

VOLVO CAR FINANCIAL SERVICES UK LIMITED

Registered in England and Wales

No: 12718441

ANNUAL REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

STRATEGIC REPORT

The Directors submit the Strategic Report together with their Report of the Directors and the audited financial statements of Volvo Car Financial Services UK Limited (the “Company” or “VCFSUK”) for the year ended 31 December 2023.

The Company

The principal activity of Volvo Car Financial Services UK Limited, (“the Company”) is the provision of retail finance, both secured and unsecured, including instalment credit facilities and finance leasing products to retail customers for the purchase of motor vehicles and equipment. For accounting purposes, ‘finance leasing’ includes Conditional Sale agreements, Personal Contract Purchase (PCP) agreements and unsecured agreements with guaranteed future values (“GFV”). Additionally, a Personal Contract Hire offering is made to customers in conjunction with original equipment manufacturers (“OEM”). Wholesale funding facilities are also provided to our partner brand manufacturers; Volvo Cars UK, Polestar Automotive UK Ltd, London EV Company Ltd and their dealers.

On 13 June 2023, Volvo Cars UK adopted the direct to customer model for selling new cars. As a result of this, the Company can no longer write new contract hire business that has not been proposed prior to that date. In addition, the Company no longer provides wholesale funding for new unregistered vehicles but continues to finance used cars and demonstrators. All existing arrangements with other brand partners, remain the same.

Fair review of the Company’s business

The Company’s mission is to provide an exceptional service to our customers, our retailers and manufacturing partners, while delivering an appropriate long-term financial return to our shareholders.

Key performance indicators –

		FY 2023	FY 2022
Retail Car sales ⁽¹⁾	Units	15,873	13,540
Retail Finance cases ⁽²⁾	Units	13,318	11,540
Retail Penetration ⁽³⁾	%	83.9	85.2
Advances New and Used ⁽⁴⁾	£m	757	792
Profit Before Tax	£m	30.7	17.0

⁽¹⁾ New vehicle registrations for retail customers only for Volvo cars for the year

⁽²⁾ Number of new retail finance contracts for the period

⁽³⁾ New retail cases as a percentage of new car retail sales

⁽⁴⁾ Amount advanced on retail agreements including Contract Hire.

In 2023, the UK car market registered 1.90m new cars (2022: 1.61m) which was an 18% increase from 2022. Growth was entirely driven by fleet investment as the previous year’s supply constraints eased and helped fulfil pent-up demand. Private consumer demand remained stable after a strong recovery in 2022, with cost of living pressures and high interest rate restraining growth. During the year, the company funded new business of £757.3m (2022 £792.3m). The Company maintained a conservative approach on all risks associated with lending of this nature and achieved a profit before tax of £30,691,000 (2022 profit before tax of £17,013,000).

Section 172 Statement

The Company is a joint venture with 50.01% of the share capital being held by Santander Consumer (UK) plc, a subsidiary of Santander UK plc (the Santander UK group’s ring-fenced bank). 49.99% of the share capital is held by Volvo Car Corporation. The Shareholder’s investments are represented equally by four Board members from each group, with all decisions requiring unanimous approval.

The Directors of the Company are fully aware of their responsibilities under section 172 of the Companies Act 2006 and take all appropriate steps to ensure that they consider the likely impact of their decisions in the long-term, as well as the interests of the Company’s stakeholders. All new Directors are required to go through an induction programme and receive training on the Senior Managers & Certification Regime (“SMCR”) on an annual basis. In discharging its responsibility for the overall oversight of the business, the Board has continued to pay due regard to its duty to promote the long-term success of the Company for the benefit of its shareholders, by ensuring its decisions are in accordance with the agreed strategy. The Board also regularly reviews management information on the progress made by the Company in delivering on this strategy, as well as reporting on business, financial and operational performance and key risks and compliance issues which supports the Directors in staying sighted on stakeholder outcomes and feedback.

STRATEGIC REPORT *(continued)*

The Board is committed to ensuring that stakeholder interests continue to be embedded in all aspects of decision-making across the Company, at both Board and management level. The day-to-day management of the Company is delegated to the senior management team (“SMT”) who are employees of the Company or seconded from one of the shareholder groups. The SMT is responsible for business performance, the delivery of the strategic objectives of the company and managing VCFSUK’s business wide risks. The performance targets and the strategic objectives are agreed annually by the VCFSUK Board as part of the annual business planning process, as is the risk appetite for each of VCFSUK’s business wide risks. The Board members review progress on a quarterly basis in each of these areas to ensure that VCFSUK is meeting the needs of customers, partners, employees as well as making a sustainable return for shareholders. Decisions are taken with the best interests of all stakeholders considered.

The Company has conducted a thorough review of governance, distribution channels, products and customer journey to ensure compliance with the new Consumer Duty that came into force on 31 July 2023 and to mitigate any risks of poor consumer outcomes. During the year, the Board appointed a Consumer Duty champion who looking forwards, through consumer insights and increased product oversight, the Company will continue to work to improve processes and develop procedures to ensure good consumer outcomes and that the customer remains central to operations and business.

The information given below summarises how the VCFSUK Directors act in good faith and promote the success of the company for the benefit of its members as a whole:

Climate change

The Company is committed to support the transition to a low-carbon economy and tackle climate change and align with the initiatives of its shareholders who share the same commitment. Volvo Cars have an ambition to become a fully electric car maker by 2030 and aims to be climate neutral by 2040. The other two OEMs, Polestar and LEVC, are manufacturing EVs only. The Company has a sub lease in Scandinavia House; the premises of Volvo Car UK Limited (VCUK) and are reliant on and fully supportive of the initiatives that VCUK undertake towards improved energy efficiency.

In addition to shareholder initiatives, during 2023, VCFSUK carried out a Carbon-Literacy awareness event in conjunction with the Carbon Literacy Trust and Autotrader. The focus of this event was to increase staff awareness of the impact of the Automotive Industry on climate change as well as how individual lifestyles and choices impact carbon emissions. As a result, both the company and individuals wrote action plans and VCFSUK continues to aspire towards achieving the status of being a Carbon Literate Company.

All staff of VCFSUK are required to take a mandatory learning course on Climate Change on an annual basis.

Performance Targets

The Directors consider it important to understand the Company’s performance in relation to the market and the performance of its partners. Regular reporting is provided across all areas of the business enabling investment and resources to be directed as appropriate. Whilst performance measures are set in line with the long-term objectives of VCFSUK, all decision making will consider the wider stakeholder groups at all times.

Strategic Objectives

As the Company continues its development journey, the strategic objectives remain being an effective partner to our OEM brands within the current business model, whilst developing the financial products and operational effectiveness to be able to support them in future model changes. This increasingly involves direct sales routes delivered to consumers remotely through digital channels.

The strategic objectives can be summarised as follows:

Business Optimisation:

Focusing on maximising business opportunities for the Company from the traditional business channels of OEM and Retailer introduced business, through understanding the customer needs and optimising the commercial and risk parameters linked to a clear focus on sales process effectiveness. In addition, VCFSUK will be nimble and adaptable to ensure that it can maximise any new and emerging opportunities.

Customer Retention:

Customer loyalty and retention is key to the success for VCFSUK and its OEM partners. In this area VCFSUK’s focus is on improving our customer contact strategies and processes as well as ensuring the customer proposition is fit for purpose and fair to the customer.

STRATEGIC REPORT *(continued)*

Channel Development:

As the OEM business model develops increasingly in the direction of direct to consumer and via digital channels the objective for VCFSUK is to ensure we are in a position to continue to be the financial services supplier of choice, helping our OEM partners drive this change. This requires very close coordination with key suppliers to ensure that appropriate solutions are available when they are needed.

People Development:

The personnel strategy for the organisation will continue to focus on recruiting and retaining people with the ability to adapt to and lead the changing nature of the automotive finance services business, facing out to our customers, OEM partners and key suppliers. Continuous engagement, empowerment, training and staff wellbeing will continue to be a fundamental bedrock of our corporate philosophy.

Stakeholders:

Apart from the two shareholder companies, the Board recognises that there are various stakeholders that are important to VCFSUK as an organisation. These stakeholders are:

Retailers and Customers

Since the commencement of business, the Company has endeavored to communicate regularly with the retailer network of our OEM partners. In addition, during the period, the Company ran a number of training courses for the network as well as various surveys to monitor satisfaction with the processes and support provided to them; the output from these surveys form a significant input into various process improvement initiatives being considered by the Company.

All these initiatives go a long way in ensuring that we have an input into the customer experience including ensuring that they are treated fairly.

Suppliers

We recognise that several of our suppliers are small businesses and do what we can practically do to ensure that we are considerate and fair in our dealings with them including ensuring that we conform to invoice payment terms.

Employees

The Company considers that employees are its greatest resource and tries to employ the right people while recognising the need to develop the necessary knowledge and skills to support our customers as well as enhance the career of our employees. Towards this end, during the period, every employee had access to a suite of training programmes some of which were made mandatory.

Community and the Environment

In addition to the above, VCFSUK recognises the community initiatives and green initiatives of both shareholder companies and where appropriate gets involved in or adopts the policies where practicable. For instance, the Company follows all recycling initiatives run by Volvo Cars UK and is mindful of the environmental impact of our sourcing policies.

Risk Appetite

The Board of Directors approved VCFSUK's Risk Appetite and the Risk Framework on the commencement of business and will review and approve on an annual basis.

The Risk Appetite metrics cover different kinds of risks to ensure high standards are maintained across all risk areas. These include but are not restricted to Credit, Liquidity, Residual Value, Concentration, Anti Money Laundering and Capital.

The different risks are managed on a day-to-day basis through various committees, as set out in the risk charter and reported to the Board of Directors to have the appropriate oversight and to take any action as may be needed.

The management of risks, both in terms of setting an appropriate appetite level and monitoring the performance accordingly enables the Board of Directors to have confidence that VCFSUK is maintaining a high standard of business conduct.

STRATEGIC REPORT *(continued)*

Streamlined Energy and Carbon Reporting (“SECR”)

The report below covers all sources of Greenhouse Gas (“GHG”) emissions and energy usage as required under The Streamlined Energy and Carbon Reporting (“SECR”) requirements.

	2023	2022
Energy consumption used to calculate emissions (kWh)	206,702	260,568
Scope 1 emissions in metric tonnes CO₂e		
Emissions from combustion of gas	12.01	14.78
Emissions from combustion of fuel for transport purposes	-	-
Total Scope 1	12.01	14.78
Scope 2 emissions in metric tonnes CO₂e		
Emissions from electricity purchased for own use, including for the purpose of transport	16.33	16.3
Scope 3 emissions in metric tonnes CO₂e		
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel	13.9	22.05
Total gross emissions in metric tonnes CO₂e	42.24	53.13
Intensity ratio tonnes CO₂e per £m revenue	0.000247	0.00058

Quantification and reporting methodology

We have followed the 2019 HM Government Environment Reporting Guidelines. We have also used the GHG Reporting Protocol – Corporate Standard and have used the 2020 UK Government’s Conversion Factors for Company Reporting.

Energy efficiency actions taken

The Company is committed to support the transition to a low-carbon economy and tackle climate change and align with the initiatives of its shareholders who share the same commitment.

The Company has a sub lease in Scandinavia House; the premises of Volvo Car UK Limited (“VCUK”) and are reliant on and fully supportive of the initiatives that VCUK undertake towards improved energy efficiency.

Some of the actions taken so far are:

- Replacement of 85% of lights in the office with LEDs
- Replacement of plumbing systems in toilets to a cistern-less and remote sensor flushing system to reduce water consumption.
- Various initiatives to measure carbon footprint have been put in place.
- In 2023 Maidenhead Battery Project. This was a replacement of the Company’s uninterruptable power supply (“UPS”). UPS is a type of device that powers equipment, early instantaneously, in the event of grid power failure, protecting the equipment from damage. The batteries were end of life and required full replacement.

In addition to shareholder initiatives, VCFSUK have so far done the following:

- During 2022, carried out a Carbon-Literacy awareness event in conjunction with the Carbon Literacy Trust and Autotrader. The focus of this event was to increase staff awareness of the impact of the Automotive Industry on climate change as well as how individual lifestyles and choices impact carbon emissions. As a result, both the company and individuals wrote action plans and VCFSUK continues to aspire towards achieving the status of being a Carbon Literate Company.
- All staff of VCFSUK are required to take a mandatory learning course on Climate Change on an annual basis.
- Initiated an increase of Hybrid and Full Electric Vehicles in our company car scheme and provided a grant to employees to enable them to install charging facilities in their homes.
- Provide loans of £765,000 to support Volvo retailers in carrying out green initiatives.

Donations

During the year, the Company donated £667 (2022: nil) to Charity.

STRATEGIC REPORT *(continued)*

Principal risks and uncertainties facing the Company

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible are detailed below and in note 3.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Company. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (coordinated by IT and Operational Risk) to ensure consistent approaches are applied across the Company. The primary purpose of the framework is to define and articulate the Company-wide policy, processes, roles and responsibilities. The framework incorporates industry practice and regulatory requirements.

The day-to-day management of operational risk is the responsibility of business managers (line 1) who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function (line 2) ensures that all key risks are regularly reported to the Company's risk committee and Board of Directors.

Conduct risk

Conduct risk is the risk that our decisions and behaviours lead to a detriment or poor outcomes for our customers and that we fail to maintain high standards of market integrity.

We consider conduct risk as part of the governance around our key business decisions. To support this, our conduct risk framework sets out how we manage the risk. It includes:

- Key roles and responsibilities
- Our approach to risk culture and remuneration
- Formal governance, escalation lines and committee structures.

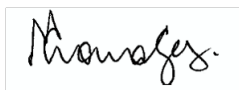
All colleagues are made aware of their responsibilities for conduct risk. They are made accountable through objective setting, performance management and remuneration.

Uncertain macroeconomic and geopolitical environment

Risks arising in these areas remain in the top ranked areas of concern for the wider Santander UK Group. UK political risks increased significantly in 2023, as the focus was drawn to the July 2024 general election in the UK. Key areas of policy focus for the Company include: related markets (rates) and economic impacts; taxation and regulation.

2024 is also an election year in the US and the Company will consider the potential impacts on the geopolitical environment from this that could arise. Broader considerations include conflicts in Ukraine and the Middle East, as well as the strengthening of political, trade and security ties between a number of developing nations with large and growing economies. These developments can have significant impacts on supply chains and the cybersecurity threat environment, since the Company is reliant on services provided by third parties that have overseas operations.

For and on behalf of
Volvo Car Financial Services UK Limited



AR Goldhagen
Director
26 July 2024

Registered Office Address: Scandinavia House, Norreys Drive, Maidenhead, Berkshire, United Kingdom, SL6 4FL.

REPORT OF THE DIRECTORS

The Directors submit their Report together with the Strategic Report and the audited financial statements for the year ended 31 December 2023.

Principal activities and review of the period

The principal activity of the Company is the provision of retail finance, both secured and unsecured, including instalment credit facilities and finance leasing products to retail customers for the purchase of motor vehicles and equipment. For accounting purposes, 'finance leasing' includes Conditional Sale agreements, Personal Contract Purchase ("PCP") agreements and unsecured agreements with guaranteed future values ("GFV"). A Personal Contract Hire product is offered and further details can be found under note 13 operating lease assets. Wholesale funding facilities are also provided to dealers.

Results and dividends

These financial statements have been prepared for the year ended 31 December 2023 and include comparative information for the year ended 31 December 2022.

The Company profit for the year amounted to £23,658,000 (2022: profit of £13,976,000). The Directors do not recommend the payment of a final dividend (2022: Nil).

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

AR Goldhagen (appointed 1 June 2024)
VT Hill (resigned 31 May 2024)
KJ Turner
P Bellemans (resigned 2 February 2023)
L Ekdahl (resigned 2 February 2023)
N Elvefors (resigned 31 December 2023)
MD Evans
E Mayoral
B Montalvo Wilmot
D Aspenberg (appointed 2 February 2023)
JD Lindskog (appointed 2 February 2023)

Employees

Details of the number of employees and related costs can be found in note 8 to the Financial Statements. For the current year and previous period, all employees of the Company were employees of Volvo Car Financial Services UK Limited.

Whilst operating in its own right as a standalone entity, the Company's policies are aligned as closely as possible to those of its two shareholders. Employees are informed on matters relevant to them through regular meetings and the intranet. In addition, all employees are encouraged to achieve a common awareness of the financial and economic factors affecting the performance of the Company.

The Company is committed to equality of access and quality of service for disabled people and embraces the spirit of the UK Equality Act 2010 throughout its business operations. The Company has processes in place to help recruit, train, develop, retain and promote employees with disabilities and is committed to giving full and fair consideration to applications for employment made by disabled persons, and for continuing the employment of, and arranging appropriate training for, existing employees who have become disabled.

Statement of Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2, 3, 19 and 20 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk, market risk, liquidity risk, operational risk, conduct risk and residual value risk.

REPORT OF THE DIRECTORS (*continued*)

It is expected that Santander Consumer (UK) plc will continue to provide this funding for future years given the joint venture agreement sets out that Santander Consumer (UK) plc will provide financing to the Company in the absence of a severe disruption event, and given how as a 50.01% shareholder it would not be in the economic interest of Santander if the Company were not able to pay its debts as they fall due. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

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

Post Balance Sheet Events

There are no significant post balance sheet events at the date of signing the financial statements.

Funding

The Company's financial instruments comprise loans from Santander UK plc Company, borrowings, cash and liquid resources and creditors that arise directly from its operations. The main purpose of these financial instruments is to ensure there are sufficient resources for the Company's operations.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in Note 3.

Likely future developments

The Directors expect the Company to continue to grow despite the economic concerns linked to the rising cost of living. Growth in new and used car finance is expected due to the Company's consistently strong relationships with the OEMs.

Qualifying Third Party Indemnities

The four directors representing Santander are indemnified by Santander UK Group Holdings plc ("SUKGH") against liabilities and associated costs which they could incur in the course of their performance of their duties to the Company. The indemnity was in force for the duration of the accounting period and at the date of approval of this Report and Financial Statements. The indemnity is a qualifying third party indemnity, and a copy is available at the registered office of SUKGH. The four directors representing Volvo are indemnified by Volvo Car AB ("VC AB") against liabilities and associated costs which they could incur in the course of their performance of their duties to the Company. The indemnity was in force for the duration of the accounting period and at the date of approval of this Report and Financial Statements. The indemnity is a qualifying third party indemnity, and a copy is available at the registered office of VC AB.

REPORT OF THE DIRECTORS (*continued*)

Corporate Governance Statement

The Company is a joint venture with 50.01% of the share capital being held by Santander Consumer (UK) plc (“SCUK”), a subsidiary of Santander UK plc (the Santander UK Company’s ring-fenced bank). 49.99% of the share capital is held by Volvo Car Corporation. The shareholders’ investments are represented equally by four Board members from each group, with all decisions requiring unanimous approval. While the Company does not comply with the UK Corporate Governance Code 2018, it is governed by a Joint Venture Agreement and a series of charters that were signed off by both shareholders which are reputable corporate bodies with strong governance frameworks. SCUK has adopted the Santander UK Corporate Governance Framework (“CGF”) and Subsidiary Governance Framework (“SGF”) which it believes is the most appropriate arrangement for the Company. In line with the expectations of the FCA, the Company’s governance arrangements are structured to enable effective oversight of decision-making and comply with all applicable regulations.

With regards to risk management, the SMT sets the overarching strategic agenda and risk appetite for the Company which is signed up to by the representatives of both shareholder companies. These are reviewed regularly by the Risk and Credit Committee (“RCC”) as well as the Board of Directors. The Joint Venture’s Governance Framework provides for the Company to review its own strategy and risk appetite, and where possible ensure alignment to the risk management criteria of its owner companies. The various risk tolerances ensure an automatic escalation of material risk matters as and when required. During these discussions, the RCC and Board (where relevant) considers the respective stakeholders (which includes customers and its shareholders).

The Company has employees (see note 8 to these financial statements). Remuneration practices are as agreed between both shareholder companies. Board Chair appointments are made on a rotational basis by each shareholder for a period of three years each.

Remuneration matters are dealt with by the SMT except those related to the SMT itself which are governed by a remuneration committee which constitutes of select members of the Board who are not involved in the daily running of the Joint Venture. The Company, its Board of Directors and its parents are committed to fair employee remuneration and incentivisation.

Recent events within the global banking industry

Significant market uncertainty was generated by the collapse of Silicon Valley Bank (“SVB”) in the United States on 10 March 2023 and the rescue of Credit Suisse by UBS following the announcement on 14 March 2023 by Credit Suisse of material weaknesses in its financial controls. While uncertainty in the banking industry has moderated since then, there remains considerable global uncertainty in relation to geo-political events.

The Company is funded by the Banco Santander SA Group (the “Group”) which has an established, mature Risk Framework and a stable, low risk business model with highly diversified assets across different markets and businesses. The Group’s funding is also well diversified with the majority of deposits held by retail customers which, in the majority of cases, are insured by state-backed deposit guarantee schemes.

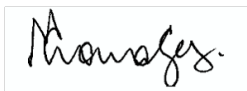
Independent Auditors

Each of the Directors as at the date of approval of this report has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company’s auditors are unaware; and
- the Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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



For and on behalf of
Volvo Car Financial Services UK Limited

AR Goldhagen
Director
26 July 2024

Registered Office Address: Scandinavia House, Norreys Drive, Maidenhead, Berkshire, United Kingdom, SL6 4FL.

Independent auditors' report to the members of Volvo Car Financial Services UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Volvo Car Financial Services UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and the Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2023; the Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

Independent auditors' report to the members of Volvo Car Financial Services UK Limited (continued)

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

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and the Corporation Tax Act 2010. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting of fraudulent journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Identifying and, where relevant, testing journal entries with a higher fraud risk, for example those posted by senior management or those with unusual account combinations; and
- Challenging and testing key assumptions and judgements made by management in respect of critical accounting estimates and obtaining appropriate audit evidence.

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

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

Independent auditors' report to the members of Volvo Car Financial Services UK Limited (continued)

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 July 2024

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Net interest and similar income	5	98,558	43,311
Finance costs	6	(62,657)	(19,675)
Gross profit		35,901	23,636
Other operating income	7	51,335	35,474
Administrative expenses	8	(53,562)	(38,397)
Impairment losses	9	(2,982)	(3,700)
Profit before tax		30,692	17,013
Tax	11	(7,033)	(3,037)
Profit after tax for the financial year		23,659	13,976
Total comprehensive income for the year attributable to the equity holders of the Company		23,659	13,976

The accompanying notes form an integral part of the financial statements.

There is no other comprehensive income or expense for the Company other than the profit for the year stated above.

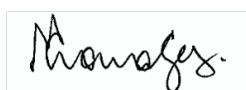
BALANCE SHEET

As at 31 December 2023

	Note	At 31 December 2023 £000	At 31 December 2022 £000
Non-current assets			
Property, plant and equipment	12	693	928
Operating lease assets	13	248,333	243,702
Finance lease receivables	15	937,889	650,960
Financial assets held at amortised cost	16	46,230	47,042
Deferred tax	18	4,371	-
		1,237,516	942,632
Current assets			
Finance lease receivables	15	283,029	167,681
Financial assets held at amortised cost	16	264,162	395,617
Trade and other receivables	17	16,305	19,034
Inventories	14	1,051	332
Corporation tax		1,077	-
Cash and cash equivalents		19,277	31,481
		584,901	614,145
Total assets		1,822,417	1,556,777
Current liabilities			
Trade and other payables	19	(42,846)	(26,663)
Corporation tax		-	(326)
Borrowings	20	(574,639)	(578,681)
		(617,485)	(605,670)
Non-current liabilities			
Borrowings	20	(1,071,668)	(840,727)
Lease liabilities		(663)	(832)
Deferred tax	18	-	(605)
		(1,072,331)	(842,164)
Total liabilities		(1,689,816)	(1,447,834)
Net current (liabilities)/ assets		(32,584)	8,475
Net assets		132,601	108,943
Equity			
Capital and reserves			
Share capital	21	97,980	97,980
Retained earnings		34,621	10,963
Total equity		132,601	108,943

The accompanying notes form an integral part of the financial statements.

The financial statements on pages 12 to 40 were approved by the Board of Directors on 26 July 2024 and signed on its behalf by:



AR Goldhagen
Director
26 July 2024

CASH FLOW STATEMENT

For the year ended 31 December 2023

	Note	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Net cash used in operating activities	22	(176,248)	(741,359)
Investing activities			
Purchase of property, plant and equipment		(28)	(29)
Net cash used in investing activities		(28)	(29)
Financing activities			
Share capital issued	21	-	29,967
Interest paid		(62,657)	(19,674)
Principal paid on IFRS 16 Lease Liabilities		(169)	(180)
Decrease in loans	20	-	(198)
Proceeds from borrowings		851,217	1,093,644
Repayment of borrowings		(624,319)	(369,016)
Net cash generated by financing activities		164,072	734,543
Net decrease in cash and cash equivalents		(12,204)	(6,845)
Cash and cash equivalents at beginning of year		31,481	38,326
Cash and cash equivalents at end of year		19,277	31,481

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Share Capital £000	Retained earnings/ (accumulated losses) £000	Total Equity £000
Balance at 31 December 2021 and 1 January 2022	68,014	(3,013)	65,001
Issue of shares	29,966	-	29,966
Total comprehensive income for the year	-	13,975	13,975
Balance at 31 December 2022 and 1 January 2023	97,980	10,962	108,942
Total comprehensive income for the year	-	23,659	23,659
Balance at 31 December 2023	97,980	34,621	132,601

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. ACCOUNTING POLICIES

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

General information and scope of consolidation

The Company is domiciled and incorporated in the United Kingdom and is a joint venture with 50.01% of the share capital being held by Santander Consumer (UK) plc, a subsidiary of Santander UK plc and 49.99% being owned by Volvo Car Corporation. Further information on the parent undertakings can be found under note 26. The Company is a private limited liability company in which liability is limited by shares.

The registered office address of the Company is Scandinavia House, Norreys Drive, Maidenhead, Berkshire, United Kingdom, SL6 4FL.

Basis of preparation

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared under the historical cost convention and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors. The functional and presentation currency of the Company is pounds sterling.

Recent accounting developments

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2022, the IASB amended IAS 1 'Presentation of Financial Statements' to require entities to disclose their material rather than their significant accounting policies. To support this amendment, the IASB also amended IFRS Practice Statement 2 'Making Materiality Judgements' to provide guidance on how to apply the concept of materiality. The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments have been applied in preparing these financial statements and, consequently, only material accounting policy information is disclosed.

No other significant new or revised pronouncements, which became effective from 1 January 2023, impacted these financial statements. All contracts currently issued by the Company fall within the scope exclusions of IFRS 17, as such, there are no accounting implications.

Future accounting developments

At 31 December 2023, for Volvo Car Financial Services UK Limited, there were no other significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective, or which have otherwise not been early adopted where permitted.

Material accounting policy information

The following material accounting policies have been applied in preparing these financial statements. Those material accounting policies which involve the application of judgements or accounting estimates that are determined to be critical to the preparation of these financial statements are set out in the section headed "Critical accounting policies and areas of significant management judgement".

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and recognised when prescribed conditions are met, which depend on the nature of the revenue.

Interest income on loans is recognised using the effective interest rate method. The effective interest rate method is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's initial net carrying amount. The calculation includes all fees paid or received that are integral to the contract and all other premiums and discounts. See lease policy for recognition of income regarding leases.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

1. ACCOUNTING POLICIES (continued)

Net Interest and similar income

Net Interest and similar income is received from three key income streams:

- Retail income which includes interest and subsidy income from finance leases, unsecured personal loans with guaranteed future values (GFV) and associated fees and commissions. Third party intermediaries including dealerships and brokers introduce all new business. Commission is paid to these intermediaries for their services; the commission is spread using the effective interest rate method over the expected life of the agreements. Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is provided, or on the performance of a significant act. For retail and corporate products, fee and commission income consists principally of collection services fee, and fees for non-banking financial products. Revenue from these income streams is recognised when the service is provided.
- Wholesale funding income which includes both interest and subsidy income from lending to dealers.
- Other bank interest from amounts held on deposit.

Pensions and other post-retirement benefits

The Company participates in a Company defined contribution scheme run by Santander UK plc. The pension charge in the profit and loss reflects the contributions payable during the year, see note 8.

Other operating income

Other operating income includes:

- income generated from operating lease rental income; and
- profits on sale.

Revenue from operating leases is recognised on a straight-line basis, over the life of the agreement. Profit or loss on the sale of returned motor vehicles is recognised at the point of sale when all risks and rewards of ownership are transferred to the buyer. All other operating income is recognised when the service is provided.

Finance costs

Finance costs consist of interest payable to Company undertakings and bank charges on overdrafts and loans. Interest payable to Company undertakings and bank charges are recognised on an effective interest rate basis.

Financial Instruments

a) Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Company becomes a party to the contractual terms of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss ("ECL") allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

b) Financial assets and liabilities

Classification and subsequent measurement

From inception, the Company has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:

- Financial assets and financial liabilities held for trading
- Debt instruments that do not have solely payments of principal and interest ("SPPI") characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

*(continued)***1. ACCOUNTING POLICIES** *(continued)*

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances other financial assets and liabilities are designated at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

A financial liability which does not meet any of these criteria may still be designated as measured at FVTPL when it contains one or more embedded derivatives that sufficiently modify the cash flows of the liability and are not clearly closely related in certain.

c) Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

Business model

The business model reflects how the Company manages the assets in order to generate cash flows and, specifically, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of another business model and measured at FVTPL. Factors considered in determining the business model for a Company of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the assets' cash flows represent SPPI. 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, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Based on these factors, the Company classifies its debt instruments into one of the following measurement categories:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Net interest and similar income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

- FVOCI – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net interest and similar income'. Interest income from these financial assets is included in 'Other gains/ losses' using the effective interest rate method.

-FVTPL – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Other operating income' in the period in which it arises.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(continued)

1. ACCOUNTING POLICIES (continued)

Impairment of debt instrument financial assets

Expected credit losses are recognized on all financial assets at amortised cost or at fair value through other comprehensive income. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

- Stage 1 - the recognition of 12 month expected credit losses ("ECL"), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

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.

Financial assets are written off when it is reasonably certain that receivables are irrecoverable. All write-offs are assessed on a case-by-case basis, taking account of the exposure at the date of write-off. Write-offs are charged against previously established loss allowances.

Recoveries of credit impairment losses are taken to income and offset against credit impairment losses. Recoveries of credit impairment losses are classified in the income statement as 'Impairment losses'. For more on how ECL is calculated see the Credit risk section in Note 3.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss.

Trade and other payables are classified as amortised cost.

Finance leases

The Company as a Lessor

The Company's finance products include Conditional Sale agreements, Personal Contract Purchase (PCP) agreements and Personal Loans with Balloon after PCP agreements. Under Conditional Sale agreements, the Company is the legal owner of the vehicle until all repayments have been made. Under Personal Contract Purchase (PCP) agreements there is a final balloon payment at the end of the agreement, and the customer has three contractual options at the end of the agreement term. Further details are found in note 15.

Definition of a lease

The definition of a lease also includes hire purchase contracts. These are contracts for the hire of an asset that give the hirer an option to acquire title to the asset and conditional sale agreements where title automatically passes to the lessee on making the final lease payment.

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. Assets held under finance leases are recognised in the balance sheet as a receivable amount equal to the net investment in leases. The net investment in leases represents the present value of the minimum lease payments receivable under finance leases or the life of the asset if shorter, at the inception of the lease, together with any unguaranteed residual value accruing to the lessor discounted at the rates of interest implicit in the leases. Income from finance leases is allocated to accounting periods so as to give a constant periodic rate of return on the net investment. Impairment losses arising from changes in future residual values for finance leases are recognised as part of the impairment of financial assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(continued)

1. ACCOUNTING POLICIES (continued)

Operating leases

The Company as a lessor: Assets leased to customers, under agreements which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases. Operating leases are capitalised and depreciated on a straight-line basis over their anticipated useful lives to estimated residual values. Estimated residual values are regularly reassessed against revised projections of used car prices and the resulting changes of estimate are reflected in adjustments to the depreciation charge for the year based on the remaining lease term. The operating leases are also assessed at least annually for impairment.

The carrying value of the operating lease assets are derecognised on disposal or when impaired when no future economic benefits are expected from its use. The gain or loss arising from derecognition of operating lease assets is included in other operating income in the profit or loss when the item is derecognised.

Taxation

The tax expense represents the sum of the income tax currently payable and deferred income tax.

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill. Deferred tax assets and liabilities are not recognised from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity. Deferred and current tax assets and liabilities are only offset where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Inventories

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

Cash and cash equivalents

For the purposes of the cash flow statement and balance sheet, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including loans and advances to banks in the same group, and amounts due from other banks.

Financial Liabilities, including borrowings and trade and other payables

Financial liabilities are recognised initially at fair value, being the proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(continued)

1. ACCOUNTING POLICIES (continued)

Share capital

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Impairment of non-financial assets

At each balance sheet date, or more frequently when events or changes in circumstances dictate, non-financial assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's fair value less costs to sell and its value in use.

The carrying values of non-financial assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the recoverable amount. The carrying amount of the asset will only be increased up to the amount that would have been had the original impairment not been recognised.

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Company's financial statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an on-going basis. Management bases its estimates and judgements on historical experience and on other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

2.1 Critical accounting estimates

The following accounting estimates are considered important to the portrayal of the Company's financial results and financial condition because: (i) they are highly susceptible to change from year to year as assumptions are made to calculate the estimates, and (ii) any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition. In calculating each estimate, a range of outcomes was calculated based principally on management's conclusions regarding the input assumptions relative to historic experience. The actual estimates were based on what management concluded to be the most probable assumptions within the range of reasonably possible assumptions.

Expected credit loss allowances

The Company is exposed to credit risk where counterparties may not be able to meet their financial obligations. The application of the ECL methodology for calculating credit impairment allowances is susceptible to change from year to year. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amount and actual amounts could have a material impact on the Company's future financial results and financial condition.

Key parameters in the modelling of the ECL are probabilities of default ("PD"s), loss given default ("LGD"s) and exposure at default (EAD). The determination of these parameters involves modelling and requires management to analyse historic information as well as factoring in the macroeconomic outlook. Further information on the Company's approach to determining loss allowances is described in Note 3.

Approximately 4.85% (2022- 5.87%) of Finance Lease exposures are classified as Stage 2. If a further £50m of exposures were to move from Stage 1 to Stage 2 at an average PD level, there would be an increase in ECL of approximately £1.81m (2022: £1.10m).

Approximately 8.39% (2022- 4.39%) of Wholesale funding loan exposures are classified as Stage 2. If a further £50m of exposures were to move from Stage 1 to Stage 2 at an average PD level, there would be a decrease in ECL of approximately £0.49m (2022: £0.15m).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
(continued)

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT (continued)

Residual value risk

The Company is subject to residual value risk being the risk that the value of a vehicle at the end of the lease period is worth less than anticipated. Residual values are calculated after analysing the market place and the Company's own historical experience in the market.

Residual values of leased assets are reviewed regularly. This risk arises in relation to PCP contracts where the customer has a contractual right to return the vehicle to the Company which may be worth less than the amount guaranteed in the customer contract. The risk also arises in relation to the ability of certain customers to be able to Voluntary Terminate their agreement once 50% of the balance has been repaid. The calculation of the provisions in relation to residual value risk involves significant management judgment associated with estimating the proportion of vehicles to be returned as well as used car values.

2.2 Areas of significant management judgement

Impact of changes in residual values on depreciation

The Company is also exposed to the changes in residual values impacting its operating lease portfolio. In accordance with IAS 16, changes in residual value are reflected in adjustments to the depreciation charge for the period and prospectively. In calculating the depreciation charge, the Company needs to determine an appropriate residual value on origination of the lease and then update residual values over the life of the lease to determine any adjustments required to the depreciation charge. Similar to certain finance leases, the Company is therefore exposed to movements in residual values over time on its operating lease asset and judgement is involved in assessing residual values on an ongoing basis.

The management team estimate the residual value of the operating lease portfolio on inception and on a quarterly basis, changes in the expected residual value result in a change to the estimated depreciation charge and this is applied prospectively. Management estimated that the residual value of the operating lease assets at inception at £189.8m (2022: £156.6m). The estimated residual value has increased by £9.2m at 31 December 2023, representing an 5% increase when compared to the original management assumptions.

Retail and Finance leases residual value risk

This residual value risk arises in relation to PCP contracts and unsecured loans with balloons. Under these agreements, the customer may choose to return the vehicle at the end of the contract. To mitigate this risk the Company sets the guaranteed future market value ("GMFV") below the expected future market value, this protects the customers equity and reduces the likelihood of hand back.

The residual value risk also arises in relation to secured, regulated retail agreements whereby the customer has the right to Voluntary Terminate their agreement once 50% of the total amount payable including capital, interest and charges has been repaid. The calculation of the retail residual value risk provision involves significant management judgment associated with estimating the proportion of vehicles to be returned as well as used car values. Residual values of leased assets are reviewed regularly. The residual value risk associated with retail lending is reflected in a provision. Further information can be found in Notes 3 and 15.

The calculation of the provisions in relation to residual value risk Involves significant management judgment associated with estimating the proportion of vehicles to be returned as well as used car values. If the expected future residual values for the Company's PCP portfolio were to reduce by 10% then an additional provision of £1.5m would be required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

*(continued)***3. RISK MANAGEMENT****3.1 Financial risks**

The Company's activities expose it to a variety of financial risks. The Company's risk management focuses on the major areas of credit risk, liquidity risk, market risk, interest rate risk, operational risk, conduct risk and residual value risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company's Risk Framework seeks to ensure that risk is managed and controlled on behalf of shareholders, customers, employees and its regulators. Effective and efficient risk governance and oversight provide management with assurance that the Company's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Company's strategic objectives. Formal standing committees are maintained for effective management of oversight.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, interest accrued less any security held. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. All new business is subject to credit scoring and/or underwriting policy criteria designed to assess credit worthiness. Finance leases and wholesale funding are secured whilst unsecured personal loans are unsecured.

The Company's largest concentration of credit risk is within wholesale funding but with exposure spread over a large number of counterparties and customers. The maximum exposure is the amount recorded in the balance sheet as cash and cash equivalents and amounts disclosed in Notes 15, 16 and 17. It should be noted that the loans provided are linked to Volvo, LEVC and Polestar motor vehicles and the Directors periodically review the re-sale values of these cars and set positions below future market expectations in order to reduce the residual value risk and any potential losses from customers exercising their right to voluntary terminate their agreement under the Consumer Credit Act regulations.

Key metrics

The Company uses a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses ("ECL")	ECL tells the Company what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Stages 1, 2 and 3	The Company assesses the credit risk profile to determine which stage to allocate and monitors where there is a significant increase in credit risk and transfers between the stages.
Expected Loss ("EL")	EL is the product of the probability of default, exposure at default and loss given default. The Company calculates each factor in accordance with Company policy and risk models and an assessment of each customer's credit quality. For the rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless specifically stated otherwise. For IFRS accounting policy on impairment, see Note 1 to the Financial Statements.
Non-Performing Loans ("NPL's")	The Company uses NPLs to monitor how portfolios behave. Loans are classified as NPLs when customers do not make a payment for three months or more, or if information is available to make the Company doubt they can keep up with their payments.

Other metrics

The Company also assesses risks from other perspectives, such as geography, business area, product and process. This is done to identify areas requiring specific focus. Stress testing is also used to establish vulnerabilities to economic deterioration.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

*(continued)***3. RISK MANAGEMENT** *(continued)***Significant Increase in Credit Risk (SICR)**

Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan. Loans which have not experienced a SICR are subject to 12 month ECL. We assess each facility's credit risk profile and use a range of quantitative, qualitative and backstop criteria to identify exposures that have experienced a SICR to determine which of three stages to allocate them to:

- Stage 1: when there has been no SICR since initial recognition. We apply a loss allowance equal to a 12 month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months
- Stage 2: when there has been a SICR since initial recognition, but no credit impairment has materialised. we apply a loss allowance equal to the lifetime ECL i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility
- Stage 3: when the exposure is considered credit impaired using default criteria set out below. We apply a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required.

Definition of default (Credit impaired)

We define a financial instrument as in default (i.e. credit impaired) for purposes of calculating ECL if it is more than 90 days past due (DPD), or if we have data to make us doubt customers can keep up with their payments i.e. they are unlikely to pay. The data typically includes where:

- They have had a winding up notice issued, or something happens that is likely to trigger insolvency – such as, another lender calls in a loan
- Something happens that makes them less likely to be able to pay – such as they lose an important client or contract
- They have regularly missed or delayed payments, even though they have not gone over the three-month limit for default
- Their loan is unlikely to be refinanced or repaid in full on maturity.

Backstop criteria

We classify all exposures more than 30 or 90 DPD in at least Stage 2 or in Stage 3, respectively. We do not rebut the backstop presumptions in IFRS 9 (i.e. credit risk has significantly increased if contractual payments are more than 30 days past due) relating to either a SICR or default.

Measuring ECL

For accounts not in default at the reporting date, we estimate a monthly ECL for each exposure and for each month over the forecast period. The lifetime ECL is the sum of the monthly ECLs over the forecast period, while the 12-month ECL is limited to the first 12 months. We calculate each monthly ECL as the discounted value for the relevant forecast month of the product of the following factors:

- Survival rate ("SR"): The probability that the exposure has not closed or defaulted since the reporting date.
- Probability of Default ("PD"): The likelihood of a borrower defaulting in the following month, assuming it has not closed or defaulted since the reporting date. For each month in the forecast period, we estimate the monthly PD from a range of factors. These include the current risk grade for the exposure, which becomes less relevant further into the forecast period as it becomes less predictive when determining outcomes, as well as the expected evolution of the account risk with maturity and factors for changing economics. We support this with historical data analysis.
- Exposure at Default ("EAD"): The amount we expect to be owed if a default event was to occur. We determine EAD for each month of the forecast period by the expected payment profile, which varies by product type. For amortising products, we base it on the borrower's contractual repayments over the forecast period. We adjust this for any expected overpayments on Stage 1 accounts that the borrower may make and for any arrears we expect if the account was to default. We vary these assumptions by product type and base them on analysis of recent default data.
- Loss Given Default ("LGD"): Our expected loss if a default event were to occur. We express it as a percentage and calculate it as the expected loss divided by EAD for each month of the forecast period. We base LGD on factors that impact the likelihood and value of any subsequent write-offs. We use the original effective interest rate as the discount rate. For accounts in default, we use the EAD as the reporting date balance. We also calculate an LGD to reflect the default status of the account, considering the current DPD and loan to value. PD and SR are not required for accounts in default.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

*(continued)***3. RISK MANAGEMENT** *(continued)***Maximum exposure to credit risk**

The table below shows the Company's maximum exposure to credit risk in addition to cash balances. The table only shows the financial assets that credit risk affects.

	Balance sheet amount 2023 £'000	Balance sheet amount 2022 £'000
Financial assets:		
Finance leases (note 15)	1,389,388	920,755
Wholesale funding (note 16)	233,041	385,722
Unsecured personal loans (note 16)	77,351	56,937
Trade receivables (note 17)	13,072	12,578
Cash and cash equivalents	19,277	31,481
Total financial assets	1,732,129	1,407,473

For financial assets linked to related parties, we do not hold any IFRS 9 provision as these are considered low risk.

Financial assets at FVTPL do not have the impairment requirements of IFRS 9 applied.

Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation. If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery.

The class of financial instruments that is most exposed to credit risk in the Company is wholesale funding, loans and advances to customers and net investment in finance leases (note 15). These are gross of impairment losses.

The exposures relating to finance leases and personal loans are primarily to private individuals. Wholesale lending is to the commercial sector.

Further information on macroeconomic forecast assumptions, scenario weights sensitivity and forward-looking information used to determine credit risk can be obtained from the Santander UK plc Annual Report.

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised and the corresponding ECL at 31 December 2023 and at 31 December 2022.

2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Finance leases	1,326,168	67,518	1,133	1,394,819
Unsecured personal loans	77,097	397	17	77,511
Wholesale funding	216,919	19,855	-	236,774
Total exposures	1,620,184	87,770	1,150	1,709,104
Finance leases	(2,208)	(2,550)	(673)	(5,431)
Unsecured personal loans	(39)	(107)	(14)	(160)
Wholesale funding	(3,599)	(134)	-	(3,733)
Total IFRS 9 ECL	(5,846)	(2,791)	(687)	(9,324)
Finance leases	1,323,960	64,968	460	1,389,388
Unsecured personal loans	77,058	290	3	77,351
Wholesale funding	213,320	19,721	-	233,041
Total net exposures	1,614,338	84,979	463	1,699,780

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

*(continued)*3. RISK MANAGEMENT *(continued)*

2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Finance leases	869,301	54,247	658	924,206
Unsecured personal loans	56,875	111	12	56,998
Wholesale funding	372,736	17,128	-	389,864
Total exposures	1,298,912	71,486	670	1,371,068
Finance leases	(1,754)	(1,306)	(391)	(3,451)
Unsecured personal loans	(42)	(12)	(8)	(62)
Wholesale funding	(3,912)	(230)	-	(4,142)
Total IFRS 9 ECL	(5,708)	(1,548)	(399)	(7,655)
Finance leases	867,547	52,941	267	920,755
Unsecured personal loans	56,833	99	4	56,936
Wholesale funding	368,824	16,898	-	385,722
Total net exposures	1,293,204	69,938	271	1,363,413

Movements in ECL provision are set out below:	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
Finance Leases				
At 1 January 2022	(903)	(194)	(95)	(1,192)
Income statement charge for the year	(915)	(1,038)	(515)	(2,468)
Net impairment charge	(915)	(1,038)	(515)	(2,468)
Transfers to 12-month ECL	64	(64)	-	-
Transfers to credit impaired	-	(10)	10	-
Assets derecognised – written off	-	-	209	209
At 31 December 2022	(1,754)	(1,306)	(391)	(3,451)
Income statement charge for the year	(739)	(911)	(1,026)	(2,676)
Net impairment charge	(739)	(911)	(1,026)	(2,676)
Transfers to 12-month ECL	286	(286)	-	-
Transfers to credit impaired	(1)	(47)	48	-
Assets derecognised – written off	-	-	696	696
At 31 December 2023	(2,208)	(2,550)	(673)	(5,431)

Unsecured personal loans	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 01 January 2022	(14)	-	-	(14)
Income statement charge for the year	(32)	(7)	(13)	(52)
Net impairment charge	(32)	(7)	(13)	(52)
Transfers to 12-month ECL	4	(4)	-	-
Transfers to credit impaired	-	(1)	1	-
Assets derecognised – written off	-	-	4	4
At 31 December 2022	(42)	(12)	(8)	(62)
Income statement charge for the year	(16)	(76)	(23)	(115)
Income statement release for the year	-	-	-	4
Net impairment credit/(charge)	(12)	(76)	(23)	(111)
Transfers to 12-month ECL	16	(16)	-	-
Transfers to credit impaired	-	(3)	3	-
Assets derecognised – written off	-	-	14	14
At 31 December 2023	(39)	(107)	(14)	(160)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

*(continued)*3. RISK MANAGEMENT *(continued)*

Wholesale funding	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 01 January 2022	(3,504)	(614)	-	(4,118)
Income statement charge for the year	(408)	-	-	(408)
Income statement release for the year	-	384	-	384
Net impairment (charge)/ credit	(408)	384	-	(24)
At 31 December 2022	(3,912)	(230)	-	(4,142)
Income statement charge for the year	(106)	107	-	1
Income statement release for the year	312	96	-	408
Net impairment credit	206	203	-	409
Transfer to 12-month ECL	107	(107)	-	-
At 31 December 2023	(3,599)	(134)	-	(3,733)

A description of how impairment is measured can be found in the accounting policies in Note 1.

The Company has affordability checks in place which demonstrate a firm commitment to responsible lending and treating customers fairly.

Liquidity risk

Liquidity risk is the potential that, although remaining solvent, the Company does not have sufficient liquid financial resources to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Company reviews on a regular basis its cash flow obligations. It is anticipated that Santander Consumer (UK) plc will continue to lend to the Company to ensure that the Company fulfills its liquidity requirements.

Maturities of financial liabilities

The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities of the Company based on the remaining period to the contractual maturity date at the balance sheet date. There are no significant financial liabilities related to financial guarantee contracts. This table is not intended to show the liquidity of the Company.

At 31 December 2023	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total contractual cashflows £000	Carrying amount £000
Borrowings from Santander Consumer (UK) plc	-	91,979	540,983	1,127,003	-	1,759,965	1,644,659
Amounts owed to Santander Consumer (UK) plc	-	1,134	-	-	-	1,134	1,134
Amounts due to other group companies	-	4,079	-	-	-	4,079	4,079
Trade and other payables	30,477	-	-	-	-	30,477	30,477
Lease liabilities	-	43	128	492	-	663	663
	30,477	97,235	541,111	1,127,495	-	1,796,318	1,681,012

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

*(continued)***3. RISK MANAGEMENT** *(continued)*Liquidity risk *(continued)*

At 31 December 2022	Demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total contractual cashflows	Carrying amount
	£000	£000	£000	£000	£000	£000	£000
Borrowings from Santander Consumer (UK) plc	-	52,679	556,092	877,050	-	1,485,821	1,413,876
Amounts owed to Santander Consumer (UK) plc	-	4,888	-	-	-	4,888	4,888
Amounts due to other group companies	-	2,277	-	-	-	2,277	2,277
Trade and other payables	12,521	-	-	-	-	12,521	12,521
Lease liabilities	-	42	127	663	-	832	832
	12,521	59,886	556,219	877,713	-	1,506,339	1,434,394

Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the market prices of financial instruments. The Company's retail business is subject to fair value interest rate risk as the finance leasing agreements and unsecured personal loans all bear fixed interest and as such the value of these assets fluctuates with changes in market interest rates. To mitigate this risk for finance leases, lease arrangements and lending are taken out with a fixed rate of interest.

Interest rate risk

The Company provides fixed rate loans and finance leases. As all of the Company's borrowings are fixed rate loans, there is limited interest rate risk on the retail lending portfolio.

The Company only lends in sterling to UK individuals and businesses and so is not exposed to foreign currency risk.

Residual value risk

Residual value risk arises from the Company's leasing activities and relates to not realising the full amount of the residual values ("RV") set by the Company on the origination of the leases. The profitability of the Company's operating and finance leases is highly dependent on the residual value at the end of the agreement with the customer.

Under the terms of PCP agreements and unsecured loans with guaranteed future values, a customer has the right to hand back the vehicle with no further liability after all regular payments have been made, but before the final instalment has been paid. This final instalment is the Guaranteed Minimum Future Value ("GMFV"), or residual value. There is a risk that when a vehicle is handed back to the Company, the residual value is greater than the proceeds received in selling the vehicle at auction and the Company will incur a loss. The Company reviews the residual values and estimates the effect on prices and likelihood of the customer handing back the vehicle. As a result, a provision is created and subsequent impairment is recognised immediately. The risk is partially mitigated by loss sharing with one OEM.

Under the Consumer Credit Act customers who enter into secured regulated agreements are allowed to exercise their legal right to terminate their agreement once 50% of the balance has been repaid. When this arises the Company is subject to potential losses of vehicles returned early. A provision is held to reflect this risk.

In relation to operating leases, decreases in residual values are reflected in adjustments to the depreciation charge over the life of the leased asset and not on profit or loss on disposal. In instances where residual values have increased, adjustments are limited to the previous net book values and may impact profit or loss on disposal.

The Company manages residual value risk by regularly monitoring residual values against industry-wide data as well as its own experience. The pricing models include a small margin for changes in the values of used cars. However, future RVs can be difficult to predict due to future trends and changes in customer demand and therefore the Company is exposed to changes in RVs that could lead to material changes in profitability in the future.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

*(continued)***3. RISK MANAGEMENT** *(continued)***3.2 Non-financial risks****Operational risk**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Company. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (coordinated by IT and Operational Risk) to ensure consistent approaches are applied across the Company. The primary purpose of the framework is to define and articulate the Company-wide policy, processes, roles and responsibilities. The framework incorporates industry practice and regulatory requirements.

The day-to-day management of operational risk is the responsibility of business managers (line 1) who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function (line 2) ensures that all key risks are regularly reported to the Company's risk committee and board of Directors.

Conduct risk

Conduct risk is the risk that our decisions and behaviours lead to a detriment or poor outcomes for our customers and that we fail to maintain high standards of market integrity.

We consider conduct risk as part of the governance around our key business decisions. To support this, our conduct risk framework sets out how we manage the risk. It includes:

- Key roles and responsibilities
- Our approach to risk culture and remuneration
- Formal governance, escalation lines and committee structures.

4. CAPITAL MANAGEMENT AND RESOURCES

Capital held by the Company comprises share capital and reserves which can be found in the Balance Sheet. The Company's capital is not externally regulated. Capital is managed by way of processes set up at inception of the Company and subsequently there is no active process for managing its own capital. The Company is designed to hold minimum reserves once all amounts due on the related party loans have been received and amounts owing, including deferred consideration, have been paid.

5. NET INTEREST AND SIMILAR INCOME

An analysis of the Company's revenue is as follows:

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Net interest revenue:		
Retail - finance leasing income	74,405	32,098
Retail - unsecured personal loan income	3,081	2,509
Wholesale funding income	21,072	8,704
Total	98,558	43,311

6. FINANCE COSTS

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Interest payable on intercompany borrowings	62,561	19,613
Bank charges	85	49
Finance lease interest	11	13
Total	62,657	19,675

The Company's day to day borrowings are provided by Santander Consumer (UK) plc.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

*(continued)***7. OTHER OPERATING INCOME**

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Retail - operating lease income	50,721	35,024
Net income on wholesale fees and other items from retail book	614	450
Total	51,335	35,474

Retail operating lease income includes rental income and the profits and losses on the sale of vehicles at the contract termination date. Within operating income of £50,721,000 (2022: £35,024,000) is a gain on disposal of £2,720,000 (2022: £375,000) - see note 13.

8. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Wages and salaries	2,645	2,602
Social security costs	382	320
Other pension costs (see note 23)	218	182
Total staff costs	3,245	3,104
Depreciation of property, plant and equipment (see note 12)	263	253
Depreciation of operating lease assets (see note 13)	36,474	26,273
Information technology	238	454
Related entity recharges from Santander Consumer (UK) plc	9,225	5,853
General overheads	3,917	2,285
Auditors' remuneration for statutory audit	200	175
Total other administrative expenses	50,317	35,293
Total	53,562	38,397

Staff numbers

The average monthly number of employees was:

	Year ended 31 December 2023 No.	Year ended 31 December 2022 No.
Sales and customer service	17	13
Administration and support	22	21
Total	39	34

Auditors' remuneration

The audit fee for the current and prior years have been paid by the Company. The audit fee for the current year is £200,000 (2022: £175,000). There were no non-audit services charged to the Company in 2023 (2022: nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(continued)

9. IMPAIRMENT LOSSES

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Loans and advances to customers	1,662	2,325
Recoveries of loans and receivables previously written off	(326)	(5)
	1,336	2,320
Provisions for Residual Value and voluntary terminations	1,646	1,380
Total	2,982	3,700

The credit impairment losses are recognised on an expected credit loss (ECL) basis (see the IFRS 9 accounting policy in note 1).

10. DIRECTORS' EMOLUMENTS

The Directors' services to the Company are an incidental part of their duties. No Directors were remunerated for their services to the Company (2022: Nil).

11. TAX

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Current tax:		
UK corporation tax on profit for the year	10,751	2,076
Adjustments in respect of prior periods	1,258	768
Total current tax	12,009	2,844
Deferred tax (Note 18):		
Origination and reversal of temporary differences	(3,307)	1,086
Effect of change in tax rate on deferred tax provision	(212)	(317)
Adjustments in respect of prior periods	(1,457)	(576)
Total deferred tax	(4,976)	193
Tax charge on profit for the year	7,033	3,037

UK corporation tax is calculated at 23.50% (2022: 19.00%). The enacted tax rate for 2024 is expected to be 25% for corporation tax. This rate has therefore been applied in determining both the opening and closing balance sheet positions for deferred tax.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK to implement the OECD Pillar Two model rules which introduces a global minimum effective tax rate of 15% with effect from 1 January 2024. It is not anticipated that the rules will impact the Company.

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

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Profit before tax:	30,691	17,013
Tax at the UK corporation tax rate of 23.5% (2022:19%)	7,212	3,232
Non-deductible expenses	231	(69)
Effect of change in tax rate on deferred tax provision	(212)	(317)
Adjustment to prior period provisions	(198)	191
Tax charge for the year	7,033	3,037

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

12. PROPERTY, PLANT AND EQUIPMENT

	Computer and office equipment	Land and Buildings	Total
	£000	£000	£000
Cost			
At 1 January 2022	232	1,164	1,396
Additions	28	-	28
At 31 December 2022 and 1 January 2023	260	1,164	1,424
Additions	28	-	28
Disposals	(2)	-	(2)
At 31 December 2023	286	1,164	1,450
Accumulated depreciation			
At 1 January 2022	72	171	243
Charge in year	82	171	253
At 31 December 2022 and 1 January 2023	154	342	496
Charge in year	92	171	263
Disposals	(2)	-	(2)
At 31 December 2023	244	513	757
Net book value			
At 31 December 2023	42	651	693
At 31 December 2022	106	822	928

13. OPERATING LEASE ASSETS

The Company enters into operating lease arrangements with customers in the commercial sector.

	2023 £000	2022 £000
Cost		
At 1 January	274,890	124,308
Additions	46,299	152,616
Disposals	(6,675)	(2,045)
At 31 December	314,514	274,879
Accumulated depreciation and impairment		
At 1 January	31,188	5,057
Depreciation charge for the year	36,473	26,273
Disposals	(1,480)	(153)
At 31 December	66,181	31,177
Net book value		
At 31 December	248,333	243,702

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
(continued)

13. OPERATING LEASE ASSETS (continued)

At the balance sheet date, the Company had contracted with lessees for the following future minimum lease payments:

	2023 £000	2022 £000
Within 1 year	41,501	41,146
Between 1-5 years	24,304	47,702
Total	65,805	88,848

The breakdown of net profit on disposals is as follows:

	2023 £000	2022 £000
Disposals- cost	6,675	2,045
Disposals- depreciation	(1,480)	(153)
Sale proceeds	7,915	2,267
Net profit on disposal	2,720	375

14. INVENTORIES

	2023 £000	2022 £000
Inventories of contract hire vehicles	1,051	332
Total	1,051	332

Inventories relate to the vehicles returned at the end of the contract hire period that are currently awaiting resale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

15. FINANCE LEASE RECEIVABLES

	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2023	2022	2023	2022
	£000	£000	£000	£000
Amounts receivable under finance leases:				
Within one year	335,847	189,304	287,150	167,681
In the second to fifth years inclusive	1,058,972	734,902	933,768	650,960
After five years	-	-	-	-
	1,394,819	924,206	1,220,918	818,641
Less: unearned finance income	(164,912)	(99,486)		
Less: expected credit loss allowance	(5,431)	(3,451)		
Less: RV and voluntary termination provision	(3,558)	(2,628)		
Net investment in finance lease receivables	1,220,918	818,641		
Analysed as:				
Non-current finance lease receivables (recoverable after 12 months)	937,889	650,960		
Current finance lease receivables (recoverable within 12 months)	283,029	167,681		
	1,220,918	818,641		

The Company enters into instalment credit agreements which are treated as finance leasing arrangements for accounting purposes. The finance leases are secured on the underlying motor vehicle. The Company retains legal title until all repayments have been made. The average term of finance leases entered into is three years and eight months (2022: three years and eight months).

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The rate of return on the net investment approximates to 10.52% (2022: 7.06%) per annum.

Included within finance lease receivables are Personal Contract Purchase (PCP) agreements. The PCP agreements are regulated under the Consumer Credit Act and have a final balloon payment at the end of the agreement. The customer has three contractual options at the end of the agreement. The options are:

1. to pay the final balloon payment;
2. use equity as a deposit for a new vehicle by way of part exchange; or
3. hand the vehicle back to the Company.

If the Company is agreeable then the customer may also refinance the balloon payment. This is not a contractual obligation. As at the balance sheet date, the value of the final balloon payments is £626,712,000 (2022: £398,747,000).

The Company has a provision to cover residual value losses because of PCP hand-backs and customer voluntary terminations of £3,558,000 (2022: £2,628,000). If the volume of hand-backs increases by 5% then the Company would require an additional provision of £1,462,000 (2022: £1,007,000). The Directors consider that the fair value of the finance lease receivable is 7.74% lower (2022: 0.43% lower) than the carrying value.

The Company offers personal loan agreements with a guaranteed future market value or generally referred to as a balloon product. Under these agreements, the customer may choose to return the vehicle at the end of the contract. As at the balance sheet date the value of the final balloon payments on unsecured agreements is £141,797,000 (2022: £100,100,000).

Movements in the RV and voluntary termination provisions are as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
	£000	£000
At 1 January	2,628	1,469
Charge to income statement	930	1,159
At 31 December	3,558	2,628

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(continued)

16. FINANCIAL ASSETS HELD AT AMORTISED COST

	2023 £000	2022 £000
Unsecured personal loans	77,511	56,999
Wholesale funding	236,774	389,864
Loans and advances to customers	314,285	446,863
Less: Expected credit loss allowances on unsecured personal loans	(160)	(62)
Less: Expected credit loss allowances on wholesale funding	(3,733)	(4,142)
Total	310,392	442,659

The performance of loans and advances to customers are analysed as follows:

	2023 %	2023 £000	2022 %	2022 £000
Not impaired - neither past due nor impaired	99.91	314,012	99.99	446,831
Past due and non-performing assets - Up to 3 months	0.08	255	0.01	20
Past due and non-performing assets - 3 - 6 months	0.01	18	-	12
Loans and advances to customers	100.00	314,285	100.00	446,863
Less: Impairment allowances on unsecured personal loans		(160)		(62)
Less: Impairment allowances on wholesale funding		(3,733)		(4,142)
Loans and advances to customers net of impairment loss reserves		310,392		442,659
Non-current loans and advances to customers (recoverable after 12 months)		46,230		47,042
Current loans and advances to customers (recoverable within 12 months)		264,162		395,617
Loans and advances to customers net of impairment loss reserves		310,392		442,659

The Directors consider that the fair value of the loans and advances to customers is 5.89% lower (2022: 3.17% lower) than the carrying value.

All unsecured personal loans to third parties are to private individuals and companies and are at fixed rates, the average effective interest rate is 9.81% (2022: 6.91%). All loans are made in UK sterling. Unsecured personal loans to third parties include amounts receivable after twelve months totaling £62,643,000 (2022: £47,042,000). The Company does not hold any collateral against the personal loans.

The wholesale funding balance includes dealer stocking and dealer overdrafts, these are at variable rates and are repayable within twelve months. An allowance has been made for estimated irrecoverable amounts of £3,733,000 (2022: £4,142,000).

Wholesale funding balances include £228,073,000 (2022: £384,901,000) of unit stocking loans which are secured on the underlying motor vehicles.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
(continued)

17. TRADE AND OTHER RECEIVABLES

	2023 £000	2022 £000
Trade receivables	13,072	12,578
Amounts due from Santander Consumer (UK) plc	2	2
Tax and social security	-	2,817
Prepayments	3,231	3,637
Total	16,305	19,034

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18. DEFERRED TAX

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled, or the asset is realised. The movement on the deferred tax account was as follows:

	2023 £000	2022 £000
At 1 January	(605)	(412)
Credit/ (charge) to statement of comprehensive income	4,976	(193)
At 31 December	4,371	(605)

Deferred tax liabilities are attributable to the following items:

Provided:	Balance Sheet 2023 £000	Statement of comprehensive income for the year ended 31 December 2023 £000	Balance Sheet 2022 £000	Statement of comprehensive income for the year ended 31 December 2022 £000
Accelerated book depreciation	4,306	4,915	(609)	572
Other temporary differences	65	61	4	4
Tax losses carried forward	-	-	-	(769)
Total	4,371	4,976	(605)	(193)

Deferred tax is deemed to be settled more than 12 months after the reporting period.

19. TRADE AND OTHER PAYABLES

	2023 £000	2022 £000
Trade payables	30,477	12,521
Advanced rentals for contract hire	9,420	12,450
Accruals	2,949	1,692
Total	42,846	26,663

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

The Directors consider that the carrying amount of trade and other payables approximate to their fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

20. BORROWINGS

	2023 £000	2022 £000
Amounts due to Santander Consumer (UK) plc	1,646,307	1,419,408
Total	1,646,307	1,419,408

These borrowings are repayable as follows:	2023 £000	2022 £000
On demand or within one year	574,639	578,681
Amounts due after one year	1,071,668	840,727
Total	1,646,307	1,419,408

The Company's funding is from Santander Consumer (UK) plc, the Company has borrowings of £1,646,307,000 (2022: £1,419,408,000) at the year end. Amounts owed to Santander Consumer (UK) plc for borrowings are interest bearing; the average weighted interest rate as at the balance sheet date is 3.91% (2022: 1.87%). The majority of the borrowings are fixed rate. A loan is repayable over the term agreed within the credit facility contract.

Amounts due to Santander UK plc relate to intercompany recharges and are repayable as per note 3.

The Directors consider that the fair value of the amounts owed by the Company is 1.82% lower (2022: 1.23% lower) than the carrying value.

21. SHARE CAPITAL

	2023 £000	2022 £000
Issued and fully paid:		
97,980,403 (2022: 97,980,403) ordinary shares of £1 (2022: £1) each	97,980	97,980

The Company has a total ordinary share capital of £97,980,403 (2022: £97,980,403) which is held by the following:

Shareholder	Ownership (%)	Nominal value of shares held 2023 £	Nominal value of shares held 2022 £
Santander Consumer (UK) plc	50.01%	49,000,000	49,000,000
Volvo Car Corporation	49.99%	48,980,403	48,980,403
	100.00%	97,980,403	97,980,403

The shares have attached to them full voting, dividend, and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

22. NET CASH USED IN OPERATING ACTIVITIES

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Operating profit	30,692	17,013
Adjustments for:		
Finance costs	62,657	19,675
Depreciation on operating lease assets and property, plant & equipment	36,737	26,526
Profit on disposal of operating lease assets	(2,720)	(375)
Impairment losses	2,597	3,493
Operating cash flows before movements in working capital	129,963	66,332
Purchase of operating lease assets	(46,299)	(152,616)
Proceeds on disposal of operating lease assets	7,916	2,268
Increase in finance lease receivables	(405,187)	(491,393)
Decrease/ (increase) in loans advances to customers	132,578	(188,959)
Decrease in trade receivables	2,728	14,655
Increase in inventories	(718)	(301)
Increase in payables	16,183	10,406
Net cash used in operations	(162,836)	(739,609)
Tax paid	(13,412)	(1,750)
Net cash used in operating activities	(176,248)	(741,359)

23. RETIREMENT BENEFIT SCHEMES

The Company participates in the Santander UK plc Company defined contribution pension schemes in operation. The contribution of £218,000 (2022: £182,000) to be paid by the Company is calculated as the contributions made by Santander UK plc to the schemes in respect of the Company's employees. Of this amount £12,078 (2022: £12,156) was recognised for key management personnel. The details of the pension scheme appear in the financial statements of Santander UK plc.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

24. RELATED PARTY TRANSACTIONS

Trading transactions

	Expenditure 2023 £000	Amounts owed by related parties 2023 £000	Amounts owed to related parties 2023 £000
During the year, the Company entered into the following transactions with related parties:			
Santander Consumer (UK) plc	71,786	-	1,646,307
Santander UK plc	-	3,137	258

	Expenditure 2022 £000	Amounts owed by related parties 2022 £000	Amounts owed to related parties 2022 £000
Santander Consumer (UK) plc	25,479	-	1,419,408
Santander UK plc	-	4,633	202

Amounts owed by Santander UK plc primarily include amounts held at bank.

Amounts owed to Santander Consumer (UK) plc include treasury borrowings and accrued interest of £1,645,172,000 (2022: £1,414,521,000) plus management recharges for borrowings, staff, system and overheads of £1,134,000 (2022: £4,888,000).

Volvo Car UK Limited, a subsidiary of Volvo Car Corporation, provided the following to the Company:

- retail interest income in the form of manufacturer subsidies. Total manufacturer subsidies charged in 2023 were £33.7m (2022: £12.3m)
- volume rebate discounts linked to the contract hire portfolio (operating leases). Total discounts paid by Original Equipment Manufacturers (OEMs) in 2023 were £14.5m (2022: £38.0m).
- guaranteed minimum future value (GMFV) support, included in trade payables as disclosed in note 19, was £2.6m (2022: £3.0m).

The company offers wholesale funding to Volvo Car UK Limited and is charged wholesale interest. The wholesale funding balance at year end is £34,964,000 (2022: £25,297,000).

Remuneration of key management personnel

The remuneration of the key management, which consists of two employees who act as the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Short-term employee benefits	395	338
Post-employment benefits	12	12
Total	407	350

Directors' and Key Management Persons' transactions

Finance leases and unsecured personal loans

Finance leases and unsecured personal loans are made to Directors and key management personnel in the ordinary course of business, with terms prevailing for comparable transactions and on the same terms and conditions (including interest and repayment features) as applicable to other employees within the Company. Such loans do not involve more than the normal risk of collectability or present any unfavourable features. At year end, these loan balances amounted to £76,000 (2022: £79,000.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(continued)

25. SUBSEQUENT EVENTS

On 29 January 2024, the Company raised £600 million through a securitisation of retail assets with Lloyds Bank plc by pledging £834m of assets to a special purpose vehicle (Axle 2023-1 Limited). The primary aim of the arrangement is to diversify the funding base of the Company.

26. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is a joint venture with 50.01% of the shares being held by Santander Consumer (UK) Plc, a subsidiary of Santander UK plc and 49.99% by Volvo Car Corporation.

The immediate parent company and immediate controlling party of Santander Consumer (UK) plc is Santander UK plc. The ultimate parent undertaking and controlling party of Santander UK plc is Banco Santander, S.A., a company registered in Spain. Banco Santander S.A. is the parent undertaking of the largest Company of undertakings for which Company financial statements are drawn up and of which the Company is a part of. Santander UK plc is the parent undertaking of the smallest Company of undertakings for which Company is equity accounted as a Joint Venture. Copies of all sets of Company financial statements which include the results of the Company are available from Corporate Governance Office, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.

The immediate parent company, and immediate controlling party of Volvo Car Corporation is Volvo Car AB, a company incorporated in Sweden where it is accounted for as a joint venture.

Zhejiang Geely Holding Group Company Limited is the ultimate parent company of Volvo Car Corporation and is a stock company incorporated and domiciled in the Republic of China.

Zhejiang Geely Holding Group Company Limited is the parent undertaking of the largest Company of undertakings for which Company financial statements are drawn up and of which the Company is a part of. Volvo Car Corporation is the parent undertaking of the smallest such Company of undertakings.

Copies of the Company financial statements for the Volvo companies may be obtained from Scandinavia House, Norreys Drive, Maidenhead, Berkshire, United Kingdom, SL6 4FL.