United Dominions Leasing Limited

Annual report and accounts
for the year ended 31 December 2021

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

00824614

Current directors

B D Bos
M D Whytock

Company Secretary

D D Hennessey

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2021

The directors present their report and the audited financial statements of United Dominions Leasing Limited ("the Company") for the year ended 31 December 2021.

General information

The Company is a private company, limited by shares, incorporated in the United Kingdom and registered and domiciled in England and Wales (registered number: 00824614).

The principal activity of the Company is to provide finance lease products to corporate customers. The Company's results for the year show a Profit before tax of £6,174,000 (2020: £3,396,000) and Net interest income of £5,287,000 (2020: £6,760,000). Net assets at 31 December 2021 were £25,195,000 (2020: £14,618,000). The Company reported Impairment gains of £1,916,000 (2020: Impairment losses of £2,864,000) as a result of the improving economic position following the progression of the COVID-19 pandemic.

The Company has two streams of business activity: Fleet and Commercial. The Fleet business, within the Retail Division, provides funding for vehicle fleet operators with lease terms of up to four years. The Commercial business provides financing agreements to commercial customers for vehicles and large plant machinery with lease terms up to 15 years. The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

Future outlook

The Company expects to continue to face the challenges of stock shortages resulting from the global micro-chip shortage, supply issues and increasing movement towards electric vehicles. These issues are expected to continue to impact new business levels but returns are expected to remain robust going forward as the business will focus on margin management and its used car business.

Any adverse changes affecting the UK economy may have direct and indirect credit and operational exposures. Any further deterioration in global macroeconomic conditions, including as a result of geopolitical events, global health issues, including the COVID-19 pandemic or acts of war or terrorism, could have an adverse effect on the Company's results.

The geopolitical implications of the conflict between Russia and Ukraine including the imposition of sanctions, could continue to have an adverse economic effect on financial markets and on energy costs further exacerbating the cost of living crisis, all of which could have an adverse effect on the supply chain issues and loan impairments.

The Company remains committed to the ambitious climate change goals set for the Group in 2020, see 2021 Group's financial statements for further details at https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Retail and Commercial Divisions of Lloyds Banking Group plc ('LBG'). While these risks are not managed separately for the Company, the Company is a main trading company of the Motor Finance business as part of the Group. Liquidity risk and Interest rate risk is managed and monitored by internal risk teams. Further details of these risks and the risk management policy are contained in note 18 to the financial statements.

The ongoing issue of stock shortages as a result of the global micro-chip shortage provides a continued risk to stocking levels and new business sales. Increases in fuel prices could unfavourably impact sales. These risks are monitored by the Motor Finance business.

The global pandemic from the outbreak of COVID-19 has caused disruption to financial markets and normal patterns of business activity across the world, including in the UK. Measures taken to contain the health impacts of the COVID-19 pandemic have resulted in adverse impacts on economic activity. These measures have now largely ended and the economic impact of the COVID-19 pandemic is not expected to have a material impact on the going concern of the Company.

Key performance indicators ("KPIs")

The key performance metrics considered for the Company are listed below:

KPI	2021	2020	Analysis
Net interest income (£'000)	5,287	6,760	The decrease in Net interest income is due to a reduction in Loans and advances to customers during the year.
Profit before tax (£'000)	6,174	3,396	The increase in Profit before tax is mainly due to the movement in Impairment gains/(losses) due to improved assessment of defaults from the COVID-19 pandemic. Impairment gains are offset by Net interest income which has reduced year on year.
Loans and advances to customers (£'000)	120,976	160,671	The decrease in Loans and advances to customers is driven by production delays that occurred in 2021 due to micro-chip shortages and an increased competitiveness in the Fleet car leasing sector.
ECL coverage	0.49%	1.45%	Decrease in ECL coverage is due to improved assessment of defaults following initial provisions made in respect of COVID-19 pandemic impacts in 2020.

Directors' report (continued)

For the year ended 31 December 2021

Dividends

No dividends were paid or proposed during the year ended 31 December 2021 (2020: £nil).

Going concern

The directors are satisfied that the financial statements have been prepared on a going concern basis taking into account the following;

- the Company is in a net asset position and will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on further funding as required from its intermediate parent, Lloyds Bank plc.

- that it is the intention of Lloyds Bank plc to continue to provide adequate access to liquidity for the foreseeable future.

Directors

The current directors of the Company are shown on the front cover. The following change has also taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

R Poole (resigned 12 May 2021)

Directors' indemnities

LBG has granted to the directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the director who joined the board of the Company during the financial year. Directors no longer in office but who served on the board of the Company at any time in the financial year had the benefit of this deed of indemnity during that period of service. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;

- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements; 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 keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

For the year ended 31 December 2021

Disclosure of information to auditor

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

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

Independent auditor

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

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

M D Whytock
Director

21 November 2022

Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest income		**5,372**	7,242
Interest expense		**(85)**	(482)
Net interest income	3	**5,287**	6,760
Other operating income	4	**(271)**	374
Impairment gains/(losses) on Loans and advances to customers	5	**1,916**	(2,864)
Other operating expenses	6	**(758)**	(874)
Profit before tax		**6,174**	3,396
Taxation	9	**4,403**	1,137
Profit for the year, being total comprehensive income		**10,577**	4,533

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

Balance sheet

As at 31 December 2021

	Note	31 December 2021	Restated 31 December 2020	Restated 1 January 2020
		£'000	£'000	£'000
ASSETS				
Cash and cash equivalents		**5,805**	3,584	-
Trade and other receivables	10	**22,474**	132,432	227,856
Loans and advances to customers	11	**120,976**	160,671	189,809
Current tax asset		**-**	3,305	4,605
Deferred tax asset	12	**23,235**	17,779	15,342
Total assets		**172,490**	317,771	437,612
LIABILITIES				
Borrowed funds	13	**143,049**	297,756	426,272
Trade and other payables	14	**3,061**	5,101	969
Current tax liability		**1,053**	-	-
Provision for liabilities and charges	15	**132**	296	286
Total liabilities		**147,295**	303,153	427,527
EQUITY				
Share capital	16	**-**	-	-
Retained earnings		**25,195**	14,618	10,085
Total equity		**25,195**	14,618	10,085
Total equity and liabilities		**172,490**	317,771	437,612

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

The 2020 comparatives have been restated to reflect the reclassification explained in note 21.

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

M D Whytock
Director

21 November 2022

Statement of changes in equity

For the year ended 31 December 2021

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2020	-	10,085	10,085
Profit for the year being total comprehensive income	-	4,533	4,533
At 31 December 2020	-	**14,618**	**14,618**
Profit for the year, being total comprehensive income	-	10,577	10,577
At 31 December 2021	-	**25,195**	**25,195**

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

Cash flow statement

For the year ended 31 December 2021

	2021 £'000	Restated 2020 £'000
Cash flows generated from operating activities		
Profit before tax	**6,174**	3,396
Adjustments for:		
- Interest expense	**85**	482
- (Decrease)/increase in Provision for liabilities and charges	**(164)**	10
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**39,695**	29,138
- Net decrease/(increase) in Other debtors	**6,740**	(4,873)
- Net (decrease)/increase in Trade and other payables	**(2,040)**	4,132
Cash generated from operations	**50,490**	32,285
Tax received	**3,305**	-
Net cash generated from operations	**53,795**	32,285
Cash flows used in financing activities		
Reduction in net borrowings with group undertakings	**(51,489)**	(28,219)
Interest paid	**(85)**	(482)
Net cash used in financing activities	**(51,574)**	(28,701)
Change in Cash and cash equivalents	**2,221**	3,584
Cash and cash equivalents at beginning of year	**3,584**	-
Cash and cash equivalents at end of year	**5,805**	3,584
Cash and cash equivalents comprise		
Cash at bank	**5,805**	3,584

The Company has not participated in any investing activities during the year.

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

The 2020 comparatives have been restated to reflect the reclassification explained in note 21.

Notes to the financial statements
For the year ended 31 December 2021

1. Accounting policies

1.1 Basis of preparation

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

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the IFRS Interpretations Committee and its predecessor body.

In preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

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

(i) Minor amendments to accounting standards: The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

The application of this pronouncement has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2021 and which have not been applied in preparing these financial statements are given in note 23. No standards have been early adopted.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in pounds sterling, which is the Company's functional and presentational currency.

The financial statements have been prepared on a going concern basis and under the historical cost convention.

1.2 Income recognition

Interest income and expense from financial assets

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

Once a financial asset or a group of similar financial assets has been credit impaired, interest income is recognised on the net lending basis.

Interest receivable on credit sale agreements, finance lease agreements and contract purchase agreements is credited to the Statement of comprehensive income over the contractual life of each contract using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the contractual life of the financial instrument.

For loan products, the effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the contractual life of a financial instrument to the net carrying amount of the financial asset or liability. The effective interest rate for leasing products is similar except that future cash payments or receipts are assessed over the contractual life of the agreement.

1. Accounting policies (continued)

1.2 Income recognition (continued)

Lease classification

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

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

Assets leased to customers under Personal Contract Purchase ("PCP") agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases.

Finance lease income

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

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

1.3 Financial assets and liabilities

Financial assets comprise Cash and cash equivalents, Loans and advances to customers and Trade and other receivables. Financial liabilities comprise Borrowed funds and Trade and other payables.

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

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

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Payment holidays of up to six months were offered to customers up until 31 March 2021 as a response to the COVID-19 pandemic. Interest accumulated during this period is charged at the end of the contract.

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

Amounts due from group undertakings is assessed at the reporting date for impairment on a forward looking basis and where appropriate an expected credit loss ("ECL") is recognised based on reasonable and supportable information.

1.4 Impairment

Credit losses

Loans and advances to customers

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses and certain fraud write offs and recoveries. Expected credit losses are recognised for loans and advances to customers and other financial assets held at amortised cost, together with any loan commitments. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default ("PD"), adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any repayments and including the impact of discounting using the effective interest rate.

1. Accounting policies (continued)

1.4 Impairment (continued)

Credit losses (continued)

Impairment of loans and advances to customers

At initial recognition, allowance (or provision) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. The collective assessment of impairment aggregates financial instruments with similar risk characteristics. Stage 3 assets are subject to individual assessment. Such assets are subject to a risk based impairment sanctioning process, and these are reviewed and updated at least quarterly, or more frequently if there is a significant change in the credit profile.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute PD movements linked to internal credit ratings together with internal credit risk classification and watchlist as qualitative indicators to identify significant increase in credit risk ("SICR"). Any account meeting the criteria is treated as an SICR. The use of internal credit ratings and qualitative indicators ensure alignment between the assessment of staging and the Company's management of credit risk which utilises these internal metrics within risk management practices.

The use of a payment holiday in itself has not been judged to indicate a significant increase in credit risk, with the underlying long-term credit risk deemed to be driven by economic conditions and captured through the use of forward-looking models. These portfolio level models are capturing the anticipated volume of increased defaults and therefore an appropriate assessment of staging and expected credit loss. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. The Company uses the IFRS 9 rebuttable presumption that default occurs no later than when a payment is 30 days past due. The use of payment holidays is not considered to be an automatic trigger of regulatory default and therefore does not automatically trigger Stage 3. Days past due will not accumulate on any accounts that have taken a payment holiday including those already past due.

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit impaired (for a return to Stage 2). On renegotiation the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate. Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

The PD of an exposure, both over a 12 month period or over its lifetime is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. More than 30 days past due is considered as unlikely to pay. The Company has adopted the following definition of default for all its products:

• unlikely to pay material obligation (> £1,000 in line with regulatory definition of default); or
• material breach of terms facility.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of credit impairment losses recorded in the Statement of comprehensive income. A write-off occurs if the loan facility with the customer is restructured, the asset is under administration and the only monies that can be received are the amounts estimated by the administrator, the underlying assets are disposed and a decision is made that no further settlement monies will be received, or external evidence (for example, third-party valuations) is available that there has been an irreversible decline in the expected cash flows.

1. Accounting policies (continued)

1.4 Impairment (continued)

Credit losses (continued)

Impairment of other financial assets

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

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

Allowance for impairment losses

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

Definition of default

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

Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. For loans and advances to customers, the Company has assumed the expected life for each product to be the time taken for all losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company. The assessment of SICR and the corresponding lifetime loss, and the PD, of a financial asset designated as Stage 2, or Stage 3, is dependent on it expected life.

In addition, the Company has considered the losses beyond the contractual term over which the Company is exposed to credit risk.

Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a SICR since initial recognition. Credit impaired assets are transferred to Stage 3 with a lifetime expected losses allowance.

The Company uses the internal credit risk classification and watchlist as qualitative indicators to identify SICR. Any account meeting the criteria is treated as an SICR. Finance assets are classified as credit-impaired if they are 30 days past due.

A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no cure period is applied to Stage 3. If an exposure that is classified as Stage 2 no longer meets the SICR criteria, which in some cases capture customer behaviour in previous periods, it is moved back to stage 1. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.

Generation of Multiple Economic Scenarios ("MES")

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In addition to a defined base case, as used for planning, the Company's approach relies on model-generated scenarios, reducing scope for bias in the selection of scenarios and their weightings. The assumptions underpinning the base case scenario reflect the Company's best view of future events. The base case is therefore central to the range of outcomes created as no alternative assumptions are factored into the model-generated scenarios.

1. Accounting policies (continued)

1.4 Impairment (continued)

Allowance for impairment losses (continued)

Generation of Multiple Economic Scenarios ("MES") (continued)

The Company models a full distribution of economic scenarios around this base case, ranking them using estimated relationships with industry-wide historical loss data. The full distribution is summarised by a practical number of scenarios to run through ECL models representing four sections: an upside, the base case, and a downside scenario weighted at 30 per cent each, with a severe downside scenario weighted at 10 per cent. With the base case already pre-defined, the other three scenarios are constructed as averages of constituent modelled scenarios around the 15th, 75th and 95th percentiles of the distribution. The scenario weights therefore represent the allocation to each summary segment of the distribution and not a subjective view on likelihood.

Base Case and MES Economic Assumptions

The Company's base case economic scenario has continued to be revised in light of the impact of the coronavirus pandemic in the UK and globally. The scenario reflects judgements of the net effect of government-mandated restrictions on economic activity, large-scale government interventions, and behavioural changes by households and businesses that may persist beyond the rollout of coronavirus vaccination programmes.

Application of judgement in adjustments to modelled ECL

Limitations in the Company's impairment models or data inputs, may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Company's allowance for impairment losses to ensure that the overall provision adequately reflects all material risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model overlays.

Judgements are not typically assessed under each distinct economic scenario used to generate ECL, but instead are applied on the basis of final modelled ECL which reflects the probability weighted view of all scenarios. All adjustments are reviewed quarterly and are subject to internal review and challenge to ensure that amounts are appropriately calculated and that there are specific release criteria within a reasonable timeframe.

At 31 December 2021 management judgement post-model adjustments of £603,000 have been made to increase the ECL allowance (2020: £1,261,000).

1.5 Cash and cash equivalents

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

1.6 Taxation, including deferred income taxes

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

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

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

1. Accounting policies (continued)

1.6 Taxation, including deferred income taxes (continued)

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

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

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

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

1.7 Provision for liabilities and charges

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

The directors consider that on the basis of materiality there are no critical accounting judgements and key sources of estimation uncertainty that are material to the Company.

3. Net interest income

	2021	2020
	£'000	£'000
Interest income		
From finance lease and hire purchase contracts	**5,372**	7,238
Group interest income (see note 17)	**-**	4
	5,372	7,242
Interest expense		
Group interest expense (see note 17)	**(85)**	(482)
Net interest income	**5,287**	6,760

4. Other operating income

	2021	2020
	£'000	£'000
Other operating income	**(271)**	374

Other operating income relates to the write back of aged balances.

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

31 December 2021	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Impact of transfers between stages	**38**	**(513)**	**-**	**(475)**
Repayments	**(175)**	**(720)**	**(9)**	**(904)**
Other changes in credit quality	**(187)**	**(32)**	**(318)**	**(537)**
	(324)	**(1,265)**	**(327)**	**(1,916)**
In respect of:				
Loans and advances to customers	**(264)**	**(1,161)**	**(327)**	**(1,752)**
Commitments to lend	**(60)**	**(104)**	**-**	**(164)**
	(324)	**(1,265)**	**(327)**	**(1,916)**

31 December 2020	*Stage 1* £'000	*Stage 2* £'000	*Stage 3* £'000	*Total* £'000
Impact of transfers between stages	(56)	713	208	865
Additions / (repayments)	(4)	310	(141)	165
Other changes in credit quality	120	164	1,550	1,834
	60	1,187	1,617	2,864
In respect of:				
Loans and advances to customers	146	1,091	1,617	2,854
Commitments to lend	(86)	96	-	10
	60	1,187	1,617	2,864

6. Other operating expenses

	2021 £'000	2020 £'000
Management charges payable (see note 17)	**639**	785
Other operating expenses	**119**	89
	758	874

Fees payable to the Company's auditors for the audit of the financial statements of £55,000 (2020: £45,000) have been borne by a fellow group undertaking and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Management fees.

7. Staff costs

The Company did not have any employees during the year (2020: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2020: £nil). the directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 17).

9. Taxation

	2021 £'000	2020 £'000
a) Analysis of credit for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**1,055**	1,335
- Adjustments in respect of prior years	**(2)**	(35)
Current tax charge	**1,053**	1,300
UK deferred tax:		
- Origination and reversal of timing differences	**118**	(689)
- Impact of deferred tax rate change	**(5,576)**	(1,800)
- Adjustments in respect of prior years	**2**	52
Deferred tax credit (see note 12)	**(5,456)**	(2,437)
Tax credit	**(4,403)**	(1,137)

Corporation tax is calculated at a rate of 19.00% (2020: 19.00%) of the taxable profit for the year.

b) Factors affecting the tax credit for the year

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

	2021 £'000	2020 £'000
Profit before tax	**6,174**	3,396
Tax charge thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	**1,173**	646
Factors affecting charge:		
- Effect of change in tax rate and related impacts	**(5,576)**	(1,800)
- Adjustments in respect of prior years	**-**	17
Tax credit on profit on ordinary activities	**(4,403)**	(1,137)
Effective rate	**(71.32%)**	(33.48%)

10. Trade and other receivables

	2021 £'000	Restated 2020 £'000
Current		
Trade receivables	-	-
Amounts due from group undertakings (see note 17)	**21,431**	124,649
Other debtors	**1,043**	7,783
	22,474	132,432

The 2020 comparatives have been restated to reflect the reclassification explained in note 21.

Amounts due from Lloyds Bank plc of £2,073,000 (2020: £95,705,000) are unsecured, non-interest bearing and are repayable on demand. Amounts due from Black Horse Limited of £19,358,000 (2020: £28,944,000) are unsecured, non-interest bearing and repayable on demand. All Amounts due from group undertakings are included within stage 1 for IFRS 9 purposes.

11. Loans and advances to customers

11.1 Loans and advances to customers - maturity

	2021 £'000	2020 £'000
Advances under finance lease and hire purchase contracts	**121,569**	163,035
Less: allowances for losses on loans and advances	**(593)**	(2,364)
Net loans and advances to customers	**120,976**	160,671
of which:		
Due within one year	**55,889**	66,928
Due after one year	**65,087**	93,743
	120,976	160,671

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

	2021 £'000	2020 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**59,885**	74,022
- later than one year and no later than two years	**36,155**	54,659
- later than two years and no later than three years	**22,140**	29,798
- later than three years and no later than four years	**7,652**	9,458
- later than four years and no later than five years	**1,725**	3,267
- later than five years	**6**	225
	127,563	171,429
Unearned future finance income on finance lease and hire purchase contracts	**(5,994)**	(8,394)
Net investment in finance lease and hire purchase contracts	**121,569**	163,035

Notes to the financial statements (continued)

For the year ended 31 December 2021

11. Loans and advances to customers (continued)

11.1 Loans and advances to customers - maturity (continued)

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

	2021 £'000	2020 £'000
- no later than one year	**56,482**	69,291
- later than one year and no later than two years	**34,454**	52,227
- later than two years and no later than three years	**21,453**	28,886
- later than three years and no later than four years	**7,475**	9,193
- later than four years and no later than five years	**1,698**	3,214
- later than five years	**7**	224
	121,569	163,035

The Company provides a range of finance lease products in connection with the financing of motor vehicles and equipment. The leases typically run for periods of between 1 and 4 years.

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2020: £nil).

Further analysis of Loans and advances to customers is provided in note 18.

11.2 Loans and advances to customers - movement over time

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance at 1 January 2021	**130,846**	**30,467**	**1,722**	**163,035**
Transfers to Stage 1	**10,042**	**(10,001)**	**(41)**	**-**
Transfers to Stage 2	**(3,842)**	**3,842**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Net decrease in loans and advances to customers	**(31,051)**	**(8,748)**	**(1,648)**	**(41,447)**
Financial assets that have been written off during the year	**-**	**-**	**(19)**	**(19)**
Gross loans and advances to customers	**105,995**	**15,560**	**14**	**121,569**
Less: allowances for losses on loans and advances	**(314)**	**(279)**	**-**	**(593)**
Net loans and advances to customers	**105,681**	**15,281**	**14**	**120,976**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2020	178,641	11,910	384	190,935
Transfers to Stage 1	713	(713)	-	-
Transfers to Stage 2	(18,811)	18,811	-	-
Transfers to Stage 3	(2,377)	(572)	2,949	-
Net decrease in loans and advances to customers	(27,320)	1,031	5	(26,284)
Financial assets that have been written off during the year	-	-	(1,616)	(1,616)
Gross loans and advances to customers	130,846	30,467	1,722	163,035
Less: allowances for losses on loans and advances	(578)	(1,440)	(346)	(2,364)
Net loans and advances to customers	130,268	29,027	1,376	160,671

12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2021 £'000	2020 £'000
At 1 January	**17,779**	15,342
Credit for the year (see note 9)	**5,456**	2,437
At 31 December	**23,235**	17,779

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

	2021 £'000	2020 £'000
Accelerated capital allowances	**5,456**	2,437

Deferred tax asset comprises:	2021 £'000	2020 £'000
Accelerated capital allowances	**23,235**	17,779

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

13. Borrowed funds

	2021 £'000	2020 £'000
Amounts due to group undertakings (see note 17)	**143,049**	297,756

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to United Dominions Trust Limited of £77,682,000 (2020: £146,438,000) and Lloyds Bank plc of £62,050,000 (2020: £44,442,000) are interest bearing based on SONIA. Amounts due to Lloyds UDT Leasing Limited of £1,805,000 (2020: £931,000) and Lloyds Bank Commercial Finance Limited of £1,512,000 (2020: £105,945,000) are non-interest bearing.

14. Trade and other payables

	2021 £'000	2020 £'000
Other tax and social security payable	**2,527**	3,157
Accruals and deferred income	**534**	1,944
	3,061	5,101

15. Provision for liabilities and charges

	Undrawn loan commitments £'000
At 1 January 2020	286
Charge for the year	10
At 31 December 2020	296
Credit for the year	(164)
At 31 December 2021	**132**

Undrawn loan commitment provision relates to the expected loss on the loan commitments that the Company has made to its customers for undrawn balances at the year-end.

As at 31 December 2021, the provision of £132,000 (2020: £296,000) was all categorised as Stage 1 of impairment per the expected credit loss methodology under IFRS 9.

16. Share capital

	2021 £'000	2020 £'000
Allotted, issued and fully paid		
100 ordinary shares of £1 each	-	-

At 31 December 2021, the authorised share capital of the Company was £100 divided into 100 shares of £1 each. All ordinary shares rank pari passu in all respects including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company.

17. Related party transactions

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

	2021 £'000	Restated 2020 £'000
Amounts due from group undertakings		
Black Horse Limited	**19,358**	28,944
Lloyds Bank plc	**2,073**	95,705
Total Amounts due from group undertakings (see note 10)	**21,431**	124,649
Amounts due to group undertakings		
Lloyds UDT Leasing Limited	**1,805**	931
United Dominions Trust Limited	**77,682**	146,438
Lloyds Bank Commercial Finance Limited	**1,512**	105,945
Lloyds Bank plc	**62,050**	44,442
Total Amounts due to group undertakings (see note 13)	**143,049**	297,756
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**5,805**	3,584
Interest income		
Lloyds Bank plc (see note 3)	**-**	**4**

17. Related party transactions (continued)

	2021 £'000	2020 £'000
Interest expense		
Lloyds Bank plc	**37**	80
United Dominions Trust Limited	**48**	402
Total Interest expense (see note 3)	**85**	482
Management charges payable		
Black Horse Limited (see note 6)	**639**	785

The 2020 comparatives have been restated to reflect the reclassification explained in note 21.

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

Key management personnel

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

18. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, interest rate risk and business risk; it is not exposed to any significant foreign exchange risk or market risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the Retail and Commercial Divisions, and the ultimate parent, Lloyds Banking Group plc. Interest rate hedges were used to mitigate interest rate risk relating to a proportion of the Company's intercompany borrowings. The remaining interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by the Retail and Commercial Division's credit committee and credit functions. Business risk is managed through regular reporting and oversight.

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

18.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with instalment credit contracts is managed through the application of strict underwriting criteria, determined by the Retail and Commercial Divisions credit committees and credit functions. Significant credit exposures are measured and reported on a regular basis. For loans and advances, credit risk arises both from accounts lent and commitments to extend credit to a customer, principally loan commitments.

Credit risk mitigation

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

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

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

18. Financial risk management (continued)

18.1 Credit risk

Credit risk mitigation (continued)

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

Credit concentration - Loans and advances to customers

The Company lends to wholesale customers (being motor traders and corporate customers) geographically located in the United Kingdom.

Loans and advances to customers - gross carrying amount

The analysis of lending has been prepared by applying the Group's rating scales to the Company's impairment model. The internal credit rating systems are set out below. The Group's probabilities of default ("PD"s), that have been applied, include forward-looking information and are based on 12 month values, with the exception of credit impaired.

For the Company's leasing portfolio, the Group's Corporate Master Scale ("CMS") has been used, with the internal credit rating systems set out below:

At 31 December 2021	**PD Range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Fleet					
CMS 1-10	0.00-0.050%	**39,555**	**2**	**-**	**39,557**
CMS 11-14	0.051-3.00%	**36,440**	**5,856**	**-**	**42,296**
CMS 15-18	3.01-20.00%	**24,994**	**1,589**	**-**	**26,583**
CMS 19	20.01-99.99%	**24**	**-**	**-**	**24**
CMS 20-23	100%	**-**	**-**	**14**	**14**
Total		**101,013**	**7,447**	**14**	**108,474**
Commercial					
CMS 1-10	0.00-0.050%	**3,987**	**863**	**-**	**4,850**
CMS 11-14	0.051-3.00%	**995**	**6,702**	**-**	**7,697**
CMS 15-18	3.01-20.00%	**-**	**548**	**-**	**548**
CMS 19	20.01-99.99%	**-**	**-**	**-**	**-**
CMS 20-23	100%	**-**	**-**	**-**	**-**
Total		**4,982**	**8,113**	**-**	**13,095**
Total Loans and advances to customers		**105,995**	**15,560**	**14**	**121,569**

At 31 December 2020	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Fleet					
CMS 1-10	0.00-0.050%	43,611	17	-	43,628
CMS 11-14	0.051-3.00%	58,792	484	-	59,276
CMS 15-18	3.01-20.00%	20,364	19,891	-	40,255
CMS 19	20.01-99.99%	191	50	-	241
CMS 20-23	100%	-	-	963	963
		122,958	20,442	963	144,363

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. Financial risk management (continued)

18.1 Credit risk (continued)

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

At 31 December 2020

	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Commercial					
CMS 1-10	0.00-0.050%	398	-	-	398
CMS 11-14	0.051-3.00%	5,826	2,420	-	8,246
CMS 15-18	3.01-20.00%	1,664	4,896	-	6,560
CMS 19	20.01-99.99%	-	2,709	-	2,709
CMS 20-23	100%	-	-	759	759
		7,888	10,025	759	18,672
Total loans and advances to customers		130,846	30,467	1,722	163,035

Commitments to lend	**PD Range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Fleet					
CMS 1-10	0.00-0.050%	**32,060**	-	-	**32,060**
CMS 11-14	0.051-3.00%	**22,748**	-	-	**22,748**
CMS 15-18	3.01-20.00%	**11,392**	-	-	**11,392**
CMS 19	20.01-99.99%	-	-	-	-
CMS 20-23	100%	-	-	**4**	**4**
At 31 December 2021		**66,200**	-	**4**	**66,204**
CMS 1-10	0.00-0.050%	24,202	-	-	24,202
CMS 11-14	0.051-3.00%	29,575	-	-	29,575
CMS 15-18	3.01-20.00%	9,964	2,713	-	12,677
CMS 19	20.01-99.99%	63	-	-	63
CMS 20-23	100%	-	-	46	46
At 31 December 2020		63,804	2,713	46	66,563

Commitments to lend consist of undrawn formal standby facilities, credit facilities and other commitments to lend.

Analysis of movement in the allowance for impairment losses by stage

<u>**In respect of drawn balances**</u>	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2020	432	349	345	1,126
Transfers to Stage 1	5	(5)	-	-
Transfers to Stage 2	(41)	41	-	-
Transfers to Stage 3	(2)	(9)	11	-
Impact of transfer between stages	(4)	686	197	879
Other items charged to Statement of comprehensive income	188	378	1,409	1,975
Charge for the year (including recoveries)	146	1,091	1,617	2,854
Financial assets that have been written off during the year	-	-	(1,616)	(1,616)
At 31 December 2020	578	1,440	346	2,364

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. Financial risk management (continued)

18.1 Credit risk (continued)

Analysis of movement in the allowance for impairment losses by stage (continued)

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2021	578	1,440	346	2,364
Transfers to Stage 1	519	(519)	-	-
Transfers to Stage 2	(14)	14	-	-
Transfers to Stage 3	-	-	-	-
Impact of transfer between stages	(467)	(8)	-	(475)
Other items credited to Statement of comprehensive income	(302)	(648)	(327)	(1,277)
Credit for the year (including recoveries)	(264)	(1,161)	(327)	(1,752)
Financial assets that have been written off during the year	-	-	(19)	(19)
At 31 December 2021	**314**	**279**	**-**	**593**

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2020	278	8	-	286
Transfers to Stage 2	(12)	12	-	-
Transfers to Stage 3	(4)	-	4	-
Other items (credited)/charged to Statement of comprehensive income	(70)	84	(4)	10
(Credit)/charge for year (including recoveries)	(86)	96	-	10
At 31 December 2020	192	104	-	296
At 1 January 2021	192	104	-	296
Credit for year (including recoveries)	**(60)**	**(104)**	-	**(164)**
At 31 December 2021	**132**	**-**	**-**	**132**

Total drawn and undrawn provisions

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of:				
Loans and advances to customers	578	1,440	346	2,364
Commitments to lend	192	104	-	296
Total as at 31 December 2020	770	1,544	346	2,660
In respect of:				
Loans and advances to customers	**314**	**279**	**-**	**593**
Commitments to lend	**132**	**-**	**-**	**132**
Total as at 31 December 2021	**446**	**279**	**-**	**725**

The criteria used to determine that there is objective evidence of an impairment is disclosed in more detail in note 1.4.

18. Financial risk management (continued)

18.1 Credit risk (continued)

Repossessed collateral

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

During the year the Company repossessed collateral in respect of defaulted debt with a value of £nil (2020: £3,100,000).

18.2 Liquidity risk

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

Liquidity risks are managed as part of the Group by an intermediate parent company, Lloyds Bank plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

The Company is funded entirely by companies within the Group. Such funding is repayable on demand, although there is no expectation that such a demand would be made. All other financial liabilities are repayable on demand.

18.3 Interest rate risk

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

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's Amounts due to group undertakings and takes account of movement in the blended variable rates, linked to both market swap rates and SONIA, which is the basis for the interest charged on such balances. A 0.14% (2020: 0.67%) increase or decrease is used to assess the possible change in Interest expense, as this is within expectations following review of movements in the blended rate over the last 12 months.

If SONIA increased by 0.14% (2020: 0.67%) and all other variables remain constant this would increase Interest expense by £216,000 (2020: £2,165,000) and accordingly decrease Interest expense by £216,000 (2020: £2,165,000) if SONIA decreased by the same amount.

18.4 Business risk

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

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

18.5 Financial strategy

The Company used financial instruments to mitigate interest rate risk. However, the Company does not trade in financial instruments and no longer uses them.

18. Financial risk management (continued)

18.6 Fair values of financial assets and liabilities

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

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

The aggregated fair value of Loans and advances to customers is approximately £121,380,000 (2020: £162,947,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

19. Capital disclosures

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

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

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

20. Contingent liabilities and capital commitments

There were no contracted capital commitments at the Balance sheet date (2020: £nil).

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £31,748,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

21. Reclassification of comparatives

The comparative information reported has been restated, as summarised in the table below:

	Previously reported £'000	Adjustment £'000	**Restated £'000**
Balance sheet			
As at 31 December 2020			
Assets			
Cash and cash equivalents	-	3,584	**3,584**
Trade and other receivables	136,016	(3,584)	**132,432**
Related parties note			
As at 31 December 2020			
Amounts due from group undertakings			
Lloyds Bank plc	99,289	(3,584)	**95,705**
Cash and cash equivalents			
Lloyds Bank plc	-	3,584	**3,584**

Notes to the financial statements (continued)

For the year ended 31 December 2021

21. Reclassification of comparatives (continued)

Cash and cash equivalents are held with other companies within the Group and were previously presented as Amounts due from group undertakings. These are now disclosed as Cash and cash equivalents on the Balance sheet in line with the requirements of IAS1.

The Company had no Cash and cash equivalents at 31 December 2019.

22. Post balance sheet events

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

23. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2021 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).	Annual periods beginning on or after 1 January 2022

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

24. Ultimate parent undertaking and controlling party

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

Independent auditors' report to the members of United Dominions Leasing Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of United Dominions Leasing Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- *the statement of comprehensive income;*
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditors' report to the members of United Dominions Leasing Limited (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined 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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements, for example, the Companies Act 2006; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty, for example, FCA regulation.

We discussed among the audit engagement team including relevant internal specialists such as tax, IT and credit specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports.

Independent auditors' report to the members of United Dominions Leasing Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

Mark Taylor

Mark Taylor, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditors
Bristol, United Kingdom

21 November 2022