss rate, which served as the basis for calculating impairment losses on non-performing and doubtful finance lease receivables.

Loan receivables impairment assessments and recognition

When the first default occurred, a 'Flash Report' was issued containing a detailed risk analysis and stipulating the amount of any necessary provision. Loans for which a 'Flash Report' had been issued were flagged in the system as giving rise to an aggravated risk.

If a loan receivable was considered irrecoverable, the accumulated impairment was charged against the carrying amount of the asset. Any subsequent recoveries were credited to the Income Statement.

Working capital loans to dealers are monitored monthly and a comprehensive review is carried out on an annual basis to determine whether any of the loans should be reclassified as non-performing.

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

1.6 Insurance commission

The Group adopted IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) on 1 January 2018. The impact of applying IFRS 15 is not considered to be material.

The Group has elected to use the practical expedient to apply the requirements of IFRS 15 to its portfolios of commission contracts. Under IFRS 15 the Group recognises revenue as the service is transferred to the customer, using the amount that the Group expects to be entitled to in exchange for the services. The service related to insurance commissions has been identified as the introduction of the finance customer to the insurer resulting in inception of a policy. There are no further performance obligations associated with this service.

The transaction price can vary as a result of early cancellation of the insurance contract by the policyholder. The Group determines the expected value of the variable consideration by considering all information that is reasonably available including historical cancellation trends and current information and includes the amount of variable consideration within the transaction price to the extent that it is highly probable that a significant reversal in the amount of cumulative commission income recognised will not occur when cancellations take place.

IFRS 15 has been applied retrospectively, but the Group has elected not to restate comparatives. Consequently, revenue in the comparative year has been accounted for in accordance with the Group's previous accounting policies and IAS 18 *Revenue*. In the prior year, the Group recognised insurance commissions in the Income Statement over the period the related services were performed.

1.7 Pensions and other post - retirement benefits

The Group participates in a defined benefit plan which requires contributions to be made into a separately administered fund. The scheme was closed to new members in April 2002 from which time membership of a defined contribution plan was made available.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method which attributes entitlement to benefits to the current period (to determine current service costs) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice.

Past service costs are recognised in the Income Statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are measured using current actuarial assumptions and the resultant gain or loss is recognised in the Income Statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the Income Statement as other finance revenue or cost.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

1.8 Taxation

Income tax payable on profits is based on the applicable tax law and recognised as an expense in the period in which profits arise.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

1.9 Fair Value Hierarchy

Valuation techniques applied by the Group to measure assets and liabilities at fair value maximise the use of relevant observable market data when reasonably available. Fair value measurements are categorised in their entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The three levels of fair value hierarchy are:

- level 1: quoted price (without adjustment) for identical instruments in active markets;
- level 2: inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar items in active or inactive markets; and
- level 3: unobservable inputs.

1.10 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Tangible fixed asset are depreciated on the straight-line method over the following estimated useful lives:

- Fixtures, fittings and equipment 3 to 10 years

1.11 Inventories

Inventories encompass non-financial goods held for sale in the ordinary course of business. Inventories are valued at the lower of cost and net realisable value.

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

1.12 New standards and amendments

The Group has adopted IFRS 9 *Financial Instruments* (IFRS 9) effective 1 January 2018 which replaces the requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). The result of the impact of the adoption is disclosed below:

IAS 39 to IFRS 9 reconciliation

Reconciliation of statement of financial position under IAS 39 and IFRS 9 - Financial assets:

	IAS 39			IFRS 9		
Financial assets	Measurement category	Carrying amount as at 31 December 2017 **£'000**	Reclassification **£'000**	Remeasurement **£'000**	Measurement category **£'000**	Carrying amount as at 1 January 2018 **£'000**
Cash and cash equivalents	Loans and receivables	180,025	-	-	Amortised Cost	180,025
Derivatives	At fair value through profit or loss	2,012	-	-	At fair value through profit or loss	2,012
Finance lease receivables	Finance lease receivables	2,229,402	-	(3,090)	Finance lease receivables	2,226,312
Loans and receivables	Loans and receivables	658,477	-	436	Amortised Cost	658,913
Trade receivables	Loans and receivables	82,781	-	-	Amortised Cost	82,781
Total		**3,152,697**	**-**	**(2,654)**		**3,150,043**

Reconciliation of loss allowances under IAS 39 and IFRS 9:

Loss allowance	**IAS39** Carrying amount as at 31 December 2017 **£'000**	Adjustments **£'000**	Carrying amount as at 1 January 2018 **£'000**
Loans and receivables	1,145	(436)	709
Finance lease receivables	12,951	3,090	16,041
Trade receivables	1,108	-	1,108
Total	**15,204**	**2,654**	**17,858**

Reconciliation of retained earnings:

Equity	Carrying amount as at 31 December 2017 **£'000**	Reclassification under IFRS 9 **£'000**	Recognition of expected credit losses under IFRS 9 **£'000**	Deferred tax **£'000**	Carrying amount as at 1 January 2018 **£'000**
Retained earnings	181,593	-	(2,654)	451	179,390

Notes to the Financial Statements (Continued)

1. Significant accounting policies (Continued)

Issued but not yet effective

The Group has not yet adopted the following new standards and amendments, which have been issued but are not yet effective for the Group and are relevant to its operations:

IFRS 16 *Leases*

The new standard will replace IAS 17 *Leases* and related interpretations on 1 January 2019 and sets out the principles for the recognition, measurement, presentation and disclosure for both lessees and lessors.

For lessee accounting, the standard introduces a single lessee accounting model and requires a lessee to recognise a right-of-use asset and a lease liability for all leases.

For lessor accounting, the standard substantially carries forward the lessor accounting requirements from its predecessor.

The Group will apply the standard retrospectively with the cumulative effect of initial application being recognised at the date of initial application with no restatement of comparatives. The Group expects to make use of the transition relief to recognise the right of use assets at an amount equal to the lease liability, adjusted by the amount of any related prepaid or accrued lease payments that exist immediately before the date of initial application.

The Group expects to take advantage of built-in practical expedients not to capitalise contracts that are for a period of 12 months or less and low value contracts of £5,000 or less.

The application of the new lease accounting requirements is expected to result in the recognition of an amount for lease liabilities (and corresponding right of use assets) in the range of £4 million to £8 million. The standard is not expected to have an impact on retained earnings on the date of transition.

Other IFRSs developments

The following amendments are not yet effective, but are relevant to the Group's operations. The impact of these amendments is likely to be immaterial, although it may result in changes to disclosures:

- Amendment to IFRS 9 Financial Instruments: Prepayment features with negative compensation is effective for years beginning 1 January 2019.
- Amendment to IAS 19 Employee Benefits: Plan amendment, curtailment or settlement is effective for years beginning 1 January 2019, and is awaiting EU endorsement.
- IFRIC 23 *Uncertainty over Income Tax Treatments* is effective for years beginning 1 January 2019.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material is effective for years beginning 1 January 2020.

Notes to the Financial Statements (Continued)

2 - Financial risk management

As a result of its normal business activities, the Group is exposed to a variety of financial risks, the most significant of which are credit risk (retail and wholesale), market risk, interest rate risk and liquidity risk.

The Group's board of Directors has overall responsibility for the establishment and oversight of the Group's risk management, within the Shareholders' Agreement. The board of Directors has established the Risk Committee, which is responsible for developing and monitoring Group risk management policies.

2.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Group is exposed to credit risk through both its retail lending to individuals and small fleet customers, and its corporate lending relating to large fleet customers and dealers (wholesale).

Credit risk is managed in accordance with the guidelines, principles and authorisation levels set out by the Shareholders' Agreement and the group policy. For wholesale and large fleet customers, annual credit assessments are performed. For retail and small fleet customers credit assessments are performed when an application for lending is received. These assessments use the Group's approved ratings tools to score customers and assess probability of default.

In addition, credit risk may be amplified by concentration risk, which arises from a large exposure to one or a small number of counterparties. This is monitored by the Risk Committee.

To further reduce the Group's credit risk exposure on finance lease receivables, it has entered into a commensurate risk transfer agreement with its two Shareholders. The effect of the agreement is to limit the Group's maximum exposure to credit risk on finance lease receivables by an amount calculated in terms of the contract as disclosed below. Further details are provided in notes 15 and 21.

The maximum exposure to credit risk arising on the Group's financial assets at the reporting date is equivalent to the carrying value of the financial assets, except in the case of finance lease receivables covered by a risk transfer agreement which reduces the maximum credit risk exposure on finance lease receivables to £2,068.34 million (2017: £2,143.89 million) as determined in accordance with the agreement. The Group has also made loan commitments to wholesale customers, which are revocable at the absolute discretion of the Group to the amount of £214.21 million (2017: £450.96 million). The Group has also accepted proposals for finance lease products of £47.84 million (2017: £56.73 million).

Finance lease receivables, Loans to customers and Trade and other receivables are assessed for impairment using the Group's expected credit loss model. The table below shows the credit risk exposures of these items.

Notes to the Financial Statements (Continued)

2 - Financial risk management (Continued)

2.1 Credit risk (Continued)

2018	Finance lease receivables			Loans and receivables			Trade and other receivables		
	Expected loss rate %	Carrying amount at default £'000	Expected credit losses £'000	Expected loss rate %	Carrying amount at default £'000	Expected credit losses £'000	Expected loss rate %	Carrying amount at default £'000	Expected credit losses £'000
Stage 1									
Current	0.19%	2,105,579	4,077	0.07%	729,914	490	-	44,832	-
		2,105,579	**4,077**		**729,914**	**490**		**44,832**	**-**
Stage 2									
Non-current less than 90 days past due	7.18%	40,822	2,932	-	-	-	-	-	-
Expert criteria	8.89%	6,022	535	0.52%	2,550	13	-	-	-
		46,844	**3,467**		**2,550**	**13**		**-**	**-**
Stage 3									
90 or more days past due	68.32%	15,406	10,519	-	-	-	-	-	-
Expert criteria	36.72%	1,327	487	100.00%	135	135	100.00%	3,061	3,061
		16,733	**11,006**		**135**	**135**		**3,061**	**3,061**
Total		**2,169,156**	**18,550**		**732,599**	**638**		**47,893**	**3,061**

2017

Past due and not impaired

Trade and other receivables	£'000
2 to 3 months	1,168
4 to 6 months	950
Total	**2,118**

Past due and impaired

	Finance lease receivables £'000	Loans and receivables £'000	Trade and other receivables £'000
Gross	31,053	250	1,108
Accumulated impairment	(13,107)	(250)	(1,108)
Carrying value	**17,946**	**-**	**-**

Finance leases and loans may become impaired in the event of a deterioration in their performance as a result of adverse economic conditions. Finance lease receivables are secured on vehicles. If a retail or small fleet customer continues to default on a finance lease, the Group will receive asset realisation proceeds from the vehicle at the time of sale. If it is difficult to sell, this may affect the value. Impairment charges of £2.89 million (2017: £11.48 million) were deemed necessary by the Directors assessment of the latest available information. Refer to note 10.

Notes to the Financial Statements (Continued)

2 - Financial risk management (Continued)

2.2 Market risk

The Group defines market risk as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's financial instruments are predominantly affected by cash flow interest rate risk on loans and borrowings, deposits and derivative financial instruments.

The Group's retail business is subject to fair value interest rate risk as the value of these assets fluctuates with changes in market interest rates. To mitigate this risk, the Group hedges with derivatives. The Group's wholesale business is subject to cash flow interest rate risk which is not actively hedged.

2.2.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's funding with floating interest rates. 76% (2017: 76%) of the Group's lending is at fixed interest rates, while its two main sources of funding (loans from the Shareholder and the Securitisation) are at a variable interest rates. This risk has the potential to affect primarily the net interest margin and the net asset value of the Group.

Net interest margin is defined as the difference between the return on assets and the financial cost of liabilities, whilst net asset value is the difference between the carrying value of assets minus the carrying value of liabilities. To mitigate and manage these risks, the Group periodically enters into interest rate swaps. The swaps receive a variable rate of interest while paying a fixed rate of interest on an agreed notional amount. As of December 2018, these swaps provided a 92% (2017: 94%) coverage of the fixed rate lending portfolio.

2.2.1.1 Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of lending, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

		Effect on profit before tax	
	Increase/Decrease in basis points	**2018 £'000**	**2017 £'000**
Effect of increase	+50	(324)	(259)
Effect of decrease	-50	741	704

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

2.3 Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due. The Group's ability to meet payments on loans and notes as they fall due is dependent on the timely receipt of funds which may be delayed due to slow repayment of receivables.

Notes to the Financial Statements (Continued)

2 - Financial risk management (Continued)

2.3.1 Maturities of financial assets and liabilities

At 31 December 2018

	Carrying Amount £'000	Principal and Interest £'000	Demand £'000	Up to 3 months £'000	4 to 12 months £'000	Up to 2 years £'000	Over 2 years £'000
Finance lease receivables	2,150,606	2,254,263	-	346,049	793,371	619,853	494,990
Loans and receivables	731,961	738,306	-	541,160	187,949	699	8,498
Trade receivables	44,833	44,833	44,833	-	-	-	-
Derivatives	7,732	(2,040)	-	(55)	(289)	(872)	(824)
Cash	144,170	144,170	144,170	-	-	-	-
Total financial assets	**3,079,302**	**3,179,532**	**189,003**	**887,154**	**981,031**	**619,680**	**502,664**
Loans payable	(2,722,573)	(2,772,036)	-	(540,940)	(895,062)	(1,336,034)	-
Financial guarantee contracts	(41,995)	(81,113)	-	(2,010)	(6,030)	(7,925)	(65,148)
Trade and other payables	(65,512)	(65,512)	(65,512)	-	-	-	-
Derivatives	4,994	(2,040)	-	-	-	-	-
Total financial liabilities	**(2,830,080)**	**(2,920,701)**	**(65,512)**	**(543,005)**	**(901,381)**	**(1,344,831)**	**(65,972)**
Net assets/(liabilities)	**254,216**	**258,831**	**123,491**	**344,149**	**79,650**	**(725,151)**	**436,692**
Off Balance Sheet Commitments							
Loan commitments and accepted proposals	-	(262,049)	(262,049)	-	-	-	-

At 31 December 2017

	Carrying Amount £'000	Principal and Interest £'000	Demand £'000	Up to 3 months £'000	4 to 12 months £'000	Up to 2 years £'000	Over 2 years £'000
Finance lease receivables	2,229,402	2,359,912	-	330,012	862,633	679,696	487,571
Loans and receivables	658,477	687,700	-	492,635	183,376	947	10,742
Trade receivables	82,781	82,781	82,781	-	-	-	-
Cash	180,025	180,025	180,025	-	-	-	-
Total financial assets	**3,150,685**	**3,310,418**	**262,806**	**822,647**	**1,046,009**	**680,643**	**498,313**
Loans payable	(2,777,628)	(2,804,993)	-	(599,103)	(638,891)	(1,419,722)	(147,277)
Financial guarantee contracts	(43,584)	(97,387)	-	(2,067)	(6,202)	(8,137)	(80,981)
Trade and other payables	(68,155)	(68,155)	(68,155)	-	-	-	-
Derivatives	2,012	(1,841)	-	(168)	(513)	(642)	(518)
Total financial liabilities	**(2,887,355)**	**(2,972,376)**	**(68,155)**	**(601,338)**	**(645,606)**	**(1,428,501)**	**(228,776)**
Net assets/(liabilities)	**263,330**	**338,042**	**194,651**	**221,309**	**400,403**	**(747,858)**	**269,537**
Off Balance Sheet Commitments							
Loan commitments and accepted proposals	-	(507,687)	(507,687)	-	-	-	-

Notes to the Financial Statements (Continued)

3 - Capital risk management

The Group's shareholders adopt a decentralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts that might affect the businesses. Since PSA Finance UK Limited does not have the status of credit institution, it is not bound by the regulatory capital requirements imposed on banks and other regulated entities in the financial services sector. Capital management occurs and is monitored locally at the Assets and Liabilities Committee, who follow corporate Asset and Liability Management policy guidance. With the agreement of the two Shareholders, the Group upholds regulatory capital requirements as if it were a regulated entity. Capital comprises equity capital and reserves, as laid out in the statement of financial position.

As a result of its normal business activities, the Group is exposed to a variety of other risks, the most significant of which are regulatory compliance risk, conduct risk and operational risk.

3.1 Regulatory Compliance Risk

The Group, as with all corporates, must comply with the legal and regulatory framework in which it operates. In particular the Group operates in the financial services market through the performance of consumer credit and insurance mediation activities. The Group enters into agreements with relevant customers which are regulated under the Consumer Credit Act 1974 and associated laws and regulations. Non-compliance with such regulations can cause conduct risks, regulatory risks and financial consequences. The Group has legal, regulatory and compliance awareness and controls to mitigate these risks. This is monitored by the Compliance Committee and Legal Committee and is also discussed with the Board on a quarterly basis.

3.2 Conduct Risk

The Group considers conduct risk to be the risk that its behaviour could lead to poor outcomes or detriment to our customers, or is contrary to good market practice. We consider conduct risk as part of the governance around our key business decisions. To support this, our risk framework sets out how we manage the risk. It includes:

- key roles and responsibilities
- formal governance and committee structures.

Colleagues are made aware of their responsibilities for conduct risk and are made accountable through performance management.

3.3 Operational risk

The Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This risk could lead to Conduct Risk and Legal and Regulatory Risk and/or negatively impact the business's financial stability if left unmanaged.

The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks. In addition, the operational risk function as a second level of control seeks to ensure that all key risks are regularly managed, controlled and reported to the Risk Committee, which analyses and reviews the operational risk cartography and operational incidents (including rectification activities).

4 - Interest income

Group

	2018 £'000	2017 £'000
Interest income:		
Finance leasing income	113,930	127,864
Wholesale funding income	13,717	13,370
Interest on bank deposits	1,577	953
Total	**129,224**	**142,187**

Notes to the Financial Statements (Continued)

5 - Finance costs

Group

	2018 £'000	2017 £'000
Interest payable to securitisation investors	14,662	11,753
Interest on other loans payable	15,922	14,300
Interest on swaps	(1)	7,405
Other	293	444
Total	**30,876**	**33,902**

6 - Other operating income / (expense)

Group

	2018 £'000	2017 £'000
Decrease in provisions	24	268
Recharge to other group entities	65	49
Other expenses	(1,509)	(1,352)
Insurance commissions income	3,710	3,849
Credit Loan Note coupon	(5,187)	(5,063)
Credit Default Swap premium	(4,906)	(4,930)
Total	**(7,803)**	**(7,179)**

7 - Administrative expenses

Group

	2018 £'000	2017 £'000
Staff costs (Note 8)	13,784	14,223
IT costs	9,362	8,568
Headquarter recharged costs	2,456	3,339
General expenses	8,779	9,991
Auditors' remuneration for audit services	289	292
Depreciation of tangible assets	418	84
Insurance costs	83	59
Irrecoverable VAT	2,603	3,202
Total	**37,774**	**39,758**

Notes to the Financial Statements (Continued)

8 - Staff costs

Group

The average monthly number of employees (including Executive Directors) was:

	2018 No.	2017 No.
Sales and customer service	122	116
Administration and support	154	152
Total	**276**	**268**

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	11,979	12,327
Social security costs	1,053	1,039
Defined contribution pension costs	728	755
Defined benefit pension costs	24	102
Total	**13,784**	**14,223**

9 - Directors' emoluments

Group

The aggregate emoluments received by the Directors of the Group were:

	Total 2018 £'000	Total 2017 £'000	Highest paid Director 2018 £'000	Highest paid Director 2017 £'000
Salaries and fees	379	395	213	222
Performance related payments	129	107	100	40
Total emoluments excluding pension contributions	**508**	**502**	**313**	**262**
Pension contributions	39	44	39	-
Total	**547**	**546**	**352**	**262**

There were no additional pension contributions (2017: £45,000) paid and borne by a PSA Group company.

Emoluments of certain Directors of the Group were paid and borne by other Santander or PSA Group companies. It was estimated that the combined cost of their remuneration for services to the Group was £100,000 (2017: £100,000) in total. No retirement benefits were accrued for these Directors under the defined benefit or defined contribution schemes of the Group.

Notes to the Financial Statements (Continued)

10 - Impairment losses

The below table shows the movement in loss allowance on finance lease receivables, loans and receivables and trade and other receivables:

2018

Group and Company

Finance lease receivables	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**5,946**	**2,138**	**7,957**	**16,041**
Charges through profit or loss:				
Transfers	(405)	1,353	6,366	7,314
Origination	1,355	740	870	2,965
Derecognition	(3,089)	(364)	(750)	(4,203)
Amortisation	273	(372)	101	2
	(1,866)	**1,357**	**6,587**	**6,078**
Write-offs against receivables	(3)	(28)	(3,538)	(3,569)
Balance as at 31 December	**4,077**	**3,467**	**11,006**	**18,550**

Loans and receivables	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	**423**	**36**	**250**	**709**
Charges through profit or loss:				
Transfers	(45)	10	(69)	(104)
Origination	390	2	101	493
Derecognition	(262)	(35)	(147)	(444)
Amortisation	(16)	-	-	(16)
	67	**(23)**	**(115)**	**(71)**
Write-offs against receivables	-	-	-	-
Balance as at 31 December	**490**	**13**	**135**	**638**

Trade receivables	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January	-	-	**1,108**	**1,108**
Charges through profit or loss:				
Transfers	-	-	-	-
Origination	-	-	3,061	**3,061**
Derecognition	-	-	(1,108)	**(1,108)**
Amortisation	-	-	-	-
	-	-	**1,953**	**1,953**
Write-offs against receivables	-	-	-	-
Balance as at 31 December	-	-	**3,061**	**3,061**

Included in impairment losses in profit or loss are significant risk transfer recoveries of £3.48 million (2017: £1.28 million).

Notes to the Financial Statements (Continued)

10 - Impairment losses (Continued)

2017

Group and Company

	Impairment of financial leases (Note 15) £'000	Impairment of loans and receivables (Note 16) £'000	Impairment of trade and other receivables (Note 17) £'000	Total £'000
Balance at 1 January	**30,014**	**2,736**	**1,082**	**33,832**
Change in impairment provisions	12,514	(1,061)	26	**11,479**
Write-offs against receivables	(9,840)	(530)	-	**(10,370)**
Balance as at 31 December	**32,688**	**1,145**	**1,108**	**34,941**

In 2017, finance leases were presented net of voluntary termination provisions in an amount of £19.74 million.

The below table shows the movement in voluntary termination provisions on finance lease receivables:

2018

Group and Company

	£'000
Balance at 1 January	**19,737**
Utilised	(2,681)
Changes in estimate	(1,586)
Balance as at 31 December	**15,470**

11 – Movements in financial instruments at fair value

Group

	2018 £'000	2017 £'000
Fair value hedge interest rate swaps	661	9,858
Fixed rate receivables hedged portfolio	3,268	(5,440)
Securitisation swaps	(637)	(672)
Gain/(loss) on ineffective portion of cash flow hedge	-	38
Total	**3,292**	**3,784**

The movement of fair value hedge interest rate swaps includes changes in fair value of £696k. The movement of fixed rate receivables hedged portfolio includes changes in fair value of £689k.

Notes to the Financial Statements (Continued)

12 - Retirement benefit scheme

Group and Company

The Group participates in a group defined benefit pension scheme, the Peugeot Pension "Plan". The assets of this Plan are held in a separate trustee administered fund. An actuarial valuation under IFRS of the Peugeot Pension Plan was carried out at 31 December 2017 by Deloitte Total Reward and Benefits Limited, who act as consulting actuaries. The appropriate share of the assets and liabilities of this Plan have been included within these accounts.

PSA Finance UK Limited also makes contributions under the PSA Peugeot Citroen group stakeholder pension scheme. This is a contributory pension scheme, externally invested and contracted into the State Earnings-Related Pension Scheme. Employer contributions for this scheme are charged to the profit and loss account on the basis of contributions made.

The major assumptions used by the actuary were:

	2018	2017
Discount rate	2.95%	2.60%
Inflatión rate	3.30%	3.20%
Increases to pensions in payment	3.30%	3.20%
Increases to pensions in deferment	2.30%	2.20%
Salary increases	3.30%	3.20%
Interest income on plan assets (2018)	2.95%	2.60%

Mortality assumptions

	2018		2017	
	Male Years	Female Years	Male Years	Female Years
Life Expectations of Pensioners:				
Current Pensioner at age 60	26.6	28.8	26.5	28.7
Future Pensioner at age 60	27.9	30.3	27.8	30.2

The assets and liabilities of the scheme at the reporting date are:

	2018 £'000	2017 £'000
As at 31 December		
Scheme assets at fair value		
Equities	5,112	6,547
Bonds	49,486	55,494
Cash	809	312
Fair value of scheme assets	55,407	62,353
Present value of scheme liabilities	(42,878)	(47,307)
Net pension surplus	**12,529**	**15,046**

Reconciliation of present value of the benefit pension obligations are analysed as follows:

	2018 £'000	2017 £'000
As at 1 January	**47,307**	**48,939**
Current service cost	994	1,056
Interest cost	1,238	1,392
Benefit paid	(3,790)	(2,743)
Transfer	(735)	(956)
Actuarial loss/(gain)	(2,139)	(385)
Plan participants contributions	4	4
As at 31 December	**42,879**	**47,307**

Notes to the Financial Statements (Continued)

12 - Retirement benefit scheme (Continued)

Sensitivity analysis of scheme liabilities

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used is set out below:

	2018 Change in assumption	2018 Impact on liabilities	2017 Change in assumption	Impact on liabilities
Discount rate	Increase by 0.5%	Decrease by 9%	Increase by 0.25%	Decrease by 5%
Inflation rate	Increase by 0.5%	Decrease by 9%	Increase by 0.25%	Decrease by 5%
Post retirement mortality	Increase by 1 year	Increase by 4%	Increase by 1 year	Increase by 4%

Reconciliation of fair value of plan assets are analysed as follows:

	2018 £'000	2017 £'000
As at 1 January	**62,353**	**69,019**
Expected return on scheme assets	1,612	1,948
Actuarial gain/(loss)	(5,006)	(6,136)
Benefit paid	(3,790)	(2,743)
Employer contributions	1,263	1,530
Transfer	(1,027)	(1,269)
Plan participants contributions	4	4
As at 31 December	**55,409**	**62,353**

Scheme assets do not include any of the Company's own financial instruments or any property occupied by the Company. The amounts recognised in the Income Statement and in the Statement of Other Comprehensive Income for the year are analysed as follows:

	2018 £'000	2017 £'000
Current service costs	**994**	**1,056**
Expected return on scheme assets	1,612	1,948
Interest on defined benefit liability	(1,238)	(1,392)
Other finance income - pensions	**374**	**556**

Current service costs are included within Administration expense.

Taken to the Statement of Comprehensive Income:	2018 £'000	2017 £'000
Actuarial changes arising from changes in demographic assumptions	2,139	385
Actuarial changes arising from changes in financial assumptions	(5,006)	(6,136)
Recognised in the Statement of Comprehensive Income	**(2,867)**	**(5,751)**

Actuarial valuation

The actuarial valuation at 31 December 2018 under IAS19 showed a decrease in the surplus from £15.05 million to £12.53 million (2017: £20.08 million to £15.05 million).

The Company made contributions to the Peugeot Pension Plan of £1.26 million (2017: £1.53 million) during the year.

The Company also made contributions to the stakeholder pension scheme, amounting to £0.73 million (2017: £0.76 million) during the year.

Notes to the Financial Statements (Continued)

13 - Tax

	2018 £'000	2017 £'000
Current tax:		
UK Corporation Tax on profit of the year	15,769	15,715
Adjustments in respect of prior periods	28	(59)
Total current tax	**15,797**	**15,656**
Deferred tax (Note 18):		
Origination and reversal of temporary differences	(4,921)	(4,758)
Pensions and cash flow hedge	(1)	122
Adjustments in respect of prior years	(106)	(189)
Total deferred tax	**(5,028)**	**(4,825)**
Tax charge for the year	**10,769**	**10,831**

UK Corporation Tax is calculated at 19% (1 January 2017 to 31 December 2017: 19.25%). The standard rate of UK Corporation Tax was reduced from 20% to 19% with effect from 1 April 2017. The Corporation Tax main rate will be reduced by a further 2% to 17% for the financial year beginning 1 April 2020. As the change in rates was substantively enacted prior to 31 December 2017, they have been reflected in the deferred tax asset.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2018 £'000	2017 £'000
Profit before tax:		
Continuing operations	53,545	54,209
Tax at the UK Corporation Tax rate of 19% (2017: 19.25%)	10,174	10,435
Impact of change in tax rate	647	609
Non-deductible expenses	27	(43)
Other	-	78
Adjustments in respect of prior periods	(79)	(248)
Tax charge for the year	**10,769**	**10,831**

14 - Tangible fixed assets

Group and Company

	2018 £'000	2017 £'000
Cost:		
At 1 January	1,702	842
Additions	737	860
At 31 December	**2,439**	**1,702**

Accumulated depreciation:		
At 1 January	(801)	(717)
Charge for the year	(418)	(84)
At 31 December	**(1,219)**	**(801)**

Carrying amount at 31 December	**1,220**	**901**

Notes to the Financial Statements (Continued)

15 - Finance lease receivables

Group and Company

	Minimum Lease Payments	
	2018	**2017**
	£'000	**£'000**
Within one year	1,163,520	1,187,681
In the second to fifth years inclusive	1,189,168	1,213,499
Gross lease receipts	**2,352,688**	**2,401,180**
Unearned finance income	(168,062)	(139,090)
Impairment provisions on leases	(34,020)	(32,688)
Present value of minimum lease payments receivable	**2,150,606**	**2,229,402**
In the second to fifth years inclusive	1,063,581	1,102,716
Within one year	1,087,025	1,126,686

Analysed as:

	2018	**2017**
	£'000	**£'000**
Non-current finance lease receivables	1,063,581	1,102,716
Current finance lease receivables	1,087,025	1,126,686
	2,150,606	**2,229,402**

The average term of finance leases entered into is 41 months (2017: 39 months).

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The net interest implicit in leases contracted approximates to 6.88% (2017: 8.52%) per annum. The Group has buy-back agreements in place with Peugeot Motor Company plc and Citroen UK Ltd, relating to all lease contracts resulting in the Group having no unguaranteed residual values.

Finance lease receivable balances are secured over the period of the motor vehicle lease.

An allowance has been made for estimated expected credit losses of £18.55 million (2017: £12.95 million), and voluntary termination £15.47 million (2017: £19.74 million). The concentration of credit risk is limited due to the customer base being large and unrelated.

Notes to the Financial Statements (Continued)

16 - Loans and receivables

Group and Company

	Note	2018 £'000	2017 £'000
Loans and receivables due from third parties		35,839	33,896
Wholesale receivables		696,760	625,726
Impairment provision on loans and receivables	10	(638)	(1,145)
Total		**731,961**	**658,477**

The Directors consider that the carrying amount of loans and receivables approximates fair value.

All loans to third parties are to employees of both Group and related parties of the Group which are at fixed interest rates. All loans are made in Pound sterling.

Analysed as:

	2018 £'000	2017 £'000
Non-current Loans and receivables	9,136	11,572
Current Loans and receivables	722,825	646,905
Total	**731,961**	**658,477**

17 - Trade and other receivables

Group

	Note	2018 £'000	2017 £'000
Trade receivables from Wholesale Activities		31,574	39,859
Trade receivables from Retail Activities		13,835	36,613
Trade receivables from Other Activities		2,485	7,417
VAT receivables		33,412	21,795
Prepayments and accrued income		801	4,969
Impairment provision on trade and other receivables	10	(3,061)	(1,108)
Total		**79,046**	**109,545**

Company

	Note	2018 £'000	2017 £'000
Trade receivables from Wholesale Activities		66,768	87,197
Trade receivables from Retail Activities		11,314	36,570
Trade receivables from Other Activities		2,577	7,441
VAT receivables		33,398	21,791
Prepayments and accrued income		801	4,969
Impairment provision on trade and other receivables	10	(3,061)	(1,108)
Total		**111,797**	**156,860**

The Directors consider that the carrying amount of trade receivables approximates fair value.

Notes to the Financial Statements (Continued)

18 - Deferred tax

Group

	Pensions and Cash Flow Hedge £'000	Other temporary differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 January 2017	**(2,830)**	**2,546**	**6,399**	**6,115**
Income statement credit	(7)	(1,761)	6,593	4,825
Credited to other comprehensive income	188	-	-	188
At 31 December 2017	**(2,649)**	**785**	**12,992**	**11,128**
IFRS 9 restatement	-	451	-	451
At 1 January 2018	**(2,649)**	**1,236**	**12,992**	**11,579**
Income statement credit	1	775	4,252	5,028
Credited to other comprehensive income:	521	-	-	521
At 31 December 2018	**(2,127)**	**2,011**	**17,244**	**17,128**

Deferred tax assets are attributable to the following items:

	Balance Sheet 2018 £'000	Balance Sheet 2017 £'000	Income Statement 2018 £'000	Income Statement 2017 £'000
Deferred tax assets:				
Accelerated tax depreciation	17,244	12,992	4,252	6,593
Other temporary differences	2,011	900	775	(1,761)
Pensions and cash flow hedge	(2,127)	(2,764)	1	(7)
Total deferred tax	**17,128**	**11,128**	**5,028**	**4,825**

Notes to the Financial Statements (Continued)

18 – Deferred Tax (Continued)

Company

	Pensions and Cash Flow Hedge £'000	Other temporary differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 January 2017	**(2,717)**	**794**	**6,400**	**4,477**
Income statement credit	(122)	449	6,592	**6,919**
Credited to other comprehensive income:	188	-	-	**188**
At 31 December 2017	**(2,651)**	**1,243**	**12,992**	**11,584**
IFRS 9 restatement	-	451	-	451
At 1 January 2018	**(2,651)**	**1,694**	**12,992**	**12,035**
Income statement credit	1	(400)	4,252	**3,853**
Credited to other comprehensive income:	521	-	-	**521**
At 31 December 2018	**(2,129)**	**1,294**	**17,244**	**16,409**

Deferred tax assets are attributable to the following items:

	Balance Sheet 2018 £'000	Balance Sheet 2017 £'000	Income Statement 2018 £'000	Income Statement 2017 £'000
Deferred tax assets:				
Accelerated tax depreciation	17,244	12,992	4,252	6,593
Other temporary differences	1,294	1,243	(400)	449
Pensions and cash flow hedge	(2,129)	(2,651)	1	(122)
Total deferred tax	**16,409**	**11,584**	**3,853**	**6,920**

The deferred tax assets scheduled above have been recognised on the basis that sufficient future taxable profits are forecast within the foreseeable future, in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets as they reverse.

19 - Trade and other payables

Group

	2018 £'000	2017 £'000
Trade payables	37,993	40,361
Social Security	322	351
Regulatory provisions	2,786	3,795
Accruals and deferred income	27,519	27,794
VAT payables	19	4
Total	**68,639**	**72,305**

Notes to the Financial Statements (Continued)

19 – Trade and Other Payables (Continued)

Company

	2018 £'000	2017 £'000
Trade payables	26,868	8,311
Social Security	322	348
Regulatory provisions	2,786	3,795
Accruals and deferred income	24,633	26,043
VAT payables	5	4
Total	**54,614**	**38,501**

Trade payables and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The Directors consider that the carrying amount of trade payables approximates fair value.

20 - Loans payable

Group

	2018 £'000	2017 £'000
Amounts due to Santander Consumer Finance UK	1,510,843	1,537,628
Amounts due to Securitisation Investors	1,211,730	1,240,000
	2,722,573	**2,777,628**
These borrowings are repayable as follows:		
Loans payable due within one year	1,408,021	1,218,781
Loans payable due after one year	1,314,552	1,558,847
	2,722,573	**2,777,628**

Company

	2018 £'000	2017 £'000
Amounts due to Santander Consumer Finance UK	1,510,843	1,537,628
Amounts due to Auto ABS UK	787,700	799,296
Amounts due to Auto ABS UK 2017	361,374	382,171
	2,659,917	**2,719,095**
These borrowings are repayable as follows:		
Loans payable due within one year	1,798,643	1,790,713
Loans payable due after one year	861,274	928,382
	2,659,917	**2,719,095**

All loans payables are held in Pound Sterling. Loans from the parent companies are provided for a fixed term at a floating rate of interest which is referenced to the 3 month Libor rate and at terms equivalent to those that prevail in an equivalent arms-length transaction. The Directors consider that the carrying amount of loans payables approximates fair value.

During the year, the Group issued securitisation notes for £915 million (2017: £925 million) to private investors and £Nil (2017: £315 million) to public investors.

Notes to the Financial Statements (Continued)

21 - Financial guarantee contracts

Group and Company

	2018 £'000	2017 £'000
Credit linked note	41,580	43,180
Credit default swap	415	404
Total	**41,995**	**43,584**

Analysed as:		
Non-current financial guarantee contracts	41,091	42,680
Current financial guarantee contracts	904	904
Total	**41,995**	**43,584**

On 28 December 2016, the Group entered into a commensurate risk transfer agreement with its two Shareholders. A Credit Linked Note (CLN) was transacted with the Peugeot SA (through its UK subsidiary Peugeot Citroen Automotive UK Ltd) and a Credit Default Swap (CDS) was transacted with Santander Consumer UK Ltd, the Group's immediate parent. The arrangement is expected to be in place for 7 years. In return for coupon payments on the CLN and premium payments on the CDS, the group is able to claim compensation relating to specific credit events which occur in a proportion of its finance lease portfolio.

Notes to the Financial Statements (Continued)

22 – Derivative financial instruments

2018

Fair value hedge - Interest rate risk

Group and Company

Hedging instrument	Carrying amount £'000	Change in fair value for hedge ineffectiveness £'000	Nominal amount £'000	Timing profile of nominal amount	Average rate %
Interest rate swaps	3,995	699	1,935,500	31/12/2018 to 31/12/2022	0.730

The Group makes use of multiple interest rates swaps for which the notional amounts are individually amortising at points within the above timing profile.

Hedged item	Carrying amount £'000	Change in fair value for hedge ineffectiveness £'000	Accumulated amount of fair value hedge adjustments £'000	Line item in which hedged item included
Finance lease receivables	1,967,925	(689)	(1,112)	Finance lease receivables

In addition to the interest rate swaps designated in a fair value hedge of the interest rate risk of its finance lease receivables, the Group has also entered into two sets of interest rate swaps in contemplation of each other and on a mirrored back-to-back basis which are linked to the securitisation vehicles: a front swap which faces the consolidated structured entities £2.74 million (2017: £7.64 million) and a back swap which faces the Company £(4) million (2017: £(8.93) million).

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Assets – Fair values				
Interest rate swaps - fair value hedge	4,415	3,299	4,415	3,299
Interest rate swaps - front swap	3,317	7,643	-	-
Interest rate swaps - back swap	-	(8,930)	-	(8,930)
Total	**7,732**	**2,012**	**4,415**	**(5,631)**
Liabilities – Fair values				
Interest rate swaps - fair value hedge	(420)	-	(420)	-
Interest rate swaps - front swap	(578)	-	-	-
Interest rate swaps - back swap	(3,996)	-	(3,996)	-
Total	**(4,994)**	**-**	**(4,416)**	**-**

As a result of the Group diversifying its borrowings portfolio by entering into securitisations, a number of interest rate swaps have been entered into.

The Group's securitisation program began in 2012 and has since renewed each year. Interest rate swaps have been put in place to mitigate the fixed rate return on financial assets versus the variable rate on financial liabilities.

Notes to the Financial Statements (Continued)

23 - Financial assets and liabilities

The table below shows the total amount of the classification of financial assets and financial liabilities of the Group at year-end.

2018	Fair value through profit and loss £'000	Amortised cost £'000	Finance lease receivables £'000	Non-financial assets £'000	Total carrying value £'000
Assets					
Finance lease receivables	-	-	2,150,606	-	2,150,606
Loans and receivables	-	731,961	-	-	731,961
Trade and other receivables	-	44,833	-	34,214	79,047
Derivatives	2,739	-	-	-	2,739
Cash and cash equivalents	-	144,170	-	-	144,170
Total	**2,739**	**920,964**	**2,150,606**	**34,214**	**3,108,523**

	Fair value through profit and loss £'000	Financial liabilities at amortised cost £'000	Non-financial liabilities £'000	Total carrying value £'000
Liabilities				
Loans payable	-	2,722,573	-	2,722,573
Trade and other payables	-	65,512	3,127	68,639
Financial guarantee contracts	-	41,995	-	41,995
Total	**-**	**2,830,080**	**3,127**	**2,833,207**

2017	Fair value through profit and loss £'000	Loans and Receivables £'000	Finance lease receivables £'000	Non-financial assets £'000	Total carrying value £'000
Assets					
Finance lease receivables	-	-	2,229,402	-	2,229,402
Loans and receivables	-	658,477	-	-	658,477
Trade and other receivables	-	82,781	-	26,764	109,545
Derivatives	2,012	-	-	-	2,012
Cash and cash equivalents	-	180,025	-	-	180,025
Total	**2,012**	**921,283**	**2,229,402**	**26,764**	**3,179,461**

	Fair value through profit and loss £'000	Financial liabilities at amortised cost £'000	Non-financial liabilities £'000	Total carrying value £'000
Liabilities				
Loans payable	-	2,777,628	-	2,777,628
Trade and other payables	-	68,155	4,150	72,305
Financial guarantee contracts	-	43,584	-	43,584
Total	**-**	**2,889,367**	**4,150**	**2,893,517**

Fair value of financial assets and financial liabilities

The only financial instruments included in the Group's Statement of Financial Position that are measured at fair value are derivative transactions. As the fair value of such derivatives is calculated by discounting future cash flows using appropriate and observable data where available, these fall within level 2 of the fair value hierarchy.

Notes to the Financial Statements (Continued)

24 - Share capital and premium

Group and Company

	2018 £'000	2017 £'000
Issued called up and fully paid:		
437,280 ordinary shares of £1 each	437	437
Share premium	121,864	121,864
Total	**122,301**	**122,301**

Share premium comprises 200,000 shares with premium of £9 each and 237,280 ordinary shares with premium of £506 each.

25 - Note to the statement of cash flows

Group

	Note	2018 £'000	2017 £'000
Profit before tax		**53,545**	**54,209**
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of tangible assets		418	84
Net movement in impairment of leases		6,078	12,514
Net movement in impairment of loans		(71)	(1,061)
Net movement in impairment of trade and other receivables		1,953	26
Hedging of interest rate risk		(726)	(9,702)
Operating cash flows before movements in working capital		**61,197**	**56,070**
Decrease / (Increase) in finance lease receivables		69,628	(24,576)
(Increase) / Decrease in loans and receivables		(72,977)	93,385
Decrease / (Increase) in trade receivables		28,545	(21,944)
Increase in inventories		(1,173)	(181)
Decrease in trade payables		(3,666)	(33,275)
Increase in net employee defined benefit surplus		(350)	(717)
Cash used in operations		**81,204**	**68,762**
Tax paid	26	(15,678)	(19,790)
Dividends paid		(44,000)	(38,900)
Net cash used in operating activities		**21,526**	**10,072**

Notes to the Financial Statements (Continued)

25 - Note to the statement of cash flows (Continued)

Company

		2018 £'000	2017 £'000
Profit before tax		**60,509**	**41,870**
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of tangible assets		418	84
Net movement in impairment of leases		6,078	12,514
Net movement in impairment of loans		(71)	(1,061)
Net movement in impairment of trade and other receivables		1,953	26
Hedging of interest rate risk		(5,630)	2,313
Operating cash flows before movements in working capital		**63,257**	**55,746**
Decrease / (Increase) in finance lease receivables		69,628	(32,476)
(Increase) / Decrease in loans and receivables		(72,977)	93,385
Decrease / (Increase) in trade receivables		43,109	(24,453)
Decrease / (Increase) in inventories		385	(181)
Increase / (Decrease) in trade payables		16,113	(12,938)
Increase in net employee defined benefit surplus		(350)	(717)
Cash used in operations		**119,165**	**78,366**
Tax paid	26	(15,677)	(19,790)
Dividends paid		(44,000)	(38,900)
Net cash used in operating activities		**59,488**	**19,676**

26 - Tax paid

Group and Company

	2018 £'000	2017 £'000
Balance as at 1 January	7,402	11,536
Tax charge	15,796	15,655
Balance as at 31 December	(7,521)	(7,402)
Tax paid	**15,677**	**19,789**

27 - Commitments and contingent liabilities

Commitments - Group and Company

Off-balance sheet liabilities consist of commitments to fund the purchase and leasing of vehicles to our retail customers and undrawn limits on wholesale loans to our dealer network. The Group has approved credit to certain retail customers, but has not funded the contracts through payment of vehicles to dealers, pending the customer meeting the contractual terms of the sale/lease. Undrawn balances relating to wholesale loans to the dealer network allow the Group to respond to the seasonality of the business in peak registration periods.

The balance of the commitments in respect of retail clients as at 31 December 2018 is £47.84 million (2017: £56.73 million), while the amount of undrawn limits on wholesale loans as at 31 December 2018 is £214.21 million (2017: £450.96 million).

Notes to the Financial Statements (Continued)

27 - Commitments and contingent liabilities (Continued)

Operating lease commitments — Group as lessee

The Group has entered into commercial leases on certain properties. The Group has the option, under some of its leases, to activate early break clauses.

Future minimum rentals payable under operating leases are, as follows:

	2018 £'000	2017 £'000
Within one year	512	678
After one year but not more than five years	2,353	2,127
Over five years	4,411	5,014
Total	**7,276**	**7,819**

28 - Related party transactions

Group

During the year, the Group entered into the following transactions with related parties:

Transactions:

	Income		Expense	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Entities with significant influence over the Company				
Santander Consumer (UK) plc	2,203	1,089	(21,245)	(19,508)
Banque PSA Finance SA	168	-	(12,271)	(12,266)
Other Santander UK plc group companies				
Santander UK plc	232	237	(401)	(263)
Abbey National Treasury Services plc	4,928	13,471	(7,284)	(12,254)
Finance Professional Services S.A.S	-	-	(290)	(302)
Other Banque PSA Finance group companies				
PSA Insurance Ltd	-	28	(451)	(1,550)
PSA Insurance Europe Ltd	-	-	-	(4,598)
PSA Finance Poland	-	-	(419)	(398)
PSA Services Ltd	-	-	(97)	(242)
Other related parties				
Citroen UK Ltd	65,440	85,221	-	(2)
Peugeot Motor Company plc	59,307	73,852	-	(1,449)
Peugeot Citroen Retail UK Ltd	16	13	(12,392)	(12,998)
Peugeot Citroen Automobiles UK Ltd	73	55	(5,896)	(5,636)

Notes to the Financial Statements (Continued)

28 - Related party transactions (Continued)

Balances:

	Amounts owed by related parties 2018 £'000	2017 £'000	Amounts owed to related parties 2018 £'000	2017 £'000
Entities with significant influence over the Company				
Santander Consumer (UK) plc	153	161	(1,511,326)	(1,538,130)
Banque PSA Finance SA	139	-	(3,772)	(3,542)
Other Santander UK plc group companies				
Santander UK plc	41,152	42,778	(431)	(420)
Abbey National Treasury Services plc	-	7,753	-	(4,582)
Finance Professional Services S.A.S	-	-	(144)	-
Other Banque PSA Finance group companies				
PSA Insurance Ltd	-	-	(25)	(81)
PSA Insurance Europe Ltd	11	1	(488)	(456)
PSA Finance Poland	-	-	-	(98)
PSA Services Ltd	-	-	(97)	(242)
Other related parties				
Citroen UK Ltd	43,698	54,907	(37,206)	(94,662)
Peugeot Motor Company plc	17,943	7,006	(6,795)	(110,419)
Peugeot Citroen Retail UK Ltd	-	-	(3,052)	(12,895)
Peugeot Citroen Automobiles UK Ltd	25,496	32,987	(67,190)	(74,046)
Banque PSA Finance UK Branch	-	-	(2)	(2)

Company

Company amounts as per Group except for the following:

Balances:

	Amounts owed by related parties 2018 £'000	2017 £'000	Amounts owed to related parties 2018 £'000	2017 £'000
Abbey National Treasury Services plc	-	4,984	-	(4,582)
Auto ABS UK Loans plc	279,649	294,181	(1,121,410)	(1,115,679)
Auto ABS UK Loans 2017 plc	108,837	109,965	(369,895)	(388,955)

The registered office address of Auto ABS UK Loans plc and Auto ABS UK Loans 2017 plc is 35 Great St. Helen's, London, EC3A 6AP.

Terms and conditions of transactions with related parties

Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables.

Notes to the Financial Statements (Continued)

28 - Related party transactions (Continued)

Related parties loan impairment

The Group has recorded impairments against receivables relating to amounts owed by related parties as disclosed in the table below. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

	2018 £'000	2017 £'000
Citroen UK Ltd	1,607	428
Peugeot Motor Company plc	592	91
Peugeot Citroen Automobiles UK Ltd	-	17

Remuneration of key management personnel

The remuneration of Directors and key management personnel of the Company is set out in aggregate for each of the employees benefit categories. Further information about the remuneration of the individual Directors are provided in note 9.

	2018 £'000	2017 £'000
Short-term employee benefits	**508**	502
Post-employment benefits	**39**	44
	547	546

Directors' transactions

Directors and key management personnel have undertaken the following transactions, at normal market prices, with the Group:

Finance leases and unsecured personal loans

	Number of directors/key management personnel		Amounts in respect of directors and key management personnel	
	2018	2017	2018 £'000	2017 £'000
Balances outstanding at 1 January	1	1	26	48
Net movement during the year	-	-	19	(22)
Balances outstanding at 31 December	**1**	**1**	**45**	**26**

There were no other transactions with Directors or key management personnel.

29 - Subsequent events

Effective on 31 May 2019, the Group unwound the commensurate risk transfer agreement with its two shareholders. All remaining rights and obligations to this date were settled in June 2019.

Apart from the above, there were no events after the reporting date that have a material impact on these Financial Statements.

Notes to the Financial Statements (Continued)

30 - Parent undertakings and domicile

The Company has two immediate parent companies which are:

(1) Santander Consumer (UK) plc ("SCUK"), a company registered in England and Wales and whose registered office address is at Santander House, 86 Station Road, Redhill, Surrey, RH1 1SR owns 50% of the share capital. SCUK's ultimate parent undertaking and controlling party is Banco Santander, S.A., a company registered in Spain. Banco Santander, S.A. is the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Santander UK plc is the parent undertaking of the smallest group of undertakings for which the group accounts are drawn up and of which the SCUK is a member. Copies of all sets of group accounts, which include the results of SCUK, are available from Secretariat, 2 Triton Square, Regent's Place, London NW1 3AN.

(2) Banque PSA Finance S.A. ("BPF"), a Company registered in France whose registered office address is at 68 Avenue Gabriel Péri, 92 230 Gennevilliers, France, owns 50% of the share capital.

PSA Finance UK Limited (the Company) is incorporated and domiciled in the United Kingdom. The limited company's registered office is located in 61 London Road , Redhill, Surrey RH1 1QA, United Kingdom.