Blue Motor Finance Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2019

Registration Number: 02738187

Contents

Company Information

Directors	Mr C A Barker Mr A J Bromfield (resigned 26 April 2019) Mr C N Jones Mr S R Jones Mr T Patel (appointed 21 January 2019) Mr S Piper Mr M Senchyna Mr T Sharma Mr J P Stein (appointed 13 December 2019) Mr S J Williams
Registered Office	Darenth House 84 Main Road Sundridge Kent TN14 6ER
Company number	02738187 (England and Wales) Limited by shares.
Auditor	PKF Littlejohn LLP Statutory Auditor 15 Westferry Circus Canary Wharf London E14 4HD United Kingdom

Strategic Report for the Year Ended 31 December 2019

The Directors present their strategic report and the financial statements for the year ended 31 December 2019.

Principal activities

The principal activity of Blue Motor Finance Limited ("Blue" or the "Company") is the issuing of hire purchase (HP) agreements in respect of the leasing of motor vehicles to third parties. The principal place of business is Darenth House, 84 Main Road, Sundridge, Kent, TN14 6ER.

Business review

The Company is a UK-based consumer finance provider and specialises in hire purchase agreements to consumers for the purchase of second-hand cars at motor dealerships and via brokers.

Blue offers a high-quality service-based proposition enabled by proprietary technology, customer-centric innovation, balanced risk management and high standards of regulatory compliance.

The Company is authorised and regulated by the Financial Conduct Authority (FCA).

In 2019, the Company broadened the range of funding options available by completing three portfolio sales, extending its forward flow, completing a corporate loan and at the end of the year entering into a second warehouse facility.

The underpinnings for it's future development remain the same - Blue's proprietary technology, sophisticated data analytics capabilities and customer-centric culture.

The Company continues its development and focus on innovation. Notable enhancements in 2019 included: the continued development and uptake of a system to allow customers to manage their accounts online, digital sales and significant updates to the core systems. Blue has launched a trial of a new product line called Floorplan, for lending to dealers against vehicles that they have purchased for resale. The Floorplan product has received positive dealer reviews and the Company intends to roll out the product further going forward.

Customers

Blue's customers are core to its business and the Company is committed to delivering the FCA's Principles for Business, in particular Principle Six – Customers' Interests, and the six outcomes to ensuring customers are treated fairly.

The Company aims to originate HP agreements to a broad based portfolio of customers throughout Great Britain. This is sourced by a sales team providing national coverage. Blue does not target any region more than another and the number of dealers the business works with is continually expanding. The development of the sales team has continued in 2019 and Blue has increased its sales team headcount.

Key performance indicators

The Company's financial performance is monitored through daily, weekly and monthly reporting and review of key performance measures and monthly management accounts. Blue's award-winning technology has supported over £1.3 billion of lending to over 150,000 customers since inception in 2014. The business was a start up at the end of 2014 and has seen strong and continuous growth.

2019 was another year of strong development and growth. In 2019, the Company originated £464m of HP leases representing an increase of 7% on the previous year value of £434m. The average Annual Percentage Rate (APR) of interest of leases originated fell slightly in 2019 reflecting an improvement in credit risk quality – this is demonstrated by an increase in the average credit score of customers and reductions in both default rates and recovery periods.

Key performance indicators	2019 Number of accounts	2019 Amounts (£m)	2018 Number of accounts	2018 Amounts (£m)
New lending	51,168	463.9	47,649	433.7
Loans under management*	115,387	789.3	83,871	605.3
Weighted average APR for new lending		14.7%		14.9%

*Includes loans derecognised from the Company's balance sheet but still serviced by the Company.

Financial performance

The Company's financial performance is presented in the Income Statement on page 15. The loss for the year attributable to the owners of the Company was £1.4m (2018: loss of £8.8m). At the end of the year, the Statement of Financial Position showed total liabilities and equity of £375.3m (2018: £543.5m).

The business continues to perform according to plans. The Directors expect the business to move towards improved profitability in the future as it continues to scale and benefit from improved efficiencies and lower funding costs. In terms of cost efficiencies, Blue continues to grow at a significant rate, and we are already seeing a reduction in cost per account managed. In 2020 we expect to carry out our second ABS. These actions have diversified our range our funding sources and funding partners and will lead to reduced overall costs of funding.

Funding structure

The Group, of which the Company is part of, leverages a range of funding facilities including private warehouse and public ABS facilities. The Group also has off balance sheet funding facilities where assets have been sold to investors who become the credit risk retention holders. The Group continues to service all assets it has originated regardless of whether they are treated as on or off balance sheet. The Special Purpose Vehicles (SPVs) can continue to be consolidated within the Group and the details of these can be seen within note 27.

Future developments

At the beginning of March, Blue was growing strongly with record levels of loan originations. We had four new funding arrangements close to completion. Our core business was attracting new introducers and existing introducers were increasing business with us. The new initiatives in Floorplan (Blue's stock funding programme for dealerships) and digital sales were in rollout. Following the election in December 2019, it seemed that consumer confidence had increased and the used car market was growing.

As with most businesses, the coronavirus crisis has had a significant impact on Blue since mid-March and things changed. We have had three principal impacts: first, whilst our existing written business has been at its highest credit risk quality (benefitting from our consistent and prudent underwriting policies) we have incurred increased arrears as some customers' ability to pay has been impacted; second, capital markets have effectively closed; third, lockdown has closed dealer showrooms and so used car sales volumes dropped substantially.

The outlook for the economy and used car market remains highly uncertain and will probably remain so for some time yet. These are truly unprecedented times.

Our goals in this environment have been simple: maintain the operational capability of the business, conserve liquidity and treat customers fairly. We are fortunate in that our systems were built with flexibility and resilience, and we were able to transition quickly to a full service operation on a working from home basis. We are conservative and cautious in our business strategy given the uncertainty of new funding availability. We have sought to provide existing customers with appropriate forbearance in line with their circumstances and FCA instruction. For prospective new customers, we are being necessarily prudent in underwriting given the uncertain future outlook.

Blue is able to pick back up from where it left off when the markets re-open when we hope to have greater confidence and certainty in what we can expect in terms of both consumer outcomes and funding markets. We hope that is soon and we will continue to support our staff, introducers and customers as well as we can in the meantime.

The long-term prospects for Blue remain very positive. The used car market is large and will continue to grow especially if there is a move away from public transport and holidays abroad. Our service based proposition has been winning and with Floorplan and digital sales still in early stages we have the ability to develop without significant additional new initiatives.

Principal risks and uncertainties

The Company primarily originates finance leases and the Company's underwriting and pay-out process has been designed to produce consistent, well performing pools of assets as the business scales origination volumes. The current approach has been validated and refined over several years by the management team and is designed to manage several layers of risk:

- Credit risk;
- Capital risk;
- Liquidity risk;
- Market risk;
- Operational risk; and
- Conduct risk.

The key risks that the Company is exposed to include:

Credit risk: is the risk that the customer fails to pay amounts in full when due. Blue operates clear and strict underwriting policies. All customers who wish to take on leases are subject to credit verification and affordability checks. The leases that are entered into are secured on motor vehicles. Default and loss rates are continuously reviewed and results fed back into underwriting.

Capital risk: is the risk that the Company will have insufficient capital resources to support the business. Blue manages capital in line with its funding strategy and is not subject to any external capital requirements. The funding strategy is approved by the board. It seeks to ensure sufficient forward cover for future originations and that Blue has sufficient diversification of funding sources available to enable it to secure additional future funds. Cash flow projections including performance under a range of scenarios are regularly prepared and communicated to the board. The outputs of this forecasting is used to drive the short and medium term funding activity.

Liquidity risk: is the risk that the Company 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 Company's finance function is responsible for the day-to- day management of the Company's liquidity and funding requirements and ensures that there is significant capital and funding headroom to continue to meet the business requirements. The Company considers its capital to be share capital, retained earnings and the subordinated loan from its parent.

Market risk: is the risk that the value of, or income arising from the Company's asset and liabilities change as a result of changes in market prices, the principal element being interest rate risk which is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises where the assets and liabilities have interest rates set under different bases or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Where this is not possible the Company uses derivative financial instruments to mitigate residual interest rate risk to an acceptable level.

Operational risk: is the risk of loss resulting from inadequate or failed internal processes, people and system failures, or from external events including strategy and reputational risks. The business has extensive monitoring of operational systems and controls and there were no material incidents in 2019. There is a disaster recovery strategy in place which is tested regularly.

Conduct risk: is the risk that the Company's behaviour will result in poor customer outcomes and/or that our people fail to behave with integrity. Blue has specific policies and controls to deal with conduct risk, such as comprehensive policies and controls to on-boarding and managing dealers and introducers, and training and monitoring of all staff with appropriate role based requirements.

The Company has been operated in a rigorous and controlled manner and has managed these risks capably. The coronavirus crisis has exacerbated some of these risks and the Company has taken action to mitigate these impacts. Credit risk policies have been tightened, liquidity and cash management has had greater focus and operational capability has been maintained. The Directors continue to monitor the market situation and context on a daily basis and adapt the business accordingly.

Systems and controls

The Company is committed to strong governance to ensure regulatory compliance and to benefit its customers, staff and the Company's commercial and financial objectives. A defined governance structure exists with layers of assurance, to continually assess and challenge the business's processes, risks and control across the business.

Liabilities

As part of its funding strategy, the Company utilises a highly flexible funding platform including the servicing of a warehouse facility and entering into portfolio sales of pools of originated leases. The funding received is in exchange for loan notes which are issued through financing SPVs and appear on the balance sheet as a loan from subsidiary. The loan notes are secured on the underlying leases and liabilities are repaid through collection of principal and interest on the leases paid by the financing SPV to the Company. Further detail is provided in note 14 to the accounts and details of the post balance sheet funding facility events are detailed in the Directors' Report.

Compliance

The Company views its approach to compliance as a key strength. Management looks to understand the current requirements and pending concerns of regulators and position the business accordingly in a proactive manner. Systems and processes are constructed to ensure that compliance and controls are firmly embedded within the organisation.

The Company is authorised and regulated by the FCA, under permission no. 737682.

The compliance team identify relevant rules, principles and guidelines which apply to the activities of the Company and disseminate them to the relevant business or operational areas. It is also responsible for devising, or helping to devise, policies and procedures to ensure the Company meets the standards required by the Regulator, as well as our own. In addition, the Company seeks to adhere to the Finance and Leasing Association (FLA) Lending Code.

By order of the Board

YKPatel

Mr T Patel
Director
26 June 2020

Directors' Report for the Year Ended 31 December 2019

The Directors present their report and the financial statements for the year ended 31 December 2019.

Results and dividends

An analysis of the Company's performance, liabilities and likely future developments are contained within the Strategic Report. The Company's income statement is set out on page 15 and shows a loss for the year.

No dividends were proposed or paid (2018: £nil) to the holders of ordinary shares during the year.

Directors of the Company

The Directors who held office during the year and up to the date of this report were as follows:

Mr C A Barker
Mr A J Bromfield (resigned 26 April 2019)
Mr C N Jones
Mr S R Jones
Mr T Patel (appointed 21 January 2019)
Mr S Piper
Mr M Senchyna
Mr T Sharma
Mr J P Stein (appointed 13 December 2019)
Mr S J Williams

Directors' indemnities

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, the Company may indemnify any director or former director of the Company or any associated company against any liability and may purchase and maintain for any director or former director of the Company or any associated company insurance against any liability. The Company has maintained directors' and officers' liability insurance throughout 2019.

Going concern

Since the end of 2019 financial year, the world has been impacted by a global pandemic resulting from the Covid-19 virus. Throughout this pandemic the Group has continued in its ordinary course of business. Forecasting and stress testing analysis has been completed for a number of scenario's with a number of assumptions used in these scenario's, based on funding availability and costs, levels of originations and the impact of arrears and defaults from existing customers. The results of these has satisfied the directors that there are sufficient resources for the next 12 months to continue as a going concern. Given the unprecedented situation with Covid-19, the directors acknowledge that further unexpected impacts that are currently unforeseeable or considered most improbable beyond the conservative scenario planning that has been done may occur. Should this happen, additional funds may need to be raised. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments should the going concern basis be inappropriate.

Capital structure

The Company has confirmed support from the parent company CS Capital Partners IV LP (CSC) for continued funding. An arrangement made on 22 October 2014 for £33m subordinated loan facility with Blue Auto Finance Limited (BAF) was extended to £45m on 15 July 2016, of which the Company may draw on as funds are required. The accrued interest and subordinated loan notes are repayable on the earlier of either the sale of the Company or 11 November 2022.

This loan agreement was matched by a £45m subordinated loan agreement between BAF and the parent company of the group, CSC.

Financial risk management

An analysis of the Company's financial risk management is contained in the principal risks and uncertainties within the Strategic Report.

Directors' duties

The Directors of the company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so have 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 following paragraphs summarise how the Directors' fulfil their duties.

Decision making

The Company's governance structure helps to ensure that the long-term consequences of decisions made are taken into account. The company holds regular board meetings where strategic decision as well as three sub committees for pricing, credit risk and funding.

Employees

As an innovative, service-based business our employees are fundamental to the delivery of our plan. We aim to be a responsible employer in our approach to the pay and benefits our employees receive. The health, safety and well-being of our employees is one of our primary considerations.

Business relationships

As a service-based business our relationship with the companies we deal with are critical to our success. Field base staff work closely with our introducers to understand how we can better support them and our innovative approach to technology ensures that we can support them on the things that matter most to them.

Community and environment

As a small company we actively promote the recruitment of staff in the local area and support local charities and events. Our principal charity in 2019 was West Kent Mind.

Shareholders

Representatives of our major shareholder are included in the Company's board of directors. The board of directors' intention is to behave responsibly towards our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our plan.

Post balance sheet events

The Company completed a £175m warehouse facility on 2 January 2020.

The Company follows the Group assessment which has continued to monitor the effects of Brexit, but to date has seen no clear direct effects on its market as a result of the vote to leave the EU. It is unclear what the future trading relationships will be with the EU as a result of Brexit and consequently how that could impact the Group in the future. The Group has carried out analysis to consider the impact of a severe economic downturn through stress test scenarios and believe that the Group is well prepared to manage through such a scenario due to the experience of the management team, focus on technology and size of company which the Group believes it will adapt quickly.

Since the beginning of March, the scale of the Covid-19 pandemic began to adversely impact the UK and the world economy at large. This has had an effect on the UK economy but remains too early to predict when restrictions will be lifted and thus what the eventual impact of these restrictions will be. The impact over the next 12 months continues to be assessed.

Statement of disclosure of information to the auditor

Each director in office at the date of this Directors' Report confirms that so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Reappointment of auditor

The auditor, PKF Littlejohn LLP, have expressed their willingness to accept re-appointment. The decision to re-appoint will be taken at the next board meeting.

By order of the Board

Y.K.Patel

Mr T Patel
Director
26 June 2020

Statement of Directors' Responsibilities

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

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

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

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

Independent Auditor's Report to the Members of Blue Motor Finance Limited

Opinion

We have audited the financial statements of Blue Motor Finance Limited (the 'Company') for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 of the financial statements, which describes the directors' assessment of the COVID-19 impact on the Company and its ability to continue as a going concern. Given the unprecedented situation with COVID-19, the directors acknowledge that further unexpected impacts that are currently unforeseen or considered most improbable beyond the conservative scenario planning that has been performed may occur. Should this happen, additional funds may need to be raised. These events or conditions, along with the other matters as detailed in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

M Ling

Mark Ling (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

26 June 2020

15 Westferry Circus
Canary Wharf
London E14 4HD

Income Statement

	Note	31 December 2019 £k	31 December 2018 £k
Interest receivable and similar income	3	81,535	63,333
Interest expense and similar charges	4	(53,251)	(46,309)
Net Interest Income		**28,284**	**17,024**
Fee and commission expense	5	(39,384)	(16,841)
Other income	6	36,891	29,921
Operating Income		**25,791**	**30,104**
Net impairment losses on finance lease receivables	16	(4,979)	(17,495)
Net impairment losses on finance loan receivables	15	(9)	-
Operating and administrative expenses	7	(22,238)	(21,386)
(Loss)/profit before income tax		**(1,435)**	**(8,777)**
Income tax credit/(expense)	11	(1)	1
(Loss)/profit for the year attributable to equity holders		**(1,436)**	**(8,776)**

There are no items of other comprehensive income other than that recognised in the income statement. Therefore, a statement of other comprehensive income has not been prepared. All of the amounts above relate to continuing operations and are attributable to equity holders.

These financial statements were approved by the board of directors on 26 June 2020 and were signed on its behalf by

T.K. Patel

Mr T Patel
Director
Blue Motor Finance Limited
Registration Number: 02738187 (England & Wales)

The notes on pages 19 to 51 form an integral part of these financial statements.

Statement of Financial Position

	Note	31 December 2019 £k	31 December 2018 £k
ASSETS			
Cash and cash equivalents		20,686	9,906
Finance lease receivables	14	296,689	487,659
Finance loan receivables	15	602	-
Other assets	17	21,349	11,914
Property, plant and equipment	12	407	518
Leasing right of use asset	12	1,498	-
Intangible assets	13	388	485
Loan notes to subsidiary	18	33,691	32,997
Total Assets		**375,310**	**543,479**
LIABILITIES AND EQUITY			
Liabilities			
Loans from subsidiaries	20	287,878	450,542
Corporate loan	19	30,097	12,507
Current tax liabilities		-	1
Deferred income	21	8,639	18,077
Other liabilities	22	7,302	16,782
Subordinated loan	23	47,717	48,188
Total Liabilities		**381,633**	**546,097**
Equity			
Share capital	24	4,000	4,000
Retained earnings		(10,323)	(6,618)
Total Equity		**(6,323)**	**(2,618)**
Total Liabilities and equity		**375,310**	**543,479**

These financial statements were approved by the board of directors on 26 June 2020 and were signed on its behalf by

T.K.Patel

Mr T Patel
Director
Blue Motor Finance Limited
Registration Number: 02738187 (England & Wales)

The notes on pages 19 to 51 form an integral part of these financial statements.

Statement of Changes in Equity

	Note	Share capital £k	Retained earnings £k	Total £k
Balance at 1 January 2019	24	4,000	(6,618)	(2,618)
Impact of adopting IFRS 16		-	(312)	(312)
Balance at 1 January 2019 (adjusted)		**4,000**	**(6,930)**	**(2,930)**
Impact of deferred consideration		-	(1,957)	(1,957)
Loss for the year and total comprehensive income		-	(1,436)	(1,436)
Balance at 31 December 2019		**4,000**	**(10,323)**	**(6,323)**

	Note	Share capital £k	Retained earnings £k	Total £k
Balance at 1 January 2018	24	4,000	2,578	6,578
Impact of adopting IFRS 9		-	(420)	(420)
Balance at 1 January 2018 (adjusted)		**4,000**	**2,158**	**6,158**
Loss for the year and total comprehensive income		-	(8,776)	(8,776)
Balance at 31 December 2018		**4,000**	**(6,618)**	**(2,618)**

The notes on pages 19 to 51 form an integral part of these financial statements.

Statement of Cash Flows

	Note	31 December 2019 £k	31 December 2018 £k
Cash flows from operating activities			
Profit/(loss) for the year		(1,436)	(8,776)
Adjustments for:			
Depreciation and amortisation	12/13	456	395
Impairment losses on finance lease receivables	14	4,979	17,495
Impairment losses on finance loan receivables	15	9	-
Decrease in derivative fair value		-	44
Income tax charge	11	1	(1)
Net increase in leasing right of use asset due to adoption of IFRS16		(2,179)	-
Net increase in accrued subordinated loan interest	23	3,668	3,548
Cash flows from operating profit before changes in operating assets and liabilities		5,498	12,705
Changes in operating asset and liabilities:			
- Net decrease/(increase) in finance lease receivables	14	184,770	(461,903)
- Net decrease/(increase) in finance loan receivables	15	610	-
- Net (increase)/decrease in other assets	17	(9,435)	11,532
- Net (increase)/decrease in loan to subsidiary	18	(694)	(28,045)
- Net (increase)/decrease in deferred income	21	(9,438)	18,008
- Net (decrease)/increase in other liabilities	22	(8,963)	(12,703)
- Net decrease/(increase) in right of use assets	12	368	-
- Net (decrease)/increase in accrued interest in leasing right of use liabilities	22	(135)	-
- Income tax paid	11	(1)	(91)
Net cash inflow/(outflow) from operating activities		**162,580**	**(460,497)**
Cash flows from financing activities			
- Net increase in leasing right of use liability	22	(382)	-
- Net (decrease)/increase in loan from subsidiary		(164,621)	429,137
- Net increase/(decrease) in corporate loan	19	17,510	12,490
- Net increase/(decrease) in corporate loan interest	19	79	17
- Net (decrease)/increase in subordinated loan from parent	23	(4,139)	5,007
Net cash (outflow)/inflow from financing activities		**(151,553)**	**446,651**
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(77)	(166)
Purchase of intangible assets	13	(170)	(209)
Net cash flows from investing activities		**(247)**	**(375)**
Net increase/(decrease) in cash and cash equivalents		**10,780**	**(14,221)**
Net increase in cash and cash equivalents - continuing operations			
Cash and cash equivalents at 1 January		9,906	24,127
Cash and cash equivalents at 31 December		**20,686**	**9,906**

The notes on pages 19 to 51 form an integral part of these financial statements.

Notes to the Financial Statements

1) ACCOUNTING POLICIES

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

Reporting Entity

Blue Motor Finance Ltd is a private company limited by shares incorporated in the United Kingdom, England and Wales (referred to as 'the Company'). The registered address of the Company is Darenth House, 84 Main Road, Sundridge, Kent, TN14 6ER. The financial statements of the Company are prepared for the year ended 31 December 2019.

Basis of accounting

The Company's financial statements have been prepared on an historical cost convention as modified by financial instruments recognised at fair value and in accordance with the International Financial Reporting Standards (IFRSs as adopted or early adopted by the Company and endorsed by the EU) and the Companies Act 2006 applicable to companies under IFRS. The financial statements are presented in rounded thousands and in pounds sterling ("£000"), which is the Company's functional and presentational currency.

As set out in section 401 of the Companies Act, the Company is exempt from preparing group accounts. These are drawn up by the ultimate holding company, Blue Auto Holdings Limited, in which this entity is included.

Going concern

Since the end of 2019 financial year, the world has been impacted by a global pandemic resulting from the Covid-19 virus. Throughout this pandemic the Group has continued in its ordinary course of business. Forecasting and stress testing analysis has been completed for a number of scenario's with a number of assumptions used in these scenario's, based on funding availability and costs, levels of originations and the impact of arrears and defaults from existing customers. The results of these has satisfied the directors that there are sufficient resources for the next 12 months to continue as a going concern. Given the unprecedented situation with Covid-19, the directors acknowledge that further unexpected impacts that are currently unforeseeable or considered most improbable beyond the conservative scenario planning that has been done may occur. Should this happen, additional funds may need to be raised. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments should the going concern basis be inappropriate.

Basis of consolidation

There are no subsidiary companies consolidated within these accounts as detailed in the Director's Report. The Company's ultimate parent undertaking, controlling party and largest group of which the Company is a member is Blue Auto Holdings Ltd, a company registered in England and Wales. Copies of the Blue Auto Holdings Ltd consolidated group financial statements, which comply with IFRS, are available at Darenth House, 84 Main Road, Sundridge, Kent, TN14 6ER.

Cash and cash equivalents

For the purposes of the financial statements, cash and cash equivalents include cash on hand and in bank with a maturity of less than three months.

Non-current assets

Non-current assets are not expected to be recovered within twelve months after the reporting date. Other intangible assets accounting policies are set in note 13.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial assets

Finance assets include finance lease receivables and finance loan receivables. Lease agreements in which the Group transfers substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. A finance lease receivable equal to the net investment in the lease (representing the future lease payments less profit and costs allocated to future periods) is recognised and presented within finance lease receivables. Lease payments are apportioned between interest income and a reduction in the finance lease receivable to achieve a constant rate of interest on the remaining balance of the receivable.

Finance loan receivables are loans lent to the Company's dealers secured by vehicles which are interest payments on a monthly basis only and principals are fully settled when the vehicles are sold.

Impairment of non-financial assets

The Group assesses at each reporting date whether an asset may be impaired. If any such indication exists the Group estimates the recoverable amount of the asset. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss. An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

Classification and measurement

Financial assets

The Company classifies its financial assets at inception into three measurement categories; 'amortised cost', 'fair value through other comprehensive income' (FVOCI) and 'fair value through profit and loss' (FVTPL). A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

An asset is evaluated under a business model which describes how the Company manages the assets and expects to recover cash flows and value from that asset. The Company's current business model for all financial assets is to hold to collect contractual cash flows. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Additionally, all assets held give rise to cash flows on specified dates that represent solely payments of principal and interest on the outstanding principal amount. All of the Company's assets are therefore, currently classified as amortised cost with the exception of derivative financial instruments which are measured at FVTPL.

The amortised cost of an instrument is the amount at which it is measured at initial recognition, less principal repayments, plus or minus the amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, less any expected credit loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- 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 on the principal amount outstanding.

The financial assets of the Company in scope for classification and measurement requirements of IFRS 9 are intercompany loans.

There are no financial instruments classified as FVOCI or FVTPL. The Company's intercompany loan receivables are measured at amortised cost.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in FVOCI. This election would be made on an investment by investment basis. The Company currently holds no such investments.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. The Company has not reclassified any financial assets during the reporting period.

Financial liabilities

The Company classifies financial liabilities as measured at amortised cost. Such financial liabilities are recognised when cash is received for loans notes and carried at amortised cost using the effective interest method. The fair value of liabilities repayable on demand is assumed to be the amount payable on demand at the statement of financial position date.

The Company has not elected to measure any financial liabilities at fair value.

Measurement of Expected Credit Losses (ECLs)

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition.

The Company performs an assessment to determine whether there has been a significant increase in credit risk since initial recognition each reporting period and re-measures the ECL allowance accordingly. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- 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.

The measurement of ECLs depends on the staging of financial assets as described below:

- **Stage 1:** When a financial asset is first recognised 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 from Stage 2 to Stage 1. For financial assets in Stage 1 a '12-month ECL' is recognised.
- **Stage 2:** When a financial asset shows a significant increase in credit risk (SICR) from initial recognition it is moved to Stage 2. For financial assets in Stage 2 a 'lifetime ECL' is recognised.
- **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 Stage3. For financial assets in Stage 3 a 'lifetime ECL' are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

In relation to the staging of financial assets:

- **'Lifetime ECL'** is defined as ECLs that result from all possible default events over the expected remaining life of a financial instrument.
- **'12 month ECL'** is 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.

Significant increase in credit risk (movement to Stage 2)

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

- Quantitative measures include the use of an internally calculated credit score coupled with arrears status; and
- Qualitative measures include but are not limited to the observation of specific events such as forbearance or historical arrears, delinquency in contractual payments of principal and interest, breach of financial covenants or contractual obligations, cash flow difficulties experienced by the borrower and initiation of bankruptcy proceedings; and
- IFRS 9 includes a rebuttable presumption that 30 days past due is an indicator of a significant increase in credit risk. The Company considers two missed payments to be a suitable proxy for 30 days past due and believes this to be an appropriate backstop measure.

IFRS 9 provides an exception for low credit risk exposures, whereby entities are permitted to assume, without further analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have 'low credit risk' at the reporting date. The Company has opted not to apply this low credit risk exemption.

Default (movement to Stage 3)

The Company applies a series of quantitative and qualitative criteria to determine if an account meets the definition of default, and therefore should move to Stage 3:

- Qualitative measures include the observation of specific events such as scenarios where the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- IFRS 9 includes a rebuttable presumption that 90 days past due is an indicator that the finance lease receivable is credit-impaired. The Company considers four missed payments to be a proxy to 90 days past due and believes this to be an appropriate backstop measure.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Improvement (movement back to a lower stage)

The Company considers a finance lease receivable to transition back from stage 2 to stage 1 when either:

a) the finance lease receivable transitioned to Stage 2 due to qualitative reasons only and the criteria that caused the movement to the higher state is no longer present, or

b) the finance lease receivable transitioned to Stage 2 due to quantitative reasons only, and the criteria for the movement is not present has not been present for at least 3 months.

The credit risk of financial assets that become credit impaired (Stage 3) are not expected to improve such that they are no longer considered credit impaired.

The following table reconciles the current period's closing impairment allowance to the opening loss allowance on 31 January 2019 and to the closing loss allowance as at 31 December 2019 as follows:

	Stage 1: Subject to 12 months ECL	Stage 2: Subject to lifetime ECL	Stage 3: Subject to lifetime ECL	Total Provision
	£k	£k	£k	£k
As at 31 December 2018	**9,268**	**3,105**	**8,238**	**20,611**
Derecognition of assets	1,051	736	(2,183)	(396)
As at 1 January 2019 (adjusted)	**10,319**	**3,841**	**6,055**	**20,215**
Net transfers and changes in credit risk	(5,126)	(1,172)	7,130	832
New finance lease receivables originated	3,875	423	245	4,543
As at 31 December 2019	**9,068**	**3,092**	**13,431**	**25,590**

The following table reconciles the current period's closing impairment allowance to the opening loss allowance on 31 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Stage 1: Subject to 12 months ECL	Stage 2: Subject to lifetime ECL	Stage 3: Subject to lifetime ECL	Total Provision
	£k	£k	£k	£k
As at 31 December 2017 (restated) IAS 39				**2,696**
Impact of IFRS 9 Adoption				420
As at 1 January 2018 IFRS 9	**1,754**	**530**	**832**	**3,116**
Net transfers and changes in credit risk	(2,228)	(64)	4,474	2,182
New finance lease receivables originated	9,742	2,639	2,932	15,313
As at 31 December 2018 IFRS 9	**9,268**	**3,105**	**8,238**	**20,611**

The following table further explains changes in the gross carrying amount of the Company's lending portfolio to help explain their significance to the changes in the loss allowance:

	Stage 1: Subject to 12 months ECL	Stage 2: Subject to lifetime ECL	Stage 3: Subject to lifetime ECL	Total Provision
	£k	£k	£k	£k
As at 31 December 2018	**452,862**	**20,646**	**12,787**	**486,295**
Derecognition of assets	(21,268)	2,223	(3,742)	(22,787)
As at 1 January 2019 (adjusted)	**431,594**	**22,869**	**9,045**	**463,508**
Net transfers and changes in credit risk	(274,863)	(4,913)	8,498	(271,278)
New finance lease receivables originated	109,529	1,508	305	111,342
As at 31 December 2019	**266,260**	**19,464**	**17,848**	**303,572**

	31 December 2019
	£k
Stage 1	266,260
Stage 2	19,464
Stage 3	17,848
Total gross finance lease receivables	**303,572**
Finance lease receivable loss allowance	(25,590)
Deferred and accrued income	518
Unamortised commissions	18,189
Finance lease receivables	**296,689**

	Stage 1: Subject to 12 months ECL	Stage 2: Subject to lifetime ECL	Stage 3: Subject to lifetime ECL	Total Provision
	£k	£k	£k	£k
As at 31 December 2017 (restated) IAS 39				42,567
Impact of IFRS 9 Adoption				254
As at 1 January 2018 IFRS 9	**40,335**	**1,676**	**810**	**42,821**
Net transfers and changes in credit risk	96,979	9,839	9,863	116,681
New finance lease receivables originated	315,548	9,131	2,114	326,793
As at 31 December 2018 IFRS 9	**452,862**	**20,646**	**12,787**	**486,295**

	31 December 2018
	£k
Stage 1	452,862
Stage 2	20,646
Stage 3	12,787
Total gross finance lease receivables	**486,295**
Finance lease receivable loss allowance	(20,611)
Deferred and accrued income	599
Unamortised commissions	21,376
Finance lease receivables	**487,659**

Finance lease receivables

IFRS 9 allows a simplified approach to calculating expected credit loss for trade receivables, contract assets and lease receivables. Under the simplified approach, the impairment loss is measured at lifetime expected credit loss. The Company has not elected to adopt an accounting policy choice to use the simplified approach.

Repurchased portfolios

IFRS 9 has specifically had a large impact on portfolios that were sold and repurchased by the Company but were ineligible for inclusion in a public asset backed securitisation (ABS) that the Company entered into during 2018. The Company also has exposure to financing structures where the Company is not the risk retention holder but are still consolidated into the Company as a result of the Company being considered to retain control over the structure.

New and amended IFRS Standards that are effective for the current year

IFRS 16 Leases

IFRS 16 'Leases' has been issued, endorsed by the EU and is effective for annual periods beginning on or after 1 January 2019, and was not adopted early. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). It replaced the previous leases standard, IAS 17 'Leases', and related interpretations.

IFRS 16 uses a new single model that applies to all leases, thus eliminating the classification of leases as either operating leases or finance leases for a lessee. Applying that model, on commencement of a lease, the lessee recognises a liability to make lease payments ('the lease liability'), an asset representing the right to use the underlying asset during the lease term ('the right-of-use asset'), and depreciation of right-of-use assets is shown separately from interest on lease liabilities in the income statement.

The lease liability is initially measured based on the net present value of the lease payments to be made over the remaining lease term, using the lessee's incremental borrowing rate as the discount rate. After commencement of the lease, the lease liability is measured on an amortised cost basis, with interest being calculated on an effective interest rate basis on the remaining balance of the liability, and lease payments reducing the lease liability when paid.

The right-of-use asset is initially measured at cost, being the amount of the initial measurement of the lease liability, adjusted for any prepaid rentals less any lease incentives plus any initial direct costs incurred by the lessee and dismantling or restoration costs. Subsequently, the right-of-use asset is amortised on a straight-line basis over the remaining term of the lease.

Transition choices

The Group has adopted IFRS 16 and elected to recognise the cumulative effect of implementing IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2019. Accordingly, prior year comparatives have not been restated. As a practical expedient, the Group applied the new standard only to contracts that had previously been identified as leases. Therefore, the new standard will not be applied to contracts that had not previously been identified as leases.

The Group applied a modified retrospective approach to calculate its right-of-use asset and used the incremental borrowing rate at the date of initial application. The Group also elected not to apply IFRS 16 to the following:

- Short-term leases of 12 months or less
- Leases for which the underlying asset is of low value.

The Group had assessed the impact of IFRS 16 and this resulted in the new standard being applied to Hire Purchase agreements and a small number of property leases. The adoption resulted in a £1.9m right-of-use asset, a £2.4m Lease Liability and £0.3m reduction in Retained Earnings.

Lessor

Lessor accounting remains unchanged from IAS 17 and lessors will continue to classify leases as either finance or operating leases. Based on information available, no significant impact is expected for leases in which the Company acts as a lessor.

There is no impact on the Group as a lessor as a result of the transition to IFRS 16.

IFRS 9 amendment 'Financial Instruments'

The amendments to IFRS 9 'Financial Instruments' became effective on 1 January 2019, permitting more assets to be measured at amortised cost, including some pre-payable financial assets. The amendments also confirm the accounting treatment of financial liability modifications. As at 1 January 2019, the Company has no pre-payable financial assets with negative compensation. The amendments have been adopted and there has been no impact.

2) CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS adopted in the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

Judgements

Derecognition of financial assets

The primary management judgement around the derecognition of financial assets is in determining the extent to which the Company retains risks and rewards in relation to the residual cash flows after all payments due to the Purchasers have been settled.

Consolidation of SPVs

The primary management judgement around the consolidation of an SPV into the Group is whether it is deemed that the Group exerts control over the SPV. If the structure of a transaction leads to the Group having control over the SPV it will be consolidated into the Group.

Derecognition and Consolidation assessment for Cyan Auto Receivables Limited

In August 2018, the Company entered into an arrangement to sell a portion of its monthly originations of finance lease receivables (the "Receivables") to Cyan Auto Receivables Limited (CAR) with a Forward Flow financing facility. Whilst legal title of the vehicles remains with the Company, the beneficial interest in the finance lease receivables are sold to CAR via a legal assignment of the cash flows. The Company retained a residual certificate position for a share of the excess spread and continued to service the Receivables on behalf of the Purchasers, so it was concluded that the criteria for full derecognition were not met and the Company continued to recognise the Receivables to the extent of its continuing involvement. Similarly, portfolio sales in December 2017 resulted in recognition of the receivables to the extent of the Company's continuing involvement. The result did not reflect the original commercial intent for the transaction which had been expected to be off balance sheet and not under the control of the Company. Therefore, an amendment was made to the documentation in 2019 to clarify this and implement servicer termination rights. As a result, CAR has been deconsolidated from the Group from 1 January 2019.

Judgements for IFRS 9 'Financial Instruments'

In the course of preparing the financial statements, the following judgements have been made in applying the Company's accounting policies, other than those involving estimations set out below that have had a significant effect on amounts recognised in the financial statements.

Judgement	Further details
Determining the criteria for significant increases in credit risk;	Note 1 (p22-24)
Determining the definition of default;	Note 1 (p22)
Determining the criteria for derecognition of financial assets;	Note 2 (p26)
Recognition of SPVs.	Note 2 (p26)
Establishing groups of similar financial assets for the purposes of measuring ECL;	Note 16 (p36)

Further information about each of these judgements can be found in note 1, 2 and 16.

Estimates

The judgements above outline the main sources of estimation uncertainty inherent in the application of IFRS 9. Those estimations which could have a material impact on the Company's financial results and are therefore considered to be key sources of estimation and uncertainty are outlined below, along with corresponding sensitivity analysis which demonstrate the impact of a reasonable possible change in assumption.

Determining the criteria for calculating the loss given default

Modelling techniques

ECLs are calculated by multiplying three main components; the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') discounted at the original effective interest rate of an asset. These variables are derived from internally developed statistical models and historical data, adjusted to reflect forward looking information and are discussed in turn below.

Probability of default ('PD') and credit risk grades

Credit risk grades are a primary input into the determination of the PD for exposures. The Company allocates each finance lease to a credit risk tier at origination, based on its credit score, to predict the probability of default. Each tier has its own distinct PD curve that is used in the ECL calculation.

Macroeconomic effects are overlaid on the PD curve for each tier. This is a statistical based model centred on the forecasted values of significant macroeconomic variables, as they relate to the portfolio, and their effect on default rates.

The sensitivity of the PD is set out below:

	5% increase in PD curve	**5% decrease in PD curve**
	£k	**£k**
Hire Purchase	239	(241)
Total	**239**	**(241)**

The directors consider that an increase or decrease in PD of 5% is a reasonable change aligned with actual sensitivities performed on PD.

Loss given default ('LGD')

LGD is the magnitude of the likely loss in the event of default. This may take into account recoveries from the auction sale of repossessed collateral and debt sale or collections against the residual shortfall amount. Key inputs for the LGD calculations are future vehicle valuation, time taken to recover assets, costs incurred during the forced sale of an asset, and discounts associated with a forced sale of an asset.

Future vehicle valuations may be sourced from a third-party valuation provider for the most popular vehicles. For less popular vehicles an average valuation may be used based on the valuations sourced.

Due to the multiple components that impact the LGD, management have assessed the estimates that have the largest impact and the sensitivities of these have been covered in detail in note 16.

Incorporation of forward-looking data

The Company incorporates forward looking information into the assessment of whether there has been a significant increase in credit risk and the calculation of ECLs.

The Company identifies significant macroeconomic factors, including GDP and unemployment rate, and their associated impact on PD, LGD and EAD into the ECL models used. A statistical model determines how changes in macroeconomic factors affect the ECL. The Company has adopted the use of five forward looking scenarios on a probability-weighted approach deemed appropriate by the Directors.

The Company sources economic scenarios from an external and unbiased third party to form the basis of forward looking scenarios used (note 16).

The macroeconomic scenarios and weightings applied at 31 December 2019 are summarised below:

Scenario	Overview	Weighting as at 31 December 2019	Weighting as at 31 December 2018
Highly Optimistic	A disaster averted scenario narrative is envisaged whereby the purported dangers from current headwinds to the UK and global economy fail to materialise. Generated as the symmetrical upside scenario to the Severe Downturn scenario.	2.50%	1.00%
Optimistic	Generated as the symmetrical upside scenario to a Downturn scenario.	23.75%	24.00%
Base	The PRA's 2019 ACS baseline on outlook published in February 2019 Inflation report.	47.50%	50.00%
Downturn	A scenario situated midway in severity between Severe Downturn and Base.	23.75%	24.00%
Severe Downturn	The PRA's 2019 ACS stress. It should be noted that this is a very severe stress and roughly equivalent to a 1 in 100 event.	2.50%	1.00%

Critical accounting estimate

Deferred Purchase Price Asset (DPP)

IFRS 9 requires interest earned from loans and advances to be measured under the effective interest rate method. Directors must therefore, use judgement to estimate the expected life of each asset and the future cash flows relating to it. Directors' review expected lives by companying loans of a similar nature into cohorts that represent similar behavioural attributes.

The key assumptions applied by the Directors in calculating and estimating the effective interest rate (EIR) is the behavioural life of the assets. The expected behavioural life can be impacted by internal and external factors and may result in adjustments to the carrying value of the loans which must be recognised in the Income Statement. Directors have limited historical experience of customer behavioural life due to the relative immaturity of the portfolio and therefore models have been developed using Directors' experience and market trends. The actual behaviour of the portfolio is compared to the modelled behaviour on a quarterly basis and modelled behaviours are adjusted if it materially deviates from the actual behaviour, with the adjustment recognised in the income statement.

The fair value of the day one DPP asset represents the Directors' assessment of the total excess spread that will flow back to the Group over the life of the transaction discounted back to a present value using an appropriate discount rate. The discount rate used is an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those the Group expects to derive from the asset.

The fair value makes use of significant inputs that are not based on observable market data. While the Directors believe that these fair values are appropriate, they could be sensitive to changes in the assumptions used to derive the inputs. The significant unobservable inputs used in the fair value measurement of the DPP asset are prepayment rates and default rates.

Significant increases in either of those inputs in isolation would result in lower fair value measurement.

3) INTEREST RECEIVABLE AND SIMILAR INCOME

Accounting Policy

Income and charges relating to finance leases and hire purchase are recorded in the income statement in proportion to the net funds invested in the lease so as to arrive at a constant periodic rate of return. The assumed interest cost used in calculating the rate of return represents the anticipated cost of financing the net investment in the lease, taking account of all relevant cash flows including taxation.

Revenue represents income derived from leases to customers inclusive of any fees earned or commissions paid. The interest rate implicit in the lease if the discount rate that, at inception of the lease, cause the aggregate present value of the lease payments to equal the fair value of the leased asset plus any directly attributable costs.

	Note	31 December 2019 £k	31 December 2018 £k
Interest income from leases		48,217	41,913
Interest income from stock lending		14	-
Interest income from loans to subsidiaries		33,304	21,420
Interest income		**81,535**	**63,333**
Other income	6	36,891	29,921
Total interest receivable and similar income		**118,426**	**93,254**

4) INTEREST EXPENSE AND SIMILAR CHARGES

	Note	31 December 2019 £k	31 December 2018 £k
Interest expense paid to subsidiary		48,217	41,913
Corporate loan costs		1,343	871
Subordinated loan interest	23	3,691	3,525
Total interest expense and similar charges		**53,251**	**46,309**

More information on the subordinated loan is provided in note 23. Interest is payable the earlier of the sale of the business or 11 November 2022.

5) FEE AND COMMISSION EXPENSE

Fee and commission expense is released on the same accounting basis as income, see note 3.

	31 December 2019 £k	31 December 2018 £k
Fee and commission expense	39,384	16,841
Total fee and commission expense	**39,384**	**16,841**

6) OTHER INCOME

The Company receives a premium on the sale of assets. These premiums are spread over the life of the assets to the extent that they continued to be recognised on the Company's balance sheet. If the assets are de-recognised the premium element of the consideration is recognised on the completion of the sale.

In addition, the business also receives brokering income, which consists of commission earned from brokering motor finance loans outside of the Company's credit criteria, which is recognised in the period in which the loan is brokered. Servicing income is earned on portfolios sold by the Company but which the Company continues to service and is recognised by the Company in the month it is due.

	31 December 2019 £k	31 December 2018 £k
Premium received on sale of assets	31,454	25,554
Servicing income	3,548	3,192
Brokering income	1,853	1,162
Other	36	13
Total other income	**36,891**	**29,921**

7) OPERATING AND ADMINISTRATIVE EXPENSES

Accounting Policy
Operating lease expenses

Operating lease expenses are recognised in the Income Statement in the period in which the costs are incurred. Any lease incentives are recognised in the period they are received.

	Note	31 December 2019 £k	31 December 2018 £k
Staff costs	8	13,356	11,768
Credit & trace costs		2,723	2,896
Legal & professional costs		1,841	2,478
IT costs		1,031	926
Depreciation*	12	589	166
Disposals*	12	57	-
Audit and other services	10	(50)	648
Amortisation of intangible assets	13	267	229
Operating lease rentals – land and buildings		212	531
Other administrative expenses		2,212	1,744
Total operating and administrative expenses		**22,238**	**21,386**

*The year ended 31 December 2019 includes depreciation and disposals of right-of-use assets recognised in accordance with IFRS 16 'Leases'. As such, results are not directly comparable.

8) STAFF COSTS

The aggregate payroll costs (including directors' remuneration) were as follows:

	31 December 2019 £k	31 December 2018 £k
Wages & salaries	10,495	9,097
Social security costs	1,232	960
Pension costs, defined contribution scheme	396	341
Redundancy costs	-	7
Other employee expense	1,233	1,363
Total staff costs	**13,356**	**11,768**

The monthly average number of persons employed by the Company (including directors) during the year were as follows:

	31 December 2019 No.	31 December 2018 No.
Administration & support	151	128
Sales	56	50
Total	**207**	**178**

Retirement Obligations

The Company does not operate its own pension scheme. Pension contributions are paid to staff members' and Directors' personal pension scheme. The costs of the Company's defined contribution pension arrangements are recognised as an employee expenses when they are due.

The Company made contributions of £396k (2018: £341k) during the year.

9) DIRECTORS' REMUNERATION

The directors' remuneration for the year was as follows:

	31 December 2019 £k	31 December 2018 £k
Remuneration	1,542	1,287
Contributions paid to money purchase schemes	99	92
Total	**1,641**	**1,379**

During the year the number of Company directors who were receiving benefits and share incentives were as follows:

	31 December 2019 No.	31 December 2018 No.
Accruing benefits under money purchase pension scheme	**5**	**5**

In respect to the highest paid director:

	31 December 2019 £k	31 December 2018 £k
Remuneration	284	339
Contributions paid to money purchase schemes	-	-
Total	**284**	**339**

There are no agreements between the Company and any of its employees or any director of the Company which provide for compensation to be paid to an employee or a director for any category other than stated above.

10) AUDITOR'S REMUNERATION

	31 December 2019 £k	31 December 2018 £k
Audit of the financial statements*	(106)	516
Taxation compliance services	-	-
All other non-audit services	56	40
Total	**(50)**	**556**

*The negative expense for the audit fees are due to the financial year 2018 audit accruals.

The estimated 2019 audit expense of the Company is £96k of the total £161k financial statement audit fee for the Group. The Company bears the cost for the Group's audit fee and service costs.

11) TAXATION

Accounting policy

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to the tax payable in respect of previous years.

Analysis of tax charge/(credit) for the year:

	31 December 2019 £k	31 December 2018 £k
Current tax		
UK corporation tax charge/(credit)	1	-
Adjustments for prior year		(1)
Total current tax charge/(credit)	**1**	**(1)**

The income tax expense is based on a standard rate of 19% (2018: 19%).

Reconciliation of tax charge:	31 December 2019	31 December 2018
Reconciliation of tax charge	**£k**	**£k**
(Loss)/profit on ordinary activities before tax	(1,435)	(8,777)
Tax on profit on ordinary activities at standard CT rate of 19% (2018: 19%)	(273)	(1,668)
Effect of disallowable expenses	4	5
Tax (decrease)/increase from the effect of capital allowances and depreciation	-	-
IFRS 9 transitional adjustment	-	(80)
Losses carried back	-	90
Rate adjustments	(38)	242
Tax (decrease)/increase from the effect of group relief	690	53
Prior year adjustment	208	-
IFRS 16 transitional adjustment	(59)	-
Movement in unprovided deferred tax	(531)	1,357
Income tax charge/(credit) for the year	**1**	**(1)**

In Finance (No.2) Act 2015, Parliament enacted a reduction in the main rate of UK corporation tax from 20% to 19% (effective from 1 April 2017). In Finance Act 2016, a further reduction to 17% was enacted (effective 1 April 2020). The Finance Bill 2019-21 proposes the main rate of UK corporation tax to remain at 19%.

12) PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment:

- Office Equipment - 3 years/5 years
- Fixtures and fittings - 5 years
- Motor Vehicles - 4 years

Depreciation methods, useful lives and residual balances are reviewed at each balance sheet date. The impairment policy is included within note 1. Details of the accounting policy for leases are included in note 7.

	Office Equipment	Fixtures and Fittings	Right of Use Assets	Total
	£k	£k	£k	£k
Cost				
At 1 January 2018	517	227	-	744
Additions	152	14	-	166
At 31 December 2018	**669**	**241**	**-**	**910**
At 1 January 2019	669	241	-	910
Impact of adopting IFRS 16	-	-	2,570	2,570
At 1 January 2019 (adjusted)	669	241	2,570	3,480
Additions	74	3	90	167
Disposals	-	-	(57)	(57)
At 31 December 2019	**743**	**244**	**2,603**	**3,590**

Depreciation				
At 1 January 2018	(164)	(62)	-	(226)
Charge for the year	(119)	(46)	-	(165)
At 31 December 2018	**(283)**	**(108)**	**-**	**(391)**
At 1 January 2019	(283)	(108)	-	(391)
Impact of adopting IFRS 16	-	-	(705)	(705)
At 1 January 2019 (adjusted)	(283)	(108)	(705)	(1,096)
Charge for the year	(140)	(49)	(400)	(589)
At 31 December 2019	**(423)**	**(157)**	**(1,105)**	**(1,685)**
Carrying amount				
At 31 December 2018	**386**	**133**	**-**	**519**
At 31 December 2019	**320**	**87**	**1,498**	**1,905**

13) INTANGIBLE ASSETS

Accounting Policy

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These software licences are held at cost less accumulated amortisation and accumulated impairment, if any. These costs are amortised on the straight-line basis of the expected useful lives, which are between 3 to 10 years.

Other intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight-line basis over their estimated useful life. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The useful economic lives of intangible assets are as follows:

- Domain Names – 10 years

If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

	Computer Software	Other intangible assets	Total
	£k	£k	£k
Cost			
At 1 January 2018	792	-	792
Additions	149	60	209
At 31 December 2018	**941**	**60**	**1,001**
At 1 January 2019	941	60	1,001
Additions	170	-	170
At 31 December 2019	**1,111**	**60**	**1,171**

Accumulated amortisation			
At 1 January 2018	(287)	-	(287)
Amortisation charge	(227)	(2)	(229)
At 31 December 2018	**(514)**	**(2)**	**(516)**
At 1 January 2019	(514)	(2)	(516)
Amortisation charge	(262)	(5)	(267)
At 31 December 2019	**(776)**	**(7)**	**(783)**

Net book value			
At 31 December 2018	**427**	**58**	**485**
At 31 December 2019	**335**	**53**	**388**

14) FINANCE LEASE RECEIVABLES

Accounting Policy

Finance lease receivables consist of financial leases issued to customers. These are measured initially at fair value plus the transaction costs that are directly attributable to its acquisition.

The classification and measurement of finance lease receivables is outside of the scope of IFRS 9 and determined by the requirement of IFRS 16, however finance lease receivables are considered for expected credit loss provisioning in accordance with IFRS 9 (note 1).

Financial leases are recognised as receivables under IFRS 16 at an amount equal to the Company's net investment in the leases. The net investment is equal to the present value of the future minimum lease payments receivable (including any guaranteed residual value by the lessee) and any unguaranteed residual value accruing to the Group after any accumulated impairment losses under IFRS 9.

Derecognition

Financial assets are derecognised when the rights to receive the cash flows from the financial assets have expired or where the Company has transferred substantially all of the risks and rewards of ownership. In transactions where the Company neither retains nor transfers substantially all the risks and rewards of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing Involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Finance lease receivables are in relation to finance leases for motor vehicles. The receivables are secured over the motor vehicle leased. The remaining weighted average term of finance leases entered into is 3.2 years.

Finance lease receivables	**Note**	**31 December 2019 £k**	**31 December 2018 £k**
Gross finance lease receivables		303,573	486,295
Expected credit loss provision	16	(25,590)	(20,611)
Gross finance lease receivables net of provision		**277,983**	**465,684**
Unamortised Commission		18,189	21,376
Deferred Income		518	599
Finance lease receivables		**296,690**	**487,659**

Finance lease receivables	Note	31 December 2019 £k	31 December 2018 £k
Gross finance lease receivables			
within one year		127,683	173,768
in the second to fifth year inclusive		258,216	459,696
More than five years		4,482	7,448
		390,381	**640,912**
Less: unearned finance income		(86,808)	(154,617)
Less: expected credit loss provision	16	(25,590)	(20,611)
Gross finance lease receivables net of provision		**277,983**	**465,684**
Amounts falling due:			
within one year		90,582	113,372
in the second to fifth year inclusive		209,117	366,316
More than five years		3,874	6,607
Gross finance lease receivables less unearned finance income		**303,573**	**486,295**

In 2019 the Company entered into three transactions to sell assets. In February 2019 a £60m portfolio was sold to Cyan Auto Receivables Limited. In June 2019 a portfolio of £148m and in September 2019 a £103m portfolio were sold to ELC Purchase Vehicle 1 Limited.

The leases sold met the criteria for derecognition but the assets continue the serviced by the company. SPVs are deemed to not be under the control of the Company and are therefore not consolidated into any part of the Group.

15) FINANCE LOAN RECEIVABLES

In 2019 the Company launched a new product line called Floorplan with a balance of £602k (netted of £9k provision) as at 31 December 2019.

16) IMPAIRMENT PROVISION ON FINANCE LEASE RECEIVABLES

Accounting Policy

IFRS 9 allows a simplified approach to calculating expected credit loss for trade receivables, contract assets and lease receivables. Under the simplified approach, the impairment loss is measured at lifetime expected credit loss.

The Company has not elected to adopt an accounting policy choice to use the simplified approach for finance lease receivables.

From 1 January 2018, the Company assesses on a forward-looking basis the expected credit losses (ECLs) associated with its finance lease receivables, which are categorised into three stages as defined in IFRS 9. Expected credit losses are calculated by reference to their stage.

The measurement of ECLs depends on the staging of financial assets as described below:

- **Stage 1:** When a financial asset is first recognised 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 from Stage 2 to Stage 1. For financial assets in Stage 1 a '12-month ECL' is recognised.
- **Stage 2:** When a financial asset shows a significant increase in credit risk (SICR) from initial recognition it is moved to Stage 2. For financial assets in Stage 2 a 'lifetime ECL' is recognised.

- **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 recognised.

The Company considers a finance lease receivable to be 'cured' and therefore reclassified from stage 2 to stage 1 when either:

a) The finance lease receivable transitioned to Stage 2 due to qualitative reasons only and the criteria that caused the movement to the higher state is no longer present, or

b) The finance lease receivable transitioned to Stage 2 due to quantitative reasons only, and the criteria for the movement is not present has not been present for at least 3 months.

The credit risk of financial lease receivables that become credit impaired (Stage 3) are not expected to improve such that they are no longer considered credit impaired.

The ECL is determined by projecting the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively 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.

The criteria that the Company uses to determine that there has been a significant increase in credit risk since initial recognition include, but is not limited to, the following:

- Delinquency In contractual payments of principal of interest
- Breach of financial covenants or contractual obligations
- Cash flow difficulties experienced by the borrower; and
- Initiation of bankruptcy proceedings

Write Off Policy

When a finance lease receivable is uncollectable, it is written off against the related provision for loan impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for impairment in the Income Statement.

The sensitivity of the LGD components are set out in the sensitivity table below.

The movement in expected credit loss provision in respect of finance lease receivables for the year was as follows:

	31 December 2019 (IFRS 9) £k
At 31 December 2018	**20,611**
Charge for impairment losses	4,979
As at 31 December 2019	**25,590**

	31 December 2018 (IFRS 9) £k
At 31 December 2017	**3,116**
Charge for impairment losses	17,495
As at 31 December 2018	**20,611**

Sensitivity

The key assumptions are monitored regularly to ensure the impairment allowance is entirely reflective of the current portfolio. The accuracy of the impairment calculation would, therefore, be affected by unanticipated changes to the economic situations and assumptions which differ from actual' outcomes.

The table below summarises the impact of increases/decreases in the key assumptions on the impairment provision:

	Impact on impairment provision
	£k
5% more accounts in stage 2	14
5% less accounts in stage 2	(17)
Discount on sale reduced to 13%	(711)
Discount on sale increased to 19%	598
Fixed auction costs reduced by 10%	(204)
Fixed auction costs increased by 10%	205
Time to sell vehicle at auction increased by one month	378
Time to sell vehicle at auction decreased by one month	(376)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

17) OTHER ASSETS

The Company recognises its share of future excess spread from the past whole loan sales as Deferred Purchase Price Asset and allocates income to accounting periods.

	31 December 2019	31 December 2018
	£k	£k
Continuing involvement asset	-	7,089
Deferred purchase price asset	16,508	-
Other debtors	2,372	2,690
Prepayments	2,469	2,135
Total other assets	**21,349**	**11,914**

The Continuing Involvement asset was unwound on the deconsolidation of CAR. The Deferred Premium Asset is the discounted future value of cash flows resulting from Excess Spread due to Blue for off balance sheet assets.

18) LOAN TO SUBSIDIARY

The Company provides loans to other members of the Group which are set out below:

	31 December 2019	31 December 2018
	£k	£k
C Notes	15,302	14,294
E Notes	18,300	18,300
Other loans to subsidiary	89	403
Total loans to subsidiary	**33,691**	**32,997**

19) CORPORATE LOAN

The Company has a £47.5m loan facility. As at 31 December 2019 the Company had £30m drawn under this facility.

	31 December 2019 £k	31 December 2018 £k
Corporate loan	30,000	12,490
Loan interest	97	17
Total corporate loan	**30,097**	**12,507**

20) LOAN FROM SUBSIDIARY

The Company sells its loan receivables to subsidiary companies (SPVs) as well as to external investors, however, as the significant risks and rewards of the lease receivables sold to SPVs are not transferred as part of the sale they have not met derecognition criteria. Therefore, the loans are still recognised on the Company's balance sheet with an intercompany loan providing the funding.

21) DEFERRED INCOME

The Company receives premiums when assets are sold. The Company amortises these premiums in line with the assets to the extent they are retained on balance sheet. Any unamortised premium share held as deferred premiums.

	31 December 2019 £k	31 December 2018 £k
Deferred income	**8,639**	**18,077**

22) OTHER LIABILITIES

	31 December 2019 £k	31 December 2018 £k
Continuing involvement liability	-	7,089
Fair value of subordination in continuing involvement	-	1,363
Servicing fee liability	-	994
Accrued expenses	2,993	3,325
Provision for liabilities	430	224
Trade payables	(72)	285
Social security and other taxes	525	712
Lease liability*	1,796	-
Other payables	1,630	2,790
Total other liabilities	**7,302**	**16,782**

*Lease liability recognised on the adoption of IFRS 16 as detailed in note 1.

23) SUBORDINATED DEBT

The Company has a £45m subordinated loan agreement with its parent company Blue Auto Finance Limited. The final repayment date of the loan is 11 November 2022. Interest is charged at 8.1% per annum on a compound basis but is not payable until the earlier of the sale of the business or 11 November 2022.

As of 31 December 2019 the loan balance was £34,639k (2018: £38,778k) with accrued interest of £13,078k (2018: £9,410k).

	31 December 2019	**31 December 2018**	**Interest Rates**
	£k	**£k**	**Per annum**
Subordinated loan principal			
Brought forward	38,778	33,772	
Movement	(4,139)	5,006	
Total subordinated loan principal drawn	**34,639**	**38,778**	
Subordinated loan interest			
Brought forward	9,410	5,861	
Accrued Interest for year	3,668	3,549	8.1%
Accrued subordinated loan interest carried forward	**13,078**	**9,410**	
Total	**47,717**	**48,188**	
Total amount payable			
(earlier of 11 November 2022 or sale of Company)			
Brought forward	48,188	39,633	
Net charge for the year	(471)	8,555	
Total amount payable	**47,717**	**48,188**	

24) SHARE CAPITAL

	2019		**2018**	
Called up, allotted and issued	**No**	**£**	**No**	**£**
Ordinary of £1 each	4,000,000	4,000,000	4,000,000	4,000,000

25) FINANCIAL INSTRUMENTS

Accounting Policy

Classification and measurement of financial assets

Financial assets are initially recognised at fair value plus transaction costs directly attributable to its acquisition. Subsequent measurement depends on the classification which depends on cash flow characteristics and the business model in which the asset is held. Financial assets may be classified and measured at: amortised cost, Fair Value through OCI (FVOCI) or Fair Value through Profit or Loss (FVTPL).

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The financial assets of the Group in scope for classification and measurement requirements of IFRS 9 are intercompany loans. Finance lease receivables, whilst a financial asset, are classified and measured in accordance with IFRS 16.

Business model

The business model reflects how the Company manages the assets in order to generate cash flows. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Contractual cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the financial instrument's cash flows represent solely payments of principal and interest (the "SPPI" test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement: i.e. interest includes only consideration for the time value of money, credit risk and other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risks or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Financial assets measured at amortised cost

Financial assets measured at amortised costs are measured after initial recognition at fair value and subsequently measured at amortised cost using the effective interest method less any impairment losses. The following balance sheet items are classified at amortised cost: intercompany loans.

The deferred premium asset and derivative financial instruments are classified by the Company as FVTPL. A gain or loss on these financial assets is recognised in profit or loss. Interest income using the effective interest rate method is recognised in profit or loss. The Company has no other financial instruments classified as FVTPL, see note 1.

The Company has no financial instruments classified as FVOCI.

Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with its financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Financial assets of the Group in scope for expected credit loss impairment are finance lease receivables (note 14) and intercompany loans (note 18).

For the impairment provision on finance lease receivables see Note 16. Impairment provision on loans notes held with subsidiaries is outlined in note 18.

Financial liabilities

The Company classifies financial liabilities as measured at amortised cost. Such financial liabilities are recognised when cash is received from the sale of loan notes and carried at amortised cost using the effective interest method. The fair value of liabilities repayable on demand is assumed to be the amount payable on demand at the statement of financial position date.

Subordinated debt

The Subordinated loans are classified as other financial liabilities and are initially recognised at fair value at the date of issuance of the liability and are subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive the cash flows from the financial assets have expired or where the Company has transferred substantially all of the risks and rewards of ownership. In transactions where the Company neither retains nor transfers substantially all the risks and rewards of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Modifications of financial assets and financial liabilities

The Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. The Company derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different.

No such modifications have been made.

The Company holds the following financial instruments:

Financial assets as at 31 December 2019	Note	Total carrying value £k	Total fair value £k
Financial assets at amortised cost:			
Cash and cash equivalents		20,686	20,686
Finance lease receivables	14	303,573	324,153
Loan to group companies	18	33,691	33,691
Other assets		18,880	18,880
Total		**376,830**	**397,410**

Financial liabilities as at 31 December 2019	Note	Total carrying value £k	Total fair value £k
Financial liabilities at amortised costs:			
Loan Notes	20	287,878	287,878
Corporate loan	19	30,097	30,097
Lease liability	21	1,796	1,796
Subordinated Debt	23	47,717	47,717
Total		**367,488**	**367,488**

Financial assets as at 31 December 2018	Note	Total carrying value £k	Total fair value £k
Financial assets at amortised cost:			
Cash and cash equivalents		9,906	9,906
Finance lease receivables	14	486,295	497,117
Loan to group companies	18	32,997	32,997
Other assets		9,779	9,779
Total		**538,977**	**549,799**

Financial liabilities as at 31 December 2018	Note	Total carrying value £k	Total fair value £k
Financial liabilities at amortised costs:			
Loan Notes	20	450,542	450,542
Corporate loan	19	12,507	12,507
Subordinated Debt	23	48,188	48,188
Total		**511,237**	**511,237**

26) Risk Management

The main areas of risk that the business is exposed to are:

- Credit risk;
- Capital risk;
- Liquidity risk;
- Market risk;
- Operational risk; and
- Conduct risk.

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due (note 25).

(i) Credit risk exposure

The maximum exposure to credit risk for the Company was as follows:

	31 December 2018 £k	31 December 2018 £k
As at 31 December		
Cash and cash equivalents	20,686	9,906
Finance lease receivables	303,573	486,295
Finance loan receivables	610	-
Other assets	21,349	11,914
Total	**346,218**	**508,115**

The above table represents the maximum credit risk exposure at 31 December 2019 without taking into account any collateral held or other credit enhancement. The Group's objective is to seek continued revenue growth while minimising losses incurred due to increased credit risk exposure.

(ii) Credit risk management

A formal Credit Risk Policy has been agreed by the board whilst credit risk is monitored on a monthly basis by the Risk and Compliance Committee which reviews performance of the portfolio including new business volumes, collections performance, provisioning levels and provisioning methodology.

A credit risk department exists within the Group and ensures that the Credit Risk Policy is being adhered to, implements risk tools to manage credit risk and evaluates business opportunities and the risks and opportunities they present while ensuring the Group's performance is in line with expectations.

Finance lease receivables

The principal credit risks arise from finance lease receivables and the Company uses a grading process supported by both internal and external data, to measure and mitigate its credit risk exposures.

Customers are graded as "stage 1 - low risk", "stage 2 - medium risk" or "stage 3 - high risk" based on specific criteria including the maturity of the outstanding loan and collateral held against it.

The credit quality of assets that are neither past due nor impaired are as follows:

Financial assets measured at amortised cost	**£k**
As at 31 December 2019	
Stage 1: Low Risk	266,259
Stage 2: Medium Risk	19,464
Stage 3: High Risk	17,848
Expected credit loss provision	(25,590)
Carrying amount: Gross finance leases net of provision	**277,981**

Financial assets measured at amortised cost	**£k**
As at 31 December 2018	
Stage 1: Low Risk	452,861
Stage 2: Medium Risk	20,646
Stage 3: High Risk	12,787
Expected credit loss provision	(20,611)
Carrying amount: Gross finance leases net of provision	**465,684**

All of the Company's finance lease receivables are secured against a motor vehicle. There are no amounts past due that are not included within the Company's Impairment provisions.

The Company's lending portfolio is geographically diversified across the UK as shown below:

	31 December 2019		**31 December 2018**	
Geographical Concentration	**£k**	**%**	**£k**	**%**
South East	54,237	17.9%	84,868	17.5%
North West	42,359	14.0%	68,263	14.0%
Scotland	33,135	10.9%	59,874	12.3%
Greater London	35,081	11.5%	51,451	10.6%
West Midlands	29,484	9.7%	46,853	9.6%
Yorkshire/Humberside	27,271	9.0%	44,522	9.2%
Wales	18,763	6.2%	29,003	6.0%
South West	17,652	5.8%	28,514	5.9%
East Midlands	16,578	5.5%	26,450	5.4%
East Anglia	14,643	4.8%	23,803	4.9%
North East	14,350	4.7%	22,649	4.6%
Northern Ireland	21	0.0%	45	0.0%
Gross Total	**303,573**	**100.0%**	**486,295**	**100.0%**

The Company's lending portfolio falls into the following concentration by loan size:

	31 December 2019		**31 December 2018**	
Loan Size Concentration	**£k**	**%**	**£k**	**%**
£0k - £10k	143,471	47.3%	230,192	47.3%
£10k - £25k	147,734	48.6%	235,792	48.5%
£25k - £50k	12,157	4.0%	19,299	4.0%
£50k - £100k	211	0.1%	1,012	0.2%
Gross total	**303,573**	**100.0%**	**486,295**	**100.0%**

Capital risk

Capital risk is the risk that the Company will have insufficient capital resources to meet minimum regulatory requirements and to support the business.

Blue manages capital in line with its funding strategy and is not subject to any external capital requirements. The funding strategy is approved by the board and seeks to ensure that Blue has sufficient diversification of funding sources available. Cash flow projections including performance under a range of scenarios are regularly prepared and communicated to the board.

The outputs of this forecasting are used to drive the short and medium term funding activity.

Liquidity risk

Liquidity risk is the risk that the Company 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 Company's finance function is responsible for the day-to-day management of the Company's liquidity and funding requirements and ensures that there is significant capital and funding headroom to continue to meet the business requirements. The Company considers its capital to be share capital, retained earnings and the subordinated loan from its parent.

The table below analyses the Company's contractual undiscounted cash flows of its financial assets and liabilities.

	Carrying Amount	Gross nominal inflow/(outflow)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
	£k	£k	£k	£k	£k	£k	£k
At 31 December 2019							
Assets							
Cash and cash equivalents	20,686	20,686	20,686	-	-	-	-
Finance lease receivables	296,689	392,432	11,030	21,934	95,129	259,795	4,544
Finance loans receivables	602	610	306	243	61	-	-
Loan to group companies	33,691	33,691	-	-	-	-	33,691
	351,668	**447,419**	**31,716**	**21,934**	**95,739**	**259,795**	**38,235**
Liabilities							
Corporate loan	30,097	30,097	-	-	30,097	-	-
Loan from Group companies	287,878	305,624	7,336	15,073	68,584	210,696	3,935
Subordinated debt	47,717	47,717	-	-	-	47,717	-
Lease liability	1,796	1,796	71	35	249	1,051	390
Other Liabilities	7,301	7,301	-	-	-	7,301	-
	374,789	**392,535**	**7,407**	**15,108**	**98,930**	**266,765**	**4,325**

	Carrying Amount	Gross nominal inflow/(outflow)	Less than 1 month	1 to 3 months	3 months to 1	1 to 5 years	More than 5
	£k	£k	£k	£k	£k	£k	£k
At 31 December 2018							
Assets							
Cash and cash equivalents	9,906	9,906	9,906	-	-	-	-
Finance lease receivables	487,659	640,912	14,606	29,205	129,956	459,696	7,448
Loan to group companies	32,997	32,997	-	-	-	-	32,997
	530,562	**683,815**	**24,512**	**29,205**	**129,956**	**459,696**	**40,445**
Liabilities							
Corporate loan	12,507	12,507	-	-	12,507	-	-
Loan from Group companies	450,542	463,698	8,544	17,500	82,347	349,147	6,160
Subordinated debt	48,188	48,188	-	-	-	48,188	-
Other Liabilities	16,782	16,782	-	-	-	16,782	-
	528,019	**541,175**	**8,544**	**17,500**	**94,854**	**414,117**	**6,160**

Changes in liabilities from financing activities	1 January 2019 £k	Financing cash flows £k	Financing non-cash £k	31 December 2019 £k
Corporate Loan	12,507	17,590	-	30,097
Loan from Group companies	450,542	(162,664)	-	287,878
Lease liability	-	1,796	-	1,796
Subordinated debt	38,778	-	(4,139)	34,639
Interest on Subordinated Debt	9,410	-	3,668	13,078
	511,237	**(143,278)**	**(471)**	**367,488**

Changes in liabilities from financing activities	1 January 2018 £k	Financing cash flows £k	Financing non-cash £k	31 December 2018 £k
Corporate Loan	-	12,507	-	12,507
Loan from Group companies	21,405	429,137	-	450,542
Subordinated debt	33,772	5,000	7	38,778
Interest on Subordinated Debt	5,861	-	3,548	9,410
	61,038	**446,644**	**3,555**	**511,237**

Market risk

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

Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises where the 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 its assets and liabilities are similar. Where this is not possible the Company uses derivative financial instruments to mitigate any residual interest rate risk.

At the year end the Company was party to an interest rate cap to hedge interest rate risk on a cap strike rate of 3%. The interest rate cap has been entered into as part of the securitisation transaction to hedge interest rate risk arising in the transaction including the obligations under the Notes. The derivative counterparties are selected as regulated financial institutions and this reduces the risk of default and loss for the Company.

Additional credit protection is afforded by the requirement for the derivative counterparties to post collateral in the event of a downgrade to a counterparty's credit rating.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system failures, or from external events including strategy and reputational risks. The business has extensive monitoring of operational systems and controls and there were no material incidents in 2019 There is a disaster recovery strategy in place which is tested regularly.

Conduct risk

Conduct risk is the risk that the Company's behaviour will result in poor customer outcomes and/or that our people fail to behave with integrity. Blue has specific policies and controls to deal with conduct risk, in particular, we have comprehensive introducer management controls and training and monitoring of all staff with appropriate role based requirements.

27) SUBSIDIARIES

Subsidiaries are entities controlled by the Group but although not consolidated by the Company do have significant interactions with it. These subsidiaries have been detailed below to aid the understanding of the group funding structure. The financial statements of subsidiaries are not consolidated into Blue Motor Finance.

Subsidiary Company	Immediate Parent	Registered Office	Country	Class of Shares	Direct ownership interest	Principal Activity
Blue Motor Finance DD Limited	Blue Motor Finance Limited	1 Bartholomew Lane, London EC2N 2AX	United Kingdom	Ordinary	0%	Securitisation
Blue Motor Finance DD 2 Limited	Blue Motor Finance Limited	1 Bartholomew Lane, London EC2N 2AX	United Kingdom	Ordinary	0%	Securitisation
Azure Finance No.1 Plc	Blue Motor Finance Limited	1 Bartholomew Lane, London EC2N 2AX	United Kingdom	Ordinary	0%	Public Securitisation

Blue Motor Finance DD Limited

The entire issued share capital of Blue Motor Finance DD Limited (BMF DD) is held by the legal parent, Intertrust Corporate Services Limited, a company registered in England and Wales, in its capacity as share trustee which holds the share on a discretionary trust basis for the benefit of certain charities.

Intertrust Corporate Services Limited is a wholly owned subsidiary of Intertrust Management Limited. Copies of the financial statements of both companies may be obtained from 1 Bartholomew Lane, London EC2N 2AX.

The smallest group in which the BMF DD is consolidated in Blue Auto Holdings Limited (BAH). Although BAH has no direct ownership interests in BMF DD, it is considered to exert control over its activities and therefore the results of BMF DD are included in the consolidated statements of BAH.

Blue Motor Finance DD 2 Limited

The entire issued share capital of Blue Motor Finance DD 2 Limited (BMF DD2) is held by the legal parent, Intertrust Corporate Services Limited, a company registered in England and Wales, in its capacity as share trustee which holds the share on a discretionary trust basis for the benefit of certain charities.

Intertrust Corporate Services Limited is a wholly owned subsidiary of Intertrust Management Limited. Copies of the financial statements of both companies may be obtained from 1 Bartholomew Lane, London EC2N 2AX.

The smallest group in which the BMF DD2 is consolidated in Blue Auto Holdings Limited (BAH). Although BAH has no direct ownership interests in BMF DD2, it is considered to exert control over its activities and therefore the results of BMF DD2 are included in the consolidated statements of BAH.

Azure Finance No.1 Plc

The entire share capital of Azure Finance No.1 Plc (Azure) is held on a discretionary trust basis under a share trust deed by the legal parent company Intertrust Corporate Services Limited, a company incorporated in the United Kingdom and registered in England and Wales.

Intertrust Corporate Services Limited is a wholly owned subsidiary of Intertrust Management Limited. Copies of the financial statements of both companies may be obtained from 1 Bartholomew Lane, London EC2N 2AX.

The smallest group in which Azure is consolidated is Blue Auto Holdings Limited (BAH). Although BAH has no direct ownership interest in Azure, it is considered to exert control over its activities and therefore the results of Azure are included in the consolidated financial statements of BAH.

28) RELATED PARTY TRANSACTIONS

Related parties of the Company include key Management personnel, close family members of key Management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key Management personnel or their close family members. Key Management personnel are defined as the Directors of the Company and compensation details are included within the Directors' Remuneration.

During the year the Company entered into certain transactions with related parties, in the normal course of business and on an arm's length basis.

Blue Auto Finance Limited: On 22 October 2014 Blue Auto Finance Limited entered into a £33m Subordinated Loan agreement with Blue Motor Finance Limited, which was subsequently extended to £45m on 15 July 2016. The final repayment date of the loan is 11 November 2022. Interest is charged at 8.1% per annum on a compound basis but is not payable until the earlier of the sale of the business or 11 November 2022.

As of 31 December 2019, the loan balance was £34,639k (2018: £38,778k) with accrued interest of £13,078k (2018: £9,410k).

Azure Finance No.1. Limited: On 4 May 2018, the Group provided by way of a share capital loan agreement £12.5k to Azure, at a rate of 6% with capital interest to be paid at maturity being 3 months after the Azure notes have been redeemed in full and is still outstanding as of 31 December 2019.

Hallville Technologies Limited: During the year the Company paid £ nil (2018: £5,355) to Hallville Technologies Limited for IT consultancy undertaken by Mr S Jones, a relative to Mr S R Jones and Mr C N Jones who are both Directors of the Company.

29) CYAN AUTO RECEIVABLES LIMITED DECONSOLIDATION

The Company completed two whole loan sales to Cyan in 2017. In 2018 performing assets were subsequently sold to Azure, delinquent loans were repurchased by Blue and Defaulted loans were retained. Once Azure had been completed the Company (with Citi as Senior lender) entered into a Forward Flow financing facility arrangement with Cyan. This completed in August 2018 for an initial £300m facility/ 15-month revolving period. This was extended in 2019 to £450m and a revolving period end date of December 2020.

The Cyan facility was consolidated into the group accounts and this was primarily as a result of the transaction documents not including a servicer termination event and therefore, resulted in the SPV falling under the control of the group under IFRS10.

This, however, did not reflect the original commercial intent for the transaction which had been expected to be off balance sheet and not under the control of the Company. Therefore, an amendment was made to the documentation in 2019 to clarify this and implement servicer termination rights. As a result, Cyan has been deconsolidated from the Company from 1 January 2019.

The impact of the deconsolidation on the relevant income statement and balance sheet is detailed below.

	1 January 2019	**Impact of Cyan Deconsolidation**	**Movement during year excl Cyan deconsolidation**	**31 December 2019**
	£k	**£k**	**£k**	**£k**
Interest receivable and similar income	-	(949)	82,484	81,535
Interest expense and similar charges	-	-	(53,251)	(53,251)
Net Interest Income	**-**	**(949)**	**29,233**	**28,284**
Fee and commission income	-	-	-	-
Fee and commission expense	-	(1,367)	(38,017)	(39,384)
Net Fee and commission income	**-**	**(1,367)**	**(38,017)**	**(39,384)**
Other Income	-	(16,244)	53,135	36,891
Fair value gain/(loss) on financial instruments	-	-	-	-
Operating Income	**-**	**(18,559)**	**44,350**	**25,791**
Net impairment losses on finance lease	-	395	(5,374)	(4,979)
Net impairment losses on finance loan	-	-	(9)	(9)
Operating and administrative expenses	-	-	(22,238)	(22,238)
(Loss)/profit before income tax	**-**	**(18,164)**	**16,729**	**(1,435)**
Income tax credit/(expense)	-	-	(1)	(1)
(Loss)/profit for the year attributable to equity	**-**	**(18,164)**	**16,728**	**(1,436)**

The impact of Cyan deconsolidation identifies the impact on the Company's profit and loss of the de-recognition and deconsolidation of the Continuing Involvement with Cyan Auto Receivables.

The movement during the year excluding Cyan deconsolidation shows the Company's P&L for the year without the deconsolidation and de-recognition of the Continuing Involvement with Cyan Auto Receivables.

	1January 2019	Impact of Cyan Deconsolidation	Movement during year excl Cyan deconsolidation	31 December 2019
	£k	£k	£k	£k
ASSETS				
Cash and cash equivalents	9,906	-	10,780	20,686
Finance lease receivables	487,659	(23,694)	(167,275)	297,291
Finance loan receivables	-	-	602	602
Other assets	11,914	(2,714)	12,149	21,349
Property, plant and equipment	518	-	(111)	407
Leasing right of use asset	-	-	1,498	1,498
Intangible assets	485	-	(97)	388
Loan notes to subsidiary	32,997	-	694	33,691
Total Assets	**543,479**	**(26,408)**	**(141,761)**	**375,310**
LIABILITIES AND EQUITY				
Liabilities				
Loans from Subsidiaries	450,542	1,272	(163,936)	287,878
Loan	12,507	-	17,590	30,097
Current tax liabilities	1	-	(1)	-
Deferred Income	18,077	(69)	(9,369)	8,639
Other liabilities	16,782	(9,446)	(35)	7,301
Subordinated Loan	48,188	-	(471)	47,717
Total Liabilities	**546,097**	**(8,244)**	**(156,221)**	**381,633**
Equity				
Share Capital	4,000	-	-	4,000
Retained Earnings	(6,618)	(18,164)	14,459	(10,323)
Total Equity	**(2,618)**	**(18,164)**	**14,459**	**(6,323)**
Total Liabilities and Equity	**543,479**	**(26,408)**	**(141,761)**	**375,310**

The impact of Cyan deconsolidation shows the items derecognised from the Company's Balance Sheet as a result of the deconsolidation of the Continuing Involvement with Cyan Auto Receivables.

The movement during the year excluding Cyan deconsolidation shows the movement that occurred in the Company's Balance sheet during the year that was not related to the deconsolidation of the Continuing Involvement with Cyan Auto Receivables.

30) ULTIMATE PARENT COMPANY

The ultimate controlling related party at 31 December 2019 is CS Capital Partners IV LP of registered address One, Connaught Place, London, W2 2ET.

31) EVENTS AFTER THE REPORTING PERIOD

The Company completed a £175m warehouse facility on 2 January 2020.

The Company follows the Group assessment which has continued to monitor the effects of Brexit, but to date has seen no clear direct effects on its market as a result of the vote to leave the EU. It is unclear what the future trading relationships will be with the EU as a result of Brexit and consequently how that could impact the Group in the future. The Group has carried out analysis to consider the impact of a severe economic downturn through stress test scenarios and believe that the Group is well prepared to manage through such a scenario due to the experience of the management team, focus on technology and size of company which the Group believes it will adapt quickly.

Since the beginning of March, the scale of the Covid-19 pandemic began to adversely impact the UK and the world economy at large. This has had an effect on the UK economy but also remains too early to predict when restrictions will be lifted and thus what the eventual impact of these restrictions will be. The impact over the next 12 months continues to be assessed.