Classification: Public

Registered Number: 12175782

CARDIFF AUTO RECEIVABLES SECURITISATION 2019-1 PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD FROM 27 AUGUST 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2020

CARDIFF AUTO RECEIVABLES SECURITISATION 2019-1 PLC
DIRECTORS AND COMPANY INFORMATION

DIRECTORS

Paivi Helena Whitaker
Intertrust Directors 1 Limited
Intertrust Directors 2 Limited

COMPANY SECRETARY

Intertrust Corporate Services Limited

REGISTERED OFFICE

1 Bartholomew Lane
London
EC2N 2AX

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

CARDIFF AUTO RECEIVABLES SECURITISATION 2019-1 PLC
STRATEGIC REPORT FOR THE PERIOD ENDED 31 DECEMBER 2020

The directors present their first Strategic Report for Cardiff Auto Receivables Securitisation 2019-1 plc (the "Company") for the period from 27 August 2019 (date of incorporation) to 31 December 2020.

Incorporation

The Company, a public limited company, was incorporated on 27 August 2019 and registered in England and Wales under the Companies Act 2006.

Principal activities

The Company commenced trading on 4 December 2019 by the issuance of £424,000,000 Class A asset backed variable rate notes, £76,260,000 Class B asset backed variable rate notes and £109,810,000 Class S asset backed fixed rate notes with a final legal maturity of 21 December 2026 (the "Notes"). The issuance proceeds were used to acquire the legal and beneficial interest in a portfolio of auto loans for an initial consideration of £610,070,000 (the "Auto Loan Portfolio") from Black Horse Limited ("BH" or "the Originator"). The Auto Loan Portfolio consists of personal contract plan agreements ("PCP") originated by BH.

The Class A and B notes are listed on the London Stock Exchange.

Under IFRS 9 Financial Instruments, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The directors of the Company have concluded that BH has retained substantially all the risks and rewards of the Auto Loan Portfolio and as a consequence, the Company does not recognise the auto loans on its balance sheet but rather a deemed loan to Originator. The initial amount of the deemed loan to Originator corresponds to the consideration paid by the Company for the auto loans less a subordinated loan granted by BH.

The activities of the Company are conducted primarily by reference to a series of securitisation transaction documents (the "Programme Documentation"). The securitisation structure has been established as a means of raising finance for BH, and subsequently Lloyds Banking Group plc ("LBG"), the ultimate controlling party under International Financial Reporting Standards ("IFRSs"). The Programme Documentation sets out the principal risks to the noteholders. As such, these have not been reproduced in full in the financial statements.

The Company is a wholly owned subsidiary of Cardiff Auto Receivables Securitisation Holdings Limited ("CARS Holdings"), a company registered in England and Wales. CARS Holdings holds the Company's entire issued share capital of 50,000 ordinary shares of £1 each (49,999 shares are quarter paid and 1 is fully paid). The shares of CARS Holdings are held on a discretionary trust basis under a share trust deed by Intertrust Corporate Services Limited ("ICS Ltd").

Business review

Profits on a cash flow basis are pre-determined under the Programme Documentation. The Company has the right to a profit before tax of £11,000 per annum for the first three years following the closing date (4 December 2019) and £1,200 per annum from and including the fourth year following the closing date from available revenue receipts.

The results for the period are set out on page 10. The profit after tax for the period amounted to £9,000. Total equity at 31 December 2020 was £22,000.

Key performance indicators (KPIs)

A defined set of KPIs for the securitisation transaction are set out in the Programme Documentation.

The Board of Directors is responsible for assessing the risk of irregularities, where caused by fraud or error in the financial reporting and ensuring that the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting.

In order to assist the mitigation of key risks, there is a monthly meeting with programme managers. This meeting analyses and discusses the KPIs for the month and identifies any issues or required changes. Any such issues are then reported, further discussed and collectively agreed in accordance with the Programme Documentation that governs the transaction.

The KPIs include monitoring the excess spread on the Auto Loan Portfolio as the first line of credit enhancement to the Notes, the losses that have occurred and the level of arrears in the underlying auto loans, the rate of repayment of the loans within the Auto Loan Portfolio and an analysis of the characteristics of the underlying loans in the Auto Loan Portfolio.

At the time of issue the Class A and B notes were assigned a credit rating which reflects the likelihood of full and timely payment to the noteholders of interest on each interest payment date and the payment of principal on the final maturity date. A rating may be subject to revision, suspension or withdrawal at any time by the rating agencies if the Company's circumstances change. The Class S subordinated notes are unrated.

Any change in the credit rating assigned to a note would be used as an indicator as to the performance of the Company. No downgrade in credit ratings has been applied to the Notes in the period under review and subsequently up to the date of approval of these financial statements.

Taxation

The Company's tax charge is based on the permanent tax regime for securitisation companies.

Risk management

The majority of the Company's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments: Presentation". The Company's financial instruments comprise a deemed loan to BH, the Notes issued, other payables and cash and liquid resources.

The principal risks and uncertainties for the Company arise from the Company's financial instruments. These are credit risk, liquidity risk and interest risk. These and other risks which may affect the Company's performance are detailed below. Further analysis of the risks facing the Company in relation to its financial instruments and the Company's financial risk management policies is provided in note 9.

Risk management (continued)

Credit risk

Credit risk arises on the individual loans within the Auto Loan Portfolio.

To mitigate this risk the Class A and B notes will benefit from credit enhancement provided by the reserve account, the subordination of the Class S notes and excess spread.

In terms of arrears management, the Company has engaged BH as servicer (the "Servicer") of the loans in the portfolio to help reduce the risk of loss. The Servicer is required to monitor repayments on the loans in accordance with its usual credit policies. The Servicer is also responsible for ensuring loans meet the eligibility criteria set out in the Programme Documentation.

Liquidity risk

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on the amount and timing of the interest and principal repayments on the auto loans which underlie the loan to the Originator.

In the event that sufficient funds are not available to redeem the Notes or make the interest payments due, an amount equal to such a shortfall will be deferred until such funds are received. To the extent that the income on the deemed loan to Originator does not provide sufficient funds to recover the Company's investment in the Auto Loan Portfolio, the Company has no claim on the assets of the Originator. The noteholder therefore bears this risk.

Interest risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of the assets and liabilities are similar; where this is not possible the Company uses derivative financial instruments to mitigate any residual interest rate risk.

As part of the financing arrangement the Company acquires a beneficial interest in auto loans and enters into an interest rate swap with BH under which it exchanges the fixed rate income received on the auto loans for a Sterling Overnight Interbank Average Rate ("SONIA") based interest flow in order to settle interest due on the Notes.

Market risk

Market risk arises on the PCP loans within the Auto Loan Portfolio. PCP agreements are similar to Hire Purchase ("HP") agreements but with an optional additional larger "balloon" final rental payment at the end of the term, whereby the customer has the option to pay the balloon (and thereby purchase the vehicle) or return the vehicle as final settlement of the loan.

Market risk arises if the customer chooses to return the vehicle, whereby BH then sells the vehicle. The sale proceeds of the vehicle are transferred to the Issuer as vehicle proceeds, with any shortfall being written off by the Issuer and not recovered from the customer.

The balloon payment is set by BH at the outset of the loan contract using modelling of used vehicle prices with a considerable buffer to mitigate this risk.

Risk management (continued)

Operational risk

The Company is also exposed to operational risks through a number of contracts with third parties who have agreed to provide operational support to the Company in accordance with the Programme Documentation. Intertrust Management Limited ("IM Ltd") has been appointed to provide corporate administration services in accordance with a corporate services agreement. Other third parties who have agreed to provide services with respect to the Notes include the paying agent, and the agent bank. Lloyds Bank plc ("Lloyds") has been appointed to act as account bank and BH has been appointed to act as cash manager on behalf of the Company.

Business risk

The principal business risks of the Company are set out in a number of ratings and non-ratings trigger events in the Programme Documentation including some which relate to the underlying performance of the Auto Loan Portfolio. The occurrence of trigger events may lead to a different priority of payments of the Notes in accordance with established priorities. There have been no such trigger events since inception of the programme.

Future developments

The global pandemic from the outbreak of COVID-19 is causing widespread disruption to financial markets and normal patterns of business activity across the world, including in the UK. Measures taken to contain the health impacts of the COVID-19 pandemic are resulting in adverse impacts on economic activity across the world, and the duration for which such measures will remain in place is uncertain. The impact on the economy is currently highly uncertain in both its depth and length, and may go beyond current forecasts of scale of loss of output and recession in the UK and globally.

The directors' assessment suggests that performance of the auto loan portfolio should continue to be satisfactory. The economic impacts of the COVID-19 pandemic, including increased levels of unemployment, may put further pressure on household incomes, which may feed through to increases in loan arrears. The situation will be monitored and the Servicer, on behalf of the Company, will continue to adopt appropriate forbearance measures.

In response to the ongoing COVID-19 pandemic in the UK, it was announced on 18 March 2020 that auto loan borrowers impacted financially by COVID-19 could apply for a payment holiday of up to three months at a time with a maximum 6 month limit. All payment holidays must be applied for by 31 March 2021 and all payment holidays must end by 31 July 2021. Any agreements identified as having payment holidays applied are deemed to be non-permitted variations, and are repurchased by BH in the following calculation period. This will result in a faster amortisation of the loan notes than anticipated at the issuance of the Notes.

In the UK, the FCA have announced a transition away from the London Interbank Offered Rate (LIBOR) to SONIA. By the end of 2021, the FCA will no longer seek to persuade, or compel, banks to submit to LIBOR. As a result, existing benchmark rates may be discontinued or the basis on which they are calculated may change. As the Notes are linked to SONIA this does not impact the Company.

Section 172(1) of the Companies Act 2006

The Company is a special purpose vehicle and as such performs a very limited range of activities. As a special purpose vehicle, the governance structure of the Company is such that the key policies have been predetermined at the time of its incorporation. The directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

- the Programme Documentation have been formulated with the aim of achieving the Company's purpose and business objectives, safeguarding the assets of the Company and promoting the success of the Company;
- in accordance with relevant securitisation legislation the Company is only permitted to retain minimal profit;
- the Company has no employees;
- the Company has appointed various third parties to perform certain roles strictly governed by the Programme Documentation, fee arrangements agreed in advance and invoices paid strictly in accordance with the Programme Documentation (including a specified priority of payments);
- as a special purpose vehicle, the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment; and
- the Company has a sole member with the issued shares all held on a discretionary trust basis for charitable purposes

Further, in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the directors also confirm that they have both engaged with and had regard to the interest of key stakeholders, in their duties as directors of the Company.

In accordance with s. 426B of the Companies Act 2006 the above paragraph is available at the following website address https://www.intertrustgroup.com/our-services/capital-markets-services/public-transactions.

As approved by the Board of Directors and signed on behalf of the board:

Paivi Helena Whitaker
Per pro Intertrust Directors 1 Limited
As Director

DATE: 26 April 2021

CARDIFF AUTO RECEIVABLES SECURITISATION 2019-1 PLC
DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2020

The directors present their first annual report and audited financial statements for the Company for the period from 27 August 2019 (date of incorporation) to 31 December 2020.

Directors and directors' interests

The directors who served during the period and up to the date of signing the financial statements were:

Paivi Helena Whitaker (appointed 27 August 2019)
Intertrust Directors 1 Limited (appointed 27 August 2019)
Intertrust Directors 2 Limited (appointed 27 August 2019)

The directors are also all directors of CARS Holdings. None of the directors have any beneficial interest in the ordinary share capital of the Company. None of the directors have any interest in any material contract or arrangement with the Company either during or at the end of the period.

Employees

The Company has employed no staff during the period under review. None of the directors received any remuneration or emoluments from the Company in respect of qualifying services provided to the Company.

Company secretary

The company secretary during the period, and subsequently, was Intertrust Corporate Services Limited.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

Directors' indemnities

Qualifying third party indemnity provisions for the benefit of the directors were in force during the period under review and remain in force as at the date of approval of the directors' report and financial statements.

Dividends

The directors do not recommend the payment of a dividend for the period ended 31 December 2020.

Corporate governance

The directors have been charged with governance in accordance with the Programme Documentation describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the Programme Documentation.

The Programme Documentation provides for procedures that have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

Due to the nature of the securities which have been issued, the Company is largely exempt from the requirements of the Financial Conduct Authority pertaining to the Disclosure and Transparency Rules ("DTR") as detailed in DTR 7.1 Audit Committees and 7.2 Corporate Governance statements (save for the rule DTR 7.2.5 requiring a description of the features of the internal control and risk management systems), which would otherwise require the Company respectively, to have an audit committee in place and include a corporate governance statement in the report of the directors. The directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement.

From the perspective of the Company, the daily operational internal controls and risk management systems are integrated with those of LBG, the Company's ultimate controlling party. Therefore additional information may be found in section 'Internal Control' of the 2020 Annual Report of LBG, which does not form part of this report. Details of where to get access to the 2020 Annual Report of LBG can be found in note 11.

Financial risk management

Further details of the risks facing the Company and how these are managed are outlined in the Strategic Report and further disclosed in note 9.

Future Developments

Future developments are outlined in the Strategic Report.

Independent auditors

The auditors PricewaterhouseCoopers LLP will not seek re-appointment at the forthcoming Annual General Meeting, as following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the Company to audit the Financial Statements for the year ending 31 December 2021.

Streamlined energy and carbon reporting

The Company is out of scope of the Streamlined Energy and Carbon Reporting ("SECR"), as it does not meet the numerical thresholds in relation to turnover and number of employees.

Statement of going concern

The Company has continued to perform in line with the Programme Documentation. There are certain rating and non-rating triggers included in the Programme Documentation as referred to in the annual report and financial statements in KPIs (Strategic Report) and exampled in the note on Management of risk (note 9). In the course of their regular monitoring of these KPIs and review of risk, the directors are confident that these triggers remain un-breached and will remain so for the foreseeable future, despite the current adverse environment.

For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. As at 31 December 2020, the Company is showing a net assets position in the financial statements.

The financial statements on pages 14 to 27 were approved by the Board of Directors on 26 April 2021 and signed on behalf of the board:

Paivi Helena Whitaker
Per pro Intertrust Directors 1 Limited
as Director

DATE: 26 April 2021

CARDIFF AUTO RECEIVABLES SECURITISATION 2019-1 PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2020

	Note	2020 £'000
Interest receivable and similar income	2	11,065
Interest payable and similar charges	3	(10,955)
Net interest income		110
Operating expenses	4	(99)
Profit before tax		11
Taxation	5	(2)
Profit for the financial period and total comprehensive income		9

The profit shown above is derived from continuing operations. The Company operates in a single business and all of the Company's activities are in the UK.

The accompanying notes on pages 14 to 27 are an integral part of the financial statements.

CARDIFF AUTO RECEIVABLES SECURITISATION 2019-1 PLC
BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note	2020 £'000
Assets		
Deemed loan to Originator	6	338,601
Cash and cash equivalents		91,665
Total assets		430,266
Equity and liabilities		
Debt securities in issue	7	430,242
Tax Liability		2
Total liabilities		430,244
Share capital	8	13
Retained earnings		9
Total equity		22
Total equity and liabilities		430,266

The accompanying notes on pages 14 to 27 are an integral part of the financial statements.

The financial statements on pages 14 to 27 were approved by the board of directors on 26 April 2021.

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Paivi Helena Whitaker
Per pro Intertrust Directors 1 Limited
as Director

CARDIFF AUTO RECEIVABLES SECURITISATION 2019-1 PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2020

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 27 August 2019 (incorporation)	-	-	-
Issued shares during the period	13	-	13
Profit for the period and total comprehensive income	-	9	9
Balance at 31 December 2020	13	9	22

The accompanying notes on pages 14 to 27 are an integral part of the financial statements.

CARDIFF AUTO RECEIVABLES SECURITISATION 2019-1 PLC
CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2020

	2020 £'000
Operating activities	
Operating expenses paid	(99)
Interest paid to noteholders	(9,817)
Net cash flows used in operating activities	(9,916)
Investing activities	
Reduction in deemed loan to Originator	(327,757)
Bank interest received	234
Net cash flows used in investing activities	(327,523)
Financing activities	
Debt securities issued	610,070
Principal repayments on debt securities in issue	(178,746)
Issue costs	(2,220)
Net cash flows generated from financing activities	429,104
Net increase in cash and cash equivalents	91,665
Increase in cash and cash equivalents	91,665
Cash and cash equivalents at start of period	-
Cash and cash equivalents at end of period	91,665

Interest income on the deemed loan amounted to £9,682,000.

The cash flow statement is presented using the direct method.

The accompanying notes on pages 14 to 27 are an integral part of the financial statements.

CARDIFF AUTO RECEIVABLES SECURITISATION 2019-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES

The Company is a public limited liability company (limited by shares) incorporated on 27 August 2019 in England under the Companies Act 2006 and domiciled in England and Wales.

(a) Basis of preparation

The financial statements for the period ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company. There are no other accounting pronouncements that will be relevant to the Company, but which were not effective at 31 December 2020.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006 as applicable to companies using IFRSs. The financial statements are presented in sterling which is the Company's functional and presentation currency and have been prepared on the historical cost basis.

(b) Interest income and interest payable

Interest receivable and similar income and interest payable and similar charges have been calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument.

(c) Accrued interest

Accrued interest has been incorporated within the deemed loan to Originator and within the outstanding balance of debt securities in issue on the balance sheet. A split between principal and accrued interest can be found in note 6 and note 7 respectively.

(d) Taxation

Current tax which is payable on taxable profits is recognised as an expense or credit in the period in which the profits or losses arise.

Tax on the profit or loss for the period is recognised in the statement of comprehensive income within taxation and comprises only current tax. No provision for deferred tax is required under IAS 12 "Income Taxes" as no timing differences have arisen which would result in deferred tax on assets and liabilities.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Taxation (continued)

The Company's tax charge is based on the permanent tax regime for securitisation companies. All fair value adjustments on derivative contracts are ignored for taxation purposes as tax is assessed on the cash retained as profit in the Company.

(e) Financial instruments

The Company's financial instruments comprise a deemed loan to BH, the Notes issued, other receivables and payables and cash and liquid resources. These financial instruments are classified in accordance with the principles of IFRS 9 Financial Instruments as described below.

(e)(i) Deemed loan to Originator

Under IFRS 9 Financial Instruments, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The directors of the Company have concluded that BH has retained substantially all the risks and rewards of the Auto Loan Portfolio and as a consequence, the Company does not recognise the auto loans on its balance sheet but rather a deemed loan to Originator, where recourse to BH is limited to the cash flows from the auto loans and any additional credit enhancement provided by BH.

The initial amount of the deemed loan to BH, corresponds to the considerations paid by the Company for the auto loans, less the subordinated loan granted by BH to fund the reserve accounts and the consideration paid by BH to the Company to subscribe to the S note. The Company recognises principal and interest cash flows from the underlying Auto Loan Portfolio only to the extent that it is entitled to retain such cash flows. Cash flows attributable to BH are not recognised by the Company.

In accordance with IFRS 9 Financial Instruments, the deemed loan to Originator is stated at amortised cost.

(e)(ii) Derivative financial instruments

Interest rate risk associated with the deemed loan is managed by means of an interest rate swap with BH, which requires the Company to pay the effective yield on the beneficial interest in the auto portfolio and receive payments based on a rate linked to SONIA.

This swap is not recognised separately as a financial instrument as the amounts payable under the swap reflect interest flows from the auto loans which are not recognised by the Company for accounting purposes. Instead, the deemed loan is recognised with an effective interest rate which reflects the amount received or paid under the swap.

(e)(iii) Cash and cash equivalents

The Company holds bank accounts with Lloyds. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with a maturity of less than three months. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(iv) Impairment of financial assets

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

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

Unlike other financial instruments, the deemed loan to Originator is, by its construction, an instrument that incorporates credit enhancement. The interest due on the deemed loan to Originator is only due to the extent it matches the obligations of the entity. All securitisation programmes incorporate credit enhancement in the form of excess spread and various reserve funds for use in the event the excess spread for a particular payment period is insufficient. Expected losses for the deemed loan to Originator would only therefore be recognised where the expected credit losses on the underlying assets were large enough that no credit enhancement remained.

(e)(v) Debt securities in issue

Debt securities in issue are recognised initially at fair value less directly related incremental transaction costs. Subsequent to initial recognition, debt securities in issue are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

(f) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The directors of the Company consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosure.

(g) Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of accounting estimates. These judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. There are no critical accounting estimates. The most significantly affected components of the financial statements and associated critical judgements are as follows:

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Critical accounting estimates and judgements (continued)

(g)(i) Effective interest rate method

In calculating the effective interest rate of financial instruments the Company takes into account interest received or paid, fees and commissions paid or received, expected early redemptions and related penalties and premiums and discounts on acquisition or issue that are integral to the yield as well as incremental transaction costs.

For the purpose of the effective yield calculation, it has been assumed, based on the payment experience to date, that the average expected life of the Notes issued by the Company will end at the scheduled redemption date (unless specified earlier in the Programme Documentation, in which case the earlier date will be used). This may not be the case in practice

(g)(ii) Impairment of deemed loan

The Company's accounting policy for losses arising on the deemed loan to Originator is described in note 1(e)(iv). The allowance for impairment losses on the deemed loan to Originator is management's best estimate of losses incurred in the portfolio at the balance sheet date. In determining whether impairment has occurred at the balance sheet date the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

At 31 December 2020, impairment allowances against the intercompany loans totalled £nil.

(h) Dividends

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

(i) Capital management

The Company is not subject to externally imposed capital requirements in the period. The Company manages its ordinary share capital in order that there is sufficient capital, in the opinion of the directors, to support the transactions and level of business undertaken by the Company.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020
	£'000
Interest receivable from deemed loan to Originator	10,831
Bank interest receivable	234
	11,065

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £'000
Interest payable on debt securities in issue	10,955

4. OPERATING EXPENSES

	2020 £'000
Administration fees	99

The audit fees for the Company are paid for by Lloyds. The audit fee for the Company for the current period was £15,000. There are no fees payable to the auditors and their associates for services other than the statutory audit.

5. TAXATION

a) Analysis of charge for the period

	2020 £'000
UK corporation tax	
- Current tax on taxable profit for the period	2
Current tax charge for the period	2

Corporation tax is calculated at a rate of 19% of the taxable profit for the period.

b) Factors affecting the tax charge for the period

A reconciliation of the charge that would result from applying the standard United Kingdom tax rate to the profit before tax to the actual tax charge for the period is given below:

	2020 £'000
Profit before tax	11
Profit before tax thereon at UK corporation tax rate of 19%	2
Total tax charge in the statement of comprehensive income	2

The effective tax rate for the period is 19%.

6. DEEMED LOAN TO ORIGINATOR

	2020 £'000
Current - amounts due within one year	
Principal	338,256
Interest	345
	338,601

The Auto Loan Portfolio, which is accounted for as a deemed loan to Originator and in which the Company holds a beneficial interest, is held by BH. Auto loans in the pool have to fulfil certain eligibility criteria. If they fail to do so they are removed from the pool.

The loan is repaid on an amortising basis in line with the underlying portfolio of auto loans. The final legal maturity date is 4 September 2025.

7. DEBT SECURITIES IN ISSUE

	2020 £'000
Non-current - amounts due after one year	
Principal:	
Debt securities in issue	277,654
Deferred issue costs	(745)
Current - amounts due within one year	
Principal:	
Debt securities in issue	153,670
Deferred issue costs	(682)
Interest	345
	430,242

The Company is only required to make payments on the debt securities in issue to the extent that it has received sufficient cash flows from the underlying Auto Loan Portfolio, subject to the final legal maturity date of 4 September 2025. For more information about the Company's exposure to risk, see note 9.

There have been no defaults in the payment of principal and interest or other breaches with respect to liabilities in the current period.

8. SHARE CAPITAL

	2020 £
Issued, allotted, called up and paid	
Issued share capital comprises:	
1 ordinary share of £1 each (fully paid)	1
49,999 ordinary shares of £1 each (one quarter paid)	12,499
	12,500

9. MANAGEMENT OF RISK

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. However, considerable resource is given to maintaining effective controls to manage, measure and mitigate each of these risks and therefore there is minimal sensitivity to risk. Further detailed analysis of the risks facing the Company in relation to its financial instruments is provided below.

The directors do not consider there to be a capital management risk as adequate solvency and capital levels are maintained.

The Company's exposure to risk on its financial instruments and the management of such risk is largely determined at the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the transaction, and as such is required by the rating agencies. In addition an interest rate swap is entered into with the Originator as part of the securitisation transaction to hedge interest rate risk arising in the transaction including the obligations under the Notes.

9(a) Credit risk

Credit risk arises where there is a possibility that a counterparty may default on its financial obligations resulting in a loss to the Company.

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on funds being received on the deemed loan. The primary credit risk of the Company therefore relates to the credit risk associated with the securitised Auto Loan Portfolio originated by BH.

The likelihood of defaults in the Auto Loan Portfolio and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in the performance of a particular geographical region that represents a concentration in the securitised assets, could also affect the cash flows from the Auto Loan Portfolio.

To mitigate this risk, credit enhancement is provided to the Company in the form of excess spread and a reserve account.

9. MANAGEMENT OF RISK (CONTINUED)

9(a) Credit risk (continued)

The income on the Auto Loan Portfolio is expected to exceed the Company's expenses and the interest payable on the Notes. This excess income (excess spread) is available to make good any reduction in the principal balance of the Auto Loan Portfolio which may arise as a result of defaults by customers. Details of excess spread and other KPIs (yield, losses, monthly payment rate) are shown in the monthly investor reports.

BH provided a subordinated loan to the Company to create a reserve fund which can be used in certain circumstances to meet any deficit in revenue or to repay amounts of principal.

Therefore, delinquencies and defaults on the underlying securitised assets will not result in a default on the Notes as long as they do not exceed the credit enhancement provided by the excess spread and reserve fund.

Additionally the Class A and B notes benefit from credit enhancement provided through the subordination of the Class S note. The Class S notes are designed to take the residual risk of the transaction.

The Company is exposed to credit risk from the Originator. The underlying auto loan assets of the securitisation are all in the UK market. The nature of the portfolio means there is no significant individual counterparty credit risk in relation to the underlying auto pool.

An impairment charge on the deemed loan will only be considered when all the excess spread available is expected to have been utilised to cover the auto loan losses. Until that point, any specific auto loan losses will be netted against the auto loan interest, with a corresponding adjustment to deferred consideration. Therefore, there is no effect on the overall yield on the deemed loan to Originator. The directors consider that the Auto Loan Portfolio will be sufficient to recover the full amount of this deemed loan.

The Company assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. In accordance with the criteria of the rating agencies that rate the Notes, the Programme Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached.

	Counterparty	**Long term rating as at 31 Dec 2020**	**Long term rating as at date of approval of financial statements**
		(Fitch / DBRS)	**(Fitch / DBRS)**
Bank account provider	Lloyds	A+ / AA(Low)	A+ / AA(Low)

9. MANAGEMENT OF RISK (CONTINUED)

9(a) Credit risk (continued)

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date equates to carrying value. The Company meets its obligation on the Notes issued from the cash flows it receives from the Auto Loan Portfolio. As a consequence, the credit quality of the auto loans indicates the capacity of the Company to service its payments, although the auto loans remain on the balance sheet of BH and the structure of the securitisation provides for other credit enhancements.

Securitised auto loan assets

Securitised auto loans are analysed according to the rating systems used by the Company and Originator when assessing customers and counterparties. The total Auto Loan Portfolio balance against which the deemed loan to Originator is ultimately secured has been analysed below.

For the purposes of the Company's disclosures regarding credit quality, securitised auto receivables subject to credit risk have been analysed as follows:

Stage 1 - Financial assets which have not experienced a significant increase in credit risk since they were originated.

Stage 2 – Financial assets which have experienced a significant increase in credit risk.

Stage 3 - Financial assets which have experienced one or more events that have had a detrimental impact on the estimated future cash flows and are considered to be credit impaired. Financial assets are considered to be credit impaired and included in stage 3 when there is objective evidence of credit impairment. BH assesses a loan as stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay, or the loan is otherwise considered to be in default.

	Balance 2020 £'000	Accounts 2020
Stage 1	410,595	16,905
Stage 2	7,225	27
Stage 3	6	1
	417,826	16,933

9. MANAGEMENT OF RISK (CONTINUED)

9(b) Market risk

Market risk arises on the loans within the Portfolio.

PCP agreements are similar to HP agreements but with an optional additional larger "balloon" final rental payment at the end of the term, whereby the customer has the option to pay the balloon (and thereby purchase the vehicle) or return the vehicle as final settlement of the loan.

Market risk arises if the customer chooses to return the vehicle, whereby BH then sells the vehicle. The sale proceeds of the vehicle are transferred to the Issuer as vehicle proceeds, with any shortfall being written off by the Issuer and not recovered from the customer.

The balloon payment is set by BH at the outset of the loan contract using modelling of used vehicle prices with a considerable buffer to mitigate this risk.

An impairment charge on the deemed loan will only be considered when all the excess spread available is expected to have been utilised to cover the losses. Until that point, any specific losses will be netted against the auto loan interest, with a corresponding adjustment to deferred consideration. The directors consider that the Auto Loan Portfolio will be sufficient to recover the full amount of this deemed loan.

9(c) Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times.

The deemed loan to Originator, the debt securities in issue and cash and cash equivalents are exposed to cash flow interest rate risk. The underlying Auto Loan Portfolio comprises loans which bear a fixed rate of interest. To mitigate the changes in interest rate that would result in the interest cash flows from the Auto Loan Portfolio being insufficient to meet the SONIA based payments on the debt securities in issue, the Company entered into an interest rate swap with BH to manage the Company's exposure to interest rate risk.

Under the terms of the swap, the Company pays the interest received from the fixed rate loans in the Auto Loan Portfolio and receives a SONIA based rate for one-month Sterling deposits. The interest rate swap substantially eliminates the sensitivity to movements in interest rates. The swap is not separately recognised or valued in the financial statements as it forms part of the deemed loan to Originator.

9(d) Liquidity risk

The Company's ability to meet interest payments on the Notes as they fall due is dependent on the timely receipt of funds from the deemed loan to Originator which may be delayed due to the level of repayment on the underlying Auto Loan Portfolio.

Principal collections on the underlying Auto Loan Portfolio are used to repay the Notes. Therefore the repayment of the Notes is dependent on the level of prepayments within the Auto Loan Portfolio.

The Company is only required to make payments on the Notes to the extent that it has received sufficient cash flows from the underlying Auto Loan Portfolio, subject to the final legal maturity date of the Notes of 4 September 2025.

Principal repayments are made on the Notes in accordance with the Company's principal priority of payments and reflect the amount of principal collected on the underlying auto loans.

9. MANAGEMENT OF RISK (CONTINUED)

9(d) Liquidity risk (continued)

The liquidity table below reflects the undiscounted cash payments which are estimated to fall due based on a constant prepayment rate ("CPR") of 17.5%. The weighted average life of the Notes assuming a CPR of 17.5% is 2.9 years with first principal repayments commencing January 2020 and an expected maturity date of November 2022. It should be noted that the actual amortisation of the Notes may differ substantially from the amortisation scenario. The final legal maturity date of the Notes is 4 September 2025.

2020	Carrying value	Contractual repayment value	<1 month	1-3 months	3 months – 1 Year	1-5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Principal						
Debt securities in issue	431,324	431,324	8,238	24,592	120,840	277,654
Interest payable						
Interest payable on Debt securities in issue	345	13,183	649	1,277	5,373	5,884
	431,669	444,507	8,887	25,869	126,213	283,538

9(e) Prepayment risk

In the normal course of business a proportion of borrowers repay their loan in advance of their contractual maturity date. As a result the weighted average life of the deemed loan to Originator and of the Notes is likely to be significantly less than that implied by the contractual maturity dates of the Auto Loan Portfolio.

As per the Programme Documentation repayments of the Note principal will only be made to the extent that sufficient cash flows have been received from the Originator in relation to the underlying auto loan portfolio.

A wide variety of economic, social and other factors will influence the rate of prepayments on the auto loan portfolio, including individual customer circumstances, marketing incentives offered by vehicle manufacturers and the fact that the financed vehicle may not be sold without the consent of the Originator.

9. MANAGEMENT OF RISK (CONTINUED)

9(e) Prepayment risk (continued)

Prepayments on the auto loan receivables will occur if:

- customers prepay their receivables in whole or in part;
- early settlement of the receivable agreement occurs before its scheduled maturity date under the Consumer Credit Act ("CCA");
- there is a voluntary termination of the receivable agreement under the CCA or a return by the customer of the vehicle under a PCP balloon option and the sale of the vehicle;
- the Servicer receives vehicle proceeds on defaulted receivables, voluntary termination receivables or PCP hand back receivables;
- the Servicer receives proceeds from physical damage, credit life or other insurance policies covering the financed vehicles or the customers;
- the Servicer indemnifies or purchases receivables due to breach of servicing obligations; and
- the Seller indemnifies or repurchases receivables due to breach of representations and warranties.

9(f) Fair values

The fair values of the Company's main financial instruments are detailed below:

Financial assets and liabilities carried at fair value

The financial instruments below are analysed by valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Financial instruments

Deemed loan to Originator

As per standard market practice the carrying value of the fixed rate auto loans is assumed to be the fair value. The principal of the deemed loan to Originator is consideration for the underlying pool of fixed rate auto loans. The deemed loan to Originator also includes a fixed rate start-up loan which is not recognised separately. For these reasons, the carrying value of the deemed loan to Originator is considered to be a close approximation to fair value.

Cash

The carrying value is considered to be a close approximation of fair value.

9. MANAGEMENT OF RISK (CONTINUED)

9(f) Fair values (continued)

Debt securities in issue

The fair value as at 31 December 2020 was £431,984,146

The Notes have been valued where possible based on quoted market prices in active markets, including recent market transactions. However, notes held within LBG cannot be valued in this way using observable inputs. For this reason, in accordance with IFRS 7 "Financial Instruments: Disclosures" and IFRS 13 "Fair Value Measurement", the debt securities in issue are considered to be Level 3 in the fair value hierarchy.

10. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties as part of the Company's normal business.

The related parties are BH, CARS Holdings, LBG, Lloyds and IM Ltd by virtue of their various roles and inputs into securitisation arrangements to which the Company is a party.

The Company pays cash management and servicing fees to BH for the provision of services defined under the Programme Documentation.

IM Ltd provides corporate administration services, including director services, pursuant to a corporate services agreement with the Company and was paid £7,512 for services provided in the period to the Company.

During the period, the Company undertook the following transactions with BH, the parent undertaking of the smallest group of undertakings to consolidate these financial statements (the "Parent") and other related parties within LBG:

	Parent	Other related parties
At 31 December or for the period then ended	**2020**	**2020**
	£'000	**£'000**
Interest receivable and similar income		
Interest on deemed loan to Originator	10,831	-
Bank interest	-	234
Interest payable and similar charges		
Interest on debt securities in issue	4,734	-
Assets		
Deemed loan to Originator	338,601	-
Cash and cash equivalents	-	91,665

10. RELATED PARTY TRANSACTIONS (CONTINUED)

	Parent	Other related parties
At 31 December or for the period then ended	**2020**	**2020**
	£'000	**£'000**
Liabilities		
Debt securities in issue	110,005	-

CARS Holdings owns the Company's entire issued share capital of 50,000 ordinary shares of £1 each (49,999 are quarter paid and 1 share is fully paid).

11. POST BALANCE SHEET EVENT

There are no post balance sheet events.

12. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is a wholly owned subsidiary of CARS Holdings a company registered in England and Wales. The shares of CARS Holdings are held by ICS Ltd, who holds the share capital on a discretionary trust basis under a share trust deed for the benefit of certain charities.

The immediate parent undertaking is CARS Holdings. The ultimate controlling party is LBG a public limited company incorporated in the United Kingdom. LBG is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2020. Lloyds is the parent undertaking of the smallest of such group of undertakings. The consolidated financial statements of Lloyds and LBG are available from Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

Independent auditors' report to the members of Cardiff Auto Receivables Securitisation 2019-1 plc

Report on the audit of the financial statements

Opinion

In our opinion, Cardiff Auto Receivables Securitisation 2019-1 plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit and cash flows for the period from 27 August 2019 to 31 December 2020;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2020; Statement of comprehensive income, Statement of changes in equity and Cash flow statement for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the Company in the period under audit.

Our audit approach

Context

The Company is a special purpose vehicle that forms part of a securitisation structure, established primarily as a means of raising wholesale funding for Black Horse Limited and subsequently Lloyds Banking Group plc ("LBG"), the ultimate parent undertaking.

Overview

Audit scope

- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the annual report and financial statements, ensuring audit procedures were performed in respect of every material financial statements line item.
- In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us taking into account the accounting processes and controls in place at LBG as ultimate parent undertaking, and the industry in which the Company operates.
- We obtained an understanding of the control environment in place for the Company and adopted a controls and substantive testing approach.

Key audit matters

- Errors in accounting due to lack of understanding of the transaction
- Errors in the priority of payments (the "Waterfalls") due to a lack of understanding of the transaction
- Impact of COVID-19

Materiality

- Overall materiality: £4,302,660 based on 1% of total assets.
- Performance materiality: £2,151,330.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Programme Documentation associated with the securitisation transaction, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to intentional misrepresentation in relation to the performance of the Auto Portfolio Loans. Audit procedures performed by the engagement team included:

- Making inquiries of those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud.
- Review of meeting minutes.

- Testing on a sample basis, that the priority of payments has been applied in accordance with the Programme Documentation.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Errors in accounting due to lack of understanding of the transaction Due to the complexity of the securitisation structure, contractual terms and the entity's special purpose nature, the formation of the structure presents a pervasive risk to the overall accounting for the Company. If the accounting does not accurately reflect the formation of the structure, as prescribed by the transaction documentation, then there is a risk that interest expense and principal balances payable are not appropriately calculated and settled in the future Waterfalls. Due to the complexity and pervasive nature of whether management have applied the correct accounting based on the transaction documentation, this was an area of focus in our audit.	We understood the design of the securitisation structure through discussions with management and review of primary contractual documentation. We performed substantive testing over the issuance of the loan notes to validate that the bookkeeping for the issuance of the loan notes completely and accurately reflects contractual records, including agreeing cash balances and transactions to cash account records and contractual documents. We tested key system reports to validate that pool assets were completely and accurately identified in source system to support the total securitised balance presented in the contractual documentation. As a result of these procedures, we concluded that the accounting is in line with the transaction documents and reflected in the preparation of the financial statements.
Errors in the priority of payments (the "Waterfalls") due to a lack of understanding of the transaction Due to the complexity of the securitisation structure contractual terms and the entity's special purpose nature, the Waterfalls present a pervasive risk to the overall accounting for the Company. If the Waterfalls are incorrectly processed, there is a risk that interest expense and principal balances payable to investors are not appropriately calculated and settled, and the cash flows returned to the seller as excess spread are incorrect. This is especially evident given the entity is new in the period.	We understood the design of the securitisation structure through discussions with management and review of primary contractual documentation. We reviewed all investor reports and minutes of board meetings for the period to identify and investigate any unusual trends or incidents that would indicate a misstatement in the preparation and calculation of the Waterfalls. We tested the design and operating effectiveness of management's Waterfalls calculation controls through: • Inquiry with management on the Waterfall's priority of payment and by inspection of Waterfall working papers with the base prospectus;

Due to the complexity and pervasive nature of the Waterfalls, this was an area of focus in our audit.	• Ensuring that sufficient segregation of duty exists between the preparation and review of the Waterfalls; and • Inspection of supporting documentation and recalculation of relevant data points for a sample of Waterfalls in the period. We performed substantive testing over a sample of Waterfalls to ensure no errors were made in Waterfalls preparation, including agreeing cash balances and transactions to cash account records, agreeing cash collections balances agreed to system reports and ensuring an appropriate segregation of duty existed for preparation and review. We tested key system reports to validate that pool assets were completely and accurately identified in source systems to support the cash collections as presented in the Waterfalls working papers. As a result of these procedures, we concluded that the Waterfalls were operating in line with the priority of payments.
Impact of COVID-19 The global COVID-19 pandemic, and the associated societal restrictions imposed by the UK Government, have adversely affected the UK population and economy. The virus emerged in the UK in January 2020 and spread quickly, prompting the government to impose widespread restrictions on the population in March 2020. The successful development and administration of vaccines has created some optimism over the lifting of restrictions, but there remains significant uncertainty over the need and extent of future government intervention and the economic outlook, which may in turn have an impact on the Company. The UK government has deployed a range of support measures for people and businesses, and LBG has been active in some of these schemes, for example providing payment holidays. The directors have considered the implications of these events when preparing the financial statements and their assessment on going concern.	Our planning and execution of our audit has given specific consideration to the impact of COVID-19 on the Company. In assessing management's consideration of the impact of COVID-19 on the financial statements, we have undertaken the following procedures: • Performed inquiries with management; • Assessed the impact of COVID-19 on estimates and the assumptions that underpin them; • Reviewed management's going concern assessment, which considered the potential impact of COVID-19; • Evaluated the adequacy of the disclosures made in the financial statements with respect to the impact of COVID-19; • Inspected transaction documents to confirm the notes are limited recourse in nature; and • Performed a review of post year end investor reports. As a result of these procedures, we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Company materiality	£4,302,660.
How we determined it	1% of total assets
Rationale for benchmark applied	The entity is a not-for-profit whose main priority is to remit the cash received in respect of its assets so as to repay its liabilities. As such total assets is considered an appropriate benchmark. Where total assets is used, if the Company is a public interest entity, a rule of thumb of up to 1% can be applied. We have deemed this to be a public interest entity and have therefore applied 1% due to the fact the entity has listed debt.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 50% of overall materiality, amounting to £2,151,330 for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the lower end of our normal range was appropriate.

We agreed with the directors that we would report to them misstatements identified during our audit above £215,133 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing rating and non-rating triggers in the Company's Programme Documentation and investor reports;
- Assessing the solvency position against the results for the financial period;
- Discussing with management the future plans for the Company and the wider securitisation programme; and
- Reviewing the performance of the Auto Loan Portfolio against the investor reports.

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the directors, we were appointed by the directors on 17 July 2020 to audit the financial statements for the year ended 31 December 2020. This is therefore our first year of uninterrupted engagement. There will be a mandatory rotation for the 2021 audit, and we will cease to be auditor of the Company.

Daniel Pearce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
26 April 2021