International Motors Finance Limited

Annual report and accounts
for the year ended 31 December 2018

Registered office

Charterhall House
Charterhall Drive
Chester
Cheshire
CH88 3AN

Registered number

02956040

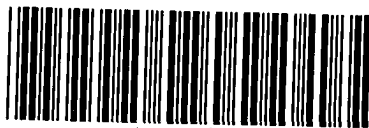
Current directors

C M Adams
J Cadden
A M Edmiston
G E Hutton
R A Jones

Company Secretary

D D Hennessey

Member of Lloyds Banking Group



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Strategic report

For the year ended 31 December 2018

The directors present their Strategic report and the audited financial statements of International Motors Finance Limited (the "Company") for the year ended 31 December 2018.

Business overview

The main activity of the Company is to provide hire purchase, personal loans and leasing to third parties in connection with the financing of motor vehicles for an agreed term. In addition, the Company also provides vehicle stock funding to support the consignment of new cars to approved dealers whilst also supporting the stock funding requirements of used cars for selected approved dealers.

The Company's results for the year show a Profit before tax of £4,487,000 (2017: £4,220,000) and Net interest income of £5,490,000 (2017: £5,632,000).

New business written in 2018 consisted of 3,510 new cases with a total value of £50,528,000 (2017: 3,741 cases, with a value of £52,959,000). The decrease in new business is due to lower sales of both new and used vehicles which have decrease by 8.3% and 4.6% respectively compared with 2017.

Future outlook

There has been no changes in the nature of the Company's operations during the year and no changes is expected in the foreseeable future.

The Company is part of the wider Lloyds Banking Group ("the Group"), and, at that level, consideration of many of the potential implications following the UK's vote to leave the European Union ("EU") has been undertaken. Work continues to assess the impact of EU exit at the level of the Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

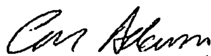
Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Retail Division, which is part of the Group. While these risks are not managed separately for the Company, the Company is a main trading company of the Retail Division. The Retail Division is a portfolio of businesses and operates in a number of specialist markets providing consumer lending and contract hire to personal and corporate customers. Further details of the Company's and Group's risk management policy are contained in note 17 to the financial statements.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. KPIs are monitored and reported at a divisional level.

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



C M Adams
Director

30 September 2019

Directors' report

For the year ended 31 December 2018

The directors present their report for the year ended 31 December 2018.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 02956040).

The business is funded by Black Horse Limited (part of the Group) and IM Group Limited (part of the IM Group). Black Horse Limited provides management services and charges a fee to the Company in respect of these services. The services provided include securing new business, maintaining accurate accounting and other records, managing the Company's funding position and customer collections.

Dividends

No dividends were paid or proposed during the year ended 31 December 2018 (2017: £nil).

Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc ("LBG") that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors

The current directors of the Company are shown on the front cover.

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

J Cadden	(appointed 9 July 2019)
N Thabet	(resigned 9 July 2019)
P G Tunnicliffe	(resigned 2 September 2019)

Information included in the Strategic report

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

Directors' indemnities

LBG has granted to Messrs C M Adams, R A Jones, N Thabet and J Cadden, the LBG directors of the Company appointed by and representing the Group, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force during the whole of the financial year and at the date of approval of the financial statements. LBG directors no longer in office but who served on the board of the Company at any time in the financial year have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the LBG directors to the maximum extent permitted by law. The deed for current LBG directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate LBG directors and officers liability insurance cover which was in place throughout the financial year.

The International Motors Limited directors of the Company appointed by and representing the IM Group benefit from appropriate directors and officers liability insurance cover which was in place throughout the financial year.

Directors' report (continued)

For the year ended 31 December 2018

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Disclosure of information to auditors

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

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

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

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

C M Adams
Director

30 September 2019

Statement of comprehensive income

For the year ended 31 December 2018

	Note	**2018 £'000**	2017 £'000
Interest income		**7,645**	7,719
Interest expense		**(2,155)**	(2,087)
Net interest income	3	**5,490**	5,632
Fee and commission income	4	**804**	828
Payment protection insurance charge	14	**(2)**	-
Impairment gains/(losses) on Loans and advances to customers	5	**59**	(303)
Other operating expenses	6	**(1,866)**	(1,937)
Profit before tax		**4,485**	4,220
Taxation	9	**(851)**	(813)
Profit for the year being total comprehensive income		**3,634**	3,407
Attributable to:			
Owners of the parent		**1,853**	1,738
Non-controlling interest		**1,781**	1,669
Profit for the year being total comprehensive income		**3,634**	3,407

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

Balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Cash and cash equivalents		**16,888**	24,034
Trade and other receivables	10	**2,530**	1,182
Loans and advances to customers	11	**135,763**	130,391
Deferred tax asset	12	**100**	-
Total assets		**155,281**	155,607
LIABILITIES			
Borrowed funds	13	**135,549**	138,978
Trade and other payables		**102**	115
Provision for liabilities and charges	14	**88**	105
Current tax liability		**839**	813
Total liabilities		**136,578**	140,011
EQUITY			
Share capital	15	**1**	1
Retained earnings		**18,702**	15,595
Total equity		**18,703**	15,596
Total equity and liabilities		**155,281**	155,607

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

The 2018 opening balances have been adjusted to reflect the transition to IFRS 9 as explained in note 21.

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

C M Adams
Director

30 September 2019

Statement of changes in equity
For the year ended 31 December 2018

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017	1	12,188	12,189
Total comprehensive income for the year attributable to:			
- Owners of the parent	-	1,738	1,738
- Non-controlling interest	-	1,669	1,669
At 31 December 2017	**1**	**15,595**	**15,596**
Transition to IFRS 9 (see note 21)	-	(527)	(527)
At 1 January 2018	1	15,068	15,069
Total comprehensive income for the year attributable to:			
- Owners of the parent	-	1,853	1,853
- Non-controlling interest	-	1,781	1,781
At 31 December 2018	**1**	**18,702**	**18,703**

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

The 2018 opening balances have been adjusted to reflect the transition to IFRS 9 as explained in note 21.

Cash flow statement

For the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flows (used in)/generated from operating activities		
Profit before tax	**4,485**	4,220
Adjustments for:		
- Interest expense	**2,155**	2,087
- (Decrease)/increase in Provision for liabilities and charges	**(17)**	105
- Decrease in Provision for liabilities and charges - impact on transition to IFRS 9	**(34)**	-
Changes in operating assets and liabilities:		
- Net (increase)/decrease in Loans and advances to customers	**(5,372)**	5,026
- Ne increase in Loans and advances to customers - impact on transition to IFRS 9	**(605)**	-
- Net increase in Other debtors and Other assets	**(1,334)**	(45)
- Net (decrease)/increase in Trade and other payables	**(13)**	28
Cash (used in)/generated from operations	**(735)**	11,421
Tax paid	**(813)**	(757)
Net cash (used in)/generated from operating activities	**(1,548)**	10,664
Cash flows used in financing activities		
Repayment of borrowings with related party	**(1,305)**	(4,909)
(Increase in)/proceeds from net borrowings with group undertakings	**(2,138)**	1,855
Interest expense	**(2,155)**	(2,087)
Net cash used in financing activities	**(5,598)**	(5,141)
Change in Cash and cash equivalents	**(7,146)**	5,523
Cash and cash equivalents at beginning of year	**24,034**	18,511
Cash and cash equivalents at end of year	**16,888**	24,034

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

The 2018 opening balances have been adjusted to reflect the transition to IFRS 9 as explained in note 21.

Notes to the financial statements
For the year ended 31 December 2018

1. Accounting policies

1.1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The following new IFRS pronouncement relevant to the Company has been adopted in these financial statements:

(-) IFRS 9 'Financial Instruments': Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.

Please see note 21 for the impact this pronouncement has had on amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2018 and which have not been applied in preparing these financial statements are given in note 22. No standards have been early adopted.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention.

1.2 Income recognition

Income and expense from financial instruments

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance.

Lease classification

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

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

Finance lease income

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

1.2 Income recognition (continued)

Fees and commission income and expense

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

1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings, Loans and advances to customers, Other debtors, Other assets and Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings, Amounts due to related party, Unsecured loan stock and Trade and other payables.

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

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

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets.

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

1.4 Impairment

Impairment of financial assets

The impairment charge in the income statement includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for Loans and advances to customers and other financial assets held at amortised cost, together with any loan commitments. Expected credit losses are calculated by using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

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

Impairment of loans and advances

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

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default ("PD") movements linked to internal credit ratings together with qualitative indicators such as watch lists and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

Impairment of retail loans and advances

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired.

1. Accounting policies (continued)

1.4 Impairment (continued)

Impairment of retail loans and advances (continued)

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer in default (for a return to Stage 2).

The probability of default ("PD") of an exposure, both over a 12 month period or over its lifetime is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The Company has adopted the following definition of default for all its products:

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

IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due, which the Company has adopted.

Included within Loans and advances to customers are certain hire purchase contracts referred to as Personal Contract Purchase ("PCP") agreements. Under the terms of these agreements, customers have the option to either purchase the leased vehicle at the end of the lease term for a pre-agreed sum (the "pre-agreed residual value") or to return the vehicle for sale by the Company at auction.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate. If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset or group of assets reflects the cash flows that may result from recovery and sale of collateral, less any costs incurred.

Impairment of non-retail loans and advances

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. The Company uses the IFRS 9 rebuttable presumption that default occurs no later than when a payment is 90 days past due.

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer in default (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

Impairment of other financial assets

Under IFRS 9 at initial recognition, allowance is made for expected losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected losses resulting from all possible default events over the expected life of the asset.

Other financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; other financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and other financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

1.5 Taxation, including deferred income taxes

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

1. Accounting policies (continued)

1.5 Taxation, including deferred income taxes (continued)

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

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

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

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

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

1.6 Cash and cash equivalents

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

1.7 Provision for liabilities and charges

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

2. Critical accounting estimates and judgements in applying accounting policies

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

The following are critical accounting estimates and accounting judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

2. Critical accounting estimates and judgements in applying accounting policies (continued)

Payment Protection Insurance

Critical estimate

At 31 December 2018, the Company carried a provision of £2,000 (2017: £nil) against the cost of making redress payments to customers and the related administration costs in relation to the mis selling of Payment Protection Insurance ("PPI"). Determining a reliable estimate of the amount of the provision, which represents management's best estimate of of settling these issues, requires the exercise of significant judgement. It will often be necessary to form a view on matters which are inherently uncertain, such as the number of future complaints, the extent to which they will be upheld and the average cost of redress. Consequently the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate.

Critical judgement

As explained in note 19 the level of PPI claims received by the Lloyds Banking Group in August 2019 increased to an unprecedented level. Given the proximity of these claims to the FCA deadline of 29 August 2019 and the apparent impact on claimant behaviour of the campaign run by the FCA to make consumers aware of the deadline on the level of claims made in the run up to 29 August, the directors have formed the view that it is not appropriate to determine a provision for the additional claims that have been received using the assumptions set above based upon the Company's historic experience, as it is not yet known whether the additional claims will have similar characteristics to those previously received or whether any of the claims are claims that have been previously addressed.

The volume of claims received by the Group is such that there has been insufficient time available in order to assess the additional level of claims received that are applicable to the Company, the validity of the claims and the likely cost of the redress. IAS 37 sets out the criteria to be met in order to recognise a provision, including the ability to determine a reliable estimate of the value of the associated cost. The directors have judged that in these circumstances it is not possible to determine a reliable estimate of the likely cost to the Company and have disclosed a contingent liability (see further note 19).

Allowance for impairment losses

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

Definition of default

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

Lifetime of an exposure

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

In addition, for non-retail lending, the Company has considered the losses beyond the contractual term over which the Company is exposed to credit risk. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.

Lifetime of an exposure - non-Retail

The Company has considered the losses beyond the contractual term over which the Company is exposed to credit risk. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.

2. Critical accounting estimates and judgements in applying accounting policies (continued)

Significant increase in credit risk - Retail

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. For retail loans, a deterioration of two PD grades from the grade in which the account was originated is considered a SICR.

Allowance for impairment losses (continued)

Significant increase in credit risk - non-Retail

The Company monitors a series of account flags which may indicate whether the asset has suffered a SICR which, for non-retail loans, are aligned to operational credit risk management strategies.

All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

Origination PDs - Retail

As noted in the definition of SICR, a key quantitative criteria is a deterioration of two PD grades from origination. Management judgement has been used to determine a reasonable basis for estimating the origination PD for existing accounts at the date of transition to IFRS9 (1 January 2018). This considered various information sources, including regulatory PD used for capital modelling, other credit information available at origination or as early as possible once the account was live. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

Origination PDs - non-Retail

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not, generally, available and consequently management judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

Post-model adjustments

Limitations in the Company's impairment models may be identified through its on-going assessment of the models. In these circumstances, post-model judgement is used to make appropriate adjustments to the Company's allowance for impairment losses.

At 31 December 2018, post-model adjustments made in respect of Retail assets are £254,000 and non-Retail assets are £nil. This mainly comprises adjustments in respect of residual values.

Forward looking

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Company applies the outputs of the economic model developed for the LBG Motor Finance Retail portfolio to translate observed default rates into a forward looking view of PDs required for IFRS9 impairment. These drivers include the unemployment rate and other factors. Combined losses across portfolios are used to rank the scenarios by severity of loss, with specified points along the loss distribution selected to reflect the range of outcomes; the central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario. Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events. To allow for this a relatively unlikely severe downside scenario is therefore included.

3. Net interest income

	2018 £'000	2017 £'000
Interest income		
From finance lease and hire purchase contracts	**6,088**	6,465
From personal loans	**2**	8
From other loans and advances	**1,541**	1,246
Group interest income (see note 16)	**14**	-
	7,645	7,719
Interest expense		
Group interest expense (see note 16)	**(2,139)**	(1,995)
Other interest expense (see note 16)	**(16)**	(92)
	(2,155)	(2,087)
Net interest income	**5,490**	5,632

4. Fee and commission income

	2018 £'000	2017 £'000
Loan fees receivable	**804**	828

5. Impairment gains/(losses) on Loans and advances to customers

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
31 December 2018				
Impact of transfers between stages	(21)	32	255	**266**
Other changes in credit quality	(123)	(34)	6	**(151)**
Other items charged to Statements of comprehensive income	-	-	117	**117**
Repayments	(94)	(35)	(44)	**(173)**
	(238)	(37)	334	**59**
In respect of:				
Loans and advances to customers	(230)	(32)	334	**72**
Commitments to lend	(8)	(5)	-	**(13)**
	(238)	(37)	334	**59**

	Total £'000
31 December 2017	
Impairment losses on Loans and advances to customers	(303)

6. Other operating expenses

	2018 £'000	2017 £'000
Management charges payable (see note 16)	**1,760**	1,860
Other operating expenses	**106**	77
	1,866	1,937

Fees payable to the Company's auditors for the audit of the financial statements of £15,000 (2017: £15,000) have been borne by a fellow group undertaking and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management fees.

7. Staff costs

The average monthly number of employees during the year was 1 (2017: 1). All staff are located in the United Kingdom and provide management, administration and sales support. Included within Other operating expenses are staff costs of £56,000 (2017: £55,000) in this respect.

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2017: £nil). The directors are employed by other companies within the Group or companies controlled by IM Group and consider that their services to the Company are incidental to their other responsibilities within these organisations (see also note 16).

9. Taxation

	2018 £'000	2017 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**839**	813
UK deferred tax:		
- Origination and reversal of timing differences (see note 12)	**12**	-
Tax charge	**851**	813

Corporation tax is calculated at a rate of 19.00% (2017: 19.25%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

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

	2018 £'000	2017 £'000
Profit before tax	**4,485**	4,220
Tax charge thereon at UK corporation tax rate of 19.00% (2017: 19.25%)	**851**	813
Tax charge on profit on ordinary activities	**851**	813
Effective rate	**19.00%**	19.25%

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

10. Trade and other receivables

	2018 £'000	2017 £'000
Amounts due from group undertakings (see note 16)	**784**	770
Other debtors	**1,681**	307
Other assets (see note 16)	**65**	105
	2,530	1,182

Amounts due from group undertakings is unsecured, non-interest bearing and repayable on demand.

At 31 December 2018, the Company held an asset of £65,000 (2017: £105,000) in respect of indemnities from Black Horse Limited in relation to a specific provision (see note 14).

11. Loans and advances to customers

11.1 Loans and advances to customers - maturity

	2018 £'000	2017 £'000
Advances under finance lease and hire purchase contracts	**96,797**	99,819
Personal loans to customers	**32**	96
Other loans and advances to customers	**40,155**	31,400
Gross loans and advances to customers	**136,984**	131,315
Less: allowance for losses on loans and advances	**(1,221)**	(924)
Net loans and advances to customers	**135,763**	130,391
of which:		
Due within one year	**75,132**	66,277
Due after one year	**60,631**	64,114
	135,763	130,391

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

	2018 £'000	2017 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**39,478**	39,009
- later than one year and no later than five years	**67,722**	71,608
- later than five years	**18**	26
	107,218	110,643
Unearned future finance income on finance lease and hire purchase contracts	**(10,421)**	(10,824)
Net investment in finance lease and hire purchase contracts	**96,797**	99,819

11. Loans and advances to customers (continued)

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

	2018 £'000	2017 £'000
- no later than one year	**35,642**	35,192
- later than one year and no later than five years	**61,139**	64,603
- later than five years	**16**	24
	96,797	99,819

The Company provides a range of finance lease products in connection with the financing of motor vehicles and equipment. The leases typically run for periods of between 3 and 5 years.

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2017: £nil).

The allowance for uncollectable finance lease and hire purchase receivables included in the allowance for impairment losses is £1,221,000 (2017: £636,000).

Further analysis of Loans and advances to customers is provided in note 17.

11.2 Loans and advances to customers - movement over time

As required by IFRS 9, a break-down of the Company's Loans and advances to customers by stage is presented below:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance as at 1 January 2018	119,102	11,521	692	**131,315**
Transfers to Stage 1	3,186	(3,186)	-	-
Transfers to Stage 2	(5,032)	5,049	(17)	-
Transfers to Stage 3	(530)	(480)	1,010	-
Net increase/(decrease) in loans and advances to customers	9,432	(2,686)	(733)	**6,013**
Gross advances written off	-	-	(344)	**(344)**
Gross loans and advances to customers	126,158	10,218	608	**136,984**
Less: allowance for losses on loans and advances	(440)	(410)	(371)	**(1,221)**
Net loans and advances to customers	**125,718**	**9,808**	**237**	**135,763**

12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2018 £'000	2017 £'000
At 1 January	-	-
IFRS 9 Transition adjustment (see note 21)	**112**	-
At 1 January under IFRS 9	**112**	-
Charge for the year (see note 9)	**(12)**	-
At 31 December	**100**	-

12. Deferred tax asset (continued)

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

	2018 £'000	2017 £'000
Other temporary differences	**(12)**	-

	2018 £'000	2017 £'000
Deferred tax asset comprises:		
Other temporary differences	**100**	-

13. Borrowed funds

	2018 £'000	2017 £'000
Amounts due to group undertakings (see note 16)	**133,315**	135,439
Amounts due to related party (see note 16)	**234**	1,539
Unsecured loan stock (see note 16)	**2,000**	2,000
	135,549	138,978

Amounts due to group undertakings is unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to group undertakings is interest bearing at fixed rate and stocking loans are interest bearing at variable rates based on LIBOR.

Amounts due to related party is unsecured and repayable in accordance with a repayment schedule with a fixed rates of interest.

Unsecured loan stock is due to Bank of Scotland plc and to IM Group Limited. The loan stock is unsecured, non-interest bearing and is repayable on demand, but requires both shareholders to agree to redeem the loan stock.

14. Provision for liabilities and charges

	Payment Protection Insurance £'000	**Undrawn loan commitments £'000**	**Other Provision £'000**	**Total £'000**
At 1 January 2017	-	-	-	-
Recognised during the year	-	-	105	105
At 31 December 2017	-	-	105	105
Transition to IFRS 9	-	34	-	34
At 1 January 2018 under IFRS 9	-	34	105	139
Charge for the year	**2**	**-**	**-**	**2**
Utilised during the year	-	**(13)**	**(40)**	**(53)**
At 31 December 2018	**2**	**21**	**65**	**88**

Other provisions of £65,000 (2017: £105,000) is the Company's best estimate of the probable outflows, following an exercise taken by the Group relating to potential retrospective rectification activity to provide redress to affected customers in relation to arrears management. Black Horse Limited will indemnify the Company against all actions arising from this issue (see note 10).

As described in notes 2 and 19, an assessment has been made of the potential future transfer of economic benefits from claims made against the Company in relation to PPI.

15. Share capital

	2018 £'000	2017 £'000
Allotted, issued and fully paid		
510 A ordinary shares of £1 each	**1**	1
490 B ordinary shares of £1 each	**-**	-
	1	1

At 31 December 2018, the authorised share capital of the Company was £1,000 divided into 510 A ordinary shares of £1 each and 490 B ordinary shares of £1 each.

The "A" ordinary shares carry the right to appoint the chairman of the Company but, in all other respects, rank pari passu with the "B" ordinary shares, including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company. The "A" ordinary shares are held by Black Horse Group Limited, the "B" ordinary shares are held by International Motors Limited.

16. Related party transactions

The Company is controlled by Retail Division. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income and expense for the year is set out below.

	2018 £'000	2017 £'000
Amounts due from group undertakings		
Black Horse Limited	**774**	769
Lloyds Bank plc	**10**	1
Total Amounts due from group undertakings (see note 10)	**784**	770
Amounts due to group undertakings		
Black Horse Limited	**133,313**	135,437
Bank of Scotland plc	**2**	2
Total Amounts due to group undertakings (see note 13)	**133,315**	135,439
Amounts due to related parties		
IM Group Limited (see note 13)	**234**	1,539
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**16,888**	24,034
Other assets held with group undertakings		
Black Horse Limited (see note 10)	**65**	65
Unsecured loan stock		
Bank of Scotland plc	**1,000**	1,000
IM Group Limited	**1,000**	1,000
Total Unsecured loan stock (see note 13)	**2,000**	2,000
Interest income		
Lloyds Bank plc (see note 3)	**14**	-

16. Related party transactions (continued)

	2018 £'000	2017 £'000
Interest expense		
Black Horse Limited	**2,139**	1,995
IM Group Limited	**16**	92
Total Interest expense (see note 3)	**2,155**	2,087
Management charges payable		
Black Horse Limited (see note 6)	**1,760**	1,860

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

Key management personnel

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

17. Financial risk management

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

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

17.1 Credit risk

Credit risk management

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

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

Cash and cash equivalents and Amounts due from other group undertakings are held with other companies within the Group. The credit risk associated with these financial assets is not considered to be significant.

Credit risk mitigation

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

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

17. Financial risk management (continued)

17.1 Credit risk (continued)

Credit risk mitigation (continued)

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

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

- Counterparty limits: Credit risk in wholesale portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Divisional exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

Credit concentration

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

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

Loans and advances to customers - gross carrying amount

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

	RMS Grade	PD %
Good quality	0-5	0.00-4.50
Satisfactory quality	6-8	4.51-14.00
Lower quality	9	14.01-20.00
Below standard	10-12	20.01-99.99
Credit impaired	13	100.0

For non-retail business, the RMS grades and PD percentages below have been used.

	RMS Grade	PD %
Good quality	0-4	0.00-0.050
Satisfactory quality	5	0.051-3.00
Lower quality	6	3.01-20.00
Below standard	7	20.01-99.99
Credit impaired	13	100.0

At 31 December 2018	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Retail				
Good quality	86,129	6,228	-	**92,357**
Satisfactory quality	382	1,701	-	**2,083**
Lower quality	-	588	-	**588**
Below standard, but not impaired	14	1,179	-	**1,193**
Credit impaired	-	-	608	**608**
	86,525	9,696	608	**96,829**

Notes to the financial statements (continued)
For the year ended 31 December 2018

17. Financial risk management (continued)

17.1 Credit risk (continued)

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

At 31 December 2018	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Wholesale				
Good quality	3,105	-	-	**3,105**
Satisfactory quality	33,649	233	-	**33,882**
Lower quality	2,880	288	-	**3,168**
Below standard, but not impaired	-	-	-	**-**
Credit impaired	-	-	-	**-**
	39,634	521	-	**40,155**

At 31 December 2018	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Total				
Good quality	89,234	6,228	-	**95,462**
Satisfactory quality	34,031	1,934	-	**35,965**
Lower quality	2,880	876	-	**3,756**
Below standard, but not impaired	14	1,179	-	**1,193**
Credit impaired	-	-	608	**608**
	126,159	**10,217**	**608**	**136,984**

At 31 December 2017	Total £'000
Retail	
Good quality	91,227
Satisfactory quality	5,886
Lower quality	-
Below standard, but not impaired	981
Past due but not impaired	995
Credit impaired	826
	99,915
Wholesale	
Good quality	9,009
Satisfactory quality	21,433
Lower quality	621
Below standard, but not impaired	-
Past due but not impaired	310
Credit impaired	27
	31,400
Total	
Good quality	100,236
Satisfactory quality	27,319
Lower quality	621
Below standard, but not impaired	981
Past due but not impaired	1,305
Credit impaired	853
	131,315

Past due is defined as failure to make a payment when it falls due.

17. Financial risk management (continued)

17.1 Credit risk (continued)

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

Commitments to lend

At 31 December 2018	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Wholesale				
Good quality	20,812	11	-	**20,823**

At 31 December 2017	Total £'000
Wholesale	
Good quality	28,350

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 31 December 2017	-	-	-	**924**
Adjustment on adoption of IFRS 9	670	442	417	**605**
Balance as at 1 January 2018	**670**	**442**	**417**	**1,529**
Transfers to Stage 1	**61**	**(61)**	**-**	**-**
Transfers to Stage 2	**(40)**	**50**	**(10)**	**-**
Transfers to Stage 3	**(9)**	**(62)**	**71**	**-**
Impact of transfers between stages	**(33)**	**105**	**194**	**266**
	(21)	**32**	**255**	**266**
Other items charged to the Income statement	**(209)**	**(64)**	**79**	**(194)**
Charge for year (including recoveries)	**(230)**	**(32)**	**334**	**72**
Advances written off	**-**	**-**	**(393)**	**(393)**
Recoveries of prior advances written off	**-**	**-**	**13**	**13**
At 31 December 2018	**440**	**410**	**371**	**1,221**

In respect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 31 December 2017	-	-	-	-
Adjustment on adoption of IFRS 9	29	5	-	34
Balance as at 1 January 2018	**29**	**5**	**-**	**34**
Charge for year (including recoveries)	**(8)**	**(5)**	**-**	**(13)**
At 31 December 2018	**21**	**-**	**-**	**21**
Total	**461**	**410**	**371**	**1,242**

17. Financial risk management (continued)

17.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2017 £'000
Brought forward	961
Advances recovered/(written off)	(355)
Charge for year (including recoveries)	303
Recoveries of prior advances written off	15
	924

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. Included in the 2017 balance for Loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £37,000. In addition, there was also a provision held of £319,000 relating to impairment of assets under PCP agreements.

Repossessed collateral

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

17.2 Liquidity risk

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

The Company is principally funded by companies within the Group. Such funding is repayable on demand, although there is no expectation that such a demand would be made.

The Company has some additional funding from a related party, IM Group Limited, which is repayable in accordance with a repayment schedule. The table below sets out the cash flows payable by the Company in respect of Amounts due to related parties, by remaining contractual undiscounted repayments of principal and interest, at the balance sheet date.

As at 31 December 2018

	Up to 1 month £'000	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Principal	54	108	72	-	**234**
Interest on principal	-	1	-	-	**1**
	54	**109**	**72**	**-**	**235**

As at 31 December 2017

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Principal	315	405	585	234	1,539
Interest on principal	3	4	9	1	17
	318	409	594	235	1,556

17. Financial risk management (continued)

17.3 Market risk

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

The Company is exposed to market risk through its leasing portfolios which include agreements where the Company has a risk in respect of residual value of the assets. This area of credit policy is monitored by a residual value committee which meets on a regular basis to consider the exposure taking into account current and projected industry trends in addition to the Company's own risk management data.

17.4 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's variable rate borrowing and takes account of movement in the LIBOR which is the basis for the interest rate on intercompany balances. A 0.37% (2017: 0.25%) increase or decrease is used to assess the possible change in Interest expense.

If the LIBOR increased by 0.37% (2017: 0.25%) and all other variables remain constant this would increase Interest expense by £147,000 (2017: £90,000) and accordingly decrease Interest expense by £147,000 (2017: £90,000) if the LIBOR decreased by the same amount.

17.5 Business risk

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

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

17.6 Financial strategy

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

17.7 Fair values of financial assets and liabilities

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

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

The aggregated fair value of Loans and advances to customers is approximately £141,645,000 (2017: £135,757,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

18. Capital disclosures

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

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

18. Capital disclosures (continued)

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

19. Contingent liabilities and capital commitments

There were no contracted capital commitments at the Balance sheet date (2017: £nil).

The FCA set a deadline of 29 August 2019 for customers to make claims in relation to the mis selling of Payment Protection Insurance ("PPI"). The PPI provision of £2,000 recognised by the Company at 31 December 2018 (see note 14) has been determined to cover the cost of making redress payments and the related administration costs for those claims in respect of which the Company has been able to form a reliable estimate.

In August 2019, in line with broader sector experience, the Group experienced significant and unprecedented volumes of potential claims of approximately 600,000 to 800,000 PPI information requests ("PIRs") per week during August. This compares to an average of 125,000 per week for the Group over the first 6 months of 2019. Early indications are that the Company has also experienced a significant increase relative to its own historic experience.

The Company's accounting policy requires the evaluation of individual claims in order to form a reliable estimate of the exposure to be recognised. Given the limited time available and the significant increase in volume of PIRs and complaints, it has not been possible to perform such an evaluation meaning that no reliable estimate in respect of those claims received in August 2019 can be formed. Accordingly, no provision has been made for the increase in the volume of claims received in August 2019 beyond that previously anticipated based upon historical experience.

Given the size of increase in the volume of PIRs for the Lloyds Banking Group as a whole, it is likely that the impact of any additional provision required for will be material to the Company's financial statements.

Undrawn formal standby facilities, credit facilities and other commitments to lend were £20,823,000 (2017: £28,350,000).

20. Post balance sheet events

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

21. Transition to IFRS 9

21.1 Impact of transition

The following table summarises the adjustments arising on the adoption of IFRS 9 to the Company's Balance sheet as at 1 January 2018.

	As at 31 December 2017 £'000	IFRS 9: Impairment £'000	Adjusted as at 1 January 2018 £'000
ASSETS			
Cash and cash equivalents	24,034	-	**24,034**
Trade and other receivables	1,182	-	**1,182**
Loans and advances to customers	130,391	(605)	**129,786**
Deferred tax asset	-	112	**112**
Total assets	**155,607**	**(493)**	**155,114**
LIABILITIES			
Borrowed funds	138,978	-	**138,978**
Trade and other payables	115	-	**115**
Provision for liabilities and charges	105	34	**139**
Current tax liability	813	-	**813**
Total liabilities	**140,011**	**34**	**140,045**
EQUITY			
Share capital	1	-	**1**
Retained earnings	15,595	(527)	**15,068**
Total equity	**15,596**	**(527)**	**15,069**
Total equity and liabilities	**155,607**	**(493)**	**155,114**

Notes to the financial statements (continued)

For the year ended 31 December 2018

21. Transition to IFRS 9 (continued)

21.2 Impairment

The Company adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not being restated and transitional adjustments have been accounted for through Retained earnings as at 1 January 2018, resulting in a decrease of £527,000, driven on the effects of additional impairment provisions following the implementation of the ECL methodology. It is not practicable to quantify the impact of adoption of IFRS 9 on the results for the current period.

The following table summarises the impact of the transitional adjustment on the Company's loss allowances at 1 January 2018.

	IAS 39 allowance as at 31 December 2017 £'000	Transitional adjustments to loss allowance £'000	IFRS 9 loss allowance at 1 January 2018 £'000
Loans and advances to customers	924	605	**1,529**
	924	605	**1,529**
Provisions for undrawn commitments and financial guarantees	-	34	**34**
Total	**924**	**639**	**1,563**

21.3 Reclassification

On transition to IFRS 9, the Company assessed its business models in order to determine the appropriate classification. The Company's loan books are generally held to collect contractual cash flows until the lending matures and meet the criteria to remain at amortised cost. All remaining financial assets and liabilities also meet the criteria to remain at amortised cost. Consequently there were no financial instruments that required reclassification from amortised cost to either fair value through other comprehensive income or fair value through profit or loss.

21.4 Accounting policies applied to comparative periods

In accordance with the transition requirements of IFRS9, comparative information has not been restated. The comparative information was prepared in accordance with IAS39. The principal policies applied by the Company under IAS39 are set out below.

Financial assets and liabilities - recognition

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired.

Interest bearing financial assets and financial liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

Impairment - Loans and advances to customers

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation or the debt being restructured to reduce the burden on the borrower.

If there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the provision is adjusted and the amount of the reversal is recognised in the Statement of comprehensive income.

21. Transition to IFRS 9 (continued)

21.4 Accounting policies applied to comparative periods (continued)

Impairment - Loans and advances to customers (continued)

When a loan or advance is uncollectable, it is written off against the related provision once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Statement of comprehensive income on a cash receipts basis.

22. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2018 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 16 'Leases'	Replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. Accounting as a lessor will remain aligned to the current approach under IAS 17; however for lessee accounting there will no longer be a distinction between finance and operating leases. The transition will result in the recognition of right of use assets and lease liabilities in respect of leased properties previously accounted for as operating leases; there will be no impact on shareholders' equity. As permitted by the transition options under IFRS 16, comparative figures for the prior year will not be restated. Going forward, a finance charge on the lease liability and a depreciation charge on the right-of-use asset will be recognised, whereas previously the lease rentals were included within operating expenses.	Annual periods beginning on or after 1 January 2019

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

23. Ultimate parent undertaking and controlling party

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

Independent Auditors' report to the members of International Motors Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, International Motors Finance Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit and 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
- 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 Balance sheet as at 31 December 2018; the Statement of comprehensive income, the Cash flow statement and the 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 Company 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 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 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 company'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 Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on these 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 Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report 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 Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Independent Auditors' report to the members of International Motors Finance Limited (continued)

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 3, 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 Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Kevin Williams (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

30 September 2019