RCI Bank UK Limited

Annual Report and Financial Statements

For the year ended 31 December 2019

RCI BANK UK LIMITED
YEAR ENDED 31 DECEMBER 2019

Contents

Company Information

Registered Name	RCI Bank UK Limited	(Name change registered on 18 March 2019, previously known as "RCI Services UK Ltd).
Date of Incorporation	22/06/2018	
Directors	David Swanney	Independent Non-Executive Director, Chairman
	Alice Altemaire	Executive Director, CEO (appointed 28 June 2019)
	Peter McEvoy	Executive Director, CFO
	Jean-Louis Labauge	Executive Director and CEO (resigned on 28 June 2019); Non-Executive Director (appointed 28 June 2019)
	Marc Lagrene	Non-Executive Director
	Sheryl Lawrence	Independent Non-Executive Director
	Malcolm Himsworth	Independent Non-Executive Director (appointed 26 November 2019)
	Enrico Rossini	Non-Executive Director (resigned 28 June 2019)
Company Secretary	Raj Jouhal	
Registered office	Rivers Office Park, Denham Way,. Maple Cross, Rickmansworth, WD3 9YS, United Kingdom	
Registered number	11429127	
Auditor	KPMG LLP 15 Canada Square LONDON E14 5GL	
Website	www.rcibank.co.uk	

Chairman's Statement

This is the first annual report of RCI Bank UK Limited, a wholly owned subsidiary of RCI Banque SA, which was established in anticipation of the UK's exit from the EU.

After RCI Bank UK Limited received regulatory approval in March 2019, RCI Banque SA transferred to the newly authorised bank its UK branch savings business and ownership of its subsidiary RCI Financial Services (RCI FS).

The new UK Group continues to offer transparent and simple accounts to customers and to provide retail and wholesale vehicle financing for the Renault-Nissan Alliance customers and franchised dealerships.

Creating a UK Group, with its attendant legal and regulatory demands and expectations, required those managing the UK operation to institute a major uplift in local governance structures, capability and processes to replace arrangements previously carried out at parent bank level. In this first year of operation, the priority has been to embed the new layer of oversight responsibilities, including a UK Group Board and Independent Non-Executive Directors. There was a further regulatory exercise required towards the end of the year, with the extension of the Senior Management and Certification Regime (SMCR) into RCI FS.

Both consumer lending and deposit taking operate in highly competitive markets and are well regarded in the marketplace. Our savings activity trading as 'RCI Bank' was a "Which?" Recommended provider for the Savings Accounts Category in 2019. It was also awarded Online Savings Provider of the Year at the Moneyfacts Consumer Awards 2020, Best Savings Provider for Existing Customers at Moneynet Awards 2020, Best Simple Savings at the Savings Champion Awards 2019, and the Fairer Finance Gold Ribbon and Happiest Customer Awards 2019. These awards reflect the priority placed on treating our customers fairly.

As our Annual Report and Financial Statements show, our commercial and financial performance in 2019 was strong, which is particularly pleasing given the difficult year experienced by the motor industry in general. Those industry challenges will continue into 2020 and beyond, more specifically in addressing the impact of climate change, including the related environmental objective to phase out the use of diesel and petrol in favour of electric vehicles.

RCI Bank UK is well positioned to respond to the emerging uncertainties brought about by the Covid-19 pandemic. Business continuity arrangements were invoked successfully and the going concern statement in the Directors' Report was underpinned by an extended assessment that considered more challenging potential scenarios.

The Board is grateful to management for their hard work during the transition to create the UK Group, and especially appreciate the work, day by day, of our staff, without whom the strong results for 2019 would not have been possible. In particular, I would like to thank Jean-Louis Labauge, who led the team that delivered the new banking licence. Jean-Louis moved to a new role with the parent bank in mid-year, and we welcomed Alice Altemaire as our new CEO to take the bank forward. I am also grateful to my fellow Board members for their support and commitment in getting this new bank fully operational.

David Swanney

Chairman
27 April 2020

Strategic Report

The Directors of **RCI Bank UK Limited** ("RCI UK" or the "Company") present their Strategic Report for the year ended 31 December 2019.

Our Business

Organisational structure

RCI UK is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The Company is wholly owned by RCI Banque SA, which is incorporated in France as part of the group headed by Renault SA and trades globally as RCI Bank and Services.

RCI UK is the parent company and sole shareholder of RCI Financial Services Limited ("RCI FS"), a company authorised and regulated by the FCA to undertake consumer credit activities. This Annual Report presents the consolidated statements of RCI UK and RCI FS ("RCI" or the "Group").

Principal activities

Sales Financing

RCI supports Renault and Nissan (the "Alliance") in the distribution of their new vehicles in the UK by providing financing options to retail and business customers for the purchase of Renault, Dacia, Nissan and Infiniti vehicles, mainly through their dealer network. The retail product range includes hire purchase, personal contract purchase (PCP), contract hire as well as other car and loan-related services.

RCI also supports the Alliance brand dealers by financing inventories of new vehicles, used vehicles and spare parts.

Savings Activity ('RCI Bank')

The current range comprises an easy-access savings product ("Freedom Savings") and fixed-term deposits with 1 to 5 years initial term. The deposits are managed entirely online through the website www.rcibank.co.uk. Retail deposits represent a key element in the diversification of funding.

Business Performance

Commercial performance

The commercial performance is generated by the sales financing activity of RCI FS. Since the Company was dormant in 2018 and RCI FS was acquired in March 2019, the commercial indicators related to the previous year are given for information purposes only in order to explain the context in which the Group operated during the year. In 2019, new vehicle registrations in the UK declined for the third year, with the total volume across the industry reaching 2.636 million vehicles, a decrease of 3.1% compared to 2018. The decline reflects a decrease in consumer confidence due to Brexit uncertainty and regulatory changes affecting the automotive industry.

The Alliance brands financed by RCI achieved a total market share of 8.11% in 2019 compared to 8.03% in the previous year. Nissan's market share was 3.99% (2018: 4.25%), whilst Renault captured 2.93% (2018: 2.86%), Dacia 1.17% (2018: 0.89%) and Infiniti 0.01% (2018: 0.03%). As a consequence, the level of new Alliance car registrations reached 214,000 units in 2019 compared to 219,000 in 2018 (-2.1%).

In this context, RCI financed a total of 106,024 new and used vehicle contracts (16% down on 2018) corresponding to new financings of £1,394m (down 13%). The financing penetration rate (i.e. proportion of Alliance new registrations that were financed by RCI) was 29.3% in 2019 compared to 33.6% in 2018, a decrease that reflects the shift of registrations towards corporate customers from private retail customers in the year.

Financial results

The financial results for the year ended 31 December 2019 are set out on page 29. The Company was dormant during the comparative period ended 31 December 2018. The Group consolidated figures comprise the results for RCI Bank UK Ltd together with the results for RCI FS (consolidated with its controlled undertaking the Special Purpose Vehicle "SPV" Cars Alliance 2015 Limited) since its acquisition by RCI UK in March 2019. In the same month, RCI UK also acquired the savings activity and related customer deposits previously collected by the UK branch of RCI Banque SA.

The level of commercial assets that include the loans and advances to customers, the battery leases and other operating leases assets originated by RCI FS reached £4,064m at the end of 2019 thanks to the high level of new financings notwithstanding the decreasing car market.
The profit after tax reached £61.6m for the year and was impacted by the following items:

- Net interest income of £110.1m driven by the good commercial performance of RCI FS, its high level of loans and advances to customers and a steady level of net interest margin;
- Net fee and commission income of £4.7m thanks to the increasing number of services and insurance products sold;
- Other revenue of £87.7m mostly impacted by the amount of operating lease assets generated by the contract hire product and the proceeds from car sales at the end of the term of those contracts;
- Staff costs and administrative expenses of £35.7m driven by an increase in headcount to support the new banking structure, an increase in regulatory fees and a level of other general expenses including IT kept under control despite the number of projects deployed to support the Group's commercial strategy;
- Other expenses of £90.8m that include various elements including the net book value of operating lease assets sold, remarketing and advertising costs, and other provision movements. It was positively impacted this year by a release in Expected Credit Losses (ECL) mostly due to adjustments in forward-looking assumptions.

As of 31 December 2019, the savings activity 'RCI Bank' held over 88,000 active retail accounts with £2.9bn in deposits.

Capital and Liquidity

RCI has met the PRA's regulatory capital requirements and maintained capital levels within the Board's risk appetite throughout the year. RCI reports its capital position to the PRA on a quarterly basis as a minimum regulatory requirement.

As at 31 December 2019, the Common Equity Tier 1 (CET1) ratio was 14.59% and the total capital ratio was 15.71%, including a subordinated loan of £40m.

RCI's funding sources consist primarily of retail deposits, a private securitisation and unsecured short-term funding from the parent company. Retail deposits currently represent 60% of the total liabilities and comprise sight deposits and fixed-term term deposits. At the end of 2019, 86% of total deposits were covered by the Financial Services Compensation Scheme (FSCS).

The private securitisation of hire purchase and PCP receivables is established through the SPV Cars Alliance 2015 Limited subsidiary owned by RCI FS. In 2019, the Group decided to reduce the level of A-Notes by £200m to £900m, to adjust the issued amount to its funding requirements.

RCI holds a sufficient liquidity reserve which can be promptly monetised in a liquidity stress event. This reserve totalled £1.1bn at the end of the year and mainly consisted of short-term Treasury Securities, commercial bank deposits and a committed credit line from its parent company.

Consolidated regulatory ratios as at 31 December 2019 were: Liquidity Coverage Ratio (LCR): 221%; Net Stable Funding ratio (NSFR): 122%, all above the minimum targets of 100%.

Future developments

Uncertainties remain in the external environment and RCI continues to closely monitor developments around Brexit and its transition period with the EU as well as the evolving Covid-19 impacts on the global and UK economies. The latter has the potential for the greatest impacts on the sales of the Alliance brands and on dealer continuity, with adverse implications for RCI's commercial and financial performance in 2020. The Company has activated its Business Continuity Plan with all staff working from home following Government advice and has managed to avoid any operational disruption affecting our customers. Management has repeated its internal stress tests to assess the effect of worse-case scenarios on its capital and liquidity positions and to inform its going concern assessment. See also the section "Post balance sheet events" of the Directors' Report on page 18.

Clear business focus for 2020 and beyond, for RCI and the Alliance brands, will be on electric vehicles, where sales are expected to rise following the adoption of new emissions standards set within Regulation (EU) 2019/631.

Risk management

Risk Management Framework

RCI's Enterprise-wide Risk Management Framework (ERMF) provides the foundation to safely achieve the business strategy through:

- Detailing the 3 Lines of Defence (3LoD) model and its operation to enable it to separate risk management activities between:
    - those that own, take risk and implement controls (1st line);
    - those that oversee, monitor and challenge the first line (2nd line); and
    - the internal audit function which provide fully independent assurance (3rd line).
- Articulating the risk management practices and procedures;
- Documenting policies for the consistent mitigation and monitoring of risks;
- Establishing minimum standards around key ERMF components.

The Risk Management Framework, a component of the ERMF, operates through top-down review by various governance committees (see Governance Report on page 13 and bottom-up review by the relevant individual functions. Independent assurance is provided by the internal audit function which performs a risk-based audit programme and reports to the Board Audit Committee.

The principal risks that arise from RCI's operations, and which are managed under the framework described above, are described in the following section.

Principal risks

Credit risk

RCI faces credit risk as an inherent component of its lending activities. Its primary credit risk is the loss from a retail customer's or dealer's failure to make payments according to contract terms. It can result from adverse changes in the credit quality of its obligors, a general deterioration in UK economic conditions or adverse changes arising from systemic risks in the UK. Credit risk is segmented into three categories: retail (financing of individual and corporate customers), wholesale (dealer funding) and counterparty including large exposures. The Credit and Lending function in the first line is responsible for the management of this risk -for both retail and wholesale lending- with oversight being provided by the Risk function as second line of defence.

Retail credit risk is managed via scorecards developed over many years using external credit bureau data for auto-approval and by manual underwriting for marginal cases. Additionally, RCI retains legal ownership of a financed vehicle until the financial obligation is repaid. After initial loan approval, either via scorecard or manual underwriting, the ongoing default statistics are monitored and reviewed on a monthly basis. Should a customer default, a dedicated collections team will then attempt to recover the funds.

Wholesale lending primarily includes financing to Renault and Nissan dealers to fund inventories of new, demo and used vehicles and, to a much lesser extent, spare parts and working capital loans. This activity is subject to manual underwriting assessing dealers' financial situation, level of financial guarantee received and numerous other financial and qualitative factors. The majority is asset finance, with the vehicles as collateral where RCI retains ownership until the vehicle is sold. Asset verification processes are in place and include physical audits of vehicle stocks with increased audit frequency for higher risk dealers.

RCI takes only limited counterparty credit risk which arises both where it places deposits with other financial institutions, all of which are prime UK banks or its parent company, and when it invests in UK Government bonds which are considered low risk.

Residual Value (RV) risk

This is the risk that at the end of the contract period, a vehicle being financed is not worth the amount predicted. It potentially impacts credit contracts (hire purchase and PCP) and leases (contract hire).

Changes in RV may happen at any time due to external factors and may cause a loss if the actual proceeds realised upon sale of a returned vehicle are lower than the forecast at the beginning of the contract. Additionally, under the Consumer Credit Act, a vehicle may be returned at any time once more than 50% of the repayments have been made, without liability (Voluntary Termination). RCI FS would bear any loss on the vehicle sale.

The end-contract values of the vehicles financed are currently provided by an external provider. The data is used to calculate the current RV position under a contract against the updated market value. For PCP contracts that represent the large majority of agreements where RCI bears the residual value risk, the guaranteed future value (GFV) - used to determine the balloon payment at the end of the contract - is typically set below expected market value to generate equity for the customer and to protect RCI against residual value risk. This risk is managed by the Credit and Lending function that includes some RV specialists and a Remarketing department which manages the resale of returning cars through different channels. Oversight is provided by the Risk function.

Liquidity risk

Liquidity risk is the risk that RCI is unable to make available sufficient resources to meet its current or future financial obligations as they fall due, or is only able to do so at a premium cost. RCI relies on its access to diverse sources of funding to finance its lending business and for working capital requirements. If access to funding became restricted, either through an idiosyncratic event, through market movements, or through regulatory or Government action, this could result in the scaling back or cessation of new lending.

Through its treasury operations and oversight by the Assets and Liabilities Committee (ALCO), RCI seeks to mitigate this risk by actively managing its liquidity reserve and seeking diverse sources of funding. The current funding mix is explained on page [.] and currently consists mostly of retail sight and term deposits raised in the UK, a private securitisation program, and bank loans from the parent company in France.

Operational risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems, and from external events. This definition includes legal risk and environmental risk. RCI faces operational risks, including IT risks, relating to its ability to implement and maintain effective systems to process its transactions with customers.

To address these risks, the second line Risk team maintains department-specific risk and control self-assessments (RCSA) covering the entire UK operations. RCSAs are reviewed and tested on a regular basis and the results are reported to the Executive and Board Risk Committees. Any incidents and near misses are assessed for potential cost and the causes are identified to improve controls. RCI has a Business Continuity Plan designed to ensure that any breakdown in systems would not cause significant disruption to the business and to cope with any issues related to availability of human resources caused by unexpected events.

Operational Resilience

An operational disruption (not just IT-related) is an event that causes harm to customers, other market participants and the reputation/viability of RCI. The continuity of business services or economic functions, and their sustained availability to customers, is an essential component of operational risk. These therefore need to be resilient, robust and capable of being provided in periods of stress by building operational resilience.

RCI has a framework to prevent, adapt, respond, recover and learn from the risk of operational disruption. See also the measures taken by RCI regarding COVID-19 detailed in the related section on page 10.

Climate Change risk

Climate change could result in significant adverse impact on residual values in the existing retail portfolio from the rapid adoption of electric vehicles as an alternative to vehicles powered by internal combustion engines; shrinking sales of vehicles powered by internal combustion engines, with limited substitution; and retail loan defaults as climate change causes physical damage to vehicles resulting in costs to consumers through increased premiums and self–funded repairs. In addition, climate change could cause flooding in areas where a large concentration of vehicles are stocked and financed by the Group.

As part of the annual ICAAP process, RCI carries out stress tests based on the Bank of England's biennial exploratory scenario on the financial risks. This includes a scenario of moving to a business model where a higher proportion of the vehicles financed are electric or hybrid. We also monitor flood risk via the government designated flood risk areas on a monthly basis.

RCI's Board provides oversight of climate-related risks and opportunities through the Board Risk Committee. The Board has delegated day to day responsibility for managing the risks arising from climate change to the CEO.

Concentration risk

This is the impact of concentration either in one industry or in one geographic location. RCI acknowledges the natural concentration risk which arises from its business model being directed at financing motor vehicles and there is no intention to diversify its lending activities. With respect to geography, RCI FS's wholesale and retail borrowers are well spread throughout the UK. RCI FS calculates and monitors its exposure to the 12 UK regions defined by the UK Government on a monthly basis.

In addition, the market is kept under constant review, and marketing / sales initiatives adjusted, to ensure concentration risk stays within risk appetite.

IT Security / Cyber-crime

Cyber-crime and the loss of information held are clearly a threat to the Company.

RCI continues to invest in the maintenance and development of technology, cyber-risk reduction initiatives including regular penetration testing, patching and systems upgrades. This risk is considered as one of the "Top 10" for RCI and is discussed monthly at the Executive Committee.

Compliance risk

The sectors in which RCI operates are subject to extensive regulatory and legislative requirements. There is therefore always a risk of penalties and material loss resulting from failure to act in accordance with industry laws and regulations, internal policies or prescribed best practices.

Compliance activities are focused upon the clear identification of new regulatory requirements, the assessment of the impact on RCI operations, the efficient execution of compliance monitoring to ensure good customer outcomes and ensure compliance with the requirements of the regulatory system.

Conduct risk

This is the risk that customers experience detriment from the way in which the Group conducts its activities, which applies equally to borrowing customers of RCI FS and savings customers making deposits with 'RCI Bank'.

The conduct risk management framework ensures that RCI treats its customers fairly and is focused on the following areas:

- Culture – established through investment in training, good governance, robust risk assessment framework, positive staff performance management and compliant reward and incentive schemes;
- Customer needs and targeting – identified through customer departure and retention rates;
- Customer information and communication – monitored through communication volumes, quality assurance standards, clear documentation and compliant financial promotions;
- Product performance and customer service – monitored through promoter scores and cancellation rates, systems availability, telephone call statistics, decisioning statistics;
- Post-sale barriers and complaints – evidenced through exercise of customer rights and complaints metrics.

Conduct Risk is overseen by the Compliance Department and monitored via a dashboard assessing the position on a monthly basis. Individual conduct breaches are recorded and reported, together with the associated actions for remediation and rectification.

COVID-19

The recent COVID-19 outbreak has emerged as a key risk that will likely have a significant impact on the Group from 2020. Although the duration and extent of this crisis are unknown, it might impact the following areas and risks:

- Alliance brands, dealers and commercial performance: the lockdown period announced by the UK government in March 2020 has led to the closure of car showrooms and the inability for car manufacturers and car dealers to sell new cars to the public. This situation will negatively impact the Group's level of new financings during that period.
- Operational risks: the management, in full collaboration with the Board, has worked to minimize the risks of COVID-19 propagation and exposure for employees while ensuring business continuity by implementing several measures at an early stage including:
    - Activation of the Crisis Management Unit (CMU), since the beginning of March, to coordinate a range of immediate actions in order to mitigate the impact on the Group and its employees;
    - 100% of staff working from home since mid-March;
    - Identification of people working in critical functions to ensure adequate resources at their disposal and to secure effective back up;
    - Organization of internal meetings using collaborative IT tools, such as Skype, MS Teams and video calls;
    - Redeployment of staff to areas of the business facing increasing workload (e.g. customer service platform).
- Credit risk: the outbreak and the current period of uncertainty will likely impact the UK economy and might have adverse consequences on the credit position of our customers and dealers. This should be mitigated by the comprehensive measures announced by the UK Government, and internally by increasing the monitoring of their risk position and payment behaviour.

As of the date of this Annual Report, the outbreak did not have a material impact on the Group's liquidity position which remains strong with a survival period and regulatory liquidity ratios maintained above the Board's risk appetite.

The Group looks to preserve its assets and its ability to operate, to adapt to changes in the situation, and anticipate by appropriate measures, the return to a more normative context for its staff, its activities and commercial demand.

Stakeholder engagement and s.172(1) statement

This section of the Strategic Report describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) and forms the Directors' statement required under section 414CZA of the Company Act 2006.

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of RCI Bank UK Ltd for the benefit of its stakeholders as a whole, and in doing so, had regard amongst other matters to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Directors also took into account the views and interests of a wider set of stakeholders including our regulators. The following are examples of how the directors have had regard to the matters set out in sections 172 (a)-(f) when discharging their section 172 duties and the effect of that on certain decisions taken by them. The following section is not deemed to be exhaustive but intends to describe some of the actions and decisions related to the above matters that are considered relevant to the Board's activity and engagement with stakeholders in 2019. The Governance Report from page [.] also explains how the Directors ensure stakeholder interests are taken into consideration via the various Board and Board Committees.

How stakeholder interests have influenced decision-making

RCI recognises the importance of engaging with stakeholders to help inform strategy and Board decision-making.

In making its decisions, the Board considers stakeholder interests as well as the need to maintain a reputation for high standards of business conduct. In this first year of banking activity, the Board's priority was to embed a new layer of oversight responsibilities, to set up the new corporate governance structures which were among the mandatory conditions to obtain the banking licence and therefore promote the success of RCI for the benefit of its stakeholders as a whole.

Customers and Suppliers

In line with, "We love our customers", Renault Way principles, RCI's objective is to lead its business to be customer centric and to treat customers fairly at every stage of their journey. The Board reviews on a regular basis the initiatives, projects and actions that will foster the Group's business relationships with private and business customers, dealers, retail depositors and the Renault-Nissan Alliance brands in the UK.

In this first year of the new bank structure, and since the relationship with suppliers is fundamental to the quality level provided to the customers, the Board has engaged with and visited the premises of one of RCI's main suppliers in charge of a key outsourcing activity for the savings activity to engage with the supplier and employees. The outsourcing arrangements involving key suppliers have been considered by the Board in order to ensure the adequate level of service and oversight by the Group's management.

Employees

RCI and its Directors want to protect all its employees by providing a safe and healthy environment and encourages employees to work from home when appropriate. The Group values the diversity of its employees and wants to provide an atmosphere where everyone can contribute and develop in a safe working environment, free from harassment or bullying. RCI has in place detailed policies and procedures, accessible to all staff, covering Whistleblowing, Anti-Bribery and Corruption whose oversight is provided by the Board.

Workday (People@Renault) was implemented in July 2019 as a new digital platform to improve employee experiences. Several additional modules of the platform will be deployed in 2020. Employees are kept informed of the corporate activities at a local level, RCI Bank and Services group level and Alliance level. This is done through town hall meetings, breakfasts with the CEO, internal newsfeeds and regular updates from the CEO.

The recruitment process is based on the Renault Way values which ensure RCI has the highest skilled employees with behaviour that reflects its corporate values. These principles are: 'We love our customers', 'We decide and contribute', 'We speak the truth', 'We grow together', 'We make it simple'. All Directors, as well as all senior managers, have participated in an introduction and at least one training module outlining these Renault Way principles which have a clear focus on the impact of stakeholders when making decisions.

RCI aspires to honour the Declaration of Human Rights and does not use any form of forced labour, nor do we tolerate any form of abuse, either physical or mental.

We ensure that sufficient training is provided to all employees in relation to their roles and responsibilities and encourage employees to request any additional training which may be required.

Appointments

The Nomination and Remuneration Committee, on behalf of the Board, must assess the fitness of potential candidates to Senior management and Board positions, who should demonstrate relevant experience and banking expertise that would serve to deliver long sustainable growth to the business, benefiting its shareholder and stakeholders. This committee considered several appointments in 2019 - including a new CEO - and will continue to ensure that its nomination process is based on the principle of fairness. For all senior appointments, especially at Board level, the interests of the Company's stakeholders - including but not limited to the shareholder, the customers and the regulators - are a key focus. The Directors recognise the importance of having a diverse Board and workforce. The Board is committed to developing an inclusive culture and undertakes appropriate training to support this policy.

Regulators

The Board recognises the importance of open and transparent dialogue with the regulators. Representatives from the Prudential Regulation Authority (PRA) have visited RCI which included meeting Directors of the Company. In addition, individual Directors engage regularly with the PRA as part of routine discussions. This was particularly important during 2019 being the first year of licensed banking operations. During this period, the Board ensured the priorities and rules set by the regulators were addressed and dealt with promptly by management. RCI has also been involved in discussions with the Financial Conduct Authority (FCA) and the consultation in relation to motor finance discretionary commission models, consumer credit commission disclosure and the deployment of the Senior Management and Certification Regime.

Climate Change, Environment and the Community

The Board sets the Group's strategy of deploying climate change initiatives and decreasing its carbon footprint and operations' impact on the environment. Three related internal initiatives were carried out in 2019, with the intention of increasing the number and their scope in 2020. From a business perspective, the Board keeps under review the strategy relating to Electric Vehicles, a priority in relation to brands financed by RCI, given the multiple regulatory changes affecting the motor industry. RCI aims at supporting the brands and car dealers by providing bespoke finance products and services to Alliance customers to help their switch towards electric vehicles.

RCI encourages various community engagement initiatives which include employees participating as mentors to local school children and providing work experience placements, the provision of internship opportunities with universities and various initiatives to support charitable organisations.

Governance Report

The Board of Directors is responsible for providing leadership and setting the strategic direction within a framework of prudent and effective controls which enable risk to be assessed and managed in accordance with the Board's risk appetite.

This report provides information on the corporate governance framework. The Corporate Goverance Statement required by the Companies (Miscellaneous Reporting) Regulations 2018 is included in the Directors' Report.

Board Leadership

The Board is the ultimate decision-making body within RCI. The Board's purpose is to promote the long-term success of RCI by putting in place a prudent and sustainable business model. This extends to establishing governance, strategy, culture, risk management and policies that are consistent with that model to ensure regulatory obligations in relation to safety, soundness and conduct are met. See also Stakeholder engagement and s.172(1) statement on page 11.

The Board met six times in 2019. The Board delegates certain responsibilities and powers to the committees listed below.

The Board is comprised of seven Board members: 3 Independent Non-Executive Directors (iNEDs) including the Chairman, 2 Executive Directors and 2 Non-Executive Directors who represent the interests of the shareholder, RCI Banque SA.

An induction programme is in place for all new Non-Executive Directors to ensure they can provide effective challenge as soon as possible after appointment. Training and development needs are identified as part of the annual review process undertaken by the Chairman.

The Board operates an annual appraisal scheme in which all Directors appraise the performance of each of the Board members and the Chairman, with the consolidated results also being used to evaluate any areas for development. The results of the exercise inform the decision to recommend a Director for re-election.

At the end of 2019, the Board carried out a questionnaire-based review of its effectiveness. The results of this were discussed by the Board in early 2020 as well as the areas for improvement that were identified during this first year of operating as a bank. Similar effectiveness reviews are planned for Board Committees.

The Senior Management and Certification Regime (SMCR) was deployed in 2019. All necessary steps were followed for full compliance with that regime to ensure regulatory observance. The project was undertaken by the Compliance function and overseen by the Board.

Board Committees

The Board has established three committees to deal with certain specialist areas. Each committee is chaired by an Independent Non-Executive Director and operates within defined terms of reference. Minutes of meetings, evidencing the level and quality of challenge, are formally recorded and proceedings are reported to the Board by the respective committee Chairperson. The committees and their summary terms of reference are set out below.

- **Nominations & Remuneration Committee**

The Nominations & Remuneration Committee is comprised of all the Non-Executive Directors. Its purpose is to advise and assist the Board in exercising its responsibilities for the composition and effectiveness of the Board and the remuneration practice and policy of RCI. This extends to the appointment of new Directors, the creation and maintenance of succession plans for the Board and members of the Executive Committee. The committee also reviews the overall reward framework, including remuneration arrangements for Directors and senior executive management, to ensure these are in accord with statutory and good market practice and are designed to encourage behaviour conducive to the interests of RCI and its many stakeholders.

- **Board Risk Committee**

The Board Risk Committee (BRC) is comprised of all the Non-Executive Directors. Members of the Executive and senior management are invited to attend as appropriate. BRC's purpose is to assist and advise the Board in exercising its responsibilities for the current and future risk management strategy. The risk management strategy includes the determination of risk appetite, risk tolerance, measurement, management and mitigation procedures. The risks covered in this remit include the main risks indentified by the Group including, but not limited to, the Principal risks described in Risk Management section of the Strategic Report from page 7.

- **Board Audit Committee**

The composition and responsibilities of the Board Audit Committee are detailed in the Audit Committee Report from page 15.

Directors' Interests

Directors disclose relevant external interests considered to conflict with their role, including other directorships that they hold. There is a formal process which requires Directors to re-confirm their external interests annually. Furthermore, at each Board meeting, Directors are required to disclose any conflict in relation to items on the agenda for the meeting. In all cases, the Board considers if a Director's ability to act in the best interests of the Company might be compromised. No Director is counted in a quorum in respect of any conflict situation. If a business relationship were to exist between RCI and a company associated with a Non-Executive Director, all dealings would be undertaken at arms-length.

Directors' emoluments are covered in Note 8 of the financial statements.

Management Committees

RCI has established management committees to assist the Executive Directors discharge their duties.

- **Executive Committee (ExComm)**

ExComm is responsible for the general management of all the business lines within RCI and delivery of the Board-approved strategy, business plans and annual budget. It is also responsible for the effective operation of the Risk Management Framework, including consideration of regulatory and conduct risks. ExComm is also responsible for updating and escalating issues to the Board Risk Committee, including material risks and near misses.

- **Assets and Liabilities Committee (ALCO)**

ALCO is responsible for decision making, in accordance with the Board's strategic objectives and risk appetite, relating to management of financial risks.

The purpose of ALCO is also to develop the asset and liability strategy, recommend changes to the liquidity profile and evaluate strategies to maximise returns on the assets. In addition, ALCO reviews the ICAAP and ILAAP and submits them to the Board Risk Committee for recommendation to the Board.

- **Risk and Compliance Committee**

The Risk and Compliance Committee is responsible for ensuring that there is a comprehensive, independent risk control framework with suitable oversight that considers RCI risk profile in relation to current and proposed business strategy and risk appetite. This committee also identifies any risk trends and exposures or concentrations that may necessitate mitigation. It oversees the impact of market trends, events and regulatory changes on RCI risk appetite and risk exposures. It also reviews and recommends annually the Risk Management Framework to the Board Risk Committee including an appropriate risk appetite framework, statements, limits and tolerance levels.

- **Product Committee**

The Product Committee is responsible for ensuring the effective implementation of a robust and effective product governance process in respect of all existing and new retail and fleet products as well as pricing structures. This committee also aims at promoting the right customer and business outcomes across the lifecycles of the products.

Approval of the 2019 Strategic Report

The Strategic Report for the year ended 31 December 2019 as set out on pages 5 to 14 was approved by the Board on 27 April 2020.

Signed on behalf of the Board by

Alice Altemaire
CEO

Audit Committee Report

The Audit Committee (the "Committee") is responsible for reviewing the effectiveness of financial reporting and internal controls. The Committee also safeguards the independence of external audit, of the outsourced internal audit function and oversees their effectiveness.

Membership and Meetings

The Committee expanded to five members and met six times during the year:

- Sheryl Lawrence, Chair, Independent Non-Executive Director
- Jean-Louis Labauge, Non-Executive Director – joined 28 June 2019
- Marc Lagrene, Non-Executive Director
- Malcolm Himsworth, Independent Non-Executive Director– joined 26 November 2019
- Enrico Rossini, Non-Executive Director – resigned 28 June 2019
- David Swanney, Independent Non-Executive Director

The CEO, CFO, CRO and Head of Compliance attend Committee meetings by invitation. Both the internal and external auditors are also invited to each meeting, and there is opportunity for discussion without the Executive Directors being present. During the year, the Committee Chair had regular meetings with external audit, internal audit and management to discuss the business of the Committee and specific issues as they arose.

Following each Committee meeting, the Chair provided an update to the Board on key matters discussed by the Committee.

How the Committee discharged its responsibilities

- **Financial Reporting**

The Committee reviewed and challenged:

- The Significant areas of judgement in relation to critical accounting policies, disclosure obligations and changes to accounting requirements and their application to the results of the Bank;
- The Annual Report & Financial Statements to ensure they are fair, balanced and understandable;
- The going concern justification;

The Committee expects to review the Company's Pillar 3 disclosures, before they are published, to ensure they comply with prescribed requirements.

- **Internal Controls and Risk Management**

The Committee considered the assurance needs of RCI commensurate with its risk profile, which shapes an overall assurance plan indicating sources of assurance and level of assurance required from each source. In line with this plan, the Committee received and considered reports on internal controls, regulatory compliance and risk management effectiveness, and sought confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified.

- **External Audit**

KPMG LLP (KPMG) has been the external auditor since 2019. The Committee monitors the engagement of KPMG and considers their audit strategy, materiality levels and fees, as well as their effectiveness, continued independence and objectivity. External audit reports are presented to the Committee throughout the audit process allowing it to consider management's responsiveness to the findings and recommendations. The Committee Chair maintained regular contact with the external auditor throughout the year.

The Committee has a policy on the use of the external auditor for non-audit services, which ensures that work is only awarded when permissible and where independence is not compromised. The Committee assesses the effectiveness of the external auditors and makes recommendations to the Board on their re-appointment and removal. KPMG's audit fees for 2019 are outlined in Note 7 'Auditor remuneration' of the financial statements.

The Committee has a policy on the use of the external auditor for non-audit services, which ensures that work is only awarded when permissible and where independence is not compromised. The Committee assesses the effectiveness of the external auditors and makes recommendations to the Board on their re-appointment and removal. KPMG's audit fees for 2019 are outlined in Note 7 'Auditor remuneration' of the financial statements.

- **Internal Audit**

  The Committee provided oversight of the tender process which selected Grant Thornton UK LLP to deliver the outsourced internal audit function. The Committee approves the annual internal audit plan and budget, and monitors progress against the plan throughout the year, including individual audit reports, thematic analysis and completion of actions. The 2019 audit plan included: governance, regulatory reporting, enterprise risk management framework, conduct risk assessment, outsourced savings and deposit taking operations, consumer motor finance credit risk governance, cyber and information security and review of compliance with data protection regulations (GDPR). The Committee assesses the effectiveness of the internal auditor function and makes recommendations to the Board on their re-appointment and removal.

- **Whistleblowing**

  The Committee is providing oversight to the work being done to align whistleblowing arrangements implemented in the UK with those in place at the parent company RCI Banque SA.

- **Significant areas of judgement**

  In relation to the 2019 Annual Report and Financial Statements, the Committee considered the following significant issues and accounting judgements:

- Expected Credit Losses (ECL) in accordance with IFRS 9
- Recoverability of the residual value of vehicles on operating leases
- Guaranteed future value (GFV) and Voluntary termination (VT) provision in relation to hire purchase/personal contract purchase (PCP) contracts
- Defined benefit obligation assumptions relating to the pension scheme

On behalf of the Audit Committee

SLawrence

Sheryl Lawrence

27 April 2020

Directors' Report

The Directors of RCI Bank UK Ltd (the "Company") present their report, together with the Group's consolidated financial statements, for the year ended 31 December 2019. The names of the Directors who have served during the year are set out on page 3.

The business model and the performance for the year, along with the principal risks faced by the Company and the Risk Management Framework, are described in the Strategic Report on pages 5 to 14. The role of the Board of Directors is set out in the Governance Report.

Corporate Governance Statement

The Directors have chosen to develop the Company's own governance policy drawing from the Wates Principles and the European Banking Authority's guidelines on internal governance. The Company expects the policy will evolve and improve through at least annual effectiveness assessments. This approach was considered most appropriate as the Company does not have a premium listing that would require the application of the UK Corporate Governance Code. The approach also recognises that the Company is an EU Public Interest Entity in its own right with a simple business model, is subject to robust UK banking regulations, and is a wholly owned subsidiary of RCI Banque SA.

The Governance Policy establishes the following arrangements:

- Composition of the Board: Board members are appointed based on their skill set relevant to their duties as Directors of a regulated bank. The Senior Management and Certification Regime has been implemented and the matters reserved for the Board clearly defined;
- Committee structure and organisation: covers the legal ownership structure of the Company, the role and terms of reference of each Board Committee, the executive management and executive committees together with the responsibilities assigned to each Board member;
- Shareholder and regulatory structure: contains a detailed structure of the Renault group including the ownership between each entity as well as the related UK regulatory authorities having oversight on the Company and the Group;
- Relationship with the parent bank (RCI Banque SA): sets out the matters reserved to this sole shareholder and the process for ensuring the UK Board has the necessary level of autonomy for meeting the governance expectations of a UK regulated bank, including setting and approving the risk appetite statement;
- Code of behaviour: outlines the core values that must be applied within the Group and the adoption of the global Renault Way programme (see further details in the Stakeholder Engagement and s. 172(1) statement on page 11);
- Internal control framework: the Company has an independent compliance function and an independent risk function, both of which are transparent with the regulatory bodies. A set of thirteen policies and documents currently make up the Enterprise Risk Management Framework setting expectations for risk management and control, related control functions including risk, legal, compliance, internal audit as well as for outsourced suppliers.

The implementation of the Governance Policy is well advanced. An internal audit was carried out to provide early feedback on design effectiveness, and good progress is being made with completing the improvement recommendations.

Separately, the Board completed a self assessment of its effectiveness ahead of commissioning an external Board effectiveness review in 2020. Details of the functioning of the Board and executive committees are given in the Governance Report from page 13.

In summary, whilst Board processes are in their early stages of maturity, they are well advanced and, as a separately authorised bank, the working relationship with the shareholder has become well balanced. The actions being taken in response to the internal audit and Board self-evaluation are driving further improvement. The external evaluation will provide further insight into the progress made and the work still to be undertaken.

Going Concern

In preparing these consolidated financial statements, the Directors have satisfied themselves that it is reasonable to adopt the going concern basis. Projections of future financial performance for the Group and Company have been prepared, including stress tests of its capital and liquidity positions. The stress tests have considered a period of at least 12 months from the signing of these financial statements and incorporated the scenarios published by the Bank of England as well as more severe scenarios specific to the Group's business model and financial resources. The impacts of Brexit and COVID-19 were amongst the risks to the Group's and Company's business model that were assessed. After making the necessary enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Group and Company's financial statements have been prepared on a going concern basis.

Disclosure of Relevant Audit Information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Proposed dividend

The Directors of the Company have decided to delay the decision on the dividend payment to the parent company RCI Banque SA related to the year 2019. The Board will continue to review this matter later in the year, subject to the relevant policy statements issued by the regulator in the current circumstances around COVID-19.

Political donations

During 2019, no political donations were made, nor were any political expenditures incurred.

Post balance sheet events

The Company is monitoring the downside risks associated to the COVID-19 outbreak that affects the global and UK economies mostly from the month of March 2020. The Group has taken a comprehensive range of measures protecting its employees and ensuring business continuity. Although the duration and extent of the crisis are widely unknown at the date of this Annual Report, this outbreak will have material impacts on the commercial and financial performances for 2020 and will likely have adverse effects on the following items:

- the level of new financings might decrease due to the expected drop in new car market registrations;
- the income might go down due to the decrease in loans and advances to customers and operating leases;
- the Expected Credit Losses (ECL): the provisions calculated as per IFRS 9 might increase given the adverse impacts on the UK economy and the likelihood that it impacts the ability of some customers to repay their loans; and
- the valuation of defined benefit obligations relating to the pension scheme.

In addition, the impact on residual values (RV) and voluntary terminations is currently largely unknown and will be closely monitored to update accordingly the level of RV provisions for hire purchase and PCP as well as the adjustment in depreciation for operating leases.

Despite this challenging context, the Group still maintains its regulatory capital ratios above its Board's risk appetite and regulatory limits.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare those financial statements for each financial year. Under that law, they have elected to prepare the Group and Company's financial statements in accordance with International Financial Reporting Standards as adopted by the EU 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 the Company and of their profit or loss for that year. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements for the year ended 31 December 2019. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors and signed on behalf of the Board by:

Alice Altemaire

CEO

27 April 2020

Independent Auditor's report to the members of RCI Bank UK Limited and its subsidiaries

1. Our opinion is unmodified

We have audited the financial statements of RCI Bank UK Limited and its subsidiary ("the Group") for the year ended 31 December 2019 which comprise the consolidated statement of profit or loss, consolidated statement of other comprehensive income, parent and consolidated balance sheet, parent and consolidated statement of changes in equity, parent and consolidated cash flow statement and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of RCI Bank UK Limited's ("the Parent Company") affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 2 August 2019. The period of total uninterrupted engagement is for the one financial year ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£3.6m 4.7% of profit before tax
Coverage	100% of Group profit before tax
Key audit matters	
Summary of risks	Recoverability of the residual value of vehicles on operating leases
	Guaranteed fair value ('GFV') and Voluntary termination ('VT') provision in relation to Hire Purchase / PCP contracts
	Expected Credit Losses ('ECL') in accordance with IFRS 9
	Going concern
	Defined benefit obligation assumptions relating to retirement benefit scheme
	Recoverability of Parent Company's investment in subsidiary

2. **Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Recoverability of the residual value of vehicles on operating leases (Residual value adjustment: £6.7 million) Refer to page 49 (accounting policy) and page 85 (financial disclosures)	**Subjective estimate** The Group leases vehicles to customers which are held as operating leases and sets residual values for these vehicles at the start of these leases. The Group is exposed to the risk that upon the termination of the lease contract, the realisable value of leased vehicles is less than the residual value for those vehicles as set at the start of the lease. As such, the Group records a depreciation adjustment to estimate the potential difference in these values. The estimated residual value of the vehicles on operating leases at the termination of lease contract is determined with reference to external residual value data and the Group's historical experience of selling the returned vehicles (sales performance), adjusted for expected economic conditions at the time of termination of contract. The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of the residual value of the vehicles on operating leases has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: • Agreeing the original residual values and revised residual values as at year end for a sample of vehicles to the values provided by an external vehicle valuation provider; • Assessing the appropriateness and reliability of values provided by the external vehicle valuation provider; • Testing the completeness and accuracy of data used in the calculation of the depreciation adjustment such as historical sales price data; • Recalculating management's residual value adjustment calculation as at 31 December 2019 and assessing whether the adjustments are within a reasonable range; and • Assessing whether the disclosures appropriately disclose and address the uncertainty which exists when determining the residual value adjustments. As a part of this, we assessed whether the disclosure of the key judgements and assumptions were sufficiently clear. **Our results** As a result of our work we found the depreciation adjustments recognised on account of changes in residual values to be acceptable.

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Guaranteed fair value and Voluntary termination provision in relation to Hire Purchase / PCP contracts (GFV and VT provision: £63.7 million) Refer to page 48 (accounting policy) and page 85 (financial disclosures)	**Subjective estimate** For vehicles on hire purchase or finance lease, the Group determines a Guaranteed Fair Value ('GFV') being the price that the Group expects to receive when selling the car upon the termination of the contract. Management estimates a GFV provision to account for any expected deterioration in the value of these vehicles. Additionally, for certain hire purchase/personal contract purchase contracts, customers have the right to terminate their agreements once at least 50% of the financed amount has been paid. For these contracts, management estimates a Voluntary Termination ('VT') provision to account for any shortfall between the price obtained when disposing of these vehicles and current net book value. The determination of the amount of these provisions is subjective due to the inherent uncertainty involved in forecasting the return rates, VT rates and the expected market values of the vehicles on the date of their return that is determined with reference to external residual value data and the Group's historical experience of selling the returned vehicles (sales performance), adjusted for expected economic conditions at the time of termination of contract. The effect of these matters is that, as part of our risk assessment, we determined that the GFV and VT provisions to have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: • Agreeing the recoverable amounts used in the provision calculation as at year end for a sample of vehicles to the values provided by an external vehicle valuation provider; • Assessing the appropriateness of assumptions such as forecast voluntary termination rates by reference to the Group's historical experience; • Testing the completeness and accuracy of key data used as inputs into the GFV and VT provisions; • Recalculating management's GFV and VT provision calculation as at 31 December 2019 and assessing whether the provision values are within a reasonable range; and • Assessing whether the disclosures appropriately disclose and address the uncertainty which exists when determining the GFV and VT provisions. As a part of this, we assessed whether the disclosure of the key judgements and assumptions were sufficiently clear. **Our results** As a result of our work we found the resulting estimate of the GFV and VT provisions to be acceptable.

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Expected Credit Losses ('ECL') in accordance with IFRS 9 (Impairment provisions: £37.1 million) Refer to pages 45 - 47 (accounting policy) and pages 58 - 63 (financial disclosures)	**Subjective estimate** The estimation of expected credit losses ("ECL") on financial instruments held by the Group involves significant judgement and estimates. The Group is exposed to the risk that ECLs may be incorrect due to the use of complex and inherently judgmental ECL modelling techniques which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD"), and Exposures at Default ("EAD") and due to the judgement required in determining appropriate significant increase in credit risk criteria as well as appropriate forward looking probability weighted economic scenarios used in the ECL calculations. The effect of these matters is that, as part of our risk assessment, we determined that estimation of PDs in the calculation of ECLs on financial instruments held by the Group has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. This risk is particularly focussed on the retail portfolio which attracts the largest provisions within the organisation.	Our procedures included: • Involving financial risk modelling specialists in evaluating the appropriateness of the Group's IFRS 9 impairment methodologies and using our experience to assess probability of default, loss given default and exposure at default assumptions; • Testing appropriateness of staging criteria used in the ECL calculation; • Assessing the appropriateness of key data used as inputs into the ECL calculations; • Recalculating management's modelled ECL calculation on a sample basis as at 31 December 2019; • Testing appropriateness of management's back-testing of modelled assumptions used in calculation of ECL with focus on PDs; • Performing sensitivity analysis over the key macroeconomic data elements and benchmarking the weightage applied to each economic scenario to those applied by other banks in the UK; and • Assessing whether the disclosures appropriately disclose and address the uncertainty which exists when determining the ECL provisions. As a part of this, we assessed whether the disclosure of the key judgements and assumptions were sufficiently clear. **Our results** The results of our testing were satisfactory and we considered the ECL charge, provision recognised and the related disclosures to be acceptable.

Independent Auditor's report to the members of RCI Bank UK Limited and its subsidiaries

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Going concern Refer to page 10 (Strategic Report), page 18 (Directors' report), page 34 (accounting policy) and page 86 (financial disclosures)	**Disclosure quality** The financial statements explain how the Board has formed a judgment that it is appropriate to adopt the going concern basis of preparation for the Group and the Parent Company. That judgment is based on an evaluation of the inherent risks to the Group's and the Parent Company's business model and how those risks might affect the Group's and the Parent Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to adversely affect the Group's and the Parent Company's available financial resources over this period is the impact of Covid-19. The risk for our audit was whether or not the risk of Covid-19 is such that it amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had this been such, then that fact would have been required to have been disclosed.	Our procedures included: • Using our COVID-19 knowledge, considering the directors' assessment of COVID-19 related sources of risk for the Group's and the Parent Company's business and financial resources compared with our own understanding of the risks and considering the directors' plans to take action to mitigate the risks; • Performing a sensitivity analysis over the level of available financial resources indicated by the Group's and the Parent Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; • Evaluating the achievability of the actions the Directors consider they would take to improve the position should the risks materialise; and • Assessing transparency by performing an assessment of the completeness and accuracy of the matters covered in the going concern disclosure, including those in the strategic report, by comparing the overall picture against our understanding of the risks. **Our results** We found the going concern disclosures to be acceptable.

Independent Auditor's report to the members of RCI Bank UK Limited and its subsidiaries

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Defined benefit obligation assumptions relating to retirement benefit scheme (Retirement benefit liability £37.5 million) Refer to page 50 (accounting policy) and pages 87 - 91 (financial disclosures)	**Subjective estimate** Significant estimates are made in valuing the Group's post-retirement defined benefit scheme and relatively small changes in assumptions and estimates used to value the Group's net pension deficit can have a significant effect on the results, total comprehensive income and financial position of the Group. The most significant assumptions used to value the Group's net pension deficit include discount rate and inflation rate assumptions where changes in these assumptions could result in a range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our audit procedures included: • Involving our own actuarial specialists to challenge the key assumptions in the defined benefit obligation calculation, being the discount rate and inflation rate against externally derived data; • Testing the completeness and accuracy of the employee data used in calculating the obligation; and • Assessing the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results** The results of our testing were satisfactory and we found the resulting estimate of the defined benefit pension liability to be acceptable.
Recoverability of Parent Company's investment in subsidiary (Amount of investment: £366.7 million) Refer to page 51 (accounting policy) and pages 56 - 57 (financial disclosures)	**Low risk, high value** The Parent Company acquired its subsidiary, RCI Financial Services during the year and the carrying amount of the *Parent Company's investment in its* subsidiary represents 10% of the Parent Company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	Our audit procedures included: • Assessing the work performed by the subsidiary audit team of RCI Financial Services Limited and considering the results of that work on the entity's profits and net assets. As part of this work we evaluated the appropriateness of audit procedures performed and conclusions reached particularly in respect of audit work over Expected Credit Losses, Residual Value adjustments, Guaranteed Fair Value provisions, Voluntary Termination provisions and defined benefit obligations; and • Performing tests of detail by comparing the carrying amount of the total investment balance with the draft financial statements of RCI Financial Services Limited to identify whether the net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether RCI Financial Services Limited has historically been profit-making **Our results** We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £3.6m, determined with reference to a benchmark of the Group's profit before tax, of which it represents 4.7%.

Materiality for the Parent Company financial statements as a whole was set at £3.5m, which was set below the materiality for the Group financial statements as a whole.

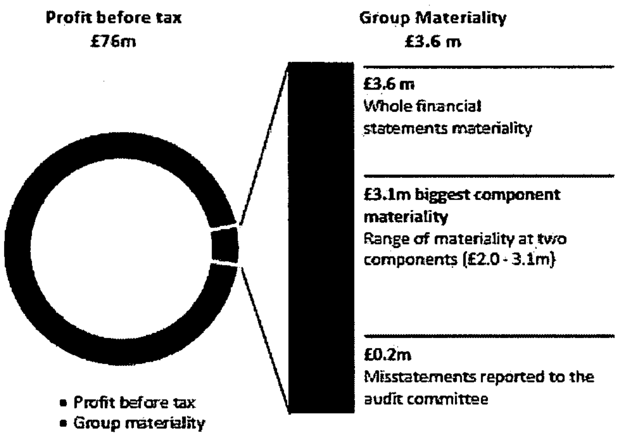
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

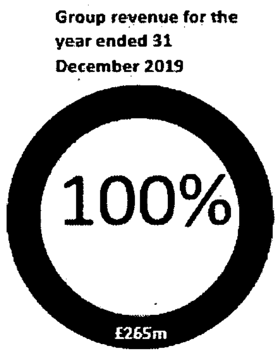
The Group had two components i.e. RCI Financial Services Limited and RCI Bank UK Limited which were subjected to full scope audit for Group purposes.

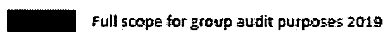
The components within the scope of our work accounted for the percentages illustrated opposite.

The Group team instructed component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £2m to £3.1, having regard to the mix of size and risk profile of the Group across the components. The work on the audit of RCI Financial Services Limited was performed by the component auditor and the audit of the Parent Company, was performed by the Group team.

The Group team visited the component location in the UK to assess the audit risk and strategy. Video and telephone conference meetings were also held with the component auditor. At these visits and meetings, the Group team reviewed the component's key working papers, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.







Independent Auditor's report to the members of RCI Bank UK Limited and its subsidiaries

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Parent Company or the Group or to cease their operations, and as they have concluded that the Parent Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Parent Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1B to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. Other matter - prior period financial statements

We note that the prior period financial statements were not audited. Consequently ISAs (UK) require the auditor to state that the corresponding figures contained within these financial statements are unaudited. Our opinion is not modified in respect of this matter.

7. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 19, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and Parent 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 they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. Respective responsibilities (contd.)

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management as required by auditing standards, and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to the component audit team of relevant laws and regulations identified at the Group level. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

9. The purpose of our audit work and to whom we owe our responsibilities

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

Zaffarali Khakoo
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
27 April 2020

RCI BANK UK LIMITED
YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Group 2019 £'000	2018 £'000
Interest income	2	170,847	-
Interest expense	2	(60,746)	-
Net interest income		110,101	-
Fee and commission income	3	6,261	-
Fee and commission expense	3	(1,558)	-
Net fee and commission income		4,703	-
Other revenue	4	87,716	-
Total income		202,520	-
Other losses from the sale of HP & PCP vehicles	5	(2,670)	-
Depreciation of property, plant and equipment	16	(23,686)	-
Operating expenses	6	(100,395)	-
Reversal of provision for changes in residual value on HP & PCP vehicles		1,457	-
Reversal of provision for expected credit losses on loans and advances to customers	13	2,266	-
Provisions for expected credit losses on investment securities	14	(151)	-
Loss on fair value adjustment – derivatives	17	(3,353)	-
Profit before tax		75,988	-
Tax expense	9	(14,421)	-
Profit after tax for the financial year		61,567	-

The notes 1 to 34 form an integral part of these financial statements.

Total income and profit before tax relate exclusively to continuing operations.

RCI BANK UK LIMITED
YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	Group 2019 £'000	2018 £'000
Profit for the year		**61,567**	-
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	34	**(4,048)**	-
Movement of deferred tax on pension scheme	18	**688**	-
		(3,360)	-
Items that may be reclassified to profit and loss:			
Net change in fair value of investment securities at FVOCI	14	**(642)**	
Deferred taxation on investment securities at FVOCI	18	**109**	-
		-	-
		(533)	-
Other Comprehensive income		**(3,893)**	-
Total Comprehensive Income for the year		**57,674**	-

The notes 1 to 34 form an integral part of these financial statements.

RCI BANK UK LIMITED
YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED AND COMPANY BALANCE SHEETS

	Notes	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
Cash and cash at central banks	11	21,978	-	120,556	-
Investment in subsidiary	12	366,779	-	-	-
Loans and advances to customers	13	-	-	3,916,076	-
Investment securities	14	548,818	-	548,818	-
Loan to subsidiary	15	2,817,717	-	-	-
Property, Plant and Equipment	16	-	-	157,891	-
Derivative financial instruments	17	-	-	35	
Deferred tax asset	18	109	-	2,621	-
Inventory	19	-	-	30,264	-
Other assets	20	22	-	237,961	-
TOTAL ASSETS		3,755,423	-	5,014,222	-
Derivative financial instruments	17	-	-	7,229	-
Deposits from customers	21	2,953,593	-	2,953,593	-
Deposits from banks	22	187,533	-	187,533	-
Debt securities issued	29	-	-	900,000	-
Retirement benefit liability	34	-	-	10,886	-
Current tax liabilities	23	533	-	5,076	-
Residual value provisions for HP & PCP	30	-	-	63,707	-
Other liabilities	24	65,680	-	277,745	-
TOTAL LIABILITIES		3,207,339	-	4,405,769	-
Issued capital	25	290,400	-	290,400	-
Retained earnings		(2,162)	-	328,034	-
Merger reserve	26	260,379	-	-	-
Other reserves	26	(533)	-	(9,981)	-
TOTAL EQUITY		548,084	-	608,453	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,755,423	-	5,014,222	-

The notes 1 to 34 form an integral part of these financial statements.

The financial statements on pages 29 to 91 were approved by the Board of Directors on 27 April 2020 and were signed on its behalf by:

Peter McEvoy
CFO

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

Company

	Ordinary share capital £'000	Merger reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019	-	-	-	-	-
Acquisition of subsidiary against issuance of shares	106,400	260,379	-	-	366,779
Other shares issued during the year	184,000	-	-	-	184,000
Profit for the year	-	-	-	(2,162)	(2,162)
Other comprehensive income	-	-	(533)	-	(533)
Balance at 31 December 2019	290,400	260,379	(533)	(2,162)	548,084

Group

	Ordinary share capital £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019	-	-	-	-
Acquisition of subsidiary against issuance of shares	106,400	(6,088)	266,467	366,779
Other shares issued during the year	184,000	-	-	184,000
Profit for the year	-	-	61,567	61,567
Other comprehensive income	-	(3,893)	-	(3,893)
Balance at 31 December 2019	290,400	(9,981)	328,034	608,453

Further details of the Merger and Other Reserves are provided in note 26.

The Notes 1 to 34 form an integral part of these financial statements.

RCI BANK UK LIMITED
YEAR ENDED 31 DECEMBER 2019

CASH FLOW STATEMENTS

	Notes	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
Cash flows from operating activities					
Profit before taxation		(1,629)	-	75,988	-
Adjustments for:					
Depreciation and amortisation		-	-	23,686	-
Gain on sale of property, plant and equipment		-	-	(251)	-
Impairment of financial assets		4,586	-	(2,115)	-
Loss on fair value adjustment – derivatives		-	-	3,353	
Interest expenses		1,438	-	1,438	-
Changes in:					
Loans and advances to customers		-	-	134,813	-
Inventory		-	-	(19,210)	
Other assets		(22)	-	(79,904)	-
Other liabilities		6,558	-	69,191	-
Residual value provisions for HP & PCP		-	-	(1,457)	
Pension contributions paid and amounts recognised in the income statement		-	-	(47)	-
Customer deposits		110,055	-	110,055	-
Bank deposits		187,533	-	187,533	
Derivative financial instruments		-	-	3,841	-
Loan to subsidiary		5,209	-	-	-
Cash used in operations		313,728	-	506,914	-
Income taxes paid		-	-	(5,000)	-
Net cash from operating activities		313,728	-	501,914	-
Cash flows from investing activities					
Purchase of property, plant and equipment		-	-	(64,655)	-
Proceeds from sale of PPE		-	-	54,227	-
Interest income		(3,374)	-	(3,374)	-
Purchasing of investment securities		(2,085,873)	-	(2,085,873)	-
Proceeds from investment securities		1,539,635	-	1,539,635	-
Net cash used in investing activities		(549,612)	-	(560,040)	-
Cash flows from financing activities					
Proceeds from subordinated debt		40,000	-	40,000	-
Debt securities in respect of securitisation		-	-	(200,000)	-
Issuing of ordinary share capital		184,000	-	184,000	-
Net cash generated from financing activities		224,000	-	24,000	-
Net decrease in cash and cash at central banks		(11,884)	-	(34,126)	-
Cash and cash at central banks at 1 January		-	-	-	-
Cash on transfer of Branch / acquisition of Subsidiary	12	33,862	-	154,682	-
Cash and cash at central banks at 31 December	11	21,978	-	120,556	-

The notes 1 to 34 form an integral part of these financial statements.

1 Significant Group Accounting Policies

A) Reporting entity

RCI Bank UK Limited (the "Company") is a limited company incorporated and domiciled in the United Kingdom. The registered office of the Company is Rivers Office Park Denham Way, Maple Cross, Rickmansworth, England, England, WD3 9YS. The consolidated financial statements of RCI Bank UK Limited, for the year ended 31 December 2019, comprise the results of the Company and its subsidiary (together, "the Group") as detailed below. The ultimate parent company is detailed in Note 28.

The principal activities of the Group are deposit taking as well as wholesale and retail lending. The Company was dormant during the comparative period ended 31 December 2018. During the year, the RCI Bank UK Ltd acquired a portfolio of savings accounts from the UK branch of RCI Banque SA. The Company also gained control of RCI Financial Services Limited, through a common control transaction and a share issue, and became the parent holding of this entity and its subsidiary Cars Alliance 2015 Limited. Since then, the Company's principal activity has been taking customer deposits and being a holding company to its controlled entities.

The Group results include the Company's results for the full year and the results of its subsidiaries since the date of acquisition on 6 March 2019 i.e. for the 10-month period ended 31 December 2019 and as at 31 December 2019. Comparative figures are for the year ended 31 December 2018. Under section 480 of the Companies Act (CA) 2006 the Company filed dormant accounts which did not require an audit in accordance with section 476 of the CA 2006. Therefore, it should be noted that none of the comparative figures for 2018 have been audited.

The significant accounting policies that affect the Group financial statements as a whole are set out below. The Company accounting policies are in line with the Group accounting policies as detailed below, except where otherwise indicated.

B) Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and with International Financial Reporting Standards (IFRS) and their interpretation as adopted by the European Union (EU). The financial statements have been prepared under the historical cost convention with the exception of certain financial assets and liabilities which are stated at fair value as disclosed in the Notes. The accounting policies set out below have been applied in respect of the year ended 31 December 2019 and have been applied consistently to all periods presented in these financial statements.

As required by the Companies Act 2006 and Article 4 of the IAS Regulation, RCI Bank UK Limited files financial statements for both Company and Group accounts respectively:

- 'Company' accounts included within these consolidated financial statements comprises results of RCI Bank UK Limited. The Company was dormant and filed dormant accounts for the comparative year ended 31 December 2018.
- 'Group' accounts include results of RCI Bank UK Limited, of its 100% owned subsidiary, RCI Financial Services Limited (the "Subsidiary" or "RCI FS") since its acquisition by the Company in March 2019 and of the Special Purpose Vehicle Cars Alliance 2015 Ltd controlled by RCI FS (the "SPV").

Statement of Profit or Loss – As permitted by Section 408 (4) of the Companies Act 2006, a separate statement of profit or loss or its related notes have not been presented in respect of the Company. The profit after tax of the Company is reported within the Company disclosures contained in the 'Statement of changes in equity'.

Going concern

In preparing these consolidated financial statements, the Directors have satisfied themselves that it is reasonable to adopt the going concern basis. Projections of future financial performance for the Group and Company have been prepared, including stress tests of its capital and liquidity positions. The stress tests have considered a period of at least 12 months from the signing of these financial statements and incorporated the scenarios published by the Bank of England as well as more severe scenarios specific to the Group's business model and financial resources. The impacts of Brexit and of COVID-19 were amongst the risks to the Group's and Company's business model that were assessed. After making the necessary enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Group and Company's financial statements have been prepared on a going concern basis.

C) Basis of Consolidation

(i) Controlled entities

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its Subsidiary and the SPV) made up to 31 December each year. Control is achieved when the Company:

• has power over the investee;
• is exposed, or has rights, to variable return from its involvement with the investee; and
• has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The Subsidiary's accounting policies are in line with the Group's accounting policies. Therefore, no adjustments are made to the financial statements of subsidiaries to align with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation, with the exception of foreign currency gains and losses on intragroup monetary items denominated in a foreign currency of at least one of the parties.

(ii) Securitisation vehicles

RCI Financial Services Limited has transferred the beneficial interest in certain portfolios of credit loans advanced to customers to the Special Purpose Vehicle ("SPV") Cars Alliance 2015 Limited.

Cars Alliance 2015 Limited is a special purpose vehicle which was created solely for the purpose of meeting the refinancing requirements of RCI Financial Services Limited. The activities of this SPV are limited to the purchase of hire purchase loans, issuance of securitised, loan-backed notes, the making of interest payments on the notes, as well as activities strictly related to this refinancing operation.

The operations of the SPV are closely defined and limited by the transaction documentation that has been put in place by RCI Financial Services Limited. The SPV does not make decisions of its own and operates as specified by the documentation. Any excess profitability from the SPV returns each month to RCI Financial Services Limited through the excess spread mechanism, leaving a nominal £400 monthly profit within the SPV. On wind-down, RCI Financial Services Limited receives any residual from the SPV. Cars Alliance 2015 Limited has been consolidated as a subsidiary within the Group balance sheet because in substance it is controlled by RCI Financial Services Limited.

The transfer of the beneficial interest in these loans to the SPV are not treated as sales by RCI Financial Services Limited and are not derecognised. RCI Financial Services Limited continues to recognise these assets within its own balance sheet after the transaction because it retains substantially all the risks and rewards of these loans through the receipt of interest income and deferred consideration from the SPV for the transfer of the beneficial interest in the loans. For securitisations, in the accounts of RCI Financial Services Limited, the proceeds received from the transfer of loans are accounted for as a deemed loan repayable to the SPV.

The legal liabilities of the SPV (notably the class A notes issued to third party investors) as well as sundry debtors (due from third parties) have been shown within the Group balance sheet.

The notes issued by the SPV to third parties, shown in the Group Balance Sheet, are classified as 'Debt securities issued'.

The balance of assets and liabilities in relation to securitisation is explained further in Note 33.

iii) Common control transactions

A common control transaction is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. For such common control business combinations, the predecessor values method is used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the consolidated financial statements. In applying the predecessor values method, financial statement items of the combining entities or businesses for the reporting year in which the common control combination occurs, and for any comparative years disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. A single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognised the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the consolidated financial statements of the controlling party or parties prior to the common control combination. The carrying amounts are included as if such consolidated financial statements had been prepared by the controlling party, including adjustments required for conforming the combined entity's accounting policies and applying those policies to all years presented. There is no recognition of any goodwill. The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the combined entity. The Company's merger reserve arises from the difference between the amount recognised for the cost of investment in its Subsidiary in accordance with IAS 27.13 and the nominal value of the shares issued.

On 14 March 2019, the Company acquired the business of the UK branch of RCI Banque SA (the "Branch"). Given that both entities were under the common control of RCI Banque SA, both before and after the acquisition, it was a business combination under common control and accounted for using the predecessor values method. Accordingly, the assets and liabilities of the Branch acquired by the Company are stated at predecessor value and were included in the Group's financial statements from the month of the acquisition. On 6 March 2019 the Company gained control of 100% of RCI Financial Services Limited from RCI Banque SA through a common control transaction and through a share issue.

D) Functional and Presentation currency

The Group financial statements are presented in Pounds Sterling (GBP) which is the functional currency of the Company and its Subsidiary. All amounts have been rounded to the nearest thousands, except where otherwise indicated.

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot exchange rate at the reporting date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the Statement of Profit or Loss.

Non-monetary assets and liabilities that are measured on a historical cost basis and denominated in foreign currencies are translated into the functional currency using the spot exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value and denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the date of valuation. Where these assets and liabilities are held at fair value through profit and loss, exchange differences are reported as part of the fair value gain or loss.

E) Significant accounting estimates and judgements

The preparation of these financial statements, in conformity with IFRS, requires the Group to make judgments, estimates and assumptions that affect the book value of certain assets and liabilities, income and expense items, and the information disclosed in certain Notes. The estimates and associated assumptions are based on historical experience, internal methodologies, external data and other factors that are considered relevant in view of economic circumstances or risks involved. If changes in these assumptions or circumstances are not as anticipated, the figures reported in the future financial statements could differ from current estimates.

An accounting estimate is material if:

- The accounting estimate requires assumptions to be made about matters that were uncertain at the time the accounting estimate was made
- Changes in the estimate are reasonably likely to occur from period to period, or use of different estimates that reasonably could have been used in the current period
- The accounting estimate could have a material impact on the financial statements within the next financial period

The main items in the financial statements that depend on estimates and assumptions that are material for the Group's business are:

- The recoverable value of loans and advances to customers and the Expected Credit Losses ('ECL'): the critical accounting estimates and judgments are detailed in policy J(v);
- The provision on the guaranteed future value (GFV) for personal contract purchase (PCP) contracts and the provision on voluntary terminations: see critical accounting estimates and judgments in policy K;
- The adjustment in depreciation related to the residual value on operating leases: see critical accounting estimates and judgments in policy L; and
- The valuation methodology used for pension liabilities: see critical accounting estimates and judgments in policy Q and Note 34.

Key assumptions and sensitivity analysis are detailed in the policies and Notes referred above.

F) Changes in accounting policies

The Group applies the standards and amendments published in the Official Journal of the European Union.

New and amended standards and interpretations, effective for annual periods beginning on and after 1 January 2019	
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendment to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendment to IFRS 9	Prepayment Features with Negative Compensation
Amendment to IAS 19	Plan Amendment, Curtailment or Settlement
Annual improvements to IFRS – 2015-2017 cycle	Miscellaneous provisions concerning: - amendments to IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements" entitled "Remeasurement of previously held interests"; - amendments to IAS 12 "Income Taxes" entitled "Accounting for income tax consequences of payments on financial instruments classified as equity"; - amendments to IAS 23 "Borrowing Costs" entitled "Borrowing costs eligible for capitalization"

Accounting standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The Group is currently evaluating the impact of following new and amended standards on its consolidated financial statements. These new standards and amendments to the existing standards are not expected to have significant impact on the Group's consolidated financial statements.

Amendments to IFRS 7,9 and IAS 39	Amendments relating to Interest Rate Benchmark Reform
Amendments to IFRS 3	Definition of a business
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1 and IAS 8	Definition of material
IFRS 17	Insurance contracts
Amendments to References to Conceptual Framework in IFRS Standard	The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Regarding the Group including its subsidiaries, IFRS 16 "Leases" is the only new policy with material impacts on the financial statements. Changes relating to the application of IFRS 16 are stated below.

IFRS 16 (Leases):

IFRS 16 was published in the Official Journal of the European Union on 9 November 2017. The new standard replaces IAS 17 "Leases" and the related IFRIC and SIC interpretations. It removes the distinction previously made between operating leases and finance leases for lessees. Instead, the lessee is required to recognise both a right of use ("ROU") asset and lease liability on-balance sheet. There is a recognition exemption permitted for leases with a term of 12 months or less.

IFRS 16 transition does not impact the Company's accounts as the Company was dormant during the year 2018.

RCI FS, a subsidiary within the Group, applied IFRS 16 on a modified retrospective basis and took advantage of the option not to restate comparative periods.

The Group applies lessee accounting under IFRS 16 to its property leases. The Group applied the following transition options available under the modified retrospective approach:

- to calculate the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments
- to rely on the previous assessment of whether leases are onerous in accordance with IAS 37 immediately before the date of initial application as an alternative to performing an impairment review.

The Group adjusted the carrying amount of the right of use asset at the date of initial application by the previous carrying amount of its onerous lease provision:

- to apply the recognition exception for leases with a term not exceeding 12 months
- to use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The term of the lease corresponds to the non-cancellable period during which the lessee has the right to use the leased property, to which are added renewal options that the group is reasonably certain of exercising.

The lease liabilities correspond to the present value of lease payments yet to be made, determined using the incremental borrowing rate as of 1 January 2019 defined in accordance with the remaining term of the lease. For simplicity, the incremental borrowing rate corresponds to the risk-free rate prevailing plus the relevant Group's risk premium. The weighted average incremental borrowing rate applied by the Group to lease liabilities as of 1 January 2019 was 3.14% for its property.

G) Revenue recognition

Revenue comprises the following:

(a) Interest income

Interest earned on loans and advances to customers is generally fixed at the time the contracts are originated. On certain loans, primarily linked to dealer financing (Wholesale), the Group charges interest at a floating rate that varies with changes in short-term interest rates.

Interest income is recognised in the Statement of Profit or Loss using the effective interest rate method for all financial assets that are measured at amortised cost. Interest supplements and other subsidy from related parties are provided at the time of purchase or origination of eligible contracts. Payments received in relation to retail contracts are deferred on the Balance Sheet within 'Loans and advances to customers' and are recognised in 'Interest income' using the effective interest method over the expected term of the related receivable. Certain loan origination fees (income) and costs (expenses) which can be directly associated to the origination of Loans and advances to customers are regarded as part of the economic return on the loan and included in the loan's carrying value and deferred. The amount deferred is recognised in interest income, using the effective interest method, over the expected term of the related receivable. See policy I v) for calculation of effective interest rate.

(b) Fee and commission income

Fee and commission revenue that is not directly attributable to the origination of loan or lease products is recognised in the Statement of Profit or Loss in accordance with contractual agreements, when performance obligations attached to the fee or commission have been satisfied. This includes the income linked to the sale of insurances and services - which are underwritten by non-affiliated local insurance companies from which the Group earns commission income - and certain commissions or fees payable to dealers.

(c) Other revenue

Other revenue includes operating lease income earned over contract life and sales proceeds on sale of operating lease assets. Operating lease rentals are recognised in the Statement of Profit or Loss on a straight-line basis. Initial direct costs incurred are deferred and allocated to income over the lease term in proportion to the recognition of rental income.

H) Property, Plant and Equipment

Property, plant and equipment is divided into the following asset categories:

- Property (right of use asset)
- Operating lease assets
- Batteries

Assets on operating leases refers to assets that are leased to customers under operating lease agreements. The accounting policies relating to such assets can be found in policy L. Accounting policies for all other asset categories are detailed below.

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes the original purchase price of the asset and any directly attributable costs of bringing the asset to the location and condition necessary for its intended use. Subsequent expenditure is only capitalised when it improves the expected future economic benefits of the asset. Ongoing repairs and maintenance and the net book value of vehicles that have been sold are shown in operating expenses, and sale proceeds are shown in other revenue in the Statement of Profit or Loss.

Depreciation is calculated to write off cost less residual value, on a straight-line basis, over the estimated useful life of the assets as follows:

Property (right of use asset)	Term of lease (13 years)
Operating lease assets	1- 5 years
Batteries	10 years

l) Financial instruments

(i) Recognition

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date.

(ii) Classification and measurement

(a) Financial assets

There are three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

To classify financial assets the Group performs two assessments to evaluate the business model in which financial assets are managed and their cash flow characteristics. The business model assessment is typically performed first, as the financial assets managed on a fair value basis are classified as FVTPL and are not subject to cash flow characteristics test.

Business model assessment:

The 'business model assessment' determines whether the Group's objective is to generate cash flows from collecting contractual cash flows, or by both collecting contractual cash flows and selling financial assets. The assessment is performed at a portfolio level as this best reflects the way business is managed and how information is provided to Management. The assessment is based on Management's expectations. If cash flows are realised in a manner that is different from the original expectation, the classification of the remaining assets in that portfolio is not changed but such information is used when assessing new financial assets going forward.

Cash flow characteristics test:

The assessment of cash flow characteristics determines whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) and is referred to as the 'SPPI test'. For the purposes of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin. The SPPI test is performed at an instrument level based on the contractual terms of the instrument at initial recognition.

Based on the two assessments, financial assets are classified as follows:

Amortised cost: A financial asset is classified as measured at amortised cost if it is held within a business model whose objective is to hold the assets to collect.contractual cashflows; and its contractual terms give rise on specified dates to cash flows that are SPPI.

FVOCI: A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and its contractual terms give rise on specified dates to cash flows that are SPPI.

FVTPL: Financial assets that are managed on a fair value basis, or not classified as measured at amortised cost or FVOCI as per above, are classified as FVTPL. This includes all derivative financial assets.

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be classified as measured at amortised cost or FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Equity instruments are normally classified as FVTPL. However, on initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in the statement of other comprehensive income. This election is made on an investment-by-investment basis.

At initial recognition, the Group measures a financial asset at its fair value plus, for financial assets not subsequently measured at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Trade receivables that do not have a significant financing component are not initially measured at fair value, rather they are initially measured at their transaction price.

Subsequent measurement of financial asset categories held by the Group is as follows:

- Financial assets at FVTPL: subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the Statement of Profit or Loss.
- Financial assets at amortised cost: subsequently measured at amortised cost using the effective interest rate method. Amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in the Statement of Profit or Loss. Any gain or loss on derecognition is also recognised in the Statement of Profit or Loss.
- Financial assets measured at FVOCI: subsequently measured at fair value, with interest impairment and foreign exchange gains and losses recognised in profit or loss, with all other gains/losses recognised in other comprehensive income. Upon derecognition amounts in other comprehensive income are reclassified to profit or loss.

Reclassification:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

(b) Financial liabilities

The Group classified its financial liabilities as either measured at amortised cost or FVTPL.

Financial liabilities categorised as measured at amortised cost are initially recognised at fair value minus incremental direct transaction costs. Subsequent recognition is at amortised cost using the effective interest rate method. Financial liabilities categorised as FVTPL are initially recognised at fair value and are subsequently remeasured at fair value. Net gains and losses were recognised in the Statement of Profit or Loss.

The changes in fair value due to the Group's own credit risk is presented under other comprehensive income for financial liabilities categorised as FVTPL. The Group currently has no financial liabilities categorised as FVTPL that this applies to.

(iii) Derecognition

Derecognition is the point at which the Group ceases to recognise a financial asset or financial liability on its Balance Sheet.

(a) Financial assets

The Group derecognises a financial asset (or a part of a financial asset) when:

- the contractual rights to the cash flows from the financial asset have expired;
- the Group transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred; or
- the Group transfers the financial asset in a transaction in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the asset. If the Group retains control of the asset it continues to recognise the transferred asset only to the extent of its continuing involvement and derecognises the remainder.

On derecognition of a financial asset the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the statement of profit and loss.

(b) Financial liabilities

The Group derecognises a financial liability (or a part of a financial liability) when its contractual obligations are extinguished (i.e. discharged, cancelled, or expired).

On derecognition of a financial liability, the difference between the carrying amount (or the carrying amount allocated to the portion being derecognised) and the sum of the consideration paid (including any new asset obtained less any new liability assumed) is recognised in the Statement of Profit or Loss.

(iv) Modifications of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flow of a financial asset. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to repay
- whether any substantial new terms are introduced that substantially affects the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate; and
- insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

After assessing the cash flows of the modified asset, the Group will determine if it meets the derecognition criteria outlined above or if the financial asset is not derecognized; in that case, the Group recalculates the gross carrying amount of the financial asset based on the revised cash flows of the financial asset and recognises any associated gain or loss in the Statement of Profit or Loss.

(v) Effective interest rate

The interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(vi) Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

Where possible, fair value is determined with reference to quoted prices in an active market or dealer price quotations. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where quoted prices are not available, the Group uses generally accepted valuation techniques to estimate fair value by applying recognized valuation models that use observable market parameters. If the Group does not have the necessary valuation tools, including for complex products, valuations are obtained from leading financial institutions. Fair values have been determined on the basis of information available at the reporting date of each period, and thus do not reflect later changes.
On initial recognition, the best evidence of the fair value of a financial instrument is normally transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value on initial recognition differs from the transaction price, the Group accounts for such differences as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in the Statement of Profit or Loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability). Subsequently, the deferred gain or loss will be released to the Statement of Profit or Loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Group uses a fair value hierarchy that categorises financial instruments into three different levels as detailed below. Levels are reviewed at each reporting date and this determines whether transfers between levels are required.

- **Level 1:** measurements based on quoted prices on active markets for identical financial instruments.
- **Level 2:** measurements based on quoted prices on active markets for similar financial instruments or measurements for which all significant data are based on observable market data.
- **Level 3:** measurement techniques for which significant data are not based on observable market data.

A summary of the Group's main assumptions and valuation methods used to calculate the fair values of its financial assets and financial liabilities for which fair values are disclosed in Note 29 is as follows:

Financial assets: Fixed-rate loans have been estimated by discounting future cash flows at the interest rates offered by the Group at the reporting date for loans with similar conditions and maturities.

Loans and advances to customers: fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date that would have applied to similar loans (conditions, maturity and borrower quality) at the reporting date. Loans with a term of less than one year are not discounted, as their fair value is not significantly different from their net book value;

Financial liabilities: Fair value of financial liabilities has been estimated by discounting future cash flows at the interest rates offered to the Group at the reporting date for borrowings with similar conditions and maturities. Projected cash flows are therefore discounted according to the zero-coupon yield curve, augmented by the spread specific to the Group for issuances on the secondary market against 3 months.

Transfers between levels

The Group makes transfers between the different levels of the fair value hierarchy where the inputs used to measure the fair value of the financial instruments in question no longer satisfy the conditions required to be classified in a certain level within the hierarchy. Any such transfer between different levels of the fair value hierarchy is made at the date the event in question that results in a change in circumstances occurs.

There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2019.

(vii) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(viii) Derivative financial instruments

Derivatives are entered into only for the purposes of matching or eliminating risk from potential movements in interest rates in the Group's assets and liabilities. Derivatives are not used for trading or speculative purposes and are not designated as hedging instruments.

Derivatives are mandatorily classified as FVTPL. They are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Gains and losses arising from changes in fair value are recognised in net gains/(losses) on financial instruments at FVTPL in the Statement of Profit or Loss.

The Group's derivative financial instruments are interest rate swaps. The interest rate swaps fair values are calculated using a zero-coupon curve as at each 31 December, assuming an amortisation profile that follows a base-case scenario of the securitisation transaction, with no early amortisation event built into the cash flow, and with zero probability of the exercise of any embedded options. Hedge accounting for derivatives has not been adopted and changes of fair values of derivatives are reported in the Statement of Profit or Loss under '(Loss)/profit on derivatives – fair value adjustments.

Derivatives are classified as financial assets where their fair value is positive and financial liabilities where their fair value is negative. Where there is the legal right and intention to settle net, then the derivative is classified as a net asset or net liability, as appropriate.

(ix) Measurement of Expected Credit Losses (ECLs)

Impairment of financial assets is calculated using a forward looking ECL model. The Group records an allowance for ECLs for all financial assets that are not held at FVTPL, together with an allowance for ECLs for loan commitments. Equity instruments are not subject to impairment. ECLs are an unbiased probability-weighted estimate of credit losses determined by evaluating a range of possible outcomes. They are measured in a manner that reflects the time value of money and uses reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of ECLs is based on the 'stage' of the financial asset, based on changes in credit risk occurring since the assets initial recognition as explained below:

- **Stage 1:** when a financial asset is first recognized, it is assigned to Stage 1. If there is no significant increase in credit risk from initial recognition the financial asset remains in Stage 1. Stage 1 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1, a 12-month ECL is recognised. The expected credit loss is calculated by multiplying the default probability (PD) by the outstanding amount that will be exposed to the default using the contractual schedule (EAD), the loss ratio in case of default (LGD) and a discounting factor.
- **Stage 2:** when a financial asset shows a significant increase in credit risk from initial recognition it is moved to Stage 2. Stage 2 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from Stage 3. A similar formula as in Stage 1 is used but a lifetime ECL is recognized for Stage 2 financial assets.
- **Stage 3**: when there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit-impaired, it is moved to Stage 3. For financial assets in Stage 3, a lifetime ECL is recognized and is calculated by the outstanding amount at reporting date (EAD) by the LGD.
- **Purchased or originated credit-impaired (POCI):** POCI assets are financial assets that are credit-impaired on initial recognition. On initial recognition they are recorded at fair value. ECLs are only recognised or released to the extent that there is a subsequent change in the ECLs. Their ECL is measured on a lifetime basis. The Group had no POCI assets as at 31 December 2019.

In relation to the above:

- **Lifetime ECL:** defined as ECLs that result from all possible default events over the expected life of a financial instrument.
- **12-month ECL:** defined as the portion of lifetime ECL that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

For loan commitments, where the loan commitment relates to the undrawn component of a facility, it is assigned to the same stage as the drawn component of the facility. For the loans underwritten but not yet originated, the loan commitment is assigned to Stage 1.

A summary of ECL measurement is as follows:

- **Financial assets that are not credit-impaired at the reporting date:** is the present value of all cash shortfalls. Cash shortfalls are the difference between the contractual cash flows due to the Group and the cash flows that the Group expects to receive.
- **Financial assets that are credit-impaired at the reporting date:** is the difference between the gross carrying amount and the present value of estimated future cash flows.
- **Loan commitments:** is the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows the Group expects to receive. A credit conversion factor (CCF) to a balance sheet item is included in the calculation.

The ECL Calculation is detailed in policy J ii).

Credit-impaired is defined by the Group as a financial asset in Stage 3 as detailed above. The Group can elect as an accounting policy choice, to use the 'simplified approach' for trade receivables, contract assets and lease receivables. The Group has chosen not to use the simplified approach.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Write-offs constitute a derecognition event as detailed in (iv) above. Financial assets that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Amounts subsequently recovered on assets previously written off are recognised in impairment losses on financial assets in the Statement of Profit or Loss.

In particular, receivables can be written-off if they:

- have been abandoned through negotiation with the customer in particular as part of an insolvency plan;
- are prescribed;
- have been the subject of an unfavourable court ruling (negative result of legal proceedings or litigation);
- concern a customer who cannot be contacted.

Presentation of loss allowances in the statement of financial position

Loss allowances are presented in the Balance Sheet as follows:

- **Loans and advances to customers and investment securities:** as a deduction from the gross carrying amount of the financial assets;
- **loan commitments:** generally, as a provision; and where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the undrawn loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

J) Loans and advances to customers and finance lease contracts

Loans and advances to customer are financial assets of the group that comprise the following products:

- Sales financing receivables from end customers referred to as HP (hire purchase) and PCP (personal contract purchase), which are accounted for as finance leases;
- Other finance leases referred to as Finance Lease; and
- Dealer financing receivables referred to as Wholesale.

Finance leases are accounted for as per IFRS 16 and Dealer receivables are accounted for as per IFRS 9 and as such they are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate is the internal rate of return to maturity or, for adjustable-rate loans, to the nearest rate adjustment date. The discounted amount of amortization on any difference between the initial loan amount and the amount payable at maturity is calculated using the effective interest rate.

In addition to the contractual component of the receivable, the amortized cost of sales financing receivables includes interest subsidies received from the car maker or dealer as part of promotional campaigns, handling fees paid by customers, and commissions paid for referral of business. These items, which are all factors in the return on the loan, are either deducted from or added to the amount receivable. They are recognized in the Statement of Profit or Loss as a pro-rated portion discounted at the effective interest rate for the receivables to which they apply.

Gains and losses on the resale of vehicles coming off performing lease agreements are recognised in "Other gains/(losses) from the sale of HP and PCP contract vehicles".

(i) Identifying credit risk:

Credit risk is defined as the risk of default on a financial asset that may arise from a borrower failing to make required payments.

When determining whether the risk of default on loans and advances to customers has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort as discussed above. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The Group currently uses a number of different internal rating systems:

- a rating for borrowers in the Dealer segment, which is used during the various phases of the relationship with the borrower (initial approval, risk monitoring, provisioning),
- an acceptance scoring system for retail and corporate customers that vary depending on different criteria including type of financing.

(ii) Calculation of expected credit losses ("ECL"s)

ECLs are the discounted product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), detailed below. ECLs are determined by projecting the PD, EAD and LGD for each future month for each exposure. The three components are multiplied together and adjusted to reflect forward looking information. This calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Probability of default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

The current risk grading framework for Retail customers consists of 10 grades for the sound portfolio and one for default. Corporate and Dealer portfolios are divided into seven grades. The PD associated with each grade is calculated by factoring in historically observed default rates.

Exposure at default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

EAD is designed to address increases in utilisation of committed limits and unpaid interest and fees that the Group would ordinarily expect to observe to the point of default, or through to the point of realisation of the collateral.

Loss given default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realisation of any collateral. It is expressed as a percentage of the EAD.

Economic losses are estimated using discounted recovery flows for Retail customers and corporates, or debt write-offs for the car dealers, on the basis of historical data generally going back at least 7 years. Recovery costs are factored in according to the management phases involved. After analysis, transactions have been grouped into segments representing homogeneous loss levels. The quantifying of these losses per segment results from a statistical model, the main vectors of which are analysis of recoveries per generation and the speed of collection.

Significant increase in credit risk

The Group applies a series of quantitative, qualitative and backstop criteria to determine if an account has demonstrated a significant increase in credit risk and should therefore be moved to Stage 2:

- **Quantitative criteria:** this considers the increase in an account's remaining lifetime PD at the reporting date compared to the expected residual lifetime PD when the account was originated. The Group determines internal ratio thresholds below which the outstanding amounts are systematically considered as Stage 2;
- **Qualitative criteria:** this includes the observation of specific events such as forbearance and a memory effect on the occurrence of past default events;
- **Backstop criteria:** IFRS 9 includes a rebuttable presumption that 30 days past due is an indicator of a significant increase in credit risk. The Group considers 30 days past due to be an appropriate backstop measure and does not rebut this presumption.

(iii) Forward-looking information

IFRS 9 introduces into the credit risk-related expected loss (ECL) calculation the notion of forward looking. Through this notion, new requirements in terms of monitoring and measuring credit risk are introduced with the use of forward-looking data, in particular of macroeconomic type.

The incorporation of forward-looking data is not intended to determine a prudential margin on the amount of provisions. It mainly concerns taking account of the fact that past observations do not necessarily reflect future expectations and consequently adjustments are necessary to the amount of the provision determined on the basis of parameters calibrated exclusively on a historic basis. Such adjustments of the amount of the provision can be made either upwards or downwards and must be duly documented.

The Group method is based on a multi-scenario (3 scenarios) approach. PDs and LGDs are determined for each scenario in order to calculate the expected losses for each of them. Macroeconomic indicators (such as GDP and long-term rates) and sector-based data are used to attach a probability of occurrence to each scenario and thus get the final forward-looking amount.

(iv) Definition of default

The definition of the risk of default under IAS 39 is not affected by IFRS 9. The Group accordingly has retained its definitions of defaulted receivables when defining its Stage 3.

With respect to the Retail business, a receivable is considered as in default as soon as:

- one or more instalments have remained unpaid for at least three months;
- or the deterioration in the counterparty's financial circumstances translates into a risk of non-collection. In particular in the event of over-indebtedness/insolvency procedures, receivership, bankruptcy, compulsory liquidation, personal bankruptcy or liquidation of assets, or in the event of summons to appear before an international court;
- or there are litigation proceedings between the establishment and its counterparty.

With respect to the Dealer business, the definition of default is covered by a specific procedure based on:

- the existence of an instalment that has remained unpaid for more than three months (or first unpaid instalment on a forborne exposure);
- the existence of an insolvency proceeding;
- the presence of indicators that express uncertainty as to future payment such as financial contract end, actual fraud, etc.

(v) Critical accounting estimates and judgments

The recognition and measurement of ECL involves the use of judgements and estimates. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. The Group's base case view for the forward-looking provision is informed by a baseline ECB scenario. In the calculation of the ECL, the Group uses two further scenarios to reflect an alternative adverse view and an alternative stability view. These are chosen to be plausible alternative scenarios. The probabilities assigned to the scenarios are a matter of judgement. At the end of 2019, the Group agreed to use a 31% / 38% / 31% baseline view / adverse view / stability view respectively.

Sensitivity analysis: Changes in the probability of default and loss given default assumptions could be driven by actual default performance, seasoning of the portfolio, as well as changes in the macroeconomic outlook and these would affect the allowance for credit losses. The Group measures the allowance for credit loss at 12-month expected credit losses. If it is determined the credit risk of a receivable has increased significantly since origination, the Group increases the measurement of credit loss to an amount equal to the lifetime expected credit loss. Compared to the probability weighted ECL, the year-end expected credit loss value would have increased by approximately 45% to £54m if solely based on the downturn scenario and would have reduced by approximately 29% to £27m if solely based on the upturn scenario.

K) Residual values on hire purchase and PCP

The following policy covers the provision on the guaranteed future value (GFV) for PCP contracts and the provision on voluntary terminations ("VT").

The Group regularly monitors the resale value of used vehicles across the board to optimize the pricing of its financing products. In most cases, tables of quoted prices showing typical residual values based on vehicle age and mileage are used to determine the residual value of vehicles at the end of the contract term.

However, for contracts under which the trade-in value of the vehicle at the end of the contract term is not guaranteed by a third party, an impairment is calculated by comparing:

- the economic value of the contract, meaning the sum of future cash flows under the contract plus the re-estimated residual value at market conditions on the measurement date, all discounted at the contract interest rate;
- the carrying value on the balance sheet at the time of the measurement.

The projected resale value is estimated by considering known recent trends on the used vehicle market, which may be influenced by external factors such as economic conditions and taxation, and internal factors such as changes in the model range or a decrease in the car maker's prices. The provision is not offset by any profit on resale.

Critical accounting estimates and judgments:

The key assumptions for the provision on GFV include:

- a remarketing sales performance in % based on the historical sales data when cars are sold by the Group at the end of the PCP

The key assumptions for the provision on VT include:

- a remarketing sales performance in % based on historic sales data when the cars returned by the customers are sold by the Group
- an expertise provision to stress the other quantitative factors

Sensitivity analysis: For this analysis, the variable changed is the remarketing sales performance by +/-1% at the end of December 2019. The increase/decrease in sales performance of the vehicles would in turn result in a higher/lower third-party residual value forecast. The increase in 1% in sales performance would represent a credit in the P&L with a positive impact of £3.9m concerning GFV and £0.4m for VT provision. A 1% decrease in the sales performance and residual value forecast would represent a charge in the P&L of £1.9m concerning GFV and £0.4m for VT provision.

L) Operating leases (IFRS 16) as a lessor

IFRS 16 Leases, which replaced IAS 17 Leases, does not result in a significant change to lessor accounting; however, for lessee accounting there is no longer a distinction between operating and finance leases.

The general principle that the Group uses to classify leases as one or the other is still whether the risks and rewards incidental to ownership are transferred to another party. Thus, leases under which the leased vehicle will be bought back by the Group entity at the end of the lease are classified as operating leases since most of the risks and rewards are not transferred to a third party outside the Group. The classification as operating leases of lease contracts that contain a buy-back commitment from the Group also takes into account the estimated term of such leases. This lease term is far shorter than the economic life of the vehicles, which is put by the Groupe Renault at an estimated seven or eight years, depending on the type of vehicle. Consequently, all leases with this buy-back clause are treated as operating leases.

The classification of battery leases for electric vehicles as operating leases is justified by the fact that the Group retains the risks and rewards incidental to ownership throughout the automobile life of the batteries, which is put at between eight and ten years, and so is much longer than the lease agreements.

Operating leases are recognized as non-current assets leased out and are carried on the balance sheet at the gross value of the assets less depreciation, plus lease payments receivable and transaction costs still to be staggered. Lease rentals and proceeds from sale of operating lease assets are recognized in the Statement of Profit or Loss in "Other revenue".

As per IAS 16, the Group records from 1 January 2019 an adjustment in depreciation over the remaining lease term when there is an indication that the residual value at the end of the term might be below the projected net book value. This adjustment is calculated based on forecasts provided by an external data provider which vary regularly and whose projected value might be different than the actual result and proceeds generated by the sale of the vehicles.

Critical accounting estimates and judgments:

The key assumptions for the adjustment in depreciation related to the residual value on operating leases include a remarketing sales performance, independent third-party used car prices and an expertise adjustment to factor the impact of future events on vehicle values which have not manifested themselves in the external market price that is used.

Sensitivity analysis: For this analysis, the variable changed is the sales performance by +/-1% at the end of Dec-19. The increase/decrease in sales performance of the vehicles would in turn result in a higher/lower third-party residual value forecast. The increase in 1% in sales performance and CAP valuation would represent a credit in the P&L with a positive impact of £0.8m linked to the adjustment in depreciation related to the residual value. A 1% decrease in the sales performance and third-party residual value forecast would represent a charge in the P&L of £0.5m linked to the adjustment in depreciation.

M) Assets held for sale

Assets held for sale are classified as such if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for sale within a year in its present condition. Assets held for sale relate to operating leased assets which have reached the end of their agreement period and vehicles returned from hire purchase, PCP and finance lease contracts. The assets awaiting sale are held at the lower of their carrying amount and fair value less costs to sell. RCI remarkets these vehicles through the dealer network and public auctions.

N) Trade and other receivables / payables

Trade and other receivables / payables are not interest bearing and are stated at their nominal value.

NOTES TO THE FINANCIAL STATEMENTS

O) Cash and cash at central banks

'Cash and cash at central banks' comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

P) Intercompany

Borrowings including debt are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any transaction costs premiums and discounts. The amortisation is recognised in interest expense and similar charges using the effective interest rate method. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Q) Pension

For defined benefit pension schemes, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the Statement of Profit or Loss if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount within interest income or expense.

Actuarial gains and losses are recognised in full in the Statement of Other Comprehensive Income in the periods in which they arise.

Defined benefit pension schemes are funded, with the assets of the scheme held independently from those of the Company, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after other current assets or other current liabilities on the face of the balance sheet.

For defined contribution schemes, the amount charged to the Statement of Profit or Loss in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Critical accounting estimates and judgments:

In order to assess the Defined Benefit Obligation ("DBO") and costs it has been necessary to make assumptions about the future economic and demographic events that will affect the level of the benefits promised. Key assumptions relevant to the valuation of DBO include: Discount rate, Rate of price inflation (RPI), Mortality / life expectancy, Salary growth in %. Note 34 includes a detailed sensitivity analysis.

R) Income and deferred tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the Statement of Changes in Equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets have been recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

S) Investment in Subsidiary

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any justified impairment in net recoverable value that has been recognised in profit or loss.

2 Net Interest income

	2019 £'000	2018 £'000
Interest income		
Cash & cash at central banks	604	-
Loans & advances to banks	480	-
HP and PCP contracts	136,356	-
Other finance lease receivables	500	
Wholesale	28,363	-
Derivative financial assets	1,170	-
Investment securities at FVOCI	3,374	-
	170,847	-
Interest expense		
Deposits from parent	(8,433)	-
Deposits from customers	(35,864)	-
Subordinated loan	(1,438)	-
Debt securities issued	(11,357)	-
Derivative financial liabilities	(3,654)	-
	(60,746)	-

The net interest income and expense has been generated from instruments classified as follows:

	2019 £'000	2018 £'000
Financial assets at amortised cost	1,084	-
Loans and advances to customers	165,219	-
Financial assets at FVTPL	1,170	-
Financial assets at FVOCI	3,374	-
	170,847	-
Financial liabilities at amortised cost	(57,092)	-
Financial liabilities at FVTPL	(3,654)	
	(60,746)	-

Interest income is recognised using the effective interest rate for financial assets at amortised cost and at FVOCI.
Interest expense is recognised using the effective interest rate for financial liabilities measured at amortised cost.

3 Net Fee and Commission income

	2019 £'000	2018 £'000
Fee & commission income		
Fees charged related to loans and advances with customers	3,030	-
Other service income	3,231	
	6,261	-
Fee & commission expense		
Loan related and other fee expenses	(1,558)	-
	(1,558)	-

4 Other revenue

	2019 £'000	2018 £'000
Operating lease rentals	34,736	-
Proceeds from sale of operating lease assets	52,980	
	87,716	-

5 Other losses from the sale of HP & PCP loan vehicles

	2019 £'000	2018 £'000
Proceeds from sale of returned HP & PCP loan vehicles	82,424	-
Net book value of returned HP & PCP loan vehicles	(85,094)	-
	(2,670)	-

6 Operating expenses

	2019 £'000	2018 £'000
Staff costs		
Wages and salaries	12,363	-
Social security contributions	1,395	-
Pension costs - defined contribution plan (note 34)	553	-
Pension costs - defined benefit plan (note 34)	551	-
Total Staff Costs	14,862	-
Other expenses		
Net book value of operating lease assets sold	51,110	-
Remarketing and advertising costs	13,585	-
Administrative expenses	20,838	-
Total Other Expenses	85,533	-
Total Operating Expenses	100,395	-

	2019 No.	2018 No.
The average number of permanent employees during the year (including directors) was:		
Sales & Distribution	30	-
Administration	267	-
	297	-

7 Auditor Remuneration

	2019 £'000	2018 £'000
Audit of parent company and consolidated accounts	181	-
Audit of subsidiaries	232	-
Total audit services	413	-
Other services	59	-
	472	-

8 Directors' Emoluments

	2019 £'000	2018 £'000
Directors' emoluments	595	-

The highest paid director received £192k (2018: £nil). There are no directors at 31 December 2019 who are members of a defined benefit pension scheme (2018: none) or a defined contribution scheme (2018: none).

9 Taxation

	2019 £'000	2018 £'000
Current tax		
Current tax expense for the period at a rate of 19%	14,676	-
Deferred tax (Note 18)		
Deferred tax credit for the period at a rate of 17%	(255)	-
Income tax expense reported in income statement	14,421	-
<u>Total tax expense:</u>		
Total income tax expense in income statement	14,421	-
Deferred tax movement through statement of comprehensive income	(797)	-
	13,624	-

10 Reconciliation of effective tax rate

	2019 £'000	2018 £'000
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 19%.		
The differences are explained below:		
Profit on ordinary activities before taxation	75,988	-
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	14,437	-
Effects of:		
Sundry adjustments	(16)	-
	14,421	-

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will increase the Company's future current tax charge accordingly. However the impact is not considered material.

11 Cash and cash at central banks

	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
Cash balances at central banks	7,205	-	7,205	-
Other demand deposits	14,773	-	113,351	-
	21,978	-	120,556	-

The carrying amount of cash and bank balances approximates to the fair value due to the short maturities of these investments.

12 Acquisitions during the period

(i) Acquisition of common control undertaking

On 14 March 2019 RCI Bank UK Limited acquired the assets and liabilities of the UK branch of RCI Banque SA. The net assets of the branch were brought into the Company at net book value. The resulting payable due to RCI Banque SA was shown as a liability and will be settled when the UK branch is closed.

Net assets of the UK branch of RCI Banque SA at the date of acquisition were as follows:

	£'000
Cash balances at central banks	33,862
Loan to RCI Financial Services Limited	2,827,361
Customer deposits	(2,843,538)
Accruals and other liabilities	(1,005)
Consideration payable to parent company	16,680

(ii) Investment in subsidiary

	2019 £'000	2018 £'000
RCI Financial Services Limited	**366,779**	-

On 6 March 2019 the Company acquired 100% of the ordinary share capital of RCI Financial Services Limited (RCI FS) from RCI Banque SA, the Company's parent, in exchange for £1 ordinary shares (note 25). The subsidiary is incorporated in England and Wales and its principal activity is the provision of retail and wholesale vehicle financing.

As a result of this acquisition Cars Alliance 2015 Limited, an entity controlled by RCI Financial Services Limited became an indirect subsidiary of the Company on the same date. Cars Alliance 2015 Ltd is incorporated in England and Wales and its principal activity is raising external secured funding.

12 Acquisitions during the period – continued

The net assets of the subsidiary were brought into the Group at net book value.

Amount of assets and liabilities of RCI FS at the date of acquisition:

	£'000
Assets	
Cash and cash at central banks	120,820
Loans and advances to customers	4,048,701
Property, plant and equipment	170,898
Current tax asset	4,598
Deferred tax asset	1,570
Inventory	11,054
Other assets	158,081
	4,515,722
Liabilities	
Debt securities issued	(1,100,000)
Other liabilities	(2,976,894)
Retirement benefit liability	(6,885)
Residual value provisions for HP & PCP	(65,164)
	(4,148,943)
Net assets	366,779
Reserves transferred	
Retained earnings	266,467
Fair value reserves	(6,088)
	260,379
Total consideration paid:	
Issue of 106,400,000 £1 ordinary shares	106,400
	366,779

13 Loans and advances to customers

The Company does not have loans and advances to customers and therefore there is no analysis to be disclosed. The following tables provide a summary of the Group position as at 31 December 2019 together with additional analysis.

	HP & PCP £'000	Finance Lease £'000	Wholesale £'000	Total £'000
Gross loans and advances to customers	**2,961,330**	**5,994**	**985,887**	**3,953,211**
Within 1 year	855,103	1,894	976,254	1,833,251
After 1 year and within 5 years	2,106,206	4,100	235	2,110,541
After 5 years	21	-	9,398	9,419
Gross loans and advances to customers	**2,961,330**	**5,994**	**985,887**	**3,953,211**
Allowance for expected credit losses	**(34,058)**	**(168)**	**(2,909)**	**(37,135)**
Net loans and advances to customers	**2,927,272**	**5,826**	**982,978**	**3,916,076**
Within 1 year	845,268	1,841	973,374	1,820,483
After 1 year and within 5 years	2,081,983	3,985	233	2,086,201
After 5 years	21	-	9,371	9,392
Net loans and advances to customers	**2,927,272**	**5,826**	**982,978**	**3,916,076**

Analysis of impairment losses on loans and advances to customers

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Wholesale	(2,523)	(386)	-	(2,909)
Finance lease	(28)	(17)	(123)	(168)
HP & PCP	(9,070)	(8,268)	(16,720)	(34,058)
Loss allowance	(11,621)	(8,671)	(16,843)	(37,135)

Expected loss allowances per stage are analysed as follows:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Opening balance at 1 January 2019	-	-	-	-
Held in subsidiary at acquisition	(16,650)	(11,933)	(16,588)	(45,171)
Increases due to origination and acquisition	(11,292)	(1,854)	(167)	(13,313)
Decreases due to derecognition	10,175	1,773	5,884	17,832
Transfer to Stage 1	62	(60)	(2)	-
Transfer to Stage 2	(2,513)	2,537	(24)	-
Transfer to Stage 3	(3,129)	(3,492)	6,621	-
Changes due to change in credit risk	11,664	4,242	(12,432)	3,474
Other adjustments	62	116	(135)	43
(Increase)/Decrease in ECL allowance for the year	5,029	3,262	(255)	8,036
Closing balance at 31 December 2019	(11,621)	(8,671)	(16,843)	(37,135)

13 Loans and advances to customers (continued)

The impact of the movement of the loans and advances to customers ECL allowances in the Statement of Profit or Loss can be found as:

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
(Increase)/Decrease in ECL allowance for the year	5,029	3,262	(255)	8,036
Charge for write offs during the year	-	(585)	(5,262)	(5,847)
Decease in ECL allowance for off balance sheet commitments (note 30)	70	-	7	77
Net ECL reversal/(charge) for the year	5,099	2,677	(5,510)	2,266

Expected loss allowances per product classification are analysed as follows:

	HP & PCP	Finance Lease	Wholesale	Total
	£'000	£'000	£'000	£'000
Opening balance at 1 January 2019	-	-	-	-
Held in subsidiary at acquisition	(38,958)	(246)	(5,967)	(45,171)
Increases due to origination and acquisition	(3,500)	(31)	(9,782)	(13,313)
Decreases due to derecognition	7,426	145	10,261	17,832
Changes due to change in credit risk	1,171	114	2,189	3,474
Other adjustments	(197)	(150)	390	43
Decrease in ECL allowance for the year	4,900	78	3,058	8,036
Closing balance at 31 December 2019	(34,058)	(168)	(2,909)	(37,135)

	£'000	£'000	£'000	£'000
Decrease in ECL allowance for the year	4,900	78	3,058	8,036
Charge for write offs during the year	(5,753)	(94)	-	(5,847)
Decease in ECL allowance for off balance sheet commitments (note 30)	76	1	-	77
Net ECL reversal/(charge) for the year	(777)	(15)	3,058	2,266

No impairment provisions exist within the Company regarding Loans and advances to customers.

The Group originated £1,393.7m of Loans and Advances to customers in 2019. Together with loans that mature or are subject to early repayment the Gross loans and advances to customers remained stable throughout the period. The movements in the portfolio generated an increase in loss allowance of £13.3m. The increase is attributed to Stage 1 (£11.2m), Stage 2 (£1.8m) and Stage 3 (£0.1m).

Financial assets for Loans and Advances to customers that have been derecognised refers to the loss allowance reduction at the point a loan is redeemed. The decrease in loss allowance is £17.8m. The derecognition is attributed to Stage 1 (£10.1m), Stage2 (£1.7m) and Stage 3 (£5.9m). The derecognition amount being much higher than the increase in loss allowance in Stage 3 (£5.8m vs £0.1m) plus movements in Stage 1 and Stage 2 positively impact the ECL by £4,519m.

13 Loans and advances to customers (continued)

Changes in risk parameters account for a decrease in loss allowance of £3,517m. This is largely attributable to a decrease of £5,445m due to changes in the nature and probability of the IFRS 9 scenarios used in the ECL as at 31 December 2019. During the year, the Group calculates the statistical forward looking based on 3 scenarios based on ECB scenarios ("baseline" and "adverse") from the pillar 2 stress test. New PD and LGD inputs are integrated to the ECL tool. Forward Looking PD & LGD are updated twice per year for each scenario, stability, baseline and adverse. The Group amended its forward forecast with a weighting of 0.31 / 0.31 / 0.38 at 31 December 2019. The weighting 0.38 is applied to the ECL provision less any forward looking component. The remainder of the impact is due to updated PD and LGD judgements across the loan portfolios. The main assumption was a lower input of PD and LGD to the adverse scenario due to the extension of the withdrawal agreement of the UK with the European Union.

The following tables give information about the exposure to credit risk on HP and PCP contracts from customers and associated allowances:

	1-30 Days £'000	30 – 90 Days £'000	90+ Days £'000	Total £'000
Gross Value				
Stage 1	2,815,092	-	-	2,815,092
Stage 2	119,488	4,621	1,404	125,513
Stage 3	1,394	694	18,637	20,725
Total	2,935,974	5,315	20,041	2,961,330
ECL Allowances				
Stage 1	(9,070)	-	-	(9,070)
Stage 2	(7,185)	(831)	(252)	(8,268)
Stage 3	(810)	(353)	(15,557)	(16,720)
Total	(17,065)	(1,184)	(15,809)	(34,058)
Net Value				
Stage 1	2,806,022	-	-	2,806,022
Stage 2	112,303	3,790	1,152	117,245
Stage 3	584	341	3,080	4,005
Total	2,918,909	4,131	4,232	2,927,272

13 Loans and advances to customers (continued)

The following tables give information about the exposure to credit risk on finance leases from customers and associated allowances:

	1-30 Days £'000	30 – 90 Days £'000	90+ Days £'000	Total £'000
Gross Value				
Stage 1	5,764	-	-	5,764
Stage 2	45	2	5	52
Stage 3	25	8	145	178
Total	5,834	10	150	5,994
ECL Allowances				
Stage 1	(28)	-	-	(28)
Stage 2	(15)	(1)	(1)	(17)
Stage 3	(7)	(3)	(113)	(123)
Total	(50)	(4)	(114)	(168)
Net Value				
Stage 1	5,736	-	-	5,736
Stage 2	30	1	4	35
Stage 3	18	5	32	55
Total	5,784	6	36	5,826

13 Loans and advances to customers (continued)

The following tables gives information about the exposure to credit risk on wholesale loans from dealers and associated allowances:

	1-30 Days £'000	30 – 90 Days £'000	90+ Days £'000	Total £'000
Gross Value				
Stage 1	967,341	-	-	967,341
Stage 2	18,546	-	-	18,546
Stage 3	-	-	-	-
Total	985,887	-	-	985,887
ECL Allowances				
Stage 1	(2,523)	-	-	(2,523)
Stage 2	(386)	-	-	(386)
Stage 3	-	-	-	-
Total	(2,909)	-	-	(2,909)
Net Value				
Stage 1	964,818	-	-	964,818
Stage 2	18,160	-	-	18,160
Stage 3	-	-	-	-
Total	982,978	-	-	982,978

The following tables gives information about the exposure to credit risk for HP and PCP contracts:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Grades 1-4	2,382,542	11,965	1	2,394,508
Grades 5-6	401,645	54,588	2	456,235
Grade 7 – 11	30,905	58,960	20,722	110,587
Provision	(9,070)	(8,268)	(16,720)	(34,058)
Net carrying amount	**2,806,022**	**117,245**	**4,005**	**2,927,272**

13 Loans and advances to customers (continued)

The following table gives information about the exposure to credit risk for finance lease loans:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Grades 1-4	4,249	5	-	4,254
Grades 5-6	1,050	2	-	1,052
Grade 7 – 11	465	45	178	688
Provision	(28)	(17)	(123)	(168)
Net carrying amount	**5,736**	**35**	**55**	**5,826**

The following table gives information about the exposure to credit risk for wholesale loans:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Grades 1-4	967,341	-	-	967,341
Grades 5-6	-	13,840	-	13,840
Grade 7	-	4,706	-	4,706
Provision	(2,523)	(386)	-	(2,909)
Net carrying amount	**964,818**	**18,160**	**-**	**982,978**

		Company		Group	
		2019	2018	**2019**	2018
		£'000	£'000	**£'000**	£'000
14	**Investment Securities – UK Treasury bills**				
	Financial Assets at FVOCI				
	Gross Value of debt investment securities	549,611	-	549,611	-
	Fair value movement recognised through OCI	(642)	-	(642)	-
	ECL allowance charged through profit or loss	(151)	-	(151)	-
		548,818	-	**548,818**	-

		Company	
		2019	2018
		£'000	£'000
15	**Loan to subsidiary**		
	Financial assets at amortised cost		
	Loan to subsidiary – stage 1	2,822,152	-
	Expected credit loss allowance – stage 1	(4,435)	-
	Net loan to subsidiary	**2,817,717**	-
	Expected credit loss allowance		
	Opening balance at 1 January 2019	-	-
	Increases due to origination and acquisition	(4,435)	-
	Decreases due to recognition	-	-
	Changes due to change in credit risk	-	-
	Charge for year	(4,435)	-
	Closing balance at 31 December 2019	**(4,435)**	-

NOTES TO THE FINANCIAL STATEMENTS

16 Property, plant and equipment

Group

	Property (right of use) £'000	Batteries £'000	Operating lease assets £'000	Total £'000
Cost				
As at 1 January 2018 and 1 January 2019	-	-	-	-
Transfer through acquisition of subsidiary	**10,130**	**28,360**	**132,408**	**170,898**
Additions	**-**	**4,527**	**60,128**	**64,655**
Disposals	**-**	**(407)**	**(63,690)**	**(64,097)**
As at 31 December 2019	**10,130**	**32,480**	**128,846**	**171,456**
Accumulated depreciation				
As at 1 January 2018 and 1 January 2019	-	-	-	-
Charge for year	**(641)**	**(3,072)**	**(19,973)**	**(23,686)**
Disposals	**-**	**155**	**9,966**	**10,121**
As at 31 December 2019	**(641)**	**(2,917)**	**(10,007)**	**(13,565)**
Net Book Values				
At 31 December 2019	**9,489**	**29,563**	**118,839**	**157,891**
At 31 December 2018	-	-	-	-

Company
The Company did not have any Property, Plant and Equipment.

17 Derivative financial instruments held for interest rate risk management

	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
Financial assets held at FVTPL				
Fair value of interest rate swaps (level 2 input)	-	-	35	-
Financial liabilities held at FVTPL				
Fair value of interest rate swaps (level 2 input)	-	-	7,229	-

The notional value of derivatives related to financial instruments in the table above includes £100m notional value on derivative financial assets and £1,725m notional value on derivative financial liabilities.

The net loss on fair value of the derivative financial instruments included in these balances is £3,353k.

18 Deferred tax asset

	Company		Group	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Net deferred tax position	**109**	-	**2,621**	-

The movement in the net deferred tax position was as follows:

	Company		Group	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
At 1 January 2019	-	-	-	-
Through acquisition	-	-	**1,569**	-
Charge to Profit & Loss	-	-	**255**	-
Charge to Other Comprehensive Income	**109**	-	**797**	-
At 31 December 2019	**109**	-	**2,621**	-

Analysis of deferred tax assets

	Accelerated capital allowances	Group FVOCI	Pensions	Total
	£'000	£'000	£'000	£'000
As at 1 January 2019	-	-	-	-
Through acquisition	399	-	1,170	1,569
Charge to income for the year	263	-	(8)	255
To reserves	-	109	688	797
As at 31 December 2019	662	109	1,850	2,621

19 Inventory

	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
Stock of vehicles held for sale	-	-	30,264	-

20 Other assets

	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
Trade and other receivables	-	-	95,439	-
Prepaid costs	-	-	142,522	-
Other	22	-	-	-
	22	-	237,961	-

21 Deposits from customers

	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
Customer Deposits				
Repayable on demand	2,386,870	-	2,386,870	-
Less than 3 months	70,036	-	70,036	-
Between 3 months and 1 year	111,833	-	111,833	-
Between 1 and 3 years	333,984	-	333,984	-
Over 3 years	50,870	-	50,870	-
	2,953,593	-	2,953,593	-

22 Deposits from banks

	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
Loans from parent company				
Short term loan	37,400	-	37,400	-
Cash collateral guarantee	150,000	-	150,000	-
Interest payable on head office loans	133	-	133	-
	187,533	-	187,533	-
Repayable:				
Less than 3 months	37,533	-	37,533	-
Between 3 months and 1 year	150,000	-	150,000	-
	187,533	-	187,533	-

	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
23 Current tax liabilities				
Current tax (liability)	**(533)**	-	**(5,076)**	-

All current tax liabilities are payable within one year.

24 Other liabilities	Company 2019 £'000	Company 2018 £'000	Group 2019 £'000	Group 2018 £'000
Subordinated debt	**40,000**	-	**40,000**	-
Interest payable on subordinated debt	**1,438**	-	**1,438**	-
Consideration due to parent	**15,279**	-	**15,279**	-
Lease liability	-	-	**9,393**	-
Indirect taxes	-	-	**8,838**	-
Trade payables	**6,720**	-	**70,144**	-
Deferred income	-	-	**107,065**	-
Other creditors & accrued costs	**2,243**	-	**25,588**	-
	65,680	-	**277,745**	-

Included in the total for Other creditors and accrued costs is £61k relating to loss allowance for loan commitments (note 30).

The maturity of the IFRS 16 lease liability for building use is given below:				
Less than 1 year	-	-	**651**	-
1-2 years	-	-	**672**	-
2-3 years	-	-	**693**	-
3-4 years	-	-	**714**	-
4-5 years	-	-	**737**	-
More than 5 years	-	-	**5,926**	-
	-	-	**9,393**	-

25 Share capital

	Company		Group	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Ordinary shares of £1 each				
Authorised				
290,400,001 (2018: 1) ordinary shares of £1 each	**290,400**	-	**290,400**	-
Allotted, called up and fully paid				
290,400,001 (2018: 1) ordinary shares of £1 each	**290,400**	-	**290,400**	-

On 6 March 2019 106,400,000 £1 ordinary shares were allotted by way of consideration for the transfer of 106,400,00 £1 ordinary shares in RCI Financial Services Limited (note 12).

In addition, on 6 March 2019 there was a further increase in capital of 184,000,000 £1 ordinary shares.

RCI Bank UK Limited is the wholly owned subsidiary of RCI Banque SA (note 28).

Dividends paid
No dividend was paid by the Company in 2019 (2018 - £nil).

26 Merger and other reserves

A merger reserve was created on acquisition of the subsidiary (Company accounts only). The Other Reserves relate to the Fair Value Reserve in both the Company and Group. Movements in the fair value reserve are recorded in the Statement of Other Comprehensive Income.

	Company		Group	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Merger Reserve				
Balance at 1 January 2019	-	-	-	-
Acquisition of subsidiary	260,379	-	-	-
Balance at 31 December 2019	260,379	-	-	-
Other Reserves				
Balance at 1 January 2019	-	-	-	-
Acquisition of subsidiary	-	-	(6,088)	-
Other comprehensive income:				
Items that will not be reclassified subsequently to profit and loss	-	-	(3,360)	-
Items that may be reclassified to profit and loss	(533)	-	(533)	-
Balance at 31 December 2019	(533)	-	(9,981)	-

Movements relating to items that will not be reclassified subsequently to profit and loss are in respect of actuarial gains or losses on the assets of the defined benefit pension scheme.
Movements relating to items that may be reclassified to profit and loss are in respect of net changes in the fair value of investment securities. Movements are shown net of any related deferred taxation provision.

27 Related parties

Details of both the parent company and the ultimate holding company are disclosed in note 28.

Related parties include the subsidiary, the parent, the ultimate holding company, and fellow subsidiaries and details of the transactions and balances with the related parties for the Company and Group are provided in the following tables.

No comparative figures are presented for the Company for 2018 as there were no related party transactions or balances and therefore there is £nil to disclose.

		Company 2019 £'000	£'000
Transactions included within statement of Profit or Loss		**RCI FS[2]**	**RCI[1]**
Interest income	loan to subsidiary	47,047	-
Interest income	loan to parent	-	480
Interest expense	loan from parent	-	(7,658)
Operating expenses	administrative expenses	-	(22)
Outstanding balances included within Balance Sheet		**RCI FS[2]**	**RCI[1]**
Loan to subsidiary		2,817,717	-
Deposits from banks	See analysis below	-	(187,533)
Other liabilities	See analysis below	-	(56,882)

[1] RCI Banque SA (parent); [2] RCI Financial Services (subsidiary)

Loan to Subsidiary

The Company's loans to the subsidiary for £2,817k (2018: £nil) are unsecured, bears interest and has fixed repayment terms.

Deposits from banks

	Note	£'000
Cash collateral guarantee	22	150,000
Unsecured loan	22	37,400
Interest payable on bank loans	22	133
		187,533

All outstanding amounts bear interest and have fixed repayment terms except cash collateral which has no maturity but 95-day call notice.

Other liabilities

	Note	£'000
Subordinated loan	24	40,000
Interest payable on subordinated loan	24	1,437
Consideration due to parent	24	15,279
Other creditors & accrued costs	24	166
		56,882

The subordinated loan is unsecured, bears interest and has no fixed repayment term. The consideration due to parent (note12) is unsecured, does not bear interest and will be repaid on the closure of the branch. Amounts disclosed within trade payables and other creditors & accrued costs relate to costs incurred in the ordinary course of business and are typically cleared on a daily or monthly basis.

27 Related parties *(continued)*

No comparative figures are presented for 2018 as there were no other companies in the Group and therefore the disclosure would be £nil.

		Group 2019			
		£'000	£'000	£'000	£'000
Transactions included within statement of Profit or Loss		**RCI[1]**	**RRG[2]**	**RUK[3]**	**DIAC[4]**
Interest income	loan to parent	480			
Interest income	derivative financial assets	1,170			
Interest income	loans & advances to customers		650	9,364	
Interest expense	loan from parent	(8,147)			
Interest expense	derivative financial liabilities	(3,654)			
Fee & commission income	re: loans & advances to customers			796	
Operating expenses	administrative expenses	(2,194)			(1,550)

		Group 2019			
		£'000	£'000	£'000	£'000
Outstanding balances included within the balance sheet		**RCI[1]**	**RRG[2]**	**RUK[3]**	**DIAC[4]**
Loans & advances to customers	See below		63,852	1,041	
Trade receivables	See below			11,044	
Deposits from banks	See below	(187,533)			
Other liabilities	See below	(59,501)	(771)	(31)	(385)

[1] RCI Banque SA (parent); [2] Renault Retail Group Limited (fellow subsidiary); [3] Renault UK Limited (fellow subsidiary); [4] Diac SA (fellow subsidiary)

Loans and advances to customers

Loans and advances to customers include wholesale loans of £63,852k (2018: £nil) due from Renault Retail Group Limited and £1,041k (2018: £nil) due from Renault UK. The outstanding amounts are secured but not guaranteed, bear interest and have no fixed repayment terms.

Trade & other receivables
The Group has £11,044k (2018: £nil) of trade and other receivables due from Renault UK Limited that relate to amounts earned in the ordinary course of business and are typically cleared on a daily or monthly basis.

Deposits from banks
The breakdown of the bank deposit balances owed by the Group to RCI Banque SA of £187,533k (2018: £nil) are provided in the related party disclosure table for the Company.

Other liabilities	£'000	£'000	£'000	£'000
	RCI[1]	**RRG[2]**	**RUK[3]**	**DIAC[4]**
Subordinated loan	(40,000)			
Interest payable on subordinated loan	(1,437)			
Consideration due to parent	(15,279)			
Trade payables		(771)		
Other creditors & accrued costs	(2,785)		(31)	(385)
	(59,501)	(771)	(31)	(385)

[1] RCI Banque SA (parent); [2] Renault Retail Group Limited (fellow subsidiary); [3] Renault UK Limited (fellow subsidiary); [4] Diac SA (fellow subsidiary)

Details of the subordinated loan, the interest payable on that loan and the consideration due to RCI Banque SA are provided in the related party disclosure table for the Company.
Amounts disclosed within trade payables and other creditors & accrued costs relate to costs incurred in the ordinary course of business and are typically cleared on a daily or monthly basis.

27 Related parties *(continued)*

Transactions with key management personnel

Key management personnel compensation comprised the following:

	Company		Group	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Short-term employee benefits	**-**	-	**1,478**	-

Compensation of the Group's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined contribution and defined benefit plans,

There are no other transactions or outstanding balances relating to the key management personnel.

28 Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking and parent of the smallest group of which the Company is a member is RCI Banque SA, a company incorporated in France. Copies of the group financial statements are available from RCI Banque SA, 15 Rue d'Uzès, 75002 Paris, France.

The Company's ultimate parent undertaking, controlling party and largest group of which the company is a member is Renault SA, a company incorporated in France. Copies of the group financial statements are available from Renault SA, 27 - 33 Quai Le Gallo, 92512 Boulogne Billancourt Cedex.

NOTES TO THE FINANCIAL STATEMENTS

29 Fair value of financial instruments

Details of the Group's valuation methods used to calculate the fair values of its financial assets and financial liabilities are provided in accounting policy I.vi.

Group:

The table below analyses the Group's financial instruments measured at amortised cost into the fair value hierarchy as at 31 December 2019:

	Level 1	Level 2	Level 3
Financial assets (measured at amortised cost):	**£'000**	**£'000**	**£'000**
Loans and advances to customers	-	-	3,898,368
Total financial assets (measured at amortised cost)	**-**	**-**	**3,898,368**
Financial liabilities (measured at amortised cost):			
Subordinated debt securities	-	44,991	-
Customer deposits	-	2,967,615	-
Bank deposits	-	187,761	-
Debt securities issued	-	900,000	-
Total financial liabilities (measured at amortised cost)	**-**	**4,100,367**	**-**

There were no transfers between the levels of the fair value hierarchy during the year.

The table below analyses the Group's financial instruments measured at fair value into the fair value hierarchy as at 31 December 2019:

	Level 1	Level 2	Level 3
Financial assets (measured at fair value):	**£'000**	**£'000**	**£'000**
Investment securities	548,818	-	-
Derivatives	-	35	-
Total financial assets (measured at fair value)	**548,818**	**35**	**-**
Financial liabilities (measured at fair value):			
Derivatives	-	7,229	-
Total financial liabilities (measured at fair value)	**-**	**7,229**	**-**

There were no transfers between the levels of the fair value hierarchy during the year.

NOTES TO THE FINANCIAL STATEMENTS

29 Fair value of financial instruments (continued)

The table below shows a comparison of the carrying amounts per the statement of financial position, and the fair values of those financial instruments measured at amortised cost as at 31 December 2019:

	Carrying amount £'000	Fair value £'000
Financial assets (measured at amortised cost):		
Loans and advances to customers	3,916,076	3,898,368
Total financial assets (measured at amortised cost)	**3,916,076**	**3,898,368**
Financial liabilities (measured at amortised cost):		
Subordinated debt securities	41,438	44,991
Customer deposits	2,953,593	2,967,615
Bank deposits	187,533	187,761
Debt securities issued	900,000	900,000
Total financial liabilities (measured at amortised cost)	**4,082,564**	**4,100,367**

Debt securities in respect of securitisation

In July the Group reduced debt securities issued to private investors from £1.1 billion to £0.9 billion in line with its funding plan (2018: £0).

	Company		**Group**		Company		Group	
	2019 Carrying Value £'000	**2019 Fair Value £'000**	**2019 Carrying Value £'000**	**2019 Fair Value £'000**	2018 Carrying Value £'000	2018 Fair Value £'000	2018 Carrying Value £'000	2018 Fair Value £'000
A1 note	-	-	270,000	270,000	-	-	-	-
A2 note	-	-	225,000	225,000	-	-	-	-
A3 note	-	-	225,000	225,000	-	-	-	-
A4 note	-	-	180,000	180,000	-	-	-	-
A notes total	-	-	900,000	900,000	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

29 Fair value of financial instruments (continued)

Company:

The table below analyses the Group's financial instruments measured at amortised cost into the fair value hierarchy as at 31 December 2019:

	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets (measured at amortised cost):			
Loans to subsidiary	-	-	2,771,217
Total financial assets (measured at amortised cost)	**-**	**-**	**2,771,217**
Financial liabilities (measured at amortised cost):			
Subordinated debt securities	-	44,991	-
Customer deposits	-	2,967,615	-
Bank deposits	-	187,761	-
Total financial liabilities (measured at amortised cost)	**-**	**3,200,367**	**-**

There were no transfers between the levels of the fair value hierarchy during the year.

The table below analyses the Group's financial instruments measured at fair value into the fair value hierarchy as at 31 December 2019:

	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets (measured at fair value):			
Investment securities	548,818	-	-
Total financial assets (measured at fair value)	**548,818**	**-**	**-**

There were no transfers between the levels of the fair value hierarchy during the year.

The table below shows a comparison of the carrying amounts per the statement of financial position, and the fair values of those financial instruments measured at amortised cost as at 31 December 2019:

	Carrying amount £'000	Fair value £'000
Financial assets (measured at amortised cost):		
Loans to subsidiary	2,817,717	2,771,217
Total financial assets (measured at amortised cost)	**2,817,717**	**2,771,217**
Financial liabilities (measured at amortised cost):		
Subordinated debt securities	41,438	44,991
Customer deposits	2,953,593	2,967,615
Bank deposits	187,533	187,761
Total financial liabilities (measured at amortised cost)	**3,182,564**	**3,200,367**

30 Risk and Risk Management

In the following review of risk and risk management any reference to the Group should be deemed to apply equally to the Company unless otherwise stated. Tables show the Company and the Group position separately wherever appropriate.

Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group due to lack of willingness to pay (credit risk) and/or lack of ability to pay (affordability). These risks are managed by the Board Risk Committee, Risk and Compliance Committee and by the Asset and Liability Committee (ALCO). This risk has two main components:

- Customer credit risk (from core lending activity to retail and wholesale borrowers); and
- Treasury credit risk (from Treasury activity).

The Group's treasury credit risk exposure is limited to:

- Overnight and short-term deposits with correspondent banks, including the Group's parent, RCI Banque SA
- Treasury assets managed as part of the Group's liquidity reserve. As at 31 December 2019, these comprised short-dated UK treasury securities, deposits with UK clearing banks and funds deposited with head office.

Credit risk approval process

Credit risk and associated approval processes are outlined in the Group's Lending Policy. Management of credit risk is well-established and governed directly by written procedures. In all cases credit risk will be approved only when it is within the Group's risk appetite as set out by the UK Board in the Risk Appetite Statement.

For customer credit risk, separate approval processes exist for wholesale and retail lending and are managed by the Credit and Lending department in line with specific credit policy and procedures.

The majority of retail lending is auto approved via a bespoke score card linked to UK Credit Bureaux. Should an application fail then it is forwarded for manual underwriting. All Wholesale (dealer) lending is manually underwritten.

For treasury credit risk, the Lending Policy and Risk Appetite Statement provide guidance on approvals and on lending limits. Limits are agreed by the Board and put in place for non-UK government exposure.

Credit monitoring

Credit risk is monitored through review by both Risk and Compliance and Board Risk committees, monthly by commercial review in partnership with RCI Banque SA, and through monthly management information linked to financial performance (including accounting cost of risk). Credit risks identified by Risk Appetite metrics and KRIs are also circulated monthly to the Group's Board. Large credit exposures are monitored on a daily basis and must at all times be within regulatory and Board-approved limits

Credit risk including levels of default and arrears is also monitored through the Group's regulatory reporting to the PRA.

Expected credit losses (ECLs)

Impairment of financial assets is calculated using a forward-looking expected credit loss (ECL) model. The Group records an allowance for ECLs for all financial assets not held at FVTPL, together with an allowance for ECLs for loan commitments where applicable. The Group's accounting policy is detailed in Note 1 J) of the financial statements.

An analysis of loans and advances to customers by product classification and the year-end stage classification is provided in Note 13.

NOTES TO THE FINANCIAL STATEMENTS

30 Risk and Risk Management (continued)

As at 31 December 2019, the Group's loss allowance for loan commitments is £61k. The following tables provide an analysis of loan commitments by product classification and the year-end stage classification for the Group. These disclosures only apply to the Group and therefore no table is presented for the Company.

	Wholesale £'000	Finance Lease £'000	Retail £'000	Operating Lease £'000	Total £'000
Stage 1	-	152	46,769	21,085	68,006
Stage 3	-	-	10	-	10
Gross loan commitments	**-**	**152**	**46,779**	**21,085**	**68,016**
Stage 1	-	(1)	(50)	-	(51)
Stage 3	-	-	(10)	-	(10)
Loss Allowance	**-**	**(1)**	**(60)**	**-**	**(61)**
Total loan commitments	**-**	**151**	**46,719**	**21,085**	**67,955**
Loss allowance coverage (%)	-	0.66%	0.13%	-	0.09%

Expected loss allowances per stage are analysed as follows:

	Stage 1 £'000	Stage 3 £'000	Total £'000
Opening balance at 1 January 2019	-	-	-
Held in subsidiary at acquisition	(120)	(17)	(137)
Increases due to origination and acquisition	(450)	(80)	(530)
Decreases due to derecognition	447	27	474
Changes due to change in credit risk	(6)	44	38
Other adjustments	78	16	94
(Increase)/Decrease in ECL allowance for the year	69	7	76
Closing balance at 31 December 2019	(51)	(10)	(61)

Movements in the Group's loss allowance is presented in the financial statements as follows:

- Loans and advances to customers: presented as a deduction from the gross carrying amount and disclosed in note 13.
- Loan commitments: presented as a provision and disclosed in note 24 Other Liabilities.

30 Risk and Risk Management (continued)

Financial assets not subject to impairment

The Group's maximum exposure to credit risk from financial assets not subject to impairment can be found in note 17.

Collateral held and other credit enhancements

The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group during the period.

No collateral or other credit enhancements are held against the Group's loans and advances to banks and investment securities.

Details of collateral held against the Group's loans and advances to customers and derivative financial assets are set out below:

Loans and advances to customers

The main types of collateral obtained are:

- **Wholesale Loan receivables**: secured on the underlying assets which can be repossessed in the event of default, also includes amounts secured by a first or second charge over commercial and residential property
- **HP & PCP Loan Receivables:** secured on the underlying assets which can be repossessed in the event of default
- **Finance lease receivables:** secured on the underlying assets which can be repossessed in the event of default

Derivative financial assets

Credit risk derived from derivative transactions (Swaps) are managed via ISDA agreement between the Group and RCI Banque SA. No collateral is required to be posted. RCI Banque SA is the sole derivative counterparty of the UK Group.

Credit-impaired financial assets

The Group closely monitors collateral held for financial assets considered to be credit-impaired (Stage 3), as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are set out below.

	Gross carrying amount £'000	Loss Allowance £'000	Carrying amount £'000	Fair value of collateral held £'000
As at December 2019	-	-	-	-
Credit-impaired loans and advances to customers				
Wholesale loans	-	-	-	-
Finance leasing	178	(123)	55	52
HP & PCP loans	20,725	(16,720)	4,005	5,681
	20,903	**(16,843)**	**4,060**	**5,733**

(There are no figures to disclose for the Company and therefore no table has been presented)

30 Risk and Risk Management (continued)

Concentrations of credit risk

The Group monitors concentrations of credit risk from its loans and advances to customers by geographic location and by facility size.

Geographic location

An analysis of credit risk from loans and advances to customers by geographic location is shown below:

	Wholesale	Finance leases	HP & PCP	Total
	£'000	£'000	£'000	£'000
East Midlands	53,086	320	158,213	211,619
East of England	29,989	207	102,371	132,567
London	116,278	521	257,225	374,024
North	110,238	372	183,624	294,234
North West	106,857	735	363,143	470,735
Northern Ireland	46,793	164	81,029	127,986
Scotland	99,067	673	332,621	432,361
South East	178,888	1,278	631,100	811,266
South West	100,273	511	252,270	353,054
Wales	34,866	324	160,156	195,346
West Midlands	54,897	546	269,926	325,369
Yorkshire and the Humber	54,655	343	169,652	224,650
Gross loans and advances to customers	**985,887**	**5,994**	**2,961,330**	**3,953,211**

(There are no figures to disclose for the Company and therefore no table has been presented)

Loan size

An analysis of credit risk from loans and advances to customers by loan size is shown below:

	Wholesale	Finance leases	HP & PCP	Total
	£'000	£'000	£'000	£'000
0 - £50k	968,334	5,994	2,955,478	3,929,806
£50k - £100k	5,185	-	5,746	10,931
£100k - £250k	1,714	-	106	1,820
£250k - £500k	3,546	-	-	3,546
£500k - £1.0 million	2,102	-	-	2,102
£1.0 million - £2.5 million	5,006	-	-	5,006
Gross loans and advances to customers	**985,887**	**5,994**	**2,961,330**	**3,953,211**

(There are no figures to disclose for the Company and therefore no table has been presented)

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due, or is only able to do so at excessive cost.

The Group has, therefore, developed comprehensive funding and liquidity policies to ensure that liquidity risk management is appropriate and fits to the size and complexity of the balance sheet. Key source of liquidity risk that the Group funds fixed term retail auto loans by contractually short-term retail deposits. Although sight deposits are considered behaviourally long-term, stable funding, liquidity risk might arise as outflows accelerate in a liquidity stress situation. The Group's strategy is to maintain sufficient liquid asset buffer and counterbalancing capacity to be able to meet all its financial obligations under both business as normal and stress conditions.

30 Risk and Risk Management (Group and Company) (continued)

The Group's Treasury function is responsible for the day-to-day management of the Group's liquidity and funding with the delegated authority from Assets and Liabilities Committee. The Board sets limits over the adequate level, quality and composition of liquidity reserve and against further funding and liquidity indicators, reviewing these at least annually. Compliance with these limits is monitored daily by Finance and independently reviewed by Risk.

For regulatory purposes, the Group reports its liquidity position against its liquidity coverage ratio (LCR), net stable funding ratio (NSFR) and other regulatory returns.

Stress testing is a major component of liquidity risk management and the Group has developed a set of scenarios covering a range of market wide and firm specific stress factors. A comprehensive stress testing exercise is conducted at least annually, and the methodology is incorporated into the Group's ILAAP model. Stress tests are run on a regular basis. The output of stress testing is reported to the Board, Board Risk Committee and to the ALCO who use the results to decide whether to amend the Group's risk appetite and liquidity limits.

Maturity analysis for assets and liabilities

The tables below segment the Company and the Group's contractual undiscounted cash flows of its non-derivative assets and liabilities into relevant maturity groupings for the year ended 31 December 2019.

Company

	Due < 3 months £'000	Due 4 - 12 months £'000	Due 1 - 5 years £'000	Due > 5 years £'000	**Total £'000**	Non-cashflow £'000	**Net Total £'000**
Cash and cash at central banks	14,773	-	-	7,205	**21,978**	-	**21,978**
Investment in subsidiary	-	-	-	106,400	**106,400**	260,379	**366,779**
Financial assets at FVOCI	368,973	179,845	-	-	**548,818**	-	**548,818**
Loan to subsidiary	499,722	616,328	1,701,667	-	**2,817,717**	-	**2,817,717**
Deferred tax	-	-	-	-	**-**	109	**109**
Other assets	22	-	-	-	**22**	-	**22**
Total asset inflows	**883,490**	**796,173**	**1,701,667**	**113,605**	**3,494,935**	**260,488**	**3,755,423**
Deposits from customers	2,456,906	111,833	384,854	-	**2,953,593**	-	**2,953,593**
Deposits from banks	37,533	150,000	-	-	**187,533**	-	**187,533**
Current tax liabilities	-	533	-	-	**533**	-	**533**
Other liabilities	8,963	15,279	41,438	-	**65,680**	-	**65,680**
Total liability outflows	**2,503,402**	**277,645**	**426,292**	-	**3,207,339**	**-**	**3,207,339**

30 Risk and Risk Management (Group and Company) (continued)

Group

	Due < 3 months £'000	Due 4 - 12 months £'000	Due 1 - 5 years £'000	Due > 5 years £'000	**Total £'000**	Non-cashflow £'000	**Net Total £'000**
Cash and cash at central banks	113,351	-	-	7,205	**120,556**	-	**120,556**
Loans and advances to customers	641,510	1,178,973	2,086,201	9,392	**3,916,076**	-	**3,916,076**
Financial assets at FVOCI	368,973	179,845	-	-	**548,818**	-	**548,818**
Property, plant and equipment	20,550	37,503	90,346	3	**148,402**	9,489	**157,891**
Deferred tax	-	-	-	-	**-**	2,621	**2,621**
Derivatives	35	-	-	-	**35**	-	**35**
Inventory	30,264	-	-	-	**30,264**	-	**30,264**
Other assets	84,232	36,766	116,524	1	**237,523**	438	**237,961**
Total asset inflows	**1,258,915**	**1,433,087**	**2,293,071**	**16,601**	**5,001,674**	**12,548**	**5,014,222**
Financial liabilities	101	3,190	3,938	-	**7,229**	-	**7,229**
Deposits from customers	2,456,906	111,833	384,854	-	**2,953,593**	-	**2,953,593**
Deposits from banks	37,533	150,000	-	-	**187,533**	-	**187,533**
Debt securities issued	-	473,544	426,456	-	**900,000**	-	**900,000**
Retirement benefit liability	-	-	-	-	**-**	10,886	**10,886**
Current tax liabilities	-	5,076	-	-	**5,076**	-	**5,076**
Residual value provisions for HP & PCP	4,099	14,297	45,311	-	**63,707**	-	**63,707**
Other liabilities	46,514	48,071	145,360	5,158	**245,103**	32,642	**277,745**
Total liability outflows	**2,545,153**	**806,011**	**1,005,919**	**5,158**	**4,362,241**	**43,528**	**4,405,769**

Liquidity reserve

As of 31 December 2019, the Group held a liquidity reserve of £1,116 million comprised of £549 million of high quality liquid assets (HQLA), cash at banks for £17 million and a committed credit line of £550 million provided by RCI Banque SA.

The average liquidity reserve throughout the year was £1.1BN.

Assets available to support future funding

The Company and the Group's assets can be used to support collateral requirements for central bank operations or third party repurchase transactions. Assets that have been set aside for such purposes are classified as encumbered assets and cannot be used for other purposes. The Group currently raises £900m in funding through the securitisation of hire purchase and PCP loans. The Company does not have such an arrangement in place.

All other assets are defined as unencumbered assets. These comprise assets that are readily available to secure funding or meet collateral requirements ('Available as collateral'), and assets that are not subject to any restrictions but are not readily available for use ('Other').

NOTES TO THE FINANCIAL STATEMENTS

30 Risk and Risk Management (continued)

The tables below set out the availability of the Company and the Group's assets to support future funding.

Company	**Encumbered**		**Unencumbered**		
	Pledged as collateral	**Other**	**Available as collateral**	**Other**	**Total**
As at 31 December 2019	£'000	£'000	£'000	£'000	**£'000**
Cash and cash at central banks	-	-	-	21,978	**21,978**
Loan to subsidiary	-	-	-	2,817,717	**2,817,717**
Investment securities	-	-	-	548,818	**548,818**
Non-financial assets	-	-	-	106,422	**106,422**
Total asset inflows	**-**	**-**	**-**	**3,494,935**	**3,494,935**

Group	**Encumbered**		**Unencumbered**		
	Pledged as collateral	**Other**	**Available as collateral**	**Other**	**Total**
As at 31 December 2019	£'000	£'000	£'000	£'000	**£'000**
Cash and cash at central banks	-	97,510	-	23,046	**120,556**
Loans and advances to customers	1,544,940	-	2,371,137	-	**3,916,077**
Investment securities	32,781	-	-	548,818	**581,599**
Derivative financial assets	-	-	-	35	**35**
Non-financial assets	-	-	-	395,955	**395,955**
Total asset inflows	**1,577,721**	**97,510**	**2,371,137**	**967,854**	**5,014,222**

Market risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities change as a result of changes in market prices, the principal element being interest rate risk.

The Group is not exposed to traded market risk as it does not have a trading book.

Treasury security positions consists of short-term treasury bills only and therefore associated interest rate risk is not material.

The Group's Treasury function is responsible for managing the Group's exposure to all aspects of market risk within the operational limits set out in the Group's risk appetite defined by the Board Risk Committee.

Basis risk

Basis risk arises where although term structure of assets and liabilities are matched they are linked to a different underlying reference rate. The Group has minimal exposure to basis risk due to the high correlation between short-term reference rates. The Group is exposed to basis risk in case of significant uncorrelation of Libor and Sonia rates.

Foreign exchange risk

All Group assets and liabilities are denominated in GBP – no foreign exchange risk arises other than a limited number of non-GBP invoices received from suppliers.

NOTES TO THE FINANCIAL STATEMENTS

30 Risk and Risk Management (continued)

Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises from the loan and savings products that the Group offers. This risk is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures. All derivative contracts are transacted with head office under ISDA contract.

The following tables provide a summary of the Company and the Group's interest rate gap position. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

Company

As at 31 December 2019	Within 3 months	3 months but < 6 months	6 months but <1 year	1 year but <5 year	> 5 years	Non-interest bearing	Total
Assets	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash at central banks	14,773	-	-	-	7,205	-	21,978
Loan to subsidiary	2,062,700	45,000	169,564	533,112	-	7,341	2,817,717
Investment in subsidiary	-	-	-	-	-	366,779	366,779
Investment securities	368,973	179,845	-	-	-	-	548,818
Deferred tax asset	-	-	-	-	-	109	109
Other assets	-	-	-	-	-	22	22
Total Assets	**2,446,446**	**224,845**	**169,564**	**533,112**	**7,205**	**374,251**	**3,755,423**
Equity and Liabilities							
Deposits from banks	187,533	-	-	-	-	-	187,533
Deposits from customers	2,454,427	32,196	80,400	386,570	-	-	2,953,593
Current tax liabilities	-	-	-	-	-	533	533
Non-financial liabilities	-	-	-	41,438	-	24,242	65,680
Liabilities sub-total	**2,641,960**	**32,196**	**80,400**	**428,008**	**-**	**24,775**	**3,207,339**
Equity	-	-	7,767	533,112	7,205	-	548,084
Total Liabilities and equity	**2,641,960**	**32,196**	**88,167**	**961,120**	**7,205**	**24,775**	**3,755,423**
Interest rate sensitivity gap	**(195,514)**	**192,649**	**81,397**	**(428,008)**	**-**	**349,476**	**-**

NOTES TO THE FINANCIAL STATEMENTS

30 Risk and Risk Management (continued)

Group

As at 31 December 2019	Within 3 months	3 months but < 6 months	6 months but <1 year	1 year but <5 year	> 5 years	Non-interest bearing	Total
Assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash at central banks	113,351	-	-	-	7,205	-	120,556
Loans and advances to customers	1,291,486	298,860	453,326	1,835,160	23	37,221	3,916,076
Property, plant and equipment	-	-	-	-	-	157,891	157,891
Investment securities	368,973	179,845	-	-	-	-	548,818
Derivative financial instruments	-	-	35	-	-	-	35
Deferred tax asset	-	-	-	-	-	2,621	2,621
Inventory	-	-	-	-	-	30,264	30,264
Other assets	-	-	-	-	-	237,961	237,961
Asset sub-total	**1,773,810**	**478,705**	**453,361**	**1,835,160**	**7,228**	**465,958**	**5,014,222**
Notional value of derivatives	1,825,000	-	-	-	-	-	1,825,000
Total Assets	**3,598,810**	**478,705**	**453,361**	**1,835,160**	**7,228**	**465,958**	**6,839,222**
Equity and Liabilities							
Deposits from banks	187,533	-	-	-	-	-	187,533
Deposits from customers	2,454,427	32,196	80,400	386,570	-	-	2,953,593
Debt securities issued	900,000	-	-	-	-	-	900,000
Derivative financial liabilities	101	2,001	1,190	3,937	-	-	7,229
Retirement benefit liability	-	-	-	-	-	10,886	10,886
Current tax liabilities	-	-	-	-	-	5,076	5,076
Residual value provisions for HP & PCP	-	-	-	-	-	63,707	63,707
Non-financial liabilities	-	-	-	-	-	277,745	277,745
Liabilities sub-total	**3,542,061**	**34,197**	**81,590**	**390,507**	**-**	**357,414**	**4,405,769**
Equity	-	-	-	601,225	7,228	-	608,453
Liabilities and equity sub-total	**3,542,061**	**34,197**	**81,590**	**991,732**	**7,228**	**357,414**	**5,014,222**
Notional value of derivatives	100,000	440,000	425,000	860,000	-	-	1,825,000
Total Liabilities and equity	**3,642,061**	**474,197**	**506,590**	**1,851,732**	**7,228**	**357,414**	**6,839,222**
Interest rate sensitivity gap	**(43,251)**	**4,508**	**(53,229)**	**(16,572)**	**-**	**108,544**	**-**

The overall interest rate risk represents the impact of fluctuating market interest rates on the future gross financial margin. RCI's assets consist primarily of fixed-rate credit and lease contracts with an average life of approximately 2.5 years, and floating rate dealer financing loans with an average life of 3 months. Funding sources consist primarily of customer deposits (instant access and term deposit), securitisation, short term loans from parent company and equity. It is the Group's policy to execute interest rate swaps to match the interest rate characteristics of the debt to the interest rate characteristics of the assets, within management approved risk tolerance. Risk management policy seeks to maintain margins and reduce profit volatility. As at 31 December 2019, a 100-basis point rise in market rates would have an impact of the Group's total net interest income (NII) of £437k.

30 Risk and Risk Management (continued)

Residual value risk on Operating Lease Assets

The end of contract residual value (RV) of an operating lease vehicle is important in determining the profitability of the contract relating to that vehicle. RVs are set by reference to the vehicle type and by using predictive and historical data furnished by an independent external benchmark (CAP) and internal historical performance data. However, the future is unknown and the Group is exposed to the risk that future RVs could fall, leading to a reduction in profitability.

In order to manage this risk, the Group regularly reviews its RV estimates. The Group does this by using its own data obtained from vehicle disposals through auction sales and other sales routes, and by using industry-wide data obtained from CAP Monitor. The Group is then able to react quickly to any falls in RVs. This ensures that the Group maintains its profitability for this revenue stream.

An analysis of the total residual value exposure amounts can be found in the following table.

	Company £'000	Group £'000
Residual value element of operating lease assets expected to be disposed:		
- within one year	-	36,937
- between one to two years	-	38,801
- between two and five years	-	31,378
Total exposure	-	**107,116**

Residual value risk PCP and Hire Purchase Contracts

The Group bears indirect residual value risk on its PCP and Hire Purchase products. For the PCP products, guaranteed future values (GFV) are set providing customers with the option to return the vehicle at the end of the contract at this GFV.

For both the PCP and Hire Purchase products, customers may exercise their right under the Consumer Credit Act (1973) to return the vehicle to RCI and terminate the contract. The Group is exposed to residual value risk on these returned vehicles.

Where applicable, GFV's are set and managed using the same methodology for setting RV's as described in the Residual Value Risk on Operating Lease Assets section above. As part of the management of this risk the Group estimates end of contract return rates and voluntary termination rates which impact the level of provisions held for residual value risk.

Note 13 provides a breakdown of the amounts under finance on PCP and Hire Purchase products to which this residual value risk relates. Note 1(K) section covers the provision on GFV for PCP contracts and the provision on voluntary terminations ("VT").

At the end of the period, total provisions for residual value risk on PCP and Hire Purchase contracts stood at £63.7m, a decrease of £1.5m during the period.

31 Events after the balance sheet date

The Company is monitoring the downside risks associated to the COVID-19 outbreak that affects the global and UK economies mostly from the month of March 2020. The Group has taken a comprehensive range of measures protecting its employees and ensuring business continuity. Although the duration and extent of the crisis are widely unknown at the date of this Annual Report, this outbreak will have material impacts on the commercial and financial performances for 2020 and will likely have adverse effects on the following items:

- the level of new financings might decrease due to the expected drop in new car market registrations;
- the income might go down due to the decrease in loans and advances to customers and operating leases;
- the Expected Credit Losses (ECL): the provisions calculated as per IFRS 9 might increase given the adverse impacts on the UK economy and the likelihood that it impacts the ability of some customers to repay their loans; and
- the valuation of defined benefit obligations relating to the pension scheme.

In addition, the impact on residual values (RV) and voluntary terminations is currently largely unknown and will be closely monitored to update accordingly the level of RV provisions for hire purchase and PCP as well as the adjustment in depreciation for operating leases.

Despite this challenging context, the Group still maintains its regulatory capital ratios above its Board's risk appetite and regulatory limits.

32 Commitments and contingent liabilities and assets

At the balance sheet date, the Group had outstanding commitments for future lease payments under non-cancellable operating leases relating to computer hardware. The maturity for all these leases is within one year, and the cost is £277k (2018: £nil).

Other loan commitments relating to retail loans, finance leases and operating leases are detailed in note 30.

The Group had no contingent liabilities or assets at 31 December 2019 (2018 - none).

33 Securitisation

Loans and advances to customers and debt securities classified as loans and receivables include loans securitised under the Group's securitisation programme, where some loans and advances to customers have been sold by the Group's subsidiary, RCI Financial Services Ltd, to a bankruptcy remote structured entity, Cars Alliance 2015 Ltd. As the structured entity is funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained by the subsidiary, the structured entity is consolidated fully and all of these loans are retained on the Group's balance sheet, with the related notes in issue included within debt securities in issue.

The total consolidated exposure of Cars Alliance 2015 Ltd at 31 December 2019 comprised £97,511k of cash and other receivables and £900,000 of debt securities.

All lending assets and debt securities held by the Group in Cars Alliance 2015 Ltd are restricted in use, as they are securitised for the benefit of the debt holders.

The external assets in Cars Alliance 2015 Ltd are consolidated in the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

34 Retirement benefit schemes

The Company has no retirement benefit schemes therefore no Company specific disclosures have been provided for this note.

Defined contribution scheme

The defined contribution scheme is operated by Renault UK Limited, the assets of which are held in a separately administered fund. The pension cost charge (shown in note 6 above) includes contributions payable by the Group to this fund. During the period, since acquisition of the subsidiary, the Group contributed £551k (2018: £nil).

Defined benefit scheme

The Group also contributes to the RCI Section of the Renault UK Limited Pension Fund ("the Fund"). This was formed on 28 March 2012 following the transfer of assets and liabilities from the RCI Financial Services Pension Plan ("the Plan") to the Fund. The Fund was closed to future accrual as at 31 December 2019 resulting in a curtailment gain in the 2019 operating profit of £371,000. There will be no service cost for 2020 and into the future.

Contributions to the scheme are determined on the basis of regular actuarial valuations. The most recent triennial actuarial valuation of the Plan was carried out by a qualified independent actuary at 5 April 2015, the report being signed on 8 July 2016. For the purposes of these 2019 accounts, an update was carried out by a qualified independent actuary as at 31 December 2019, based on the results of the 8 July 2016 actuarial valuation. The Group contributed £259k during the period since acquisition and accrued £295k relating to the expected settlement payments following consultation with the current members to close the scheme for future accruals (2018: £nil). In carrying out the valuation the following assumptions were made:

	2019 **% per annum**
RPI Inflation	**2.80**
Discount rate	**2.10**
Rate of Pension increases	**2.70**
CPI Inflation	**1.80**
Rate of Salary increase	**2.80**

Assumed life expectancy on retirement at age 65 (in years):

1.	Male member aged 65 (current life expectancy)	**22.0**
2.	Female member aged 65 (current life expectancy)	**23.9**
3.	Male member aged 45 (life expectancy at age 65)	**23.3**
4.	Female member aged 45 (life expectancy at age 65)	**25.4**

The actual returns on the scheme's assets for the period ended 31 December 2019 were £3,546k (2018: £nil).

NOTES TO THE FINANCIAL STATEMENTS

34 Retirement benefit schemes (continued)

Sensitivity Analysis

A quantitative sensitivity analysis for significant assumptions as at 31 December 2019 is as shown below:

	Sensitivities from Base 31 December 2019 (one item changed with all other assumptions held constant, except for the inflation sensitivity which also includes an increase in the salary assumption)				
At 31 December 2019	**31 December 2019**	**Discount Rate -1%**	**Inflation Rate +1%**	**Salary +1%**	**Mortality Sensitivity (age ratings reduced by 1 year)**
Fair value of plan assets	26,569	26,569	26,569	26,569	26,569
Present value of defined benefit obligations	(37,455)	(47,522)	(44,223)	(37,455)	(38,471)
Net liability, excluding any effect of asset limit	(10,886)	(20,953)	(17,654)	(10,886)	(11,902)
Projected Pension Cost					
Current service cost					
a. Interest expense on defined benefit obligation	784	521	926	784	805
b. Interest (income) on plan assets	(555)	(291)	(555)	(555)	(555)
Net finance expense	229	230	371	229	250
Total pension cost	229	230	371	229	250
Actuarial Assumptions					
Discount rate	2.10%	1.10%	2.10%	2.10%	2.10%
Rate of price inflation (RPI)	2.80%	2.80%	3.80%	2.80%	2.80%
Rate of pension increases (where RPI capped at 5% applies)	2.80%	2.80%	3.80%	2.80%	2.80%
Rate of salary increase	2.80%	2.80%	3.80%	3.80%	2.80%
Mortality base table	S1NxA	S1NxA	S1NxA	S1NxA	S1NxA
Mortality scheme-specific adjustment (male/female)	-0.5 / 0 Years	-0.5 Years / 0 Years	-0.5 Years / 0 Years	-0.5 Years / 0 Years	-1.5 Years / -1 Years
Mortality future improvements	CMI_2018 [1.25%]	CMI_2018 [1.25%]	CMI_2018 [1.25%]	CMI_2018 [1.25%]	CMI_2018 [1.25%]

34 Retirement benefit schemes *(continued)*

The fair value of the assets in the scheme and the defined benefit obligation at the balance sheet date were:

	Value at 31 December 2019 £'000
Equities	9,582
Bonds and Others	13,053
Diversified growth fund and others	3,934
Total fair value of assets	26,569
Defined benefit obligation	(37,455)
Liability in the scheme	(10,886)
Related deferred tax asset	1,851
Net pension liability	**(9,035)**

The scheme's assets do not include any ordinary shares issued by RCI Bank UK Limited or its subsidiary, or any property occupied by the same.

The following amounts have been recognised in the Consolidated Statement of Profit or Loss for the period ended 31 December 2019 under the requirements of IAS 19.

Analysis of the amounts charged to the Consolidated Statement of Profit or Loss

	2019 £'000
Current service cost	522
Curtailment Gain	(371)
Total charge to operating profit	**151**

Analysis of the amount debited as finance expense:

	2019 £'000
Expected return on scheme assets	658
Interest cost on scheme liabilities	(851)
Net finance expense	**(193)**

34 Retirement benefit schemes *(continued)*

Analysis of the amount recognised in the statement of other comprehensive income:

It is the Group's policy to recognise gains or losses in the scheme immediately through the statement of other comprehensive income.

	2019 £'000
Actual return less expected return on scheme assets	2,888
Changes in assumptions underlying the present value of scheme liabilities	(6,936)
Actuarial gain/ (loss) recognised in the statement of other comprehensive income	**(4,048)**

The annual amount of actuarial gains and losses recognised through the statement of other comprehensive income is a loss of £4,048k (2018: £nil), while the cumulative amount recognised is a £11,414,000 loss (2018: £nil). Note this only covers amounts recognised from the year ended 31 December 2007 onwards, as this was the first year the financial statements were prepared using International Financial Reporting Standards (IFRSs).

Movement in scheme deficit in the period:

	2019 £'000
Deficit in the scheme at the beginning of the period	(6,885)
Current service cost	(522)
Contributions from the group	391
Other finance expense	(193)
Actuarial loss	(4,048)
Curtailment Gain	371
Deficit in the scheme at the end of the period	**(10,886)**

The contribution the Group made to the scheme during the period ended 31 December 2019 is £391k. The group does not expect to make any further contributions to the scheme.

34 Retirement benefit schemes *(continued)*

Fair value and reconciliation of the scheme's assets

	2019 £'000
Fair value of the scheme's assets at the start of the period	22,802
Expected return on the scheme's assets	658
Contributions from the group	391
Benefits paid	(170)
Actuarial (loss)/ gain on the scheme's assets	2,888
Fair value of the scheme's assets at the end of the period	**26,569**

Changes in the present value of the funded obligations of the scheme

	2019 £'000
Present value of the scheme's obligations at the start of the period	(29,687)
Current service cost	(522)
Interest cost	(851)
Actuarial loss on the scheme's liabilities	(6,936)
Benefits paid	170
Curtailment Gain	371
Present value of the scheme's obligations at the end of the period	**(37,455)**

Historical scheme information:

History of experience of gains and losses	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Fair value of scheme's assets	26,569	22,802	23,536	21,187	18,179	17,861
Present value of scheme's liabilities	(37,455)	(29,687)	(33,039)	(29,190)	(19,953)	(19,954)
Deficit in scheme	(10,886)	(6,885)	(9,503)	(8,003)	(1,774)	(2,093)
Difference between the expected and actual returns on assets	(2,888)	(1,858)	1,304	2,242	(617)	1,159
Experience gains and losses arising on the scheme liabilities	(3,158)	-	-	-	471	-