United Dominions Trust Limited

Annual report and accounts

2020

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2020

The director presents the Strategic report for United Dominions Trust Limited (the "Company") for the year ended 31 December 2020.

Business overview

Historically the Company provided a comprehensive range of instalment credit products largely to corporate customers. In 2013 the Company entered into an agency agreement with Lloyds Bank plc whereby new business was written for the benefit of the bank. 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's result for the year shows a Profit before tax of £17,198,000 (2019: £15,667,000) and Net interest income of £22,699,000 (2019: £20,273,000).

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

Future outlook

The Company has achieved a satisfactory level of returns in a disrupted marketplace and expects that returns will improve when the motor market recovers following the temporary downturn in new business as a result of the COVID-19 pandemic. 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 the Company's interest margins and potentially adversely affect its profitability and prospects.

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 Lloyds Banking Group ("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. Adverse changes in the credit quality of the 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 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 Company may need to change its ways of working whilst managing any instances of COVID-19 pandemic 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 director is 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.

Strategic report (continued)

For the year ended 31 December 2020

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2020, the director provides the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of engagement with employees and other stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the director has engaged with, and had regard to, the interest of key stakeholders. The Company has no direct employees. The Company is a subsidiary of Lloyds Banking Group plc, and, as such, follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

Customers

The Company lends to wholesale customers, being motor traders. Working with colleagues within the Retail division, the director is committed to achieving the Group's ambitions, including providing its customers with a good customer experience.

The fleet business is an important element of the Motor Finance business and the Company is an active participant in the initiatives implemented across that business. Within Motor Finance, a dedicated transformation team has been established with objectives that include the enhancement of the customer journey and the way in which services are provided to the customer. During the Public Health Crisis caused by the global pandemic, the Company has been able to support its customers by providing payment holidays for up to three months if requested.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's Retail Division. As a wholly owned subsidiary, the director ensures that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2020, which does not form part of this report, available on the Lloyds Banking Group plc website.

Communities and the environment

The Company continues to support Lloyds Banking Group plc's related initiatives, including Helping Britain Recover by actively managing its current book of lending products. In addition the Company is an integral part of supporting the groups desire to transition to electric vehicles, forming part of commitments it has made to support the green agenda. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2020. Additional information on Lloyds Banking Group plc's Helping Britain Recover Plan is available on the Lloyds Banking Group plc website.

Regulators

Whilst regulatory matters are a small part of the Company's business, the Company is regulated by the FCA as part of its regulation of the broader activity of the Group. The approach of the Group, including that of the Company, to managing regulatory change is detailed on page 50 of the Lloyds Banking Group plc Annual report and accounts for 2020, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

How stakeholder interest has influenced decision making

The director acknowledges that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of Lloyds Banking Group plc, is to effectively manage the Company to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct.

During 2020 an area of particular focus for the director has been to steer through the challenges arising as a result of the COVID-19 pandemic, from both an operational and customer perspective, ensuring alignment with guidance from Lloyds Banking Group plc and the regulators.

Strategic report (continued)
For the year ended 31 December 2020

Section 172(1) statement (continued)

Emerging risks

The key emerging risks for the Company relates to how the economy responds to the ongoing uncertainty from the global pandemic as outlined above. This has the potential for operational risks to materialise in the areas of cyber fraud, people, technology and operational resilience, and where there is reliance on third-party suppliers. The Company has developed increased agility and resilience to ensure the continued support of colleagues and customers to minimise disruption to ways of working whilst managing site contamination issues. Additionally the impact on the UK's exit from the EU will continue to be monitored as the new EU and non-EU trading relationships develop.

General

The director does not consider there to be any further material issues which need to be included in the Strategic report.

Approved by the director and signed on its behalf by:

R A Jones
Director

23 June 2021

Director's report

For the year ended 31 December 2020

The director presents the report and the audited financial statements of 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: 00184739). The current Company Secretary is D D Hennessey.

Dividends

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

Going concern

The director is 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.

Registered office

The Company's registered office is 25 Gresham Street, London, EC2V 7HN.

Directors

The current director of the Company is as follows:

R A Jones

The following change has also taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

R J H Milne (resigned 14 March 2021)

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report.

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. 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 director’s responsibilities

The director is responsible for preparing the Director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has 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 director 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 director is required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

Statement of director's responsibilities (continued)

The director is 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.

The director is 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.

Auditors and 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.

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 director 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.

Approved by the director and signed on its behalf by:

R A Jones
Director
23 June 2021

Statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest income		**24,759**	29,192
Interest expense		**(2,060)**	(8,919)
Net interest income	3	**22,699**	20,273
Other operating income	4	**359**	330
Impairment losses on Loans and advances to customers	5	**(1,407)**	(303)
Other operating expenses	6	**(4,453)**	(4,633)
Profit before tax		**17,198**	15,667
Taxation	9	**(3,243)**	(2,653)
Profit for the year, being total comprehensive income		**13,955**	13,014

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
ASSETS			
Trade and other receivables	10	**552,924**	394,439
Loans and advances to customers	11	**626,246**	738,744
Deferred tax asset	12	**586**	615
Total assets		**1,179,756**	1,133,798
LIABILITIES			
Borrowed funds	13	**1,130,397**	1,102,743
Trade and other payables	14	**1,432**	580
Provision for liabilities and charges	15	**536**	253
Current tax liability		**8,115**	4,901
Total liabilities		**1,140,480**	1,108,477
EQUITY			
Share capital	16	**-**	-
Retained earnings		**39,276**	25,321
Total equity		**39,276**	25,321
Total equity and liabilities		**1,179,756**	1,133,798

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

The financial statements were approved by the director and were signed on its behalf by:

R A Jones
Director

23 June 2021

Statement of changes in equity

For the year ended 31 December 2020

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 January 2019	-	12,307	12,307
Profit for the year being total comprehensive income	-	13,014	13,014
At 31 December 2019	**-**	**25,321**	**25,321**
Profit for the year being total comprehensive income	-	13,955	13,955
At 31 December 2020	**-**	**39,276**	**39,276**

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
Cash flows generated from/(used in) operating activities		
Profit before tax	**17,198**	15,667
Adjustments for:		
- Interest expense	**2,060**	8,919
- Increase/(decrease) in Provision for liabilities and charges	**283**	(85)
Changes in operating assets and liabilities:		
- Net decrease/(increase) in Loans and advances to customers	**112,498**	(43,185)
- Net increase in Other debtors	**(80)**	(260)
- Net increase/(decrease) in Trade and other payables	**852**	(3,758)
Net cash generated from/(used in) operating activities	**132,811**	(22,702)
Cash flows (used in)/generated from financing activities		
(Repayment of)/Proceeds from net borrowings with group undertakings	**(130,751)**	31,621
Interest paid	**(2,060)**	(8,919)
Net cash (used in)/generated from financing activities	**(132,811)**	22,702
Change in Cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of 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 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 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 become credit impaired, interest income is recognised on the net lending balance.

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.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

1.3 Financial assets and liabilities (continued)

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

Loans and advances to customers

The impairment charge in the Statement of comprehensive income 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 and including the impact of discounting using the effective interest rate.

Impairment of loans and advances to customers

At initial recognition, allowance (or provision) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

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.

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.

1. Accounting policies (continued)

1.4 Impairment (continued)

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 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.

1.5 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 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.

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.

1.6 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.

1. Accounting policies (continued)

1.7 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity.

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 that the director has 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 impairment losses

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

Definition of default

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

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 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 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.

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

Allowance for impairment losses (continued)

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 on transition.

Generation of Multiple Economic Scenarios

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.

Sensitivities to key economic assumptions

The ECL is not materially sensitive to changes in the unemployment economic variable.

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

Application of judgement in adjustments to modelled ECL

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

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

At 31 December 2020 management judgement post-model adjustments of £2,365,000 have been made to ECL allowances (2019: 1,260,000).

3. Net interest income

	2020	2019
	£'000	£'000
Interest income		
From finance lease and hire purchase contracts	**23,924**	26,688
Group interest income (see note 17)	**835**	2,504
	24,759	29,192
Interest expense		
Group interest expense (see note 17)	**(2,060)**	(8,919)
Net interest income	**22,699**	20,273

4. Other operating income

	2020	2019
	£'000	£'000
Agency fee income (see note 17)	**41**	146
Other operating income	**318**	184
	359	330

5. Impairment losses on Loans and advances to customers

31 December 2020	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Transfers between stages	**(2)**	**14**	**-**	**12**
Other changes in credit quality	**346**	**97**	**320**	**763**
Additions	**618**	**14**	**-**	**632**
	962	**125**	**320**	**1,407**
In respect of:				
Loans and advances to customers	**679**	**125**	**320**	**1,124**
Commitments to lend	**283**	**-**	**-**	**283**
	962	**125**	**320**	**1,407**

31 December 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Transfers between stages	(26)	69	-	43
Other changes in credit quality	22	-	64	86
Additions	17	146	11	174
	13	215	75	303
In respect of:				
Loans and advances to customers	98	215	75	388
Commitments to lend	(85)	-	-	(85)
	13	215	75	303

6. Other operating expenses

	2020 £'000	2019 £'000
Management charges payable (see note 17)	**4,321**	6,123
Other expenses	**132**	(1,490)
	4,453	4,633

Management charges payable relate to new business written in the year.

Other expenses in 2019 relate to the write back of an intercompany borrowing liability no longer payable.

Fees payable to the Company's auditors for the audit of the financial statements of £50,000 (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. Director's emoluments

No director received any fees or emoluments from the Company during the year (2019: £nil). The director is 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

	2020 £'000	2019 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**3,149**	2,538
- Adjustments in respect of prior years	**65**	(24)
Current tax charge	**3,214**	2,514
UK deferred tax:		
- Origination and reversal of timing differences	**119**	156
- Impact of deferred tax rate change	**(75)**	(17)
- Adjustments in respect of prior years	**(15)**	-
Deferred tax charge (see note 12)	**29**	139
Tax charge	**3,243**	2,653

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

b) Factors affecting the tax 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 charge for the year is given below:

	2020 £'000	2019 £'000
Profit before tax	**17,198**	15,667
Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	**3,268**	2,977
Factors affecting charge:		
- Due to change in UK corporation tax rate	**(75)**	(17)
- Disallowed and non-taxable items	**-**	(283)
- Adjustments in respect of prior years	**50**	(24)
Tax charge on profit on ordinary activities	**3,243**	2,653
Effective rate	**18.86%**	16.93%

10. Trade and other receivables

	2020 £'000	2019 £'000
Amounts due from group undertakings (see note 17)	**552,505**	394,100
Other debtors	**419**	339
	552,924	394,439

Amounts due from Lloyds Bank plc, Black Horse Finance Holdings Limited and United Dominions Leasing Limited are 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. The Expected credit loss is £126,000 (2019: £89,000).

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	**628,940**	740,646
Less: allowances for losses on loans and advances	**(2,694)**	(1,902)
Net loans and advances to customers	**626,246**	738,744
of which:		
Due within one year	**366,648**	411,708
Due after one year	**259,598**	327,036
	626,246	738,744

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	**380,030**	428,794
- later than one year and no later than two years	**197,914**	180,572
- later than two years and no later than three years	**49,159**	111,215
- later than three years and no later than four years	**14,146**	35,035
- later than four years and no later than five years	**2,363**	5,840
- later than five years	**19**	395
	643,631	761,851
Unearned future finance income on finance lease and hire purchase contracts	**(14,691)**	(21,205)
Net investment in finance lease and hire purchase contracts	**628,940**	740,646

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

	2020 £'000	2019 £'000
- no later than one year	**369,342**	413,609
- later than one year and no later than two years	**194,950**	177,307
- later than two years and no later than three years	**48,425**	109,204
- later than three years and no later than four years	**13,893**	34,401
- later than four years and no later than five years	**2,311**	5,735
- later than five years	**19**	390
	628,940	740,646

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

During the year, no contingent rentals in respect of finance leases were recognised in the Statement of comprehensive income (2019: £nil).

Further analysis of finance debtors is provided in note 18.

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	**733,799**	**6,827**	**20**	**740,646**
Transfers to Stage 2	**(459)**	**459**	**-**	**-**
Transfers to Stage 3	**(332)**	**-**	**332**	**-**
Net increase/(decrease) in loans and advances to customers	**(110,927)**	**(427)**	**(20)**	**(111,374)**
Financial assets that have been written off during the year	**-**	**-**	**(332)**	**(332)**
Gross loans and advances to customers	**622,081**	**6,859**	**-**	**628,940**
Less: allowances for losses on loans and advances	**(2,354)**	**(340)**	**-**	**(2,694)**
Net loans and advances to customers	**619,727**	**6,519**	**-**	**626,246**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2019	697,136	-	-	697,136
Transfers to Stage 2	(3,079)	3,079	-	-
Net increase in loans and advances to customers	39,742	3,748	83	43,573
Financial assets that have been written off during the year	-	-	(63)	(63)
Gross loans and advances to customers	733,799	6,827	20	740,646
Less: allowances for losses on loans and advances	(1,675)	(215)	(12)	(1,902)
Net loans and advances to customers	732,124	6,612	8	738,744

12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2020 £'000	2019 £'000
At 1 January	**615**	754
Charge for the year (see note 9)	**(29)**	(139)
At 31 December	**586**	615

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

	2020 £'000	2019 £'000
Accelerated capital allowances	**(55)**	(150)
Other temporary differences	**26**	11
	(29)	(139)

12. Deferred tax asset (continued)

Deferred tax asset comprises:	**2020 £'000**	2019 £'000
Accelerated capital allowances	**640**	695
Other temporary differences	**(54)**	(80)
	586	615

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 Budget, the UK government stated its intention to maintain the corporation tax rate at 19% on 1 April 2020. That rate change was substantively enacted under the Provisional Collection of Taxes Act 1968 on 17 March 2020.

On 3 March 2021, the UK Government announced its intention to increase 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 net deferred tax assets by £193,000.

13. Borrowed funds

	2020 £'000	2019 £'000
Amounts due to group undertakings (see note 17)	**1,130,397**	1,102,743

Amounts due to Lloyds Bank plc and Lloyds Bank Asset Finance Limited are interest bearing based on SONIA (2019: LIBOR) and repayable on demand, although there is no expectation that such a demand would be made. The remaining Amounts due to group undertakings are non-interest bearing, unsecured and repayable on demand.

14. Trade and other payables

	2020 £'000	2019 £'000
Other payables	**1,390**	422
Accruals and deferred income	**42**	158
	1,432	580

Other payables balance includes cash in transit of £649,000 (2019: £386,000).

15. Provision for liabilities and charges

	Undrawn loan commitments £'000
At 1 January 2019	338
Charge for the year	(85)
At 31 December 2019	253
Charge for the year	283
At 31 December 2020	**536**

A provision is held against undrawn loan commitments (see note 18.1).

Notes to the financial statements (continued)
For the year ended 31 December 2020

16. Share capital

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

17. Related party transactions

The Company is controlled by the Retail 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 income and expense for the year is set out below.

	2020 £'000	2019 £'000
Amounts due from group undertakings		
Lloyds Bank plc	**-**	7,666
United Dominions Leasing Limited	**146,332**	251,122
Black Horse Finance Holdings Limited	**405,411**	134,308
Other fellow subsidiary undertakings	**762**	1,004
Total Amounts due from group undertakings (see note 10)	**552,505**	394,100
Amounts due to group undertakings		
Lloyds Bank plc	**98,293**	75,995
Lloyds Bank Asset Finance Limited	**1,011,419**	1,009,516
Other fellow subsidiary undertakings	**20,685**	17,232
Total Amounts due to group undertakings (see note 13)	**1,130,397**	1,102,743
Interest income		
United Dominions Leasing Limited	**402**	2,248
Black Horse Finance Holdings Limited	**433**	256
Total Interest income (see note 3)	**835**	2,504
Interest expense		
Lloyds Bank plc	**156**	804
Lloyds Bank Asset Finance Limited	**1,904**	8,115
Total Interest expense (see note 3)	**2,060**	8,919
Agency fee income		
Lloyds Bank plc (see note 4)	**41**	146
Management charges payable		
Black Horse Limited (see note 6)	**4,321**	6,123

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.

17. Related party transactions (continued)

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 is comprised of 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 aggregate emoluments of the senior management of the Company that were borne by other companies in the Group and not recharged to the Company are as follows:

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

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 market risk or foreign exchange risk. Responsibility for the control of overall risk lies with the directors, operating within a management framework established by the Retail Division, and the ultimate parent, Lloyds Banking Group plc. The 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 Division's credit committee and credit functions. Market risk is managed by the Company through the terms negotiated in commercial agreements and management regularly reviewing its portfolio of leases for impairment. 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 Division's credit committee 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 predominantly to wholesale customers (being motor traders and corporate customers) geographically located in the United Kingdom.

18. Financial risk management (continued)

18.1 Credit risk (continued)

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		**Gross loans and advances to customers - Loan Quality**			
	PD Range	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
CMS 1-10	0.00-4.50%	**55,800**	**-**	**-**	**55,800**
CMS11-14	4.51-14.00%	**280,096**	**5,545**	**-**	**285,641**
CMS15-18	14.01-20.00%	**286,185**	**1,314**	**-**	**287,499**
Total		**622,081**	**6,859**	**-**	**628,940**

At 31 December 2019		Gross loans and advances to customers - Loan Quality			
	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 1-10	0.00-4.50%	96,930	-	-	96,930
CMS11-14	4.51-14.00%	622,736	6,819	-	629,555
CMS15-18	14.01-20.00%	14,133	8	-	14,141
CMS20-23	100%	-	-	20	20
Total		733,799	6,827	20	740,646

Commitments to lend

At 31 December 2020		**Gross loans and advances to customers - Loan Commitments**			
	PD Range	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
CMS 1-10	0.00-4.50%	**11,541**	-	-	**11,541**
CMS 11-14	4.51-14.00%	**151,217**	-	-	**151,217**
CMS 15-18	14.01-20.00%	**16,182**	-	-	**16,182**
		178,940	**-**	**-**	**178,940**

At 31 December 2019		Gross loans and advances to customers - Loan Commitments			
	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 1-10	0.00-4.50%	43,756	-	-	43,756
CMS 11-14	4.51-14.00%	84,274	-	-	84,274
CMS 15-18	14.01-20.00%	5,155	-	-	5,155
		133,185	-	-	133,185

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

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2020	1,675	215	12	1,902
Transfers to Stage 2	(1)	1	-	-
Impact of transfer between stages	-	13	-	13
Other items charged to Statement of comprehensive income	680	111	320	1,111
Charge for the year (including recoveries)	679	125	320	1,124
Advances written off	-	-	(332)	(332)
At 31 December 2020	2,354	340	-	2,694

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2019	253	-	-	253
Transfers to Stage 3	(1)	-	1	-
Net remeasurement of loss allowances	-	-	(1)	(1)
Other items charged to Statement of comprehensive income	284	-	-	284
Charge for year (including recoveries)	283	-	-	283
At 31 December 2020	536	-	-	536
Total	2,890	340	-	3,230

In respect of:	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loans and advances to customers	2,354	340	-	2,694
Commitments to lend	536	-	-	536
Total	2,890	340	-	3,230

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 (continued)

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2019	1,577	-	-	1,577
Transfers to Stage 2	(7)	7	-	-
Net remeasurement of loss allowance	-	62	-	62
Other items charged to Statement of comprehensive income	105	146	75	326
Charge for the year (including recoveries)	98	215	75	388
Financial assets written off	-	-	(63)	(63)
At 31 December 2019	1,675	215	12	1,902

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2019	338	-	-	338
Transfers to Stage 2	(19)	19	-	-
Net remeasurement of loss allowance	-	(19)	-	(19)
Other items charged to Statement of comprehensive income	(66)	-	-	(66)
Credit for the year	(85)	-	-	(85)
At 31 December 2019	253	-	-	253
Total	1,928	215	12	2,155

In respect of	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loans and advances to customers	1,675	215	12	1,902
Commitments to lend	253	-	-	253
Total	1,928	215	12	2,155

The criteria used to determine that there is objective evidence of an impairment is disclosed in more detail in notes 1.4 and 2.

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 director. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

18. Financial risk management (continued)

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 SONIA (2019: LIBOR) rate which is the basis for the interest rate on these balances. A 0.68% (2019: 0.19%) increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as this is the actual movement in the SONIA rate (2019: LIBOR) across the year.

If the SONIA (2019: LIBOR) increased by 0.68% and all other variables remain constant this would increase Interest expense by £3,717,000 (2019: £1,318,000). 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 does not trade in financial instruments, nor does it use derivatives.

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 £553,746,000 (2019: £737,917,000).

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 director 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 £1,672,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Notes to the financial statements (continued)

For the year ended 31 December 2020

21. Post balance sheet events

There are no post balance sheet events requiring disclosure in 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 director 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.

Independent Auditors' report to the member of United Dominions Trust Limited

Report on the audit of the financial statements

Opinion

In our opinion, United Dominions Trust 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.

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.

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.

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 Strategic report and 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.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and 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 Strategic report and Directors' report.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the accounts

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 regulatory principles such as those governed by the Financial Conduct Authority ("FCA") 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 and to identify any correspondence with the FCA;
- 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. 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.

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not 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.

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

23 June 2021