

# **United Dominions Leasing Limited**

## **Annual report and accounts for the year ended 31 December 2020**

### **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 2020

The directors present their report and the audited financial statements of United Dominions Leasing Limited ("the Company") for the year ended 31 December 2020.

### 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 £3,396,000 (2019: £5,291,000) and Net interest income of £6,760,000 (2019: £6,206,000). Net assets at 31 December 2020 were £14,618,000 (2019: £10,085,000). The Company has also suffered significant Impairment losses of £2,864,000 (2019: £546,000) as a result of the COVID-19 pandemic.

In February 2014 the Company entered into an agency agreement with Lloyds Bank plc whereby new business was written for the benefit of the bank within Lloyds Bank plc. This agreement ceased in September 2017 and from 1 October 2017, the Company began writing new business for its own benefit. However, due to the COVID-19 pandemic, the new business written by the Company has fallen in the year and lower interest income levels have been achieved as a result.

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").

### Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Retail Division, which is part of the Group. While these risks are not managed separately for the Company, the Company is a main trading company of the Retail Division. The Retail Division is a portfolio of businesses and operates in a number of specialist markets providing consumer lending and contract hire to personal and corporate customers. Further details of risk management policies are contained in note 18 to the financial statements.

The global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to normal patterns of business activity across the world, including in the UK, and volatility in financial markets. Measures taken to contain the health impact of the COVID-19 pandemic have resulted in an adverse impact on economic activity across the world and the duration of these measures remains uncertain. Monetary policy loosening has supported asset valuations across many financial markets, but longer-term impacts on inflation, interest rates, credit spreads, foreign exchange rates and commodity, equity and bond prices remain unclear.

Further, the economic impact of the COVID-19 pandemic, including increased levels of unemployment, corporate insolvencies and business failures could adversely impact the Company's customers and their ability to service their contractual obligations, including to the Company. Adverse changes in the credit quality of Company's borrowers and counterparties or collateral held in support of exposures, or in their behaviour, may reduce the value of Company's assets and materially increase its write-downs and allowances for impairment losses. This could have a material adverse effect on the Company's results of operations, financial condition or prospects.

As a result of the COVID-19 pandemic, the potential for conduct and compliance risks as well as operational risks materialising has increased, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the Group may need to change its ways of working whilst managing any instances of COVID-19 among its employees and locations to ensure continuity and support to colleagues and customers.

### Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. KPIs are monitored and reported at a divisional level.

### Future outlook

The Company has achieved a satisfactory level of returns and expects to continue to do so in the foreseeable future. The directors are supporting a strategy designed to ensure that the Company's interest and other charges fully reflect the risks associated with its core products.

The effects on the UK, European and global economies following the UK's exit from the EU and the impact of the EU-UK Trade and Cooperation Agreement signed on 30 December 2020 (the "EU-UK TCA") remain difficult to predict but may include economic and financial instability, constitutional instability in the UK and other types of risks that could adversely impact the business of the Company, results of operations, financial condition and prospects. In the event of any further substantial weakening in the UK's economic growth, the possibility of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on Company's interest margins and potentially adversely affect its profitability and prospects.

## Directors' report (continued)

For the year ended 31 December 2020

### Dividends

No dividends were paid or proposed during the year ended 31 December 2020 (2019: £nil).

### Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

### 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 accounts:

M D Whytock	(appointed 10 July 2020)
G Ferguson	(resigned 30 November 2020)
R Poole	(resigned 12 May 2021)

### Directors' indemnities

Lloyds Banking Group plc 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 2020

### Independent auditors and disclosure of information to auditors

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.

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the directors of the Company resolve to terminate their appointment. Following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the Company for accounting periods ending on or after 31 December 2021.

This report has been prepared in accordance with the special provisions relating to small companies within Section 415A Part 15 of the Companies Act 2006.

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



M D Whytock  
Director  
24 June 2021

## Income statement

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest income		7,242	8,668
Interest expense		(482)	(2,462)
<b>Net interest income</b>	3	<b>6,760</b>	<b>6,206</b>
Other operating income	4	374	1,038
Impairment losses on Loans and advances to customers	5	(2,864)	(546)
Other operating expenses	6	(874)	(1,407)
<b>Profit before tax</b>		<b>3,396</b>	<b>5,291</b>
Taxation	9	1,137	(1,144)
<b>Profit for the year</b>		<b>4,533</b>	<b>4,147</b>

## Statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Profit for the year</b>		<b>4,533</b>	<b>4,147</b>
<b>Other comprehensive income</b>			
Items that may subsequently be reclassified to profit or loss:			
Movement in cash flow hedges			
- before tax amount		-	(2)
- tax charge	12	-	(1)
		-	(3)
<b>Profit for the year, being total comprehensive income</b>		<b>4,533</b>	<b>4,144</b>

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

## Balance sheet

As at 31 December 2020

	Note	2020 £'000	2019 £'000
<b>ASSETS</b>			
Trade and other receivables	10	136,016	227,856
Loans and advances to customers	11	160,671	189,809
Current tax asset		3,305	4,605
Deferred tax asset	12	17,779	15,342
<b>Total assets</b>		<b>317,771</b>	<b>437,612</b>
<b>LIABILITIES</b>			
Borrowed funds	13	297,756	426,272
Trade and other payables	14	5,101	969
Provision for liabilities and charges	15	296	286
<b>Total liabilities</b>		<b>303,153</b>	<b>427,527</b>
<b>EQUITY</b>			
Share capital	16	-	-
Retained earnings		14,618	10,085
<b>Total equity</b>		<b>14,618</b>	<b>10,085</b>
<b>Total equity and liabilities</b>		<b>317,771</b>	<b>437,612</b>

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:



M D Whytock  
Director

24 June 2021

## Statement of changes in equity

For the year ended 31 December 2020

	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2019	3	5,938	5,941
Profit for the year	-	4,147	4,147
Other comprehensive expense for the year	(3)	-	(3)
At 31 December 2019	-	10,085	10,085
Profit for the year, being total comprehensive income	-	4,533	4,533
At 31 December 2020	-	14,618	14,618

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

## Cash flow statement

For the year ended 31 December 2020

	2020 £'000	2019 £'000
<b>Cash flows generated from/(used in) operating activities</b>		
Profit before tax	3,396	5,291
Adjustments for:		
- Interest expense	482	2,462
- Increase in Provision for liabilities and charges	10	82
- Other comprehensive income	-	(2)
Changes in operating assets and liabilities:		
- Net decrease/(increase) in Loans and advances to customers	29,138	(33,129)
- Net (increase)/decrease in Other debtors	(4,873)	1,603
- Net increase/(decrease) in Trade and other payables	4,132	(534)
<b>Net cash generated from/(used in) operations</b>	<b>32,285</b>	<b>(24,227)</b>
<b>Cash flows (used in)/generated from financing activities</b>		
(Reduction in)/Proceeds from net borrowings with group undertakings	(31,803)	26,689
Interest paid	(482)	(2,462)
<b>Net cash (used in)/generated from financing activities</b>	<b>(32,285)</b>	<b>24,227</b>
<b>Change in Cash and cash equivalents</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at beginning of year	-	-
<b>Cash and cash equivalents at end of year</b>	<b>-</b>	<b>-</b>

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 2020

### 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 of the Company comply with international accounting standards in conformity with the requirements of the Companies Act 2006. 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.

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

- (i) Amendments to IAS 1: 'Presentation of financial statements', and IAS 8: 'Accounting policies, changes in accounting estimates and errors'. Clarifies the definition of material to ensure it is consistently applied throughout all IFRSs and the conceptual framework for financial reporting, whilst updating guidance in IAS 1 around immaterial information.

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 2020 and which have not been applied in preparing these financial statements are given in note 22. No standards have been early adopted.

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 Income statement 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.

##### 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.

##### 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 1. Accounting policies (continued)

#### 1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings, Loans and advances to customers and Other debtors. Financial liabilities comprise Amounts due to group undertakings and Trade and other payables.

On initial recognition, financial assets are classified as 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.

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 of financial assets

The impairment charge in the Income statement includes the change in expected credit losses over the year including those arising from certain types of fraud. 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, 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 or other mitigants of loss and including the impact of discounting using the effective interest rate.

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.

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 probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as indicators of historical delinquency, credit weakness or financial difficulty. 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. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. 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 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 1. Accounting policies (continued)

#### 1.4 Impairment of financial assets (continued)

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 probability of default ("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 assessment of default is based upon the credit risk classifications applied to its loans which in effect reflect the extent to which the account is stressed. The Company has adopted the following definition of default for all its products:

- factors indicating an unwillingness to pay, such as bankruptcy or other financial hardship support, e.g. individual voluntary arrangements; or
- a payment is past due by 90 days.

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 impairment losses recorded in the Income statement. 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.

#### 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 another 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

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.

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.

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 2. Critical accounting estimates and judgements in applying accounting policies

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 are critical accounting estimates and judgements 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:

#### Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

#### Allowance for expected credit 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. The definition of default adopted by the Company is described in note 1.4 Impairment of financial assets.

##### 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.

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 ("SICR")

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 significant increase in credit risk (SICR) since initial recognition. Credit impaired assets are transferred to Stage 3 with a lifetime expected losses allowance.

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. The Company monitors a series of account flags which may indicate whether the asset has suffered a SICR, which are aligned to operational credit risk management strategies. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

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 models are capturing the anticipated volume of increased defaults and therefore an appropriate assessment of staging and expected credit loss.

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 Group monitors the effectiveness of SICR criteria on an ongoing basis.

##### Origination PDs

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not, generally, available and consequently management judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. The use of proxies and simplifications is not considered to materially impact the ECL allowance.

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 2. Critical accounting estimates and judgements in applying accounting policies (continued)

#### Allowance for expected credit losses (continued)

##### 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.

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.

In 2020, a change was made to the way in which the distribution of scenarios is created. This change allows for a greater dispersal of economic outcomes in the early periods of the forecast, to recognise the increased near-term profile of risks present since the onset of the coronavirus pandemic. This change allows for a wider distribution of losses both on the upside and downside, although is most evident in the severe downside scenario, given it represents a more adverse segment of the distribution.

##### 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.

Despite large-scale vaccination efforts commencing in the UK and globally, there remains considerable uncertainty about the pace and eventual extent of the post-pandemic recovery. The Company's current base case scenario builds in three key conditioning assumptions. First, the UK vaccine rollout successfully protects the elderly, key workers and the clinically vulnerable by mid-2021. Second, national lockdowns end by April 2021, allowing a phased return to a tiered system of restrictions that are progressively eased in the second quarter and second half of 2021, leaving only limited restrictions in place by the end of 2021. Third, government policy measures including specifically the furlough scheme continue to provide support for the duration of severe economic restrictions, through to mid-2021.

Conditioned on the above assumptions and despite the recovery in economic activity resuming from the second quarter of 2021, the Company's base case outlook assumes a rise in the unemployment rate and weakness in used car prices. Risks around this base case economic view lie in both directions and are partly captured by the MES generated. But uncertainties relating to the key conditioning assumptions, including epidemiological developments and the efficacy of vaccine rollouts, are not specifically captured by the MES scenarios.

The Company has accommodated the latest available information at the reporting date in defining its base case scenario and generating the MES. The scenarios include forecasts for key variables in the fourth quarter of 2020, 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, including by the Audit Committee, to ensure that amounts are appropriately calculated and that there are specific release criteria within a reasonable timeframe.

At 31 December 2020 management judgement post-model adjustments of £1,261,000 have been made to increase the ECL allowance (2019: £515,000).

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 3. Net interest income

	2020 £'000	2019 £'000
<b>Interest income</b>		
From finance lease and hire purchase contracts	7,238	8,139
Group interest income (see note 17)	4	529
	<b>7,242</b>	<b>8,668</b>
<b>Interest expense</b>		
Group interest expense (see note 17)	(482)	(2,462)
<b>Net interest income</b>	<b>6,760</b>	<b>6,206</b>

### 4. Other operating income

	2020 £'000	2019 £'000
Other operating income	374	1,038

Other operating income relates to the write off of aged balances no longer payable.

### 5. Impairment losses on Loans and advances to customers

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
	<b>60</b>	<b>1,187</b>	<b>1,617</b>	<b>2,864</b>
<b>In respect of:</b>				
Loans and advances to customers	146	1,091	1,617	2,854
Commitments to lend	(86)	96	-	10
	<b>60</b>	<b>1,187</b>	<b>1,617</b>	<b>2,864</b>
<b>31 December 2019</b>	<b>Stage 1 £'000</b>	<b>Stage 2 £'000</b>	<b>Stage 3 £'000</b>	<b>Total £'000</b>
Impact of transfers between stages	(14)	182	173	341
Additions / (repayments)	139	78	(25)	192
Net remeasurement of loss allowances	-	2	-	2
Other changes in credit quality	13	(15)	13	11
	<b>138</b>	<b>247</b>	<b>161</b>	<b>546</b>
<b>In respect of:</b>				
Loans and advances to customers	60	242	161	463
Commitments to lend	78	5	-	83
	<b>138</b>	<b>247</b>	<b>161</b>	<b>546</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 6. Other operating expenses

	2020 £'000	2019 £'000
Management charges payable (see note 17)	785	1,286
Other operating expenses	89	121
	<b>874</b>	<b>1,407</b>

Fees payable to the Company's auditors for the audit of the financial statements of £55,000 (2019: £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 (2019: none).

### 8. Directors' emoluments

The directors' emoluments payable for services provided to the Company are set out below:

	2020 £'000	2019 £'000
Aggregate emoluments	57	58

### 9. Taxation

	2020 £'000	2019 £'000
<b>a) Analysis of (credit)/charge for the year</b>		
UK corporation tax:		
- Current tax on taxable profit/(loss) for the year	1,335	(858)
- Adjustments in respect of prior years	(35)	180
Current tax charge/(credit)	<b>1,300</b>	<b>(678)</b>
UK deferred tax:		
- Origination and reversal of timing differences	(689)	1,863
- Due to change in UK corporation tax rate	(1,800)	54
- Adjustments in respect of prior years	52	(95)
Deferred tax (credit)/charge (see note 12)	<b>(2,437)</b>	<b>1,822</b>
Tax (credit)/charge	<b>(1,137)</b>	<b>1,144</b>

Corporation tax is calculated at a rate of 19.00% (2019: 19.00%) of the taxable profit for the year.

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 9. Taxation (continued)

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

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

	2020 £'000	2019 £'000
Profit before tax	3,396	5,291
Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	646	1,005
Factors affecting charge:		
- Due to change in UK corporation tax rate	(1,800)	54
- Adjustments in respect of prior years	17	85
<b>Tax (credit)/charge on profit on ordinary activities</b>	<b>(1,137)</b>	<b>1,144</b>
<b>Effective rate</b>	<b>(33.48%)</b>	<b>21.62%</b>

#### c) Tax effects relating to Other comprehensive income

The tax effect relating to Other comprehensive income is as follows:

	Before tax amount £'000	Tax (charge)/ credit £'000	Net of tax amount £'000
<b>2020</b>			
Movements in cash flow hedges	-	-	-
<b>2019</b>			
Movements in cash flow hedges	(2)	(1)	(3)
<b>Other comprehensive income for the year</b>	<b>(2)</b>	<b>(1)</b>	<b>(3)</b>

### 10. Trade and other receivables

	2020 £'000	2019 £'000
Amounts due from group undertakings (see note 17)	128,233	224,946
Other debtors	7,783	2,910
	<b>136,016</b>	<b>227,856</b>

Elements of the balance within Amounts due from Lloyds Bank plc are unsecured, interest bearing based on the Sterling Overnight Interbank Average rate ("SONIA") (2019: LIBOR) and are repayable on demand. The remaining Amounts due from group undertakings are unsecured, non-interest bearing and repayable on demand. All Amounts due from group undertakings are included within stage 1 for IFRS 9 purposes.



## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 11. Loans and advances to customers

#### 11.1 Loans and advances to customers - maturity

	2020 £'000	2019 £'000
Advances under finance lease and hire purchase contracts	163,035	190,935
Less: allowances for losses on loans and advances	(2,364)	(1,126)
<b>Net loans and advances to customers</b>	<b>160,671</b>	<b>189,809</b>
of which:		
Due within one year	66,928	64,902
Due after one year	93,743	124,907
	<b>160,671</b>	<b>189,809</b>
Loans and advances to customers include finance lease and hire purchase receivables:		
	2020 £'000	2019 £'000
Gross investment in finance lease and hire purchase contracts receivable:		
- no later than one year	74,022	72,213
- later than one year and no later than two years	54,659	70,379
- later than two years and no later than three years	29,798	43,347
- later than three years and no later than four years	9,458	13,655
- later than four years and no later than five years	3,267	2,276
- later than five years	225	829
	<b>171,429</b>	<b>202,699</b>
Unearned future finance income on finance lease and hire purchase contracts	(8,394)	(11,764)
<b>Net investment in finance lease and hire purchase contracts</b>	<b>163,035</b>	<b>190,935</b>
The net investment in finance lease and hire purchase contracts may be analysed as follows:		
	2020 £'000	2019 £'000
- no later than one year	69,291	66,028
- later than one year and no later than two years	52,227	67,365
- later than two years and no later than three years	28,886	41,490
- later than three years and no later than four years	9,193	13,070
- later than four years and no later than five years	3,214	2,179
- later than five years	224	803
	<b>163,035</b>	<b>190,935</b>

The unguaranteed residual value is £nil (2019: £nil).

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 Income statement (2019: £nil).

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

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 11. Loans and advances to customers (continued)

#### 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 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 increase/(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)
<b>Net loans and advances to customers</b>	<b>130,268</b>	<b>29,027</b>	<b>1,376</b>	<b>160,671</b>
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2019	153,431	3,710	201	157,342
Transfers to Stage 1	2,330	(2,330)	-	-
Transfers to Stage 2	(7,894)	7,894	-	-
Transfers to Stage 3	(236)	(83)	319	-
Net increase/(decrease) in loans and advances to customers	31,010	2,719	(136)	33,593
Gross loans and advances to customers	178,641	11,910	384	190,935
Less: allowances for losses on loans and advances	(432)	(349)	(345)	(1,126)
<b>Net loans and advances to customers</b>	<b>178,209</b>	<b>11,561</b>	<b>39</b>	<b>189,809</b>

### 12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2020 £'000	2019 £'000
At 1 January	15,342	17,165
Credit/(charge) for the year (see note 9)	2,437	(1,822)
Amount charged to equity - cash flow hedges	-	(1)
<b>At 31 December</b>	<b>17,779</b>	<b>15,342</b>

The deferred tax credit/(charge) in the Income statement comprises the following temporary differences:

	2020 £'000	2019 £'000
Accelerated capital allowances	2,437	(1,822)
Deferred tax asset comprises:	2020 £'000	2019 £'000
Accelerated capital allowances	17,779	15,342

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 12. Deferred tax asset (continued)

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by The Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020.

The Finance Bill 2021, which was substantively enacted on 24 May 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023. Had this change in corporation tax been enacted on 31 December 2020, the effect would have been to increase the net deferred tax asset by £5,614,000.

### 13. Borrowed funds

	2020 £'000	2019 £'000
Amounts due to group undertakings (see note 17)	297,756	426,272

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 and Lloyds Bank plc are interest bearing based on SONIA (2019: LIBOR). All other balances are non-interest bearing.

### 14. Trade and other payables

	2020 £'000	2019 £'000
Other tax and social security payable	3,157	189
Accruals and deferred income	1,944	780
	5,101	969

### 15. Provision for liabilities and charges

	Undrawn loan commitments £'000
At 1 January 2019	204
Charge for the year	83
Utilised during the year	(1)
At 31 December 2019	286
Charge for the year	10
At 31 December 2020	296

### 16. Share capital

	2020 £'000	2019 £'000
Allotted, issued and fully paid 100 ordinary shares of £1 each	-	-

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 17. Related party transactions

The Company is controlled by the Retail Division and the Commercial Division. 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.

	2020 £'000	2019 £'000
<b>Amounts due from group undertakings</b>		
Black Horse Limited	28,944	33,438
Lloyds Bank plc	99,289	191,508
<b>Total Amounts due from group undertakings (see note 10)</b>	<b>128,233</b>	<b>224,946</b>
<b>Amounts due to group undertakings</b>		
Black Horse Limited	-	69,197
Lloyds UDT Leasing Limited	931	91
United Dominions Trust Limited	146,438	251,204
Lloyds Bank Commercial Finance Limited	105,945	105,710
Lloyds Bank plc	44,442	70
<b>Total Amounts due to group undertakings (see note 13)</b>	<b>297,756</b>	<b>426,272</b>
<b>Interest income</b>		
Lloyds Bank plc (see note 3)	4	529
<b>Interest expense</b>		
Lloyds Bank plc	80	152
Lloyds UDT Limited	-	62
United Dominions Trust Limited	402	2,248
<b>Total Interest expense (see note 3)</b>	<b>482</b>	<b>2,462</b>
<b>Management charges payable</b>		
Black Horse Limited (see note 6)	785	1,286

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 Income statement.

#### 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.

The remuneration of directors is set out in note 8 in relation to the services of Directors attributable to the Company. These emoluments were borne by other companies within the Group and not recharged to the Company.

	2020 £'000	2019 £'000
Aggregate emoluments	57	58

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 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.

##### 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.
- 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 2020	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<b>Fleet</b>					
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
<b>Total</b>		<b>122,958</b>	<b>20,442</b>	<b>963</b>	<b>144,363</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 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
<b>Commercial</b>					
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
<b>Total</b>		<b>7,888</b>	<b>10,025</b>	<b>759</b>	<b>18,672</b>
<b>Total Loans and advances to customers</b>		<b>130,846</b>	<b>30,467</b>	<b>1,722</b>	<b>163,035</b>
<b>At 31 December 2019</b>					
<b>Fleet</b>					
CMS 1-10	0.00-0.050%	44,969	18	-	44,987
CMS 11-14	0.051-3.00%	93,573	8	-	93,581
CMS 15-18	3.01-20.00%	24,320	8,367	-	32,687
CMS 19	20.01-99.99%	277	23	-	300
CMS 20-23	100%	-	-	212	212
		163,139	8,416	212	171,767
<b>Commercial</b>					
CMS 1-10	0.00-0.050%	9,733	45	-	9,778
CMS 11-14	0.051-3.00%	5,034	234	-	5,268
CMS 15-18	3.01-20.00%	735	2,214	-	2,949
CMS 19	20.01-99.99%	-	1,001	-	1,001
CMS 20-23	100%	-	-	172	172
		15,502	3,494	172	19,168
<b>Total loans and advances to customers</b>		<b>178,641</b>	<b>11,910</b>	<b>384</b>	<b>190,935</b>
<b>Commitments to lend</b>					
<b>Fleet</b>					
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
<b>At 31 December 2020</b>		<b>63,804</b>	<b>2,713</b>	<b>46</b>	<b>66,563</b>
<b>Fleet</b>					
CMS 1-10	0.00-0.050%	63,306	-	-	63,306
CMS 11-14	0.051-3.00%	75,585	2	-	75,587
CMS 15-18	3.01-20.00%	17,019	357	-	17,376
CMS 19	20.01-99.99%	684	-	-	684
CMS 20-23	100%	-	-	-	-
<b>At 31 December 2019</b>		<b>156,594</b>	<b>359</b>	<b>-</b>	<b>156,953</b>

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

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 18. Financial risk management (continued)

#### 18.1 Credit risk (continued)

##### Analysis of movement in the allowance for impairment losses by stage

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
<b>In respect of drawn balances</b>				
At 1 January 2019	491	87	84	662
Transfers to Stage 1	48	(48)	-	-
Transfers to Stage 2	(17)	17	-	-
Transfers to Stage 3	-	(5)	5	-
Impact of transfer between stages	(45)	218	168	341
Other items charged to Income statement	74	60	(12)	122
Charge for the year (including recoveries)	60	242	161	463
Other changes in credit quality	(119)	20	100	1
At 31 December 2019	432	349	345	1,126
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 the Income statement	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
<b>In respect of undrawn balances</b>				
At 1 January 2019	204	-	-	204
Transfers to Stage 2	(1)	1	-	-
Other items charged to the Income statement	76	7	-	83
Charge for year (including recoveries)	75	8	-	83
Other changes in credit quality	(1)	-	-	(1)
At 31 December 2019	278	8	-	286
At 1 January 2020	278	8	-	286
Transfers to Stage 2	(12)	12	-	-
Transfers to Stage 3	(4)	-	4	-
Other items charged to the Income statement	(70)	84	(4)	10
(Credit)/charge for year (including recoveries)	(86)	96	-	10
At 31 December 2020	192	104	-	296
<b>In respect of:</b>				
Loans and advances to customers	432	349	345	1,126
Commitments to lend	278	8	-	286
Total as at 31 December 2019	710	357	345	1,412
<b>In respect of:</b>				
Loans and advances to customers	578	1,440	346	2,364
Commitments to lend	192	104	-	296
Total as at 31 December 2020	710	1,544	346	2,660

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 18. Financial risk management (continued)

#### 18.1 Credit risk (continued)

##### Reposessed 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 reposessed collateral in respect of defaulted debt with a value of £3,100,000 (2019: £nil).

#### 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 (2019: LIBOR), which is the basis for the interest charged on such balances. A 0.67% (2019: 0.81%) 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 the SONIA (2019: LIBOR) increased by 0.67% (2019: 0.81%) and all other variables remain constant this would increase Interest expense by £2,165,000 (2019: £3,360,000). The SONIA rate is currently at 0.10%. Therefore, a 0.68% decrease in the SONIA rate would see the rate fall to 0.00% or become negative. Accordingly this could result in the Interest expense falling to £nil or the Company could start to earn small amounts of Interest income on its borrowings position.

#### 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 £162,947,000 (2019: £192,727,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.



## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 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 (2019: £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 UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in early 2022. 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 £31,041,000 (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 2020 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 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).	Annual periods beginning on or after 1 January 2021 and 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.

### 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 [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com).

# Independent Auditors' report to the member of United Dominions Leasing Limited

## Report on the audit of the financial statements

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### Opinion

In our opinion, United Dominions Leasing Limited's financial statements:

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

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

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### Basis for opinion

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

### Independence

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

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### Conclusions relating to going concern

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

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

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

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

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### Reporting on other information

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

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

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

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

### Directors' report

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

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

## **Independent Auditors' report to the member of United Dominions Leasing Limited (continued)**

### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the directors for the financial statements*

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

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

#### *Auditors' responsibilities for the audit of the accounts*

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

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK tax law and we considered the extent to which non-compliance might have a material effect on the accounts. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates. Audit procedures performed included:

- Inquiries of those charged with governance in relation to known or suspected instances of non-compliance with law and regulations and fraud;
- review of minutes of Board meetings;
- testing period end adjustments to supporting documentation;
- incorporating an element of unpredictability into the nature, timing or extent of our testing;
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular, in relation to the allowance for credit impairment; and
- identifying and testing journal entries, in particular any manual journal entries posted by unexpected or unusual users, posted with descriptions indicating a higher level of risk, and posted late with an impact on financial performance.

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

A further description of our responsibilities for the audit of the accounts is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

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

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## Independent Auditors' report to the member of United Dominions Leasing Limited (continued)

### Other required reporting

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#### Companies Act 2006 exception reporting

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

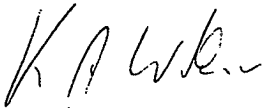
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified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

We have no exceptions to report arising from this responsibility.

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#### Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a Strategic report. We have no exceptions to report arising from this responsibility.



Kevin Williams (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cardiff

25 June 2021