Uberior Infrastructure Investments (No2) Limited

Annual report and financial statements for the year ended 31 December 2022

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

03743500

Current directors

M S J Daly
N S Burnett

Company Secretary

D D Hennessey

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2022

The directors present their Annual report and the audited financial statements of Uberior Infrastructure Investments (No2) Limited ("the Company") for the year ended 31 December 2022.

General information

The Company is a limited company, incorporated and domiciled in England and Wales (registered number: 03743500).

The Company operates as an investment holding company and there has been no change in that activity during the year. The Company remains committed to the business of holding investments and will continue to manage existing investments in the future.

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

The Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption and therefore does not include a Strategic report.

Business Review

During the year the Company managed investments for value. On the basis that the Company is an investment holding company, its performance is considered in respect of the underlying investment portfolio performance and valuations. As such, the key financial performance indicators relate to investment gains on disposals, valuation movements taken to profits, including impairments, and to a lesser extent income received from investments. Further to the before mentioned, borrowed funds are also considered a key financial performance indicator for the Company.

The Company's proft before tax for the financial year is £7,484,000 (2021: £444,000). This year on year increase is largely due to an increase in the valuation uplift of the company's FVTPL investment of £3,834,000 (2021: decrease of £1,970,000), plus an increase in income from investments of £4,607,000 (2021: £2,949,000).

During the year there was a Return of Capital on Investments totalling £360,000 (2021: £360,000). There were no additions to these investments in 2022 (2021 £nil).

The Balance Sheet shows a net asset position of £38,778,000 (2021: £31,307,000).

The Company's actions are governed by the Codes of Business Responsibility of the ultimate parent undertaking, Lloyds Banking Group plc, which set out clear guidelines for responsible behaviour across the business, including human rights, social, ethical and environmental responsibilities. These guidelines can be viewed in the consolidated annual report and financial statements of Lloyds Banking Group plc.

The Company has no employees (2021: none) and therefore the Directors have not commented on employee matters.

Directors' report (continued)

For the year ended 31 December 2022

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 14 to the financial statements.

Other significant uncertainties are discussed in detail below.

Long term impact of the United Kingdom's exit from the European Union

Uncertainties in respect of the medium to long-term implications of the United Kingdom's ("UK") exit from the European Union ("EU") on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. The Directors believe that there will continue to be limited impact on the Company.

Covid-19

The global pandemic created from the outbreak of Covid-19 continues to cause widespread disruption to global markets and normal patterns of business activity across the world, including in the UK. Measures taken to contain the health impacts of the Covid-19 pandemic are resulting in adverse impacts on economic activity across the world, and the duration for which such measures will remain in place is uncertain. The impact on the economy remains highly uncertain in both its depth and length, and may go beyond current forecasts of scale of loss of output and recession in the UK and globally. The Directors believe that there will continue to be limited impact on the Company.

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This has had significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Group's results of operations, financial condition or prospects. The Group will monitor the situation and risks to the business. The Directors believe that there will continue to be limited impact on the Company.

Dividends

No dividends were paid or proposed during the year ended 31 December 2022 (2021: £nil).

Going concern

The financial statements have been prepared on a going concern basis. There is a net asset position of £38,778,000 (2021: £31,307,000).

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 being a least 12 months from the date of approval of the financial statements. The Company has a £26m loan from LBG Equity Investments Limited with an expiration date of June 2024. It has been confirmed that amounts due to group undertakings will not be called in the next 12 months. The financial statements have therefore been prepared on a going concern basis.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on the front cover.

There have been no changes to directors between the beginning of the reporting period and the approval of the Annual report and financial statements.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity through deed poll which constituted '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 directors who join 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 have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are 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.

Directors' report (continued)

For the year ended 31 December 2022

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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 the financial statements, the directors are required to:

The members are responsible for preparing the Annual report and accounts in accordance with applicable law and regulation.

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make an assessment of the company's ability to continue as a going concern.

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

Directors' confirmations

In the case of each director in office at the date the Directors' 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.

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

Independent auditor

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

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

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

N S Burnett
Director
15 June 2023

Statement of comprehensive income

For the year ended 31 December 2022

	Note	**2022** **£'000**	2021 £'000
Changes in fair value of investments	14.6	**3,834**	(1,970)
Income from investments	4	**4,607**	2,949
Other income	3	**35**	-
Total income		**8,476**	979
Finance costs	5	**(992)**	(535)
Profit before tax		**7,484**	444
Taxation	7	**(13)**	(316)
Profit for the year, being total comprehensive income		**7,471**	128

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

All results derive from continuing operations.

Balance sheet
As at 31 December 2022

	Note	2022 £'000	2021 £'000
ASSETS			
Cash and cash equivalents	9	**2,248**	1,900
Investments held at fair value through profit and loss	10	**63,198**	59,724
Total assets		**65,446**	61,624
LIABILITIES			
Borrowed funds	11	**26,527**	30,001
Current tax liability		**141**	316
Total liabilities		**26,668**	30,317
EQUITY			
Share capital	12	**99**	99
Share premium account		**351**	351
Retained earnings		**38,328**	30,857
Total equity		**38,778**	31,307
Total equity and liabilities		**65,446**	61,624

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:

N S Burnett
Director
15 June 2023

Statement of changes in equity

For the year ended 31 December 2022

	Share capital	Share premium account	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 January 2021	99	351	30,729	31,179
Profit for the year being total comprehensive income	-	-	128	128
At 31 December 2021	**99**	**351**	**30,857**	**31,307**
As at 1 January 2022	99	351	30,857	31,307
Profit for the year being total comprehensive income	-	-	7,471	7,471
At 31 December 2022	**99**	**351**	**38,328**	**38,778**

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

Cash flow statement
For the year ended 31 December 2022

	2022 £'000	2021 £'000
Cash flows used in/(generated from) operating activities		
Profit before tax	**7,484**	444
Adjustments for:		
Changes in fair value of investments	**(3,834)**	1,970
Interest Receivable	**(35)**	-
Finance costs	**992**	535
Cash generated from operations	**4,607**	2,949
Interest paid	**(466)**	(535)
Interest received	**35**	-
Tax paid	**(188)**	(159)
Net cash generated from operating activities	**3,988**	2,255
Cash flows generated from investing activities		
Return of capital	**360**	360
Net cash generated from investing activities	**360**	360
Cash flows generated used in financing activities		
Repayment of borrowings from group undertakings	**(4,000)**	(5,000)
Net cash used in financing activities	**(4,000)**	(5,000)
Change in cash and cash equivalents	**348**	(2,385)
Cash and cash equivalents at beginning of year	**1,900**	4,285
Cash and cash equivalents at end of year	**2,248**	1,900
Cash and cash equivalents comprise		
Cash at bank	**2,248**	1,900

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

Notes to the financial statements

For the year ended 31 December 2022

1. Accounting policies

1.1 Basis of preparation

Uberior Infrastructure Investments (No2) Limited (the Company) is a private Company limited by shares incorporated in England under the Companies Act 2006 and is registered in England. The registered office can be found on the front page and its principal activity is included in the directors report.

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 for the year ended 31 December 2022 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2022 and which have not been applied in preparing these financial statements are given in note 18. No standards have been early adopted.

These financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities measured at fair value, and, on a going concern basis. There is a net asset position of £38,778,000 (2021: £31,307,000).

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. It has been confirmed that amounts due to group undertakings will not be called in the next 12 months. The financial statements have therefore been prepared on a going concern basis.

1.2 Income recognition

Revenue

Interest income and expense are recognised in the Income Statement for all interest-bearing financial instruments, using the effective interest method where it can be reliably estimated and recognised on a cash basis where it cannot be reliably measured. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The effective interest rate is calculated on initial recognition of the financial asset or liability by estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts expected to be paid or received by the Company including expected early redemption fees and related penalties and premiums and discounts that are an integral part of the overall return.

Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account in the calculation. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss (see Note 1.6).

Fees and commission income which are not an integral part of the effective interest rate are generally recognised in the Income Statement within 'Other income' as the related service is provided.

Foreign currency

The financial statements are presented in Sterling which is the Company's functional and presentation currency.

Dividend income

Dividend income is recognised when the right to receive payment is established and is recognised in the Statement of comprehensive income as Income from investments.

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

1.3 Other income

Other income represents bank interest received throughout the year.

1.4 Expenses recognition

Finance costs

Interest expense for all interest bearing financial instruments is recognised in the Statement of comprehensive income as it accrues, within finance costs.

1.5 Financial assets and liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Financial assets comprise Cash and cash equivalents and Investmenst held at fair value through profit and loss. Financial liabilities comprise Borrowed funds.

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

A reclassification will only take place when the change is significant to the Group's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless the Group elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group 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 Group 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.

Financial instruments held at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch.

Trading securities, which are debt securities and equity shares acquired principally for the purpose of selling in the short term or which are part of a portfolio which is managed for short-term gains, do not meet these criteria and are also measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within investment income.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques.

They are initially recognised at fair value and transaction costs are expensed in the Income Statement. Financial instruments measured at fair value through profit or loss are carried on the Balance sheet at fair value. Any gains and losses arising from change in fair value are recognised in the Income Statement within changes in fair value of investments in the period in which they occur.

Notes to the financial statements (continued)
For the year ended 31 December 2022

1. Accounting policies (continued)

1.6 Dividends paid

Dividends on ordinary shares are recognised through equity in the period in which they are paid.

1.7 Cash and cash equivalents

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

1.8 Taxation, including deferred income taxes

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

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

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

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company has made no critical judgements. The following are critical accounting estimates 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:

Fair value of financial instruments

The Company categorises financial instruments carried on the Balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information.

Valuation techniques for Level 2 financial instruments use inputs that are based on observable market data. Level 3 financial instruments are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. At 31 December 2022 the Company classified £63,198,000 of financial assets (2021: £59,724,000) as Level 3 financial instruments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based upon Cash flow models which use, wherever possible, independently sourced market parameters such as interest yield curves and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity.

Notes to the financial statements (continued)
For the year ended 31 December 2022

3. Other income

	2022	2021
	£'000	£'000
Bank interest	**35**	-

4. Income from investments

	2022	2021
	£'000	£'000
Distributions from investments held at fair value through profit and loss	**4,607**	2,949

5. Finance costs

Finance costs comprise interest expense on borrowings. Interest expense is recognised in the Income Statement using the effective interest rate method. The effective interest rate is established on initial recognition of the financial liability and is not subsequently revised.

6. Other operating expenses

Fees payable to the company's auditors for the audit of the financial statements of £11,025 (2021: £10,500) have been borne by the ultimate parent company and are not recharged to the company.

The Company has no employees (2021: nil).

The Directors, who are considered to be key management, received no remuneration in respect of their services to the Company. The emoluments of the Directors are paid by a fellow group undertaking on behalf of the ultimate parent, Lloyds Banking Group plc, which makes no recharge to the Company. The Directors are also directors of a number of other subsidiaries of the Group and are also substantially engaged in managing their respective business areas within the Group, it is therefore not possible to make an accurate apportionment of Directors' emoluments in respect of their services to each of the subsidiaries. Accordingly, these financial statements include no emoluments in respect of the Directors.

7. Taxation

	2022 £'000	2021 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**141**	316
- Adjustments in respect of prior years	**(128)**	-
Current tax charge	**13**	316
Tax charge	**13**	316

Corporation tax is calculated at a rate of 19.00% (2021: 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:

	2022 £'000	2021 £'000
Profit before tax	**7,484**	444
Tax charge thereon at UK corporation tax rate of 19.00% (2021: 19.00%)	**1,422**	84
Factors affecting charge:		
- Income not chargeable for Income tax purposes	**(875)**	(560)
- Adjustments to tax in respect of previous years	**(128)**	-
- Valuation (gain)/loss where no Deferred tax set up	**(729)**	374
- Share of partnership profits	**323**	418
Tax charge on profit	**13**	316
Effective rate	**0.17%**	71.17%

8. Dividends

In 2022 no dividends were paid (2021: £nil).

9. Cash and cash equivalents

Cash and cash equivalents for the purposes of the Cash flow statement include the following:

	2022 £'000	2021 £'000
Bank balance	**2,248**	1,900

10. Investments held at fair value through profit and loss

	2022 £'000	2021 £'000
Investments		
Equity securities (see note 14.6)	**63,198**	59,724

Notes to the financial statements (continued)

For the year ended 31 December 2022

11. Borrowed funds

	2022 £'000	2021 £'000
Amounts due to group undertakings (see note 13)	**26,527**	30,001

During the year, the loan amount due to LBG Equity Investments Limited was £30,000,000. This is a rolling loan facility which, subsequent to expiry, is rolled over on an ongoing basis. For the period from 1 January 2022 to 30 June 2022 the loan incurred interest at a fixed rate of 1.43% per annum, this was rolled to 30 September 2022 at a fixed rate of 3.35%. £4,000,000 was repaid at maturity and rolled forward until 30 September 2024 at a fixed rate of 7.9% (2021: Fixed rate 1.43% for full year).

12. Share capital

	2022 £'000	2021 £'000
Allotted, issued and fully paid		
99,002 ordinary shares of £1 each (2021: 99,002)	**99**	99

All ordinary shares rank pari passu in all respects including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company.

13. Related party transactions

	2022 £'000	2021 £'000
Amounts due to group undertakings		
LBG Equity Investments Limited	**26,527**	30,001
Cash and cash equivalents held with group undertakings		
Bank of Scotland plc	**2,248**	1,900
Interest income		
Bank of Scotland plc	**35**	-

The Company is controlled by Lloyds Banking Group plc. A Number of transactions are entered into with related parties in the normal course of business. Summaries of transactions and the outstanding balances at the year end can be found in note 3, 5, 9 and 11.

The registered offices of related parties are noted below:

Related Party	Registered Address
Bank of Scotland Plc	The Mound, Edinburgh, EH1 1YZ
LBG Equity Investments Limited	25 Gresham Street, London, EC2V 7HN
Uberior Infrastructure Investments Ltd	The Mound, Edinburgh, EH1 1YZ

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.

During 2022, the company earned interest of £35,000 on bank deposits (2021: £nil). No interest was been earned between April 2020 and March 2022.

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 Lloyds Banking Group plc. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

14. Financial risk management

The Company's operations expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk, business risk and equity risk.

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

14.1 Credit risk

Credit risk management

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business, principally from investment activities that bring debt securities into the Company's asset portfolio.

Cash and cash equivalents are held with other companies within the Group. The credit risk associated with this financial assets is not considered to be significant.

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.
- *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.

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	2022	2021
	£'000	£'000
Cash and cash equivalents	**2,248**	1,900
Investments held at fair value through profit and loss	**63,198**	59,724
	65,446	61,624

14.2 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.

The Company is funded entirely by companies within the Group. The table below sets out the cash flows payable by the Company in respect of its financial liabilities, by remaining contractual undiscounted repayments of principal and interest, at the Balance sheet date.

As at 31 December 2022

	Up to 1 month £'000	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Interest - bearing loans and borrowings	-	-	**205**	**26,322**	**26,527**
Income tax liability	-	-	**141**	-	**141**
	-	-	**346**	**26,322**	**26,668**

14. Financial risk management (continued)

14.2 Liquidity risk (continued)

As at 31 December 2021

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Interest - bearing loans and borrowings	-	-	30,001	-	30,001
Income tax liability	-	-	316	-	316
	-	-	30,317	-	30,317

14.3 Interest rate risk

Interest rate risk exists where the Company's financial assets and liabilities have interest rates set under different bases, or which reset at different times. As the Company's interest-bearing loans and borrowings have fixed interest rates, it is not considered to have any significant interest rate exposure.

14.4 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.

14.5 Equity risk

Equity risk exists from the Company's exposure to unlisted equity securities. The Company undertakes a full assessment of each entity's potential for value creation prior to entering into a new transaction. Thereafter the performance of each investment is continually monitored and action taken as deemed appropriate in the circumstances. Further information about the Company's sensitivity to changes in the fair value of equity investments is set out below.

At the reporting date the carrying value of equity investments amounted to £63,198,000 (2021: £59,724,000). For investments carried at fair value through profit or loss changes in fair value would have a direct impact on profit before tax. The table below sets out the sensitivity of profit before tax to a 10% fall in fair value of equity investments as at the Balance sheet date.

	Profit before tax 2022 £'000	**Profit before tax following 10% fall in equity investment 2022 £'000**	Profit before tax 2021 £'000	Loss before tax following 10% fall in equity investment 2021 £'000
Unlisted equity investments	**7,484**	**1,164**	444	(153)

The unlisted equity investments include a fund investment which is well diversified in respect of counterparty risk. The geographic exposure is predominantly within the UK.

14. Financial risk management (continued)

14.6 Fair values of financial assets and liabilities

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of financial assets carried at fair value

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Fair value hierarchy

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise listed equity shares, treasury bills and other government securities. *The Company does not hold any financial assets deemed to fall into level 1 category.*

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable data. The Company does not hold any financial assets deemed to fall into level 2 category.

Level 3 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include the Company's venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

The tables below provide an analysis of the financial assets of the Company that are carried at fair value in the Company's Balance sheet, grouped into Levels 1 to 3 based on the degree to which the inputs to fair value are observable.

At 31 December 2022	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss	**-**	**-**	**63,198**	**63,198**

At 31 December 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	-	-	59,724	59,724

Notes to the financial statements (continued)
For the year ended 31 December 2022

14. Financial risk management (continued)

14.6 Fair values of financial assets and liabilities (continued)

The following table shows the reconciliation from the opening balances to the closing balances for fair value movement in Level 3 of the fair value hierarchy:

	Financial assets at fair value through profit and loss	**Total**
	£'000	**£'000**
At 1 January 2022	**59,724**	**59,724**
Gains/(losses) recognised in:		
- Income Statement	**3,834**	**3,834**
- Return of Capital	**(360)**	**(360)**
At 31 December 2022	**63,198**	**63,198**
For assets held at the end of the reporting year:		
Total gains included in Income statement during the year	**3,834**	**3,834**

	Financial assets at fair value through profit and loss	Total
	£'000	£'000
At 1 January 2021	62,054	62,054
Gains/(losses) recognised in:		
- Income Statement	(1,970)	(1,970)
- Return of Capital	(360)	(360)
At 31 December 2021	59,724	59,724
For assets held at the end of the reporting year:		
Total gains included in Income statement during the year	(1,970)	(1,970)

Notes to the financial statements (continued)

For the year ended 31 December 2022

14. Financial risk management (continued)

14.6 Fair values of financial assets and liabilities (continued)

Although the Company believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. The valuation techniques used for unlisted equities and venture capital investments vary depending on the nature of the investment. Further details of these are given below. As these factors differ for each investment depending on the nature of the valuation technique used and the inputs there is no single common factor that could be adjusted to provide a reasonable alternative valuation for these investments portfolios.

Changing one or more of the unobservable inputs used to reasonably possible alternative assumptions (10%) would have the following effects:

	As at 31 December 2022			As at 31 December 2021		
	Fair value £'000	**Favourable changes £'000**	**Unfavourable changes £'000**	Fair value £'000	Favourable changes £'000	Unfavourable changes £'000
Financial assets at fair value through profit or loss						
Equity Securities	**63,198**	**6,320**	**(6,320)**	59,724	5,972	(5,972)

Both favourable and unfavourable movements in respect of financial assets at fair value through profit or loss would be recognised in the Income Statement. Favourable movements in respect of financial assets at fair value through other comprehensive income would be recognised in other comprehensive income.

The main instruments where Level 3 valuations have been used are described below:

Unlisted equities and fund investments are accounted for as financial assets at fair value through profit or loss or fair value through other comprehensive income. These investments are valued using different techniques as a result of the variety of investments across the portfolio in accordance with the Group's valuation policy and are calculated using International Private Equity and Venture Capital Guidelines.

The unlisted equity valuations held are based on net asset values.

All other assets and liabilities

The directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

Notes to the financial statements (continued)

For the year ended 31 December 2022

15. 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 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.

16. Contingent liabilities and financial commitments

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the rules has not changed and, following an appeal to the First Tier Tax Tribunal, a hearing was held in May 2023 with judgement awaited. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £6,085,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

As at 31 December 2022, the Company has undrawn commitments in private equity funds of £3,714,000 (2021: £3,714,000).

17. Post balance sheet events

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

18. Future developments

The following pronouncements are not applicable for the year ending 31 December 2022 and have not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.With the exception of certain minor amendments, as at the date of signing these financial statements these pronouncements have been endorsed for use in the United Kingdom.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2023 and in later years (including IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors). These amendments are not expected to have a significant impact on the Company.

19. Ultimate parent undertaking and controlling party

The immediate parent company is Uberior Infrastructure Investments Limited (incorporated in Scotland). 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 and smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Independent auditor's report to the members of Uberior Infrastructure Investments (No2) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Uberior Infrastructure Investments (No2) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Independent auditor's report to the members of Uberior Infrastructure Investments (No2) Limited (continued)

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report to the members of Uberior Infrastructure Investments (No2) Limited (continued)

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and UK tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our procedures performed to address it are described below:

- Valuation of investments: We identified a significant risk over the valuation of investments which are recognised at fair value using unobservable inputs. With support of our valuation specialists, we tested the inputs and valuation as at 31 December 2022.

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

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

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

Independent auditor's report to the members of Uberior Infrastructure Investments (No2) Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

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

Paul Cowley CA (Senior Statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
Dated 15 June 2023