Registered number: 05333192

GREENE KING FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the 52 weeks ended 1 January 2023

Company information

Directors	L.D.C. Securitisation Director No.3 Limited L.D.C. Securitisation Director No.4 Limited M H Filer
Company secretary	Law Debenture Corporate Services Limited
Registered number	05333192
Registered office	8th Floor 100 Bishopsgate London EC2N 4AG
Auditor	Deloitte LLP 1 New Street Square London EC4A 3HQ

Strategic report

The directors present their Strategic report for the 52 weeks ended 1 January 2023.

Business review and future outlook

The principal activity of the company during the period continued to be to issue bonds and lend the proceeds to other entities within the Greene King Limited group for the purpose of enabling the securitisation of a proportion of the Greene King Limited group's estate. The borrower pays the company interest on the notes plus a fixed margin of 0.01%.

The company has not engaged in any other activity since incorporation and no future changes to its principal activity are envisaged.

The loss for the 52 weeks, after taxation, amounted to £34,000 (previous period: profit of £82,011,000). The previous period's profit was impacted by the reversal of impairment of financial assets of £82,007,000. See further details in the Credit risk section below and in note 15.

The Omnicron COVID variant started to become prevalent in late 2021, with restrictions remaining in place for the first couple of months of the year and low customer confidence associated with this. As 2022 progressed, trading had largely returned to pre-pandemic levels by the Spring and no further COVID related restrictions were put in place in the year. This has directly improved the performance of trading companies within the Greene King Limited group to which the company has extended intercompany loans, and the company's position is therefore indirectly improved via the ability of those trading companies to comply with loan covenants and meet repayments of intercompany loans.

During the period the company fully repaid the Class A5 secured bonds and terminated the corresponding interest rate swap contracts. The company was reimbursed for these costs, as dictated in the back-to-back funding agreement with Greene King Limited. Due to the back-to-back funding agreements, these transactions will have no material impact on the net assets of the company, nor on the profit of the company.

Financial key performance indicators

The borrower pays the interest on the notes plus a fixed margin of 0.01% and therefore the company's key performance indicator is considered to be profit of £6,000 (previous period: £5,000) calculated as the loss before taxation of £33,000 (previous period: profit of £82,012,000) before net impairment of financial assets of £39,000 (previous period: net reversal of impairment of £82,007,000).

The operations of Greene King Finance Plc are managed at a Greene King Limited group level and the directors therefore believe that disclosure of other key performance indicators for the company are not appropriate to understand the performance or position of the business. The performance of Greene King Limited is discussed in the Greene King Limited annual report and financial statements which are publicly available.

Principal risks and uncertainties

The principal risks and uncertainties facing the business were largely similar in nature to those reported last year.

Formal risk management processes are in place across the Greene King Limited group to identify and evaluate risks, taking into account the likelihood of their occurrence and the scale of potential impact on the business.

The principal risks and uncertainties facing the company are broadly grouped as strategic risks, economic and market risks, financial risks, regulatory risks and operational and people risks. These risks are managed at a group level and details can be found in the Greene King Limited group accounts which are publicly available.

Interest rate risk

Exposure to changes in interest rates on the company's borrowings is reviewed with regard to the maturity profile and cash flows of the underlying debt. The company uses a mixture of fixed and floating interest rate debt with exposure to market interest rate fluctuations primarily arising from the floating rate instruments. The company's policy is to keep 100% of its variable rate bond finance at fixed rates of interest to mitigate the interest rate risk, this is done through the use of interest rate swaps. At the period end 100% of variable rate bond finance was fixed after taking account of interest rate swaps.

The company has entered into back-to-back interest rate swap arrangements internally with Greene King Retailing Limited and externally with financial institutions covering 100% of the variable interest rate exposure. Therefore, the impact of any changes in interest rates on the fair values of its financial instruments would directly offset and have no impact on the company's profit before tax or shareholder's funds.

Liquidity risk

The Directors' report and notes 14 and 15 describe the financial position of the company, its liquidity position and borrowing facilities, and includes the company's financial risk management policies; details of its financial instruments; and its exposures to credit and liquidity risk.

The company mitigates liquidity risk by ensuring that the maturity profile of amounts receivable on term loans with group companies is matched exactly against the maturity profile of amounts payable on bond finance.

Additionally, the company has access to a £224.0m (prior period: £224.0m) liquidity facility described in note 14.

Strategic report (continued)

Credit risk

Financial assets include terms loans, derivative financial instruments, interest receivable and cash and cash equivalents. Credit risk is the risk of default by the counterparty to discharge their obligation and the maximum exposure of the company is the carrying amount of these instruments. The credit risk on cash and cash equivalents is limited by investment with banks and financial institutions with high credit ratings assigned by international credit agencies.

The term loans consist of amounts receivable from Greene King Retailing Limited, a significant subsidiary of Greene King Limited group, and are secured against pubs in the Greene King group estate.

The company recognises a loss allowance for expected credit losses ("ECL") based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. The company has determined that there has been no significant increase in risk since the last period, and has therefore continued to apply a 12-month ECL on its term loans. In previous periods the company applied a lifetime ECL on its term loans. See further details in the Significant accounting judgements and estimates section in note 3.

Capital risk

The company's capital structure is made up of loan notes, issued share capital and reserves. The company is able to generate sufficient returns to service the debt. Debt is monitored by a variety of measures which are reported to debt providers on a quarterly basis.

Directors' statement of compliance with duty to promote the success of the company

Under section 172 of the Companies Act 2006 the directors of the company are required to act in a way which promotes the long-term success of the company and in doing so to consider the interests of the company's stakeholders. This section of the report is designed to set out how the directors have complied with their obligations in this regard.

The directors of the company have at all times during the period (and at all other times) acted in the way that they considered, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so had regard (amongst other matters) to:
- the likely consequences of any decision in the long term;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the company.

Engaging with stakeholders

The company was incorporated as a special purpose financing vehicle to issue finance on behalf of Greene King Securitisation, therefore, the company's key stakeholder is the debt holders. Greene King Limited group has control of the entity and all decisions affecting the company are filtered down from group, based on the group-wide strategy. As the directors of the company are different from those of Greene King Limited group, they are kept informed of all decisions made group-level, that will affect the company and its trading. For a more detailed discussion of the steps taken to engage with stakeholders of the wider Greene King Limited group, which will impact the company indirectly via its ability to repay intra-group lending, refer to the group financial statements of Greene King Limited.

Debt holders - The company has bonds listed on the Irish Stock Exchange. During the prior period and as a direct consequence of the pub closures due to the COVID-19 pandemic, the company was unable to meet certain of their financial covenants. With the support of the board, the company sought and obtained a waiver of the covenants from the bondholders. In the current period, all financial covenants were met. In December, 2022 and with the approval of the board committee, the Greene King A5 bond was redeemed in full.

This report was approved by the board and signed on its behalf.

M Filer
Director
Date: 24 April 2023

Director's report

The directors presents their report and financial statements for the 52 weeks ended 1 January 2023.

Results and dividends

The loss for the 52 weeks, after taxation, amounted to £34,000 (previous period: profit of £82,011,000).

No dividends were paid or proposed during the period (previous period: £nil).

Going concern

Greene King Limited has agreed to provide continuing financial support to enable the company to meet its obligations as and when they fall due for a period of at least 12 months from the date of approval of the financial statements.

The directors of Greene King Limited have performed a going concern assessment of the Greene King Limited group. In doing so, they have modelled a remote scenario whereby the group generates just over half of its budgeted EBITDA but continues with budgeted capex for a 12 month period. Under this scenario the group has access to adequate funding to support the business through a period of at least 12 months from the date of the approval of the financial statements. However, in the absence of any support this reduction in trade would likely result in breaches of both the two-quarter and four-quarter lookback FCF DSCR covenants within its securitised borrowings without mitigation actions. In this scenario the directors could elect to prevent the breach by providing financial support to the Greene King securitisation through lower operating cost re-charges from other group companies. The directors of Greene King Limited have a reasonable expectation that the company has sufficient resources to continue in operational existence for the period of at least 12 months from the date of approval of these financial statements.

The directors of the company have made enquiries of the directors of Greene King Limited to confirm that they are satisfied the financial support will be available and accordingly continue to prepare the financial statements on a going concern basis.

Directors and their interests

The directors during the period and to the date of this report were as follows:

L.D.C. Securitisation Director No.3 Limited
L.D.C. Securitisation Director No.4 Limited
M H Filer

The directors did not hold any interest in the share capital of the company during the period.

Future developments

The company intends to continue to raise and lend money to other entities within the Greene King Limited group for the foreseeable future.

Qualifying third party indemnity provisions

The company has indemnified the directors of the company in respect of proceedings brought by third parties. Such qualifying third party indemnity provision remains in place at the date of this report.

Financial instruments

The primary treasury objectives of the company are to identify and manage the financial risks that arise in relation to underlying business needs, and provide secure and competitively priced funding for the activities of the company. If appropriate, the company uses financial instruments and derivatives to manage these risks.

The principal financial instruments held for the purpose of raising finance for operations are securitised bonds, cash and short-term deposits. Other financial instruments arise directly from the operations of the company, such as accrued interest receivables, other creditors and term loans.

Derivative financial instruments, principally interest rate swaps, are used to manage the interest rate risks related to the company's operations and financing soucres. No speculative trading in derivative financial instruments is undertaken.

Further details on risks and uncertainties on the use of financial instruments are set out in the Strategic report and note 15 to the financial statements.

Director's report (continued)

Corporate governance statement

In accordance with the requirements of the Disclosure and Transparency Rules ("DTR") 7.2 a corporate governance statement must be included within the Directors' report. The company is exempt from a number of these requirements as under DTR1B.1.6 the rules of DTR 7.2.2, DTR 7.2.3, DTR 7.2.7 and DTR 7.2.8A do not apply as the company has no issued shares which are admitted to trading. However, included below is a description of the key features of the company's internal control and risk management systems in relation to the financial reporting process:

- Board review and approval of financial statements; and
- Transactions and balances are recognised and measured in accordance with the prescribed accounting policies and transactions are reviewed and reconciled as part of the reporting process.

In line with DTR 7.1 the company has not appointed an audit committee or a supervisory body to carry out the audit committee functions. As noted in the Strategic Report, Greene King Limited group has control of the entity and all decisions affecting the company are filtered down from group. Greene King Limited has an appointed Board Committee which oversees the group and therefore the activities of this company.

Matters covered in the Strategic Report

The company has chosen in accordance with section 414C(11) of the Companies Act 2006 to include matters of strategic importance in the strategic report which otherwise would be required to be disclosed in the directors' report: Section 172 statement, principal risks and financial risk management.

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

The auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

M Filer
Director
Date: 24 April 2023

Independent auditor's report to the members of Greene King Finance plc

Report on the audit of the financial statements

1 Opinion

In our opinion the financial statements of Greene King Finance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 1 January 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2 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 as applied to listed entities, 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.

3 Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current period was: • Recoverability of intercompany receivables
Materiality	The materiality that we used in the current period was £11.5m which was determined on the basis of 1% of total assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There were no significant changes in our audit approach in the current year.

4 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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- An assessment of the ability of the parent, Greene King Limited, to provide the financial support that it has committed to. This includes an assessment of management's base case cash flow forecasts for the Greene King Limited group to evaluate whether there is sufficient liquidity and compliance with debt covenants throughout the assessment period;
- Evaluation of the ongoing availability of relevant facilities to the Greene King Limited group, including a £1.5bn facility from an intermediate parent company, outside of the immediate Greene King Limited group;
- An assessment of managements modelling of downside scenarios; and
- Testing the appropriateness of going concern disclosures within the financial statements.

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.

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.

5 Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

There has been no change in the audit matters identified compared to prior year.

5.1 Recoverability of intercompany receivables held at amortised cost

Key audit matter description	The balance sheet contains significant intercompany loan receivables held at amortised cost, in relation to the lending of proceeds from issued bonds within the Greene King Limited group. Due to the significance of the balance to the financial statements, and the difficult trading conditions created by the challenging macro-economic environment, considerable judgement is required when determining the expected credit loss to be recognised against the gross carrying amounts of these receivables in accordance with IFRS 9 Financial Instruments. In the current period, an expected credit loss of £2.6m (2022: £2.3m) has been recorded against receivables with a carrying amount of £1,089.7m (2022: £1,392.2m). In determining this provision, management has exercised judgement in determining whether the receivables were performing as expected, underperforming or non-performing, and whether there had been a significant increase in credit risk since initial recognition. Management also estimated the probability of default and loss given default for each receivable. For further information, refer to notes 2 and 15 to the financial statements
How the scope of our audit responded to the key audit matter	Our response to this key audit matter included the following procedures: • Obtaining an understanding of relevant controls over the process; • Assessing and challenging the criteria used to classify loans as performing as expected, under-performing or nonperforming, by assessing the financial performance and position of the counterparty compared to the start of the loan; • Corroboration of probability of default, loss given default to externally sourced data considering any contradictory evidence; and •Testing the appropriateness of disclosures within the financial statements.
Key observations	On the basis of these procedures, we are satisfied that the judgements and estimates made by management are appropriate and expected credit losses have been determined in accordance with IFRS 9 Financial Instruments.

6 Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£11.5m (2022: £14.7m)
Basis of determining materiality	1% of total assets (2022: 1% of total assets)
Rationale for the benchmark applied	We consider total assets to be the most relevant metric to the financial statement users, since these assets represent the means through which the company will repay its external debt.

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

a. The quality of the control environment; and

b. Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3 Error reporting threshold

We agreed with the Board that we would report to the Board all audit differences in excess of £0.6m (2022: £0.6m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7 An overview of the scope of our audit

Scoping

The scope of our audit was determined by obtaining an understanding of the company and its environment, including internal controls, and assessing the risks of material misstatement at the company level. Audit work to respond to risks of material misstatement was performed directly by the audit engagement team.

8 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.

9 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.

10 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.

11 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.

Independent auditor's report to the members of Greene King Finance plc (continued)

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and internal audit about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations
- the matters discussed among the audit engagement team and relevant internal specialists, including financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the recoverability of intercompany loan receivables held at amortised cost. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that 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. These included data protection regulations.

11.2 Audit response to risks identified

As a result of performing the above, we identified recoverability of intercompany loan receivables held at amortised cost as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12 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 strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report 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 strategic report or the directors' report

13 Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

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, 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.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14 Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the Board of Directors, we were appointed by the shareholders at the AGM on 21 August 2020 to audit the financial statements for the period ending 3 January 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 financial periods, covering the periods ending 3 January 2021 to 1 January 2023.

14.2 Consistency of the audit report with the additional report to the board committee

Our audit opinion is consistent with the additional report to the board committee we are required to provide in accordance with ISAs (UK).

15 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.

Tim Steel

Timothy Steel (Senior Statutory Auditor)
for and on behalf of Deloitte LLP, Statutory Auditor
London, UK
Date: 24 April 2023

Statement of director's 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 elected to prepare the group financial statements in accordance with International Financial Reporting standards ('IFRS') in conformity with the requirements of the Companies Act 2006, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). 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 group and the company and the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and performance;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 Regulation. 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.

M Filer
Director
Date: 24 April 2023

Income statement

For the 52 weeks ended 1 January 2023

	Note	52 weeks ended 1 January 2023 £000	52 weeks ended 2 January 2022 £000
Interest receivable and similar income	6	65,984	68,754
Interest receivable and similar income - adjusting items	15	17,941	7,294
Total interest receivable and similar income		83,925	76,048
Interest payable and similar expenses	7	(65,978)	(68,749)
Interest payable and similar expenses - adjusting items	15	(17,941)	(7,294)
Total interest payable and similar expenses		(83,919)	(76,043)
Other income		181	185
Net impairment (charge)/reversal on financial assets	15	(39)	82,007
Administrative and other expenses		(181)	(185)
(Loss)/profit before taxation		(33)	82,012
Taxation	8	(1)	(1)
(Loss)/profit for the period		(34)	82,011

As detailed in the Statement of changes in equity, the gains and losses arising as a result of cash flow hedges are equal and opposite and therefore have no overall impact on the statement of comprehensive income. Accordingly, a statement of comprehensive income has not been separately prepared.

The notes on pages 16 to 28 form part of these financial statements.

Balance sheet

As at 1 January 2023

	Note	1 January 2023	2 January 2022
		£000	£000
Current assets			
Debtors: amounts falling due after more than one year	10	**1,089,678**	1,392,224
Debtors: amounts falling due within one year	10	**55,229**	76,075
Cash at bank	11	**73**	68
Total assets		**1,144,980**	1,468,367
Current liabilities			
Creditors: amounts falling due within one year			
Interest bearing liabilities	12	**(50,718)**	(61,724)
Other creditors	12	**(4,645)**	(14,483)
Total current liabilities		**(55,363)**	(76,207)
Net current assets		**1,089,617**	1,392,160
Total assets less current liabilities		**1,089,617**	1,392,160
Creditors: amounts falling due after more than one year	13	**(1,092,164)**	(1,394,673)
Net liabilities		**(2,547)**	(2,513)
Capital and reserves			
Share capital	16	**13**	13
Retained earnings	17	**(2,560)**	(2,526)
Total equity		**(2,547)**	(2,513)

The notes on pages 16 to 28 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and signed on its behalf by:

M Filer
Director
Date: 24 April 2023

Statement of changes in equity

	Share capital £000	Retained earnings £000	Total equity £000
As at 3 January 2021	**13**	**(84,537)**	**(84,524)**
Profit for the period	-	82,011	82,011
At 2 January 2022	**13**	**(2,526)**	**(2,513)**
Loss for the period	-	(34)	(34)
At 1 January 2023	**13**	**(2,560)**	**(2,547)**

As the fair values of the swap liabilities relating to the bond finance and the swap asset relating to the term loans are identical any transactions arising as a result of cash flow hedges on the asset and liabilities recorded through other comprehensive income will be equal and opposite and hence have no overall impact on the hedging reserve or statement of comprehensive income.

As a result, a hedging reserve and statement of comprehensive income have not been separately presented.

Gains taken to other comprehensive income in relation to the bond finance swaps amounted to £93.6m (prior period: gains of £33.7m). Cash flow hedges recycled to the income statement from the statement of comprehensive income amounted to a net gain of £25.4m (prior period: gain of £20.8m).

Losses taken to other comprehensive income in relation to the swaps assets on the term loans amounted to £93.6m (prior period: loss of £33.7m). Cash flow hedges recycled to the income statement from the statement of comprehensive income amounted to a net loss of £25.4m (loss: £20.8m).

The notes on pages 16 to 28 form part of these financial statements.

1 Basis of preparation

Corporate information

The financial statements of Greene King Finance plc for the 52 weeks ended 1 January 2023 were authorised for issue by the board on 24th April 2023. Greene King Finance plc is a public company limited by shares and incorporated and domiciled in England and Wales.

Statement of compliance

The company's financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006. The company's financial statements are presented in pounds sterling with values rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 2).

The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

2 Accounting policies

The following principal accounting policies have been applied:

2.1 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

2.2 Impact of new International Reporting Standards, amendments and interpretations

The following new standards, interpretations and amendments to standards are mandatory for the company for the first time for their annual reporting period commencing 3 January 2022.

Those standards and interpretations include:

- Amendments to IFRS 3 – Reference to the conceptual framework
- Annual improvements to IFRS Standards 2018 -2020

The company has considered the above new standards and has concluded that neither of them have a material impact on the financial statements.

Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the company has not early adopted them in preparing these consolidated financial statements. It is the company's view that none of the new standards or amendments will have a significant impact on the company's financial statements.

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting
- Amendments to IAS 8 – Definition of Accounting Estimates

2 Accounting policies (continued)

2.3 Going concern

Greene King Limited has agreed to provide continuing financial support to enable the company to meet its obligations as and when they fall due for a period of at least 12 months from the date of approval of the financial statements.

The directors of Greene King Limited have performed a going concern assessment of the Greene King Limited group. In doing so, they have modelled a remote scenario whereby the group generates just over half of its budgeted EBITDA but continues with budgeted capex for a 12 month period. Under this scenario the group has access to adequate funding to support the business through a period of at least 12 months from the date of the approval of the financial statements. However, in the absence of any support this reduction in trade would likely result in breaches of both the two-quarter and four-quarter lookback FCF DSCR covenants within its securitised borrowings without mitigation actions. In this scenario the directors could elect to prevent the breach by providing financial support to the Greene King securitisation through lower operating cost re-charges from other group companies. The directors of Greene King Limited have a reasonable expectation that the company has sufficient resources to continue in operational existence for the period of at least 12 months from the date of approval of these financial statements.

The directors of the company have made enquiries of the directors of Greene King Limited to confirm that they are satisfied the financial support will be available and accordingly continue to prepare the financial statements on a going concern basis.

2.4 Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

2.5 Financial instruments

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument and de-recognised when the company no longer controls the contractual rights that comprise the financial instrument, normally through sale or when all cash flows attributable to the instrument are passed to an independent third party.

2.6 Financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. The company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Subsequently, the group classifies its financial assets as measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

The classification depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. The company recognises a loss allowance for expected credit losses on term loans. The methodology used to determine the amount of the expected credit loss is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset.

For those financial assets where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses are recognised. Interest income is recognised by applying the effective interest rates to the gross carrying amount of the financial asset.

For those financial assets where the credit risk has increased significantly or determined to be credit impaired, lifetime expected credit losses are recognised. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset (or for the credit impaired assets, to the net carrying amount of the financial asset).

2.7 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

2.8 Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method.

2.9 Interest costs and income

Interest costs are expensed to the income statement using the effective interest method. Interest income is recognised in the income statement using the effective interest method.

2 Accounting policies (continued)

2.10 Derivative financial instruments

The company uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate term loans and notes.

Interest rate swaps are initially measured at fair value, if any, and carried on the balance sheet as an asset or liability. Subsequent measurement is at fair value determined by reference to market values for similar instruments. If a derivative does not qualify for hedge accounting the gain or loss arising on the movement in fair value is recognised in the income statement.

Cash payments or receipts made are recognised in interest payable/receivable on secured loan notes so as to show the cash fixed rate on the secured loan notes, with the remaining fair value movement (which is generally the change in the carrying amount of the swaps) presented separately.

2.11 Hedge accounting

To qualify for hedge accounting the hedge relationship must be designated and documented at inception. Documentation must include the company's risk management objective and strategy for undertaking the hedge and formal allocation to the item or transaction being hedged. The company also documents how it will assess the effectiveness of the hedge and carries out assessments through periodic prospective effectiveness testing to ensure that:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from the economic relationship; and
- the hedge ratio is the same as that resulting from actual quantities of hedged items and hedging instruments used for risk management

Hedges can be classified as either fair value (hedging exposure to changes in fair value of an asset or liability) or cash flow (hedging the variability in cash flows attributable to an asset, liability, or forecast transaction). The company uses its interest rate swaps as cash flow hedges.

2.12 Cash flow hedge accounting

The effective portion of the gain or loss on an interest rate swap is recognised directly in other comprehensive income, whilst any ineffective portion is recognised immediately in the income statement.

Amounts recognised in other comprehensive income and accumulated in equity are transferred to the income statement in the same period that the financial income or expense is recognised, unless the hedged transaction results in the recognition of a non-financial asset or liability whereby the amounts are transferred to the initial carrying amount of the asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, amounts previously recognised in other comprehensive income are held there until the previously hedged transaction affects profit or loss. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in other comprehensive income and accumulated in equity is immediately transferred to the income statement.

2.13 Income tax

The income tax comprises both the income tax payable based on profits for the period and the deferred income tax. It is calculated using taxation rates enacted or substantively enacted by the balance sheet date and is measured at the amount expected to be recovered from or paid to the taxation authorities.

Income tax relating to items recognised directly in OCI or directly in equity are recognised in OCI and equity respectively.

2.14 Adjusting items

Adjusting items are classified as those which are separately identifiable by virtue of their size, nature or expected frequency and therefore warrant separate presentation or allow a better understanding of the underlying performance of the business.

Items that are considered to be adjusting and that are therefore separately identified in order to aid comparability may include the following:

- Finance costs or income resulting from gains or losses upon the settlement of interest rate swap and bond liabilities and from cumulative gains or losses recycled in full to the income statement where the swaps have been terminated. These amounts may be significant and are separately identified as the instruments they relate to would no longer form part of the company's ongoing capital structure;

- Fair value gains and losses on the ineffective element of cash flow hedges and fair value movements in respect of derivatives held at fair value through profit and loss. Such items are separately presented as movements may be both significant and volatile;

- Finance costs or income for the recycling to the income statement of cumulative gains or losses relating to settled swaps previously taken to the hedging reserve where the recycling occurs over the same period during which the hedged forecast cash flows affect profit or loss.

3 Judgments in applying accounting policies and key sources of estimation uncertainty

Significant accounting judgments

There are no judgements made in the company that are considered to be significant.

Significant accounting estimates

In the course of preparing the financial statements, the key estimate made in the process of applying the company's accounting policies is detailed below:

Financial assets – expected credit loss

The company recognised a loss allowance for expected credit losses on amounts due on term loans. The methodology used to determine the amount of expected credit loss is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset.

A review was carried out on amounts owed by group undertakings for an indication of a significant increase in credit risk. The main criteria used was to compare the risk of default occurring over the expected life of the instrument at the reporting date with the risk of default at the date of initial recognition. For those financial assets where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses are recognised. Interest income is recognised by applying the effective interest rates to the gross carrying amount of the financial asset. For those financial assets where the credit risk has increased significantly or determined to be credit impaired, lifetime expected credit losses are recognised. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset (or for the credit impaired assets, to the net carrying amount of the financial asset). A review concluded that a 12 month ECL is applicable for the term loans with Greene King Retailing Limited (see note 15).

4 Staff costs

The company has no employees (prior period: none) and did not incur any staff costs during the period (prior period: £nil).

The directors did not receive any emoluments in respect of their qualifying services to the company (prior period: £nil).

5 Auditor's remuneration

The auditor's remuneration in respect of the audit of the financial statements for the period of £33,000 (prior period: £27,000) has been borne by another group company.

The company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group financial statements of the ultimate parent company.

6 Interest receivable and similar income

	52 weeks ended 1 January 2023 £000	52 weeks ended 2 January 2022 £000
Interest receivable from Greene King Retailing Limited on term loans	**57,805**	55,218
Amounts receivable from Greene King Retailing Limited on interest rate swap agreements relating to term loans	**8,179**	13,536
	65,984	68,754

The company has one operating segment.

7 Interest payable and similar expenses

	52 weeks ended 1 January 2023 £000	52 weeks ended 2 January 2022 £000
Interest payable on bond finance	55,384	52,797
Interest payable to Greene King Limited on bond finance	2,415	2,416
Amounts payable on interest rate swap agreements related to bond finance	8,179	13,536
	65,978	68,749

8 Taxation

	52 weeks ended 1 January 2023 £000	52 weeks ended 2 January 2022 £000
Current income tax		
Tax expense in the income statement	1	1

Reconciliation of tax expense for period

The tax expense in the income statement is higher (prior period: lower) than the standard rate of corporation tax of 19% (prior period: 19%).
The differences are explained below:

	52 weeks ended 1 January 2023 £000	52 weeks ended 2 January 2022 £000
(Loss)/profit before tax	(33)	82,012
(Loss)/profit multiplied by standard rate corporation tax in the UK of 19% (prior period: 19%)	(6)	15,582
Effects of:		
Expenses not deductible / (income not taxable)	7	(15,581)
Total taxation for the period	1	1

Factors that may affect future tax charges

Under Finance Act 2021 enacted on 10 June 2021, the Corporation Tax rate for the 12 months from 3 January 2021 remains at 19%, but will increase to 25% as the planned main rate of corporation tax from 1 April 2023.

9 Profit before taxation

The company was incorporated for the purpose of raising funds through the issuance of bonds, the proceeds of which are on-lent to Greene King Retailing Limited. Interest payable and similar expenses therefore represents interest payable on bond finance and amounts payable on interest rate swap agreements related to bond finance as described in note 7. Interest receivable and similar income represents the interest receivable on term loans made to Greene King Retailing Limited and amounts receivable on interest rate swap agreements related to term loans as described in note 6.

Other income relates to the recharge, at nil margin, of trustee and legal fees payable. Impairment of financial assets of £39,000 (prior period: reversal of impairment £82,007,000) relates to the impairment of bought forward debtor balances under the expected credit loss model of IFRS 9. Administrative and other expenses relate to trustee fees payable and other operating expenses.

10 Debtors

	1 January 2023	2 January 2022
	£000	£000
Due within one year		
Term loans (note 15)	50,600	61,608
Derivative financial instruments (note 15)	1,362	10,693
Accrued interest receivable	3,267	3,774
	55,229	76,075

	1 January 2023	2 January 2022
	£000	£000
Due after more than one year		
Term loans (note 15)	1,066,657	1,297,338
Derivative financial instruments (note 15)	23,021	94,886
	1,089,678	1,392,224

Expected credit losses of £2,605,000 (prior period: £2,566,000) have been recognised against the carrying value.

11 Cash and cash equivalents

	1 January 2023	2 January 2022
	£000	£000
Cash at bank	73	68

12 Creditors: Amounts falling due within one year

	1 January 2023	2 January 2022
	£000	£000
Interest bearing liabilities		
Bond finance (note 14)	50,718	61,724
Other creditors		
Derivative financial instruments (note 15)	1,362	10,693
Corporation tax	1	1
Interest payable	3,277	3,782
Owed to other group undertakings	5	7
	4,645	14,483

Interest payable is mainly settled quarterly throughout the year, in accordance with the terms of the related financial instrument.

13 Creditors: Amounts falling due after more than one year

	1 January 2023	2 January 2022
	£000	£000
Bond finance (note 14)	1,029,143	1,259,787
Bond finance owed to Greene King Limited (note 15)	40,000	40,000
Derivative financial instruments (note 15)	23,021	94,886
	1,092,164	1,394,673

The company has issued various tranches of bonds in connection with the securitisation of pubs operated by Greene King Retailing Limited. The bonds are secured over these properties and their future income streams. The securitisation is governed by various covenants, warranties and events of default many of which apply to Greene King Retailing Limited. These include covenants regarding the maintenance and disposal of properties and restrictions on its ability to move cash outside of that company.

14 Bond Finance and term loans

The company's bond finance and term loans at 1 January 2023 consist of the following tranches:

	Nominal value 2023 £'000	Carrying Value[2] 2023 £'000	Carrying value 2022 £'000	Interest	Interest rate[1] %	Last repayment period	Weighted average life
Bond finance							
A2 bonds	182,992	182,404	193,754	Fixed	5.32	2031	5.1 years
A4 bonds	238,239	237,807	253,518	Fixed	5.11	2034	6.2 years
A5 bonds	-	-	190,938	Floating	3.93	2033	-
A6 bonds	210,549	209,813	224,515	Fixed	4.06	2035	6.9 years
A7 bonds	230,375	229,483	238,480	Fixed	3.59	2035	6.5 years
AB2 bonds	40,000	40,000	40,000	Fixed	6.06	2036	12.2 years
B1 bonds[3]	120,853	120,614	120,586	Floating	6.96	2034	10.4 years
B2 bonds	99,927	99,739	99,720	Floating	6.92	2036	12.5 years
	1,122,935	1,119,860	1,361,511				

	Nominal value 2023 £'000	Carrying Value[2] 2023 £'000	Carrying value 2022 £'000	Interest	Interest rate[1] %	Last repayment period	Weighted average life
Term loans receivable							
A2 bonds	182,992	181,981	193,388	Fixed	5.32	2031	5.1 years
A4 bonds	238,239	237,254	253,041	Fixed	5.11	2034	6.2 years
A5 bonds	-	-	190,580	Floating	3.93	2033	-
A6 bonds	210,549	209,325	224,092	Fixed	4.06	2035	6.9 years
A7 bonds	230,375	228,948	238,030	Fixed	3.59	2035	6.5 years
AB2 bonds	40,000	39,907	39,924	Fixed	6.06	2036	12.2 years
B1 bonds	120,853	120,334	120,359	Floating	6.96	2034	10.4 years
B2 bonds	99,927	99,508	99,532	Floating	6.92	2036	12.5 years
	1,122,935	1,117,257	1,358,946				

[1]includes the effect of interest rate swaps on the floating rate notes

[2]carrying value is net of related deferred finance fees and impairment losses calculated under IFRS 9

The interest payable on each of the floating tranches is as follows:

Tranche	Interest rate payable[1]	Interest rate swap	Total interest rate
B1 bonds	S+1.80%	5.16%-S	6.96%
B2 bonds	S+2.08%	4.84%-S	6.92%

[1] For the floating rate bonds the interest rate payable is the compounded SONIA plus 0.1193% (this sum being denoted by "S" above) plus the margin as shown.

14 Bond Finance and term loans (continued)

The Class B1 and B2 bonds have floating interest rates. Class A2, A4, A6, A7 and AB2 bonds have fixed interest rates.

The Class A2, A4, A6 and A7 bonds rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class AB2 and Class B bonds. The Class B1 and B2 bonds rank pari passu in point of security, principal repayment and interest payment.

The Class AB2 bonds, which are payable to Greene King Limited, rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class B bonds.

In December 2022, the company fully repaid the £179.9m Class A5 secured bonds at par and terminated the corresponding swap rate (see note 15).

The company has issued these various tranches of bonds in connection with the securitisation of pubs operated by Greene King Retailing Limited. The bonds are secured over these properties and their future income streams. The securitisation is governed by various covenants, warranties and events of default many of which apply to Greene King Retailing Limited. These include covenants regarding the maintenance and disposal of properties and restrictions on its ability to move cash outside of that company.

The proceeds of the issues of bonds are lent to Greene King Retailing Limited as part of a securitisation of a portion of Greene King Limited group's pubs business. The maturity dates and loan payment dates of the term loans correspond to the terms of the relevant class of bonds.

The payment of interest and repayment of principal by Greene King Retailing Limited will provide the primary source of funds for interest and principal payments on the bonds.

Liquidity facility

The company has available liquidity facilities totalling £224.0m (prior period: £224.0m) which can only be used for the purpose of meeting the securitisation's debt service obligations should there ever be insufficient funds available from operations to meet such payments. There were no drawdowns under these facilities during the year and the drawn down amount at the year-end was £nil (prior period: £nil).

15 Financial instruments and loan capital

The company holds the following financial instruments:

	Note	Current	Non-current	Total
		2023	2023	2023
		£'000	£'000	£'000
Financial assets				
Assets at amortised cost				
Term loans	10	50,600	1,066,657	1,117,257
Cash and cash equivalents	11	73	-	73
Accrued interest receivable	10	3,267	-	3,267
Asset at fair value				
Derivative financial instruments	10	1,362	23,021	24,383
		55,302	1,089,678	1,144,980
Financial liabilities				
Liabilities at amortised cost				
Bond finance	12,13	50,718	1,029,143	1,079,861
Interest payable	12	3,277	-	3,277
Owed to other group undertakings	12	5	-	5
Liabilities at fair value				
Derivative financial instruments	12,13	1,362	23,021	24,383
		55,362	1,052,164	1,107,526

15 Financial instruments and loan capital (continued)

	Note	Current 2022 £'000	Non-current 2022 £'000	Total 2022 £'000
Financial assets				
Assets at amortised cost				
Term loans	10	61,608	1,297,338	1,358,946
Cash and cash equivalents	11	68	-	68
Accrued interest receivable	10	3,774	-	3,774
Asset at fair value				
Derivative financial instruments	10	10,693	94,886	105,579
		76,143	1,392,224	1,468,367
Financial liabilities				
Liabilities at amortised cost				
Bond finance	12,13	61,724	1,299,787	1,361,511
Interest payable	12	3,782	-	3,782
Owed to other group undertakings	12	7	-	7
Liabilities at fair value				
Derivative financial instruments	12,13	10,693	94,886	105,579
		76,206	1,394,673	1,470,879

The primary treasury objectives of the company are to manage the financial risks that arise in relation to the underlying business needs of the Greene King Limited group and to provide secure and competitively priced funding for the activities of that group. This is performed via the issue of internal and external loan notes and the onward lending of the proceeds to other members of the Greene King group for the purpose of securitising a proportion of the group's licensed estate. Where appropriate, the company uses financial instruments and derivatives to manage these risks.

The principal financial instruments held for the purpose of raising finance for operations are securitised bonds.

Derivative financial instruments, interest rate swaps, are used to manage the interest rate risks related to the company's operations and financing sources. No speculative trading in derivative financial instruments is undertaken.

The main risks from the company's financial instruments are interest rate risk, liquidity risk and credit risk. The policy for managing each of these risks is set out below.

Hedging

The company's policy is to hedge exposure to interest rate risk. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is recognised.

At 1 January 2023, the company held two (2022: three) interest rate swap contracts for a nominal value of £220,780,000 (prior period: £411,719,000), which are designated cash flow hedges against £220,780,000 (prior period: £411,719,000) of variable rate bonds entered into as part of the securitisation and subsequent securitisation taps. These swaps are hedges of the B1 and B2 tranches, receiving a variable rate of interest based on SONIA and paying a fixed rate of 5.155% on the B1 tranche and 4.837% on the B2 tranche. The weighted average fixed rate of the swaps was 5.0% (prior period: 3.3%).

The interest rate swaps hedging the B1 and B2 tranches are held on the balance sheet as a fair value liability of £24,383,000 (prior period: £105,579,000). The contract maturity dates range from December 2034 to March 2036. Prospective hedge effectiveness testing is performed and the bonds and related interest rate swaps have the same critical terms excluding credit risk.

The company has also entered into equal and opposite interest rate swap arrangements with Greene King Retailing Limited in respect of the term loans issued to that company. The terms, values and maturity analysis of these swaps directly mirror the swaps designed to hedge interest rate risk on the bond finance. The company therefore receives a weighted average fixed rate of 5.0% (prior period: 3.3%) and pays a variable rate based on SONIA plus 0.1193%. The fair value of the swaps on the B1 and B2 tranches at the period end was an asset of £24,383,000 (prior period: £105,579,000).

In December 2022, Greene King Limited fully repaid the £179.9m Class A5 secured bonds issued by the company at par and terminated the corresponding interest rate swap contract.

15 Financial instruments and loan capital (continued)

Interest rate risk

Exposure to changes in interest rates on the company's borrowings is reviewed with regard to the maturity profile and cash flows of the underlying debt. The company uses a mixture of fixed and floating interest rate debt with exposure to market interest rate fluctuations primarily arising from the floating rate instruments. The company's policy is to keep 100% of its variable rate bond finance at fixed rates of interest to mitigate the interest rate risk, this is done through the use of interest rate swaps. At the period end 100% of variable rate bond finance was fixed after taking account of interest rate swaps.

The company has entered into "back to back" interest rate swap arrangements internally with Greene King Retailing Limited and externally with bond holders covering 100% of the variable interest rate exposure. Therefore, the impact of any changes in interest rates on the fair values of its financial instruments would directly offset and have no impact on the company's profit before tax or shareholders' funds.
Due to the existence of equal and opposite interest rate swap arrangements with Greene King Retailing Limited, noted above, there will be no overall impact on equity from transactions arising as a result of the cashflow hedges as these will offset each other.

Liquidity risk

The company mitigates liquidity risk by ensuring that the maturity profile of amounts receivable on term loans is matched exactly against the maturity profile of amounts payable on bond finance.

The table below summarises the maturity profile of the company's financial instruments at 1 January 2023 and 2 January 2022 based on contractual undiscounted payments including interest.

Period ended 1 January 2023	Within one year	One to two years	Two to five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000
Bond finance					
- Capital	55,385	62,777	217,584	747,190	**1,082,936**
- Interest	51,753	49,723	125,284	155,295	**382,055**
	107,138	112,500	342,868	902,485	**1,464,991**
Interest rate swaps settled net	1,362	1,053	7,420	21,561	**31,396**
	108,500	113,553	350,287	924,046	**1,496,387**
Term loans receivable					
- Capital	55,385	62,777	217,584	747,190	**1,082,936**
- Interest	51,753	49,723	125,284	155,295	**382,055**
	107,138	112,500	342,868	902,485	**1,464,991**
Interest rate swaps settled net	1,362	1,053	7,420	21,561	**31,396**
	108,500	113,553	350,287	924,046	**1,496,387**

Period ended 2 January 2022	Within one year	One to two years	Two to five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000
Bond finance					
- Capital	62,115	67,115	244,534	951,211	1,324,975
- Interest	52,170	51,509	134,627	169,625	407,931
	114,285	118,624	379,161	1,120,836	1,732,906
Interest rate swaps settled net	10,693	8,499	25,614	67,643	112,449
	124,978	127,123	404,775	1,188,479	1,845,355
Term loans receivable					
- Capital	62,115	67,115	244,534	951,211	1,324,975
- Interest	52,170	51,509	134,627	169,625	407,931
	114,285	118,624	379,161	1,120,836	1,732,906
Interest rate swaps settled net	10,693	8,499	25,614	67,643	112,449
	124,978	127,123	404,775	1,188,479	1,845,355

Credit risk

Financial assets include term loans, cash and cash equivalents and interest receivable. Credit risk is the risk of default by the counterparty to discharge their obligation and the maximum exposure of the *group is the carrying amount of these instruments. The credit risk on cash and cash equivalents is limited by* investment with banks and financial institutions with high credit ratings assigned by international credit agencies.

The credit risk on term loans receivable from Greene King Retailing Parent Limited, a significant subsidiary of Greene King Limited group, is covered by the expected credit loss. The term loans are secured against pubs in the Greene King estate.

15 Financial instruments and loan capital (continued)

Impairment of financial assets

The company has term loans that are subject to the expected credit loss model.

Impairment on term loans recognised in the income statement was as follows:

	2023	2022
	£'000	£'000
Impairment (charge)/reversal on term loans	(39)	82,007

The key assumptions for the calculation of the ECL on those financial assets were:

· Probability of default (PD) being the likelihood of a default happening over the next 12 months. This was determined by a probability of default expected for companies with a BB+ credit rating taking into consideration the length of the loan. The PD was then updated for forward-looking information based on the external study on the impact of the current conditions and forecast of future economic conditions on credit risk.

· Loss given default (LGD) being the percentage that could be lost in the event of a default. The LGD was based on the average industry rate and adjusted for the security headroom. The security over the amounts due on secured loan notes did not impact the LGD.

· Exposure at default being the balance outstanding as at the reporting date.

Sensitivity to changes in assumptions

The most significant assumption included within the expected credit loss for amounts due on term loans is the conclusion that there has been no significant increase in credit risk resulting in a 12 month ECL. In order to test the sensitivity of that assumption, the company has considered the impact of a lifetime ECL compared to a 12-month ECL and determined that had a lifetime ECL been applied the impact on the ECL would have been higher by £36,207,000.

Adjusting items

In December 2022 the company settled the financial liabilities in relation to the Greene King secured A5 bond. The remaining £179.9m outstanding nominal amount was repaid in full at par. No adjusting loss or gain in respect of the settlement of the bond was recognised.

In conjunction with the repayment of the Greene King A5 bond the group terminated the interest rate swap contract which had been designated cash flow hedge of the bond. The group recognised a loss of £0.6 in respect of a credit valuation adjustment upon the settlement of the swap. The transaction also resulted in the crystallisation of mark-to-market losses taken to the hedging reserve over the life of the swap. These amounts were recycled from the hedging reserve to the income statement in full and an additional loss of £17.3m was recognised.

Fair values

Set out below is a comparison of carrying amounts and fair values of the company's financial instruments:

		1 January 2023		2 January 2022	
	Hierarchical classification	Fair value £'000	Carrying value £'000	Fair value £'000	Carrying value £'000
Financial liabilities					
Bond finance	1	(921,124)	(1,079,861)	(1,378,644)	(1,321,512)
Bond finance to Greene King Limited	2	(29,400)	(40,000)	(48,600)	(40,000)
Derivative financial instruments	2	(24,383)	(24,383)	(105,579)	(105,579)
Interest payable	2	3,277	3,277	3,782	3,782
Financial assets					
Term loans	2	921,124	1,077,350	1,378,644	1,319,022
Term loans	2	29,400	39,907	48,600	39,924
Accrued interest receivable	2	3,267	3,267	3,774	3,774
Derivative financial instruments	2	24,383	24,383	105,579	105,579

15 Financial instruments and loan capital (continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The following methods were used to estimate the fair values:

· Bond finance and term loans - based on quoted market prices where available (level 1); calculated by discounting all future cash flows by an implied yield determined with reference to observable market data (level 2).
· Derivative financial instruments - calculated by discounting all future cash flows by the market yield curve at the balance sheet date and adjusting for, where appropriate, the company's and counterparty credit risk. The changes in credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships.

The fair value of other financial assets and liabilities are not materially different from their carrying value.

Hierarchical classification of financial assets and liabilities measured at fair value

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive fair value. The classification uses the following three-level hierarchy:
Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.
During the periods ending 1 January 2023 and 2 January 2022, there were no transfers between levels 1, 2 or 3 fair value measurements.

Capital risk management

The company aims to manage the risk associated with its capital by ensuring that the terms and conditions relevant to the debt issued by the company are directly reflected in the terms and conditions associated with the term loan lending that it has issued to Greene King Retailing Limited. By ensuring that the terms are identical, with a small margin charged to Greene King Retailing, the group offsets the risks related to its capital structure and use of debt. No changes were made in the objectives, policies or processes during the period.

Capital management also takes place on a group wide basis. Debt and equity are considered to be the group's capital. The Greene King group monitors several capital measures including fixed charge cover, the ratio of net debt to EBITDA and free cash flow debt service coverage. All covenants in relation to the securitisation vehicles and bank loans have been fully complied with during the financial year.

16 Share capital

	1 January 2023	2 January 2022
	£	£
Allotted, called up and fully paid		
50,000 (prior period: 50,000) Ordinary shares of £1.00 each	**12,502**	12,502

On incorporation of the company Greene King Finance Parent Limited subscribed for one ordinary share of £1 and Law Debenture Corporate Services Limited subscribed for one further ordinary share of £1, each fully called up for consideration of £1 per share.

On 21 January 2005, 49,998 ordinary shares of £1 each were allotted to Greene King Finance Parent Limited with £0.25 per share called up and paid.

The directors of the company have no rights to subscribe for additional shares in the company.

17 Reserves

Profit and loss account
Profit and loss account reserve represents accumulated retained earnings.

18 Related party transactions

The company has issued term loans and has entered into "back to back" interest rate swap agreements with Greene King Retailing Limited, a fellow Greene King Limited group undertaking. Details of the amounts outstanding on the term loans and associated derivative financial instruments are included in note 10. Details of the interest received on the secured loans are included in note 6.

The company has lent £40m in the form of an AB2 term loan to Greene King Retailing Limited and has issued a £40m AB2 bond to Greene King Limited. Details of bonds issued by the company are included in note 14. During the year interest payable to Greene King Limited in respect of the AB2 bond totalled £2,415,000 (prior period: £2,416,000).

At the year end, accrued interest due to Greene King Limited in respect of the AB2 bond totalled £113,000 (prior period: £119,000).

19 Post balance sheet events

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

20 Ultimate parent undertaking and controlling party

The company is a wholly-owned subsidiary of Greene King Finance Parent Limited. The Law Debenture Intermediary Corporation plc holds the shares of Greene King Finance Parent Limited under a declaration of trust for charitable purposes.

The company was set up with the sole purpose of issuing loan notes on the assets of Greene King Retail Limited, a subsidiary of Greene King Limited. The directors of the company consider Greene King Limited to the ultimate controlling party, as it has operating and financial control of the company.

The directors of Greene King Limited consider that Greene King Limited has control of the company (as defined in IFRS 10 Consolidated Financial Statements) as a result of the rights provided to it under the securitisation. Hence, the results of the company are included in the consolidated financial statements of Greene King Limited.

Greene King Limited is the smallest group which includes the results of the company and for which group financial statements are prepared. Copies of its group financial statements are available from Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT.

The ultimate parent undertaking and ultimate controlling party is CK Asset Holdings Limited, a company registered in the Cayman Islands and Hong Kong with its shares listed on the Main Board of the Hong Kong Stock Exchange.

CK Asset Holdings Limited is the largest group which includes the results of the company and for which group financial statements are prepared. Copies of its group financial statements are available from 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.