United Dominions Leasing Limited

Annual report and accounts
for the year ended 31 December 2022

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

00824614

Current directors

B D Bos
P L Hyne

Company Secretary

D D Hennessey

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2022

The directors present their report and the audited financial statements of United Dominions Leasing Limited ("the Company") for the year ended 31 December 2022.

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 Net interest income of £2,531,000 (2021: £5,287,000) and Profit before tax of £2,008,000 (2021: £6,174,000). Net assets at 31 December 2022 were £26,708,000 (2021: £25,195,000).

The Company has two streams of business activity: Fleet and Commercial. The Fleet business, within the Consumer Lending 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 foresees some continued pressures on the supply of new cars due to stock shortages, however these pressures are expected to ease through the year and thus the level of new business is expected to increase. These issues, plus inflationary pressures and rising interest rates are expected to continue to influence new business levels but returns are expected to remain robust going forward by pricing appropriately to maintain agreed margins.

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 or acts of war or terrorism, could have a material adverse effect on the Company's results.

The Company remains committed to the ambitious climate change goals set for the Group in 2020, see 2022 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 Consumer Lending 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 Transport 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 and supply chain constraints provides a continued risk to stocking levels and new business sales. Higher fuel prices and the continued popularity of electric vehicles could also influence sales. These risks are monitored by the Transport business.

Key performance indicators ("KPIs")

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

KPI	2022	2021	Analysis
Net interest income (£'000)	2,531	5,287	The decrease in Net interest income is due to a reduction in Loans and advances to customers during the year and increased funding charges as a result of increased interest rates.
Profit before tax (£'000)	2,008	6,174	The decrease in Profit before tax is mainly due to reduced Net interest income from decreased Loans and advances to customers and increased funding charges and a reduction in impairment gains following post Covid-19 provision release in 2021.
Loans and advances to customers (£'000)	85,174	120,976	Loans and advances to customers has decreased as more new business was written through other Transport entities during 2022.
Expected credit losses ("ECL") coverage	0.46%	0.49%	ECL coverage is broadly unchanged from prior year.

Directors' report (continued)

For the year ended 31 December 2022

Dividends

No dividends were paid or proposed during the year ended 31 December 2022 (2021: £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 changes have also taken place between the beginning of the reporting period and the approval of the Annual report and financial statements:

P L Hyne	(appointed 5 April 2023)
M D Whytock	(resigned 29 March 2023)

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:

- properly select and apply accounting policies;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable

- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

- make an assessment of the Company's ability to continue as a going concern.

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

Directors' report (continued)
For the year ended 31 December 2022

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:

B D Bos
Director

17 July 2023

Statement of comprehensive income

For the year ended 31 December 2022

	Note	**2022 £'000**	2021 £'000
Interest income		**3,966**	5,372
Interest expense		**(1,435)**	(85)
Net interest income	3	**2,531**	5,287
Other operating income	4	**204**	(271)
Impairment gains on Loans and advances to customers	5	**41**	1,916
Other operating expenses	6	**(768)**	(758)
Profit before tax		**2,008**	6,174
Taxation	9	**(495)**	4,403
Profit for the year, being total comprehensive income		**1,513**	10,577

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

Balance sheet

As at 31 December 2022

	Note	2022 £'000	2021 £'000
ASSETS			
Cash and cash equivalents		**12,366**	5,805
Trade and other receivables	10	**13,023**	22,474
Loans and advances to customers	11	**85,174**	120,976
Deferred tax asset	12	**22,763**	23,235
Total assets		**133,326**	172,490
LIABILITIES			
Borrowed funds	13	**104,541**	143,049
Trade and other payables	14	**1,932**	3,061
Current tax liability		**23**	1,053
Provision for liabilities and charges	15	**122**	132
Total liabilities		**106,618**	147,295
EQUITY			
Share capital	16	**-**	-
Retained earnings		**26,708**	25,195
Total equity		**26,708**	25,195
Total equity and liabilities		**133,326**	172,490

This report has been prepared in accordance with the special provisions relating to small companies within Part15 of the Companies Act 2006.

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

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

B D Bos
Director

17 July 2023

Statement of changes in equity

For the year ended 31 December 2022

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2021	-	14,618	14,618
Profit for the year being total comprehensive income	-	10,577	10,577
At 31 December 2021	-	**25,195**	**25,195**
Profit for the year, being total comprehensive income	-	1,513	1,513
At 31 December 2022	-	**26,708**	**26,708**

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

Cash flow statement

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows generated from operating activities			
Profit before tax		**2,008**	6,174
Adjustments for:			
- Interest expense	3	**1,435**	85
- Decrease in Provision for liabilities and charges	15	**(10)**	(164)
Changes in operating assets and liabilities:			
- Net decrease in Loans and advances to customers	11	**35,802**	39,695
- Net (increase)/decrease in Other debtors	10	**(1,597)**	6,740
- Net decrease in Trade and other payables	14	**(1,129)**	(2,040)
Cash generated from operations		**36,509**	50,490
Tax (paid)/Tax received		**(1,053)**	3,305
Net cash generated from operations		**35,456**	53,795
Cash flows used in financing activities			
Reduction in net borrowings with group undertakings		**(27,460)**	(51,489)
Interest paid	3	**(1,435)**	(85)
Net cash used in financing activities		**(28,895)**	(51,574)
Change in Cash and cash equivalents		**6,561**	2,221
Cash and cash equivalents at beginning of year		**5,805**	3,584
Cash and cash equivalents at end of year		**12,366**	5,805
Cash and cash equivalents comprise			
Cash at bank		**12,366**	5,805

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.

Notes to the financial statements

For the year ended 31 December 2022

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.

No new IFRS pronouncements which had a material impact have been adopted in these financial statements.

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 2022 and which have not been applied in preparing these financial statements are given in note 22. 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.

1.4 Impairment

i) 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 "ECL" are recognised for loans and advances to customers and other financial assets held at amortised cost, together with any loan commitments. ECL 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)

i) Credit losses (continued)

Impairment of loans and advances to customers

At initial recognition, allowance (or provision) is made for ECL resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk ("SICR") 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 ECL). Financial assets where 12-month ECL 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.

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. Where the credit risk subsequently improves such that it no longer represents a SICR 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 90 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. The Company has adopted the following definition of default for all its products:

- unlikely to pay material obligation; or
- material breach of terms facility; or
- for Fleet, more than 30 days past due, and for Commercial, more than 90 days past due.

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. The write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

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.

1. Accounting policies (continued)

1.4 Impairment (continued)

ii) Allowance for Credit impairment losses

The calculation of the Company's ECL allowances and provisions against Loans and advances to customers under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. Key judgements include determining an appropriate definition of default against which a probability of default, exposure at default and loss given default parameter can be evaluated, the appropriate life time of an exposure to credit risk for the assessment of lifetime losses, the use of management judgements alongside impairment modelling processes to adjust inputs, parameters and outputs to reflect risks not captured by models; and key estimates include base case and multiple economic scenarios ("MES") assumptions, including the rate of unemployment. The most significant are set out below.

Definition of default

The 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. The definition of default adopted by the Company is described in note 1.4 Impairment - (i) Credit losses.

Lifetime of an exposure

The PD of a financial asset is dependent on its expected life using the full contractual 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 corresponding lifetime loss, and the PD, of a financial asset designated as Stage 2, or Stage 3, is dependent on its expected life.

In addition, for non-retail ("wholesale") lending, 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.

In determining whether there has been a SICR, 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. 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.

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.

The use of a payment holiday in and of itself has not been judged to indicate a significant increase in credit risk, nor forbearance, 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.

1. Accounting policies (continued)

1.4 Impairment (continued)

ii) Allowance for Credit impairment losses (continued)

Generation of Multiple Economic Scenarios ("MES")

The estimate of expected credit losses is required to be based on an unbiased expectation of future economic scenarios. The approach used to generate the range of future economic scenarios depends on the methodology and judgements adopted. The Company's approach is to start from a defined base case scenario, used for planning purposes, and to generate alternative economic scenarios around this base case. The base case scenario is a conditional forecast underpinned by a number of conditioning assumptions that reflect the Company's best view of key future developments. If circumstances appear likely to materially deviate from the conditioning assumptions, then the base case scenario is updated.

The base case scenario is central to a range of future economic scenarios generated by simulation of an economic model, for which the same conditioning assumptions apply as in the base case scenario. These scenarios are ranked by using estimated relationships with industry-wide historical loss data. With the base case already pre-defined, three other scenarios are identified as averages of constituent scenarios located around the 15th, 75th and 95th percentiles of the distribution. The full distribution is therefore summarised by a practical number of scenarios to run through ECL models representing an upside, the base case, and a downside scenario weighted at 30 per cent each, together with a severe downside scenario weighted at 10 per cent. The scenario weights represent the distribution of economic scenarios and not subjective views on likelihood. The inclusion of a severe downside scenario with a smaller weighting ensures that the non-linearity of losses in the tail of the distribution is adequately captured. No material changes were made to the model in 2022.

Base Case and MES Economic Assumptions

The Company's base case economic scenario has been revised in light of the ongoing war in Ukraine, reversals in UK fiscal policy, and continuing global shift towards a more restrictive monetary policy stance against a backdrop of elevated inflation pressures. The Company's updated base case scenario has three conditioning assumptions: first, the war in Ukraine remains 'local', i.e. without overtly involving neighbouring countries, NATO or China; second, the UK labour market participation rate remains below pre-pandemic levels, impeding the economy's supply capacity; and third, the Bank of England accommodates above-target inflation in the medium term, recognising the economic costs that might arise from a rapid return to the two per cent target.

Based on these assumptions and incorporating the economic data published in the fourth quarter, the Company's base case scenario is for a contraction in economic activity and a rise in the unemployment rate following increases in UK Bank Rate in response to persistent inflationary pressures. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

Based on these assumptions and incorporating the economic data published in the fourth quarter, the Company's base case scenario is for a contraction in economic activity and a rise in the unemployment rate following increases in UK Bank Rate in response to persistent inflationary pressures. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

The Company has accommodated the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the fourth quarter of 2022, for which actuals may have since emerged prior to publication.

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.

At 31 December 2022 management judgement post-model adjustments of £265,000 have been made to increase the ECL allowance (2021: £603,000).

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. Accounting policies (continued)

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 His 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.

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 following is the critical accounting judgement and key sources of estimation uncertainty that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

ECL sensitivity to economic assumptions

The table below shows the Company's ECL for Loans and Advances to Customers and Loan Commitment for the upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall scenario probability-weighted PD and, hence, the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments and post-model adjustments is constant reflecting the basis on which they are evaluated. Judgements applied through changes to inputs are reflected in the scenario sensitivities. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case. Whilst management judgement is used for individual assessments and post-model adjustments, it is possible that the actual outcome will be different therefore this is considered to be a key source of estimation uncertainty.

	Probability-weighted	Upside	Base	Downside	Severe downside
	£'000	£'000	£'000	£'000	£'000
2022	**513**	**451**	**496**	**538**	**675**
2021	725	684	717	745	807

3. Net interest income

	2022 £'000	2021 £'000
Interest income		
From finance lease and hire purchase contracts	**3,966**	5,372
	3,966	5,372
Interest expense		
Group interest expense (see note 17)	**(1,435)**	(85)
Net interest income	**2,531**	5,287

4. Other operating income

	2022 £'000	2021 £'000
Other operating income	**204**	(271)

The total 2021 Other operating income balance relates to the write back of aged balances.

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

31 December 2022	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Impact of transfers between stages	**2**	**(3)**	**64**	**63**
Repayments	**(133)**	**(254)**	**-**	**(387)**
Other changes in credit quality	**(7)**	**27**	**263**	**283**
	(138)	**(230)**	**327**	**(41)**
In respect of:				
Loans and advances to customers	**(128)**	**(230)**	**327**	**(31)**
Commitments to lend	**(10)**		**-**	**(10)**
	(138)	**(230)**	**327**	**(41)**

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)

Notes to the financial statements (continued)

For the year ended 31 December 2022

6. Other operating expenses

	2022 £'000	2021 £'000
Management charges payable (see note 17)	**582**	639
Other operating expenses	**186**	119
	768	758

Fees payable to the Company's auditors for the audit of the financial statements of £61,000 (2021: £55,000) 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 (2021: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2021: £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

	2022 £'000	2021 £'000
a) Analysis of charge/(credit) for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**23**	1,055
- Adjustments in respect of prior years	**-**	(2)
Current tax charge	**23**	1,053
UK deferred tax:		
- Origination and reversal of timing differences	**359**	118
- Impact of deferred tax rate change	**113**	(5,576)
- Adjustments in respect of prior years	**-**	2
Deferred tax charge/(credit) (see note 12)	**472**	(5,456)
Tax charge/(credit)	**495**	(4,403)

Corporation tax is calculated at a rate of 19.00% (2021: 19.00%) of the taxable profit for the year.

9. Taxation (continued)

b) Factors affecting the tax charge/(credit) for the year

A reconciliation of the charge/(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:

	2022 £'000	2021 £'000
Profit before tax	**2,008**	6,174
Tax charge thereon at UK corporation tax rate of 19.00% (2021: 19.00%)	**382**	1,173
Factors affecting charge:		
- Effect of change in tax rate and related impacts	**113**	(5,576)
Tax charge/(credit) on profit on ordinary activities	**495**	(4,403)
Effective rate	**24.65%**	(71.32%)

10. Trade and other receivables

	2022 £'000	2021 £'000
Amounts due from group undertakings (see note 17)	**10,383**	21,431
Other debtors	**2,640**	1,043
	13,023	22,474

Amounts due from Lloyds Bank plc of £nil (2021: £2,073,000) are unsecured, non-interest bearing and are repayable on demand. Amounts due from Black Horse Limited of £10,383,000 (2021: £19,358,000) 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

	2022 £'000	2021 £'000
Advances under finance lease and hire purchase contracts	**85,565**	121,569
Less: allowances for losses on loans and advances	**(391)**	(593)
Net loans and advances to customers	**85,174**	120,976
of which:		
Due within one year	**36,585**	55,889
Due after one year	**48,589**	65,087
	85,174	120,976

11. Loans and advances to customers (continued)

11.1 Loans and advances to customers - maturity (continued)

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

	2022 £'000	2021 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	**39,832**	59,885
- later than one year and no later than two years	**27,005**	36,155
- later than two years and no later than three years	**17,293**	22,140
- later than three years and no later than four years	**6,315**	7,652
- later than four years and no later than five years	**587**	1,725
- later than five years	**-**	6
	91,032	127,563
Unearned future finance income on finance lease and hire purchase contracts	**(5,467)**	(5,994)
Net investment in finance lease and hire purchase contracts	**85,565**	121,569

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

	2022 £'000	2021 £'000
- no later than one year	**36,927**	56,482
- later than one year and no later than two years	**25,359**	34,454
- later than two years and no later than three years	**16,547**	21,453
- later than three years and no later than four years	**6,111**	7,475
- later than four years and no later than five years	**573**	1,698
- later than five years	**-**	7
	85,565	121,569

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 (2021: £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 2022	105,995	15,560	14	121,569
Transfers to Stage 1	4,282	(4,282)	-	-
Transfers to Stage 2	(433)	464	(31)	-
Transfers to Stage 3	(225)	(147)	372	-
Net increase (decrease) in loans and advances to customers	(26,787)	(9,292)	246	(35,833)
Financial assets that have been written off during the year	-	-	(171)	(171)
Gross loans and advances to customers	82,832	2,303	430	85,565
Less: allowances for losses on loans and advances	(186)	(49)	(156)	(391)
Net loans and advances to customers at December 2022	82,646	2,254	274	85,174

11. Loans and advances to customers (continued)

11.2 Loans and advances to customers - movement over time (continued)

	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	-	-
Net increase (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)
Loans and advances to customers at 31 December 2021	105,681	15,281	14	120,976

12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2022 £'000	2021 £'000
At 1 January	**23,235**	17,779
(Charge)/credit for the year (see note 9)	**(472)**	5,456
At 31 December	**22,763**	23,235

The deferred tax (charge)/credit in the Statement of comprehensive income comprises the following temporary differences:

	2022 £'000	2021 £'000
Accelerated capital allowances	**(472)**	5,456

Deferred tax asset comprises:	**2022 £'000**	2021 £'000
Accelerated capital allowances	**22,763**	23,235

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

	2022 £'000	2021 £'000
Amounts due to group undertakings (see note 17)	**104,541**	143,049

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 £20,378,000 (2021: £77,682,000) and Lloyds Bank plc of £68,562,000 (2021: £62,050,000) are interest bearing based on the Sterling Overnight Index Average ("SONIA"). Amounts due to Lloyds UDT Leasing Limited of £3,431,000 (2021: £1,805,000), Lloyds Bank plc of £10,459,000 (2021: nil), Lloyds Bank Commercial Finance Scotland Limited of £465,000 (2021: £nil) and Lloyds Bank Commercial Finance Limited of £1,246,000 (2021: £1,512,000) are non-interest bearing.

14. Trade and other payables

	2022 £'000	2021 £'000
Other tax and social security payable	**840**	2,527
Accruals and deferred income	**1,092**	534
	1,932	3,061

15. Provision for liabilities and charges

	Undrawn loan commitments £'000
At 1 January 2021	296
Credit for the year	(164)
At 31 December 2021	132
Credit for the year	(10)
At 31 December 2022	**122**

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 2022, the provision of £122,000 (2021: £132,000) was all categorised as Stage 1 of impairment per the expected credit loss methodology under IFRS 9.

16. Share capital

	2022 £'000	2021 £'000
Allotted, issued and fully paid		
100 ordinary shares of £1 each	-	-

At 31 December 2022, 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 expense for the year is set out below.

	2022 £'000	2021 £'000
Amounts due from group undertakings		
Black Horse Limited	**10,383**	19,358
Lloyds Bank plc	-	2,073
Total Amounts due from group undertakings (see note 10)	**10,383**	21,431
Amounts due to group undertakings		
Lloyds UDT Leasing Limited	**3,431**	1,805
United Dominions Trust Limited	**20,378**	77,682
Lloyds Bank Commercial Finance Limited	**1,246**	1,512
Lloyds Bank Commercial Finance Scotland Limited	**465**	-
Lloyds Bank plc	**79,021**	62,050
Total Amounts due to group undertakings (see note 13)	**104,541**	143,049

17. Related party transactions (continued)

	2022 £'000	2021 £'000
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**12,366**	5,805
Interest expense		
Lloyds Bank plc	**1,046**	37
United Dominions Trust Limited	**389**	48
Total Interest expense (see note 3)	**1,435**	85
Management charges payable		
Black Horse Limited (see note 6)	**582**	639

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 Consumer Lending 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 Consumer Lending 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 Consumer Lending 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

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 2022	**PD Range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Fleet					
CMS 1-10	0.00-0.50%	**19,617**	**-**	**-**	**19,617**
CMS 11-14	0.51-3.00%	**52,758**	**-**	**-**	**52,758**
CMS 15-18	3.01-20.00%	**5,241**	**30**	**-**	**5,271**
CMS 19	20.01-99.99%	**6**	**1**	**-**	**7**
CMS 20-23	100%	**-**	**-**	**148**	**148**
Total		**77,622**	**31**	**148**	**77,801**
Commercial					
CMS 1-10	0.00-0.50%	**3,270**	**-**	**-**	**3,270**
CMS 11-14	0.51-3.00%	**1,815**	**70**	**-**	**1,885**
CMS 15-18	3.01-20.00%	**125**	**1,764**	**-**	**1,889**
CMS 19	20.01-99.99%	**-**	**438**	**-**	**438**
CMS 20-23	100%	**-**	**-**	**282**	**282**
Total		**5,210**	**2,272**	**282**	**7,764**
Total Loans and advances to customers		**82,832**	**2,303**	**430**	**85,565**

At 31 December 2021	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Fleet					
CMS 1-10	0.00-0.50%	39,555	2	-	39,557
CMS 11-14	0.51-3.00%	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
		101,013	7,447	14	108,474

18. Financial risk management (continued)

18.1 Credit risk (continued)

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

At 31 December 2021

	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Commercial					
CMS 1-10	0.00-0.50%	3,987	863	-	4,850
CMS 11-14	0.51-3.00%	995	6,702	-	7,697
CMS 15-18	3.01-20.00%	-	548	-	548
CMS 19	20.01-99.99%	-	-	-	-
CMS 20-23	100%	-	-	-	-
		4,982	8,113	-	13,095
Total loans and advances to customers		105,995	15,560	14	121,569

Commitments to lend	**PD Range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Fleet					
CMS 1-10	0.00-0.50%	**28,043**	-	-	**28,043**
CMS 11-14	0.51-3.00%	**43,749**	-	-	**43,749**
CMS 15-18	3.01-20.00%	**3,640**	-	-	**3,640**
CMS 19	20.01-99.99%	-	-	-	-
CMS 20-23	100%	-	-	-	-
At 31 December 2022		**75,432**	-	-	**75,432**
CMS 1-10	0.00-0.50%	32,060	-	-	32,060
CMS 11-14	0.51-3.00%	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

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

Commercial Commitments to lend were £nil at both 31 December 2022 and 31 December 2021.

Notes to the financial statements (continued)

For the year ended 31 December 2022

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 2022	314	279	-	593
Transfers to Stage 1	13	(13)	-	-
Transfers to Stage 2	(1)	1	-	-
Transfers to Stage 3	(1)	-	1	-
Impact of transfer between stages	(10)	9	65	64
Other items charged / (credited) to Statement of comprehensive income	(129)	(227)	261	(95)
Charge/(credit) for the year (including recoveries)	(128)	(230)	327	(31)
Financial assets that have been written off during the year	-	-	(171)	(171)
At 31 December 2022	**186**	**49**	**156**	**391**

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2022	132	-	-	132
Credit for year (including recoveries)	(10)	-	-	(10)
At 31 December 2022	**122**	**-**	**-**	**122**

Total drawn and undrawn provisions

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of:				
Loans and advances to customers	186	49	156	391
Commitments to lend	122	-	-	122
Total as at 31 December 2022	**308**	**49**	**156**	**513**

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)

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)
Advances written off	(302)	(648)	(327)	(1,277)
Recoveries of prior advances written off	(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 2021	192	104	-	296
(Credit)/charge 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	314	279	-	593
Commitments to lend	132	-	-	132
Total as at 31 December 2021	446	279	-	725

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 (2021: £nil).

18. Financial risk management (continued)

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 Amounts due to group undertakings and takes account of movement in the SONIA rate, which is the basis for the interest charged on such balances. The actual movement in the SONIA rate across the year is 3.23% (2021: 0.14%). This rate is used to assess the possible increase in Interest expense. A decrease in the SONIA rate to 0.1% (2021: decrease of 0.14%) is used to assess the possible decrease in Interest expense.

If SONIA increased by 3.23% (2021: 0.14%) and all other variables remain constant this would increase Interest expense by £3,504,000 (2021: £216,000). If SONIA decreased to 0.1% and all other variables remain constant this would decrease Interest expense by £1,326,000 (2021: a 0.14% decrease in SONIA decreased interest expense by £215,000).

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.

18.6 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 £81,920,000 (2021: £121,380,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

18. Financial risk management (continued)

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 (2021: £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, following an appeal to the First Tier Tax Tribunal, a hearing was held in May 2023 with judgement awaited. 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 £33,128,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

21. Post balance sheet events

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

22. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2022 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 an umber of minor amendments to IFRSs effective 1 January 2023 and in later years (including IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors).	Annual periods beginning on or after 1 January 2023

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.

23. 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 auditor's 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 2022 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 23.

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 auditor's 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.

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 auditor's 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
- 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; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirements to prepare a strategic report.

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

17 July 2023