

## **Uberior Investments Limited**

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

#### **Registered office**

The Mound  
Edinburgh  
United Kingdom  
EH1 1YZ

#### **Registered number**

SC073998

#### **Current directors**

M M De Vries  
N S Burnett

#### **Company Secretary**

D D Hennessey



## Strategic report

For the year ended 31 December 2020

The directors present their Strategic report and the audited financial statements of Uberior Investments Limited (the "Company") for the year ended 31 December 2020.

### Principal activities and future developments

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.

### 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 dividend income from subsidiaries, investment gains on disposals and valuation movements taken to profits, including impairments. Further to the before mentioned, borrowed funds are also considered a key financial performance indicator for the Company.

The Company's profit before tax for the financial year is £63,020,000 (2019: profit of £43,778,000). This is largely generated through gain on valuation movements (deducting impairments) of £48,943,000 (2019: gain of £48,610,000). There is also income from investments of £26,648,000 (2019: £889,000).

The Balance Sheet shows a net asset position of £262,479,000 (2019: £218,044,000).

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 (2019: none) and therefore the Directors have not commented on employee matters.

### Section 172(1) Statement and Statement of Engagement with Stakeholders

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172. Further details on key actions in this regard are also contained within the Directors' Report on page 3.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the following statement also provides details of how the Directors have engaged with and had regard to the interests of key stakeholders. The Company is a subsidiary of Lloyds Banking Group plc ('LBG'), and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant.

The Directors' acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of LBG, achieves long-term success and generates sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct. This approach has during the course of the year been central to the activities of the Directors, as discussed below.

### Shareholders

The Company is a wholly owned subsidiary of LBG, forming part of LBG's Equity division. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of LBG, ensuring that the interests of LBG as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic Report within the LBG Annual Report and Accounts for 2020, available on the LBG website.

### Communities and the Environment

The Directors acknowledge that the Company, as part of one of the largest retail and commercial financial services providers in the UK, has responsibilities to invest in the communities in which it operates, to help them prosper economically and build social cohesion by tackling disadvantage. The Company participates in all related LBG initiatives, with the Directors ensuring the Company plays an appropriate role in LBG's related Helping Britain Prosper Plan. Further information in respect of the LBG approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the LBG Annual Report and Accounts for 2020. Additional information on LBG's Helping Britain Prosper Plan is available on the LBG website.

The Responsible Business Committee of the LBG Board is responsible for overseeing LBG's performance, including that of the Company, as a Responsible Business, by providing oversight of and support for LBG's strategy and plans for embedding responsible business as part of both LBG's and the Company's purpose to Help Britain Prosper. Priorities during the year have included ongoing focus on three key areas aligned to LBG's Bank of the Future strategy. These included consideration of the progress of the Lloyds Bank Academy and the external initiative 'future.now', both designed to boost digital skills in the UK. Progress against agreed sustainability strategy was also considered, where consistent progress was made in achieving targets. Consideration was also given to the relationship between LBG and its charitable foundations, in particular the work they do in the communities in which LBG and the Company operate. Further information in respect of LBG's and the Company's Responsible Business activities is included in the LBG Annual Report and Accounts for 2020, available on the LBG website, along with further discussion of the work of LBG's Responsible Business Committee.

### 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 22 to the financial statements.

The global pandemic from the outbreak of COVID-19 is causing widespread disruption to financial 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 is currently 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.

However, the economic impact of the COVID-19 pandemic is not expected to have a material impact on the going concern of the Company.

### Future Outlook

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

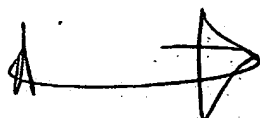
**Strategic report (continued)**  
For the year ended 31 December 2020

**Key performance Indicators ("KPIs")**

The directors monitor the performance of the Company by reference to KPIs as listed below

| KPI                                       | Movement                                                          | Analysis                                                                                                                                                                                                                                      |
|-------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Dividend income from subsidiaries         | Increased by £26,216,000 (2020: £26,216,000, 2019: £nil)          | No dividends were received in the prior year as the credit risk appetite calculations in subsidiaries suggested that the payment of dividends would not be appropriate. A dividend was received from Uberior ENA Limited in the current year. |
| Investment value (FVTPL and FVOCI Assets) | Increased by £85,611,000 (2020: £597,954,000, 2019: £512,343,000) | Movement includes FVTPL additions of £39,625,000 and FV movements of £64,054,000, which is offset by disposals of (£16,908,000). There has also been FV movements in FVOCI investments of (£1,160,000).                                       |
| Borrowed funds                            | Increased by £16,727,000 (2020: £417,306,000, 2019: £400,579,000) | Movement is due to additional funding received from LBGEIL of £30,000,000, which is offset by repayments of (£14,073,000) and FX movements on the LBGEIL Euro hedging loan of (£800,000).                                                     |

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



N S Burnett  
Director

8 July 2021

## Directors' report

For the year ended 31 December 2020

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

### General information

The Company is a limited company incorporated and domiciled in Scotland (registered number: SC073998).

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 plc ("the Group").

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

### Dividends

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

### Going concern

The financial statements have been prepared on a going concern basis. There is a net asset position of £262,479,000 (2019: £218,044,000).

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.

### Streamlined Energy and Carbon Reporting Disclosure

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("The 2018 Regulations") came into effect on 1 April 2019. The 2018 Regulations impose requirements on large companies as defined by sections 465 and 466 of the Companies Act 2006 to prepare an equivalent report to the Directors' Report (the "Energy and Carbon Report") for each financial year including their energy and carbon information. Though the Company is within scope for Streamlined Energy and Carbon Reporting ("SECR"), the Directors have elected for an exemption from SECR based on LBG's consolidated financial statements providing sufficient SECR details for all its subsidiaries.

### Directors

The current directors of the Company are shown on the front cover.

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

|              |                           |
|--------------|---------------------------|
| A Hulme      | (resigned 9 March 2020)   |
| M M De Vries | (appointed 10 March 2020) |

### Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Key performance indicators and Section 172(1) related matters that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on page 1 and 2.

### 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.

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

**Directors' report (continued)**  
For the year ended 31 December 2020

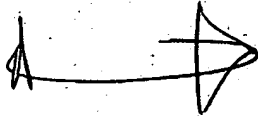
**Directors' confirmations**

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.

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

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

A handwritten signature in black ink, appearing to be 'N S Burnett', written over a horizontal line.

N S Burnett  
Director

8 July 2021

**Income statement**  
For the year ended 31 December 2020

|                                      | Note | 2020<br>£'000 | 2019<br>£'000 |
|--------------------------------------|------|---------------|---------------|
| Other income                         | 3    | 65            | 5,819         |
| Income from investments              | 4    | 26,648        | 889           |
| Changes in fair value of investments | 5    | 64,054        | 26,209        |
| <b>Total income</b>                  |      | <b>90,767</b> | <b>32,917</b> |
| Impairment (losses)/gain             | 6    | (15,111)      | 22,401        |
| Finance costs                        | 7    | (12,047)      | (10,932)      |
| Other operating expenses             | 8    | (589)         | (608)         |
| <b>Profit before tax</b>             |      | <b>63,020</b> | <b>43,778</b> |
| Taxation                             | 9    | (17,425)      | (7,765)       |
| <b>Profit for the year</b>           |      | <b>45,595</b> | <b>36,013</b> |
| <b>Attributable to:</b>              |      |               |               |
| Owners of the parent                 |      | 45,595        | 36,013        |
| <b>Profit for the year</b>           |      | <b>45,595</b> | <b>36,013</b> |

**Statement of comprehensive income**  
For the year ended 31 December 2020

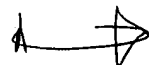
|                                                                                     | Note | 2020<br>£'000  | 2019<br>£'000 |
|-------------------------------------------------------------------------------------|------|----------------|---------------|
| <b>Profit for the year attributable to owners of the parent</b>                     |      | <b>45,595</b>  | <b>36,013</b> |
| <b>Other comprehensive expense</b>                                                  |      |                |               |
| Items that will not subsequently be reclassified to profit or loss:                 |      |                |               |
| <i>Movement in Investments classified as fvoci</i>                                  |      |                |               |
| - changes in fair value                                                             | 15   | (1,160)        | (510)         |
| <b>Total other comprehensive expense</b>                                            |      | <b>(1,160)</b> | <b>(510)</b>  |
| <b>Total comprehensive income for the year attributable to owners of the parent</b> |      | <b>44,435</b>  | <b>35,503</b> |

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

**Balance sheet**  
As at 31 December 2020

|                                                       | Note | 2020<br>£'000  | 2019<br>£'000  |
|-------------------------------------------------------|------|----------------|----------------|
| <b>ASSETS</b>                                         |      |                |                |
| Cash and cash equivalents                             | 11   | 40,128         | 29,070         |
| Trade and other receivables                           | 12   | 122            | 122            |
| Investment in associate undertaking                   | 13   | 5,269          | 5,269          |
| Investments                                           | 15   | 598,923        | 513,341        |
| Investment in subsidiary undertakings                 | 14   | 65,409         | 80,491         |
| <b>Total assets</b>                                   |      | <b>709,851</b> | <b>628,293</b> |
| <b>LIABILITIES</b>                                    |      |                |                |
| Borrowed funds                                        | 17   | 417,306        | 400,579        |
| Trade and other payables                              | 18   | 238            | 265            |
| Intercompany creditor                                 | 19   | 6,274          | 143            |
| Current tax liability                                 | 9    | 810            | 3,195          |
| Deferred tax liability                                | 16   | 22,744         | 6,067          |
| <b>Total liabilities</b>                              |      | <b>447,372</b> | <b>410,249</b> |
| <b>EQUITY</b>                                         |      |                |                |
| Share capital                                         | 20   | 2,000          | 2,000          |
| Fair value through other comprehensive income reserve | 20   | (2,059)        | (899)          |
| Retained earnings                                     |      | 262,538        | 216,943        |
| <b>Total equity</b>                                   |      | <b>262,479</b> | <b>218,044</b> |
| <b>Total equity and liabilities</b>                   |      | <b>709,851</b> | <b>628,293</b> |

The financial statements on pages 5 to 27 were approved by the board of directors and signed on its behalf by



N S Burnett  
Director

8 July 2021

The notes on pages 10 to 25 form part of these financial statements.  
The registered number for the company is SC073998.



**Statement of changes in equity**  
For the year ended 31 December 2020

|                                          | Share<br>capital<br>£'000 | Other<br>reserves<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>equity<br>£'000 |
|------------------------------------------|---------------------------|----------------------------|-------------------------------|--------------------------|
| <b>At 1 January 2019</b>                 | 2,000                     | (389)                      | 180,930                       | 182,541                  |
| Profit for the year                      | -                         | -                          | 36,013                        | 36,013                   |
| Other comprehensive expense for the year | -                         | (510)                      | -                             | (510)                    |
| <b>At 31 December 2019</b>               | <b>2,000</b>              | <b>(899)</b>               | <b>216,943</b>                | <b>218,044</b>           |
| <b>As at 1 January 2020</b>              | 2,000                     | (899)                      | 216,943                       | 218,044                  |
| Profit for the year                      | -                         | -                          | 45,595                        | 45,595                   |
| Other comprehensive expense for the year | -                         | (1,160)                    | -                             | (1,160)                  |
| <b>At 31 December 2020</b>               | <b>2,000</b>              | <b>(2,059)</b>             | <b>262,538</b>                | <b>262,479</b>           |

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

**Cash flow statement**

For the year ended 31 December 2020

|                                                                   | 2020<br>£'000   | 2019<br>£'000   |
|-------------------------------------------------------------------|-----------------|-----------------|
| <b>Cash flows (used in)/generated from operating activities</b>   |                 |                 |
| Profit before tax                                                 | 63,020          | 43,778          |
| <u>Adjustments for:</u>                                           |                 |                 |
| Financing income                                                  | (65)            | (5,810)         |
| Impairment reversal/(losses)                                      | 15,111          | (22,401)        |
| Changes in fair value of investments                              | (64,270)        | (26,209)        |
| Finance costs                                                     | 12,047          | 10,932          |
| <u>Changes in working capital:</u>                                |                 |                 |
| Changes in trade and other payables                               | (26)            | 261             |
| Changes in intercompany creditors                                 | 6,131           | 139             |
| <b>Cash generated from operating activities</b>                   | <b>31,948</b>   | <b>690</b>      |
| Interest paid                                                     | (11,125)        | (11,555)        |
| Interest received                                                 | 55              | 226             |
| Tax paid                                                          | (3,134)         | (4,569)         |
| <b>Net cash generated from/(used in) operating activities</b>     | <b>17,744</b>   | <b>(15,208)</b> |
| <b>Cash flows (used in)/generated from investing activities</b>   |                 |                 |
| Interest received from investments                                | 10              | 10              |
| Acquisition of investments                                        | (39,625)        | (47,318)        |
| Proceeds from sale of investments                                 | 16,901          | 4,738           |
| Proceeds from loans and advances held at amortised cost repayment | -               | 67,457          |
| <b>Net cash (used in)/generated from investing activities</b>     | <b>(22,714)</b> | <b>24,887</b>   |
| <b>Cash flows generated from/(used in) financing activities</b>   |                 |                 |
| Proceeds from borrowings                                          | 30,000          | 15,544          |
| Repayment of borrowings                                           | (14,081)        | (39,415)        |
| <b>Net cash generated from/(used in) financing activities</b>     | <b>15,919</b>   | <b>(23,871)</b> |
| <b>Change in Cash and cash equivalents</b>                        | <b>10,949</b>   | <b>(14,192)</b> |
| Effect of exchange rate fluctuations                              | 109             | 773             |
| Net bank overdrafts at beginning of year                          | 29,070          | 42,489          |
| <b>Cash and cash equivalents at end of year</b>                   | <b>40,128</b>   | <b>29,070</b>   |
| <b>Cash and cash equivalents comprise</b>                         |                 |                 |
| Cash at bank                                                      | 40,128          | 29,070          |
| <b>Cash and cash equivalents</b>                                  | <b>40,128</b>   | <b>29,070</b>   |

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

**Notes to the financial statements**  
For the year ended 31 December 2020

**1. Accounting policies**

**1.1 Basis of preparation**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

These financial statements have been prepared in accordance with applicable IFRSs in conformity with the requirements of the Companies Act 2006. IFRSs comprise accounting standards prefixed IFRS by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

These separate financial statements contain information about the Company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemptions under IFRS 10 Consolidated Financial Statements and Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company.

The financial statements have been prepared on a going concern basis. There is a net asset position of £262,479,000 (2019: £218,044,000).

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.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'Profit on disposal of investments' in the Income Statement.

**Foreign currency**

The financial statements are presented in Sterling which is the Company's functional and presentation currency. Foreign currency transactions are translated into Sterling at the exchange rate prevailing at the date of the transaction. Exchange gains and losses resulting from the settlement of such transactions are recognised in the Income Statement.

Exchange gains and losses arising from the translation of monetary assets and liabilities at the exchange rate prevailing at the Balance sheet date are recognised in the Income statement. Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined.

Translation differences on non-monetary financial instruments classified as financial assets designated at fair value through other comprehensive income are included in equity, unless designated in a fair value hedging relationship where it is recognised in the Statement of comprehensive income together with foreign currency translation differences on the hedging instrument.

**Hedge accounting**

The Company applies fair value hedge accounting to hedge foreign exchange exposure on the equity instruments designated at fair value through profit and loss. At the inception of a hedging relationship, the Company documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Company also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments that are used in hedging transactions are highly effective in offsetting the changes in fair value of the hedged items attributable to the hedged risks.

Foreign currency gains and losses on the interest-bearing term loans that are designated and qualify as fair value hedges are recorded in the Income Statement, together with the gain or loss on the hedged portion of the equity instrument. The net hedge ineffectiveness is recognised in the Statement of comprehensive income in 'Finance costs'.

**Dividend income**

Dividend income is recognised when the right to receive payment is established and recognised in the Income Statement as Investment income.

**Income and expense from financial instruments**

Interest income and expense are recognised in the Income statement for all interest bearing financial instruments, including loans and advances held at amortised cost, using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

**1. Accounting policies (continued)**

**1.3 Other income**

Other income represents interest received on Debt securities held at amortised cost and bank interest received.

**1.4 Expenses recognition**

**Finance costs**

Interest expense for all interest bearing financial instruments is recognised in the Income statement 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 Amounts due from group undertakings, Loans and advances held at amortised cost, Debt securities held at amortised cost, Equity securities, Other trade receivables, Other debtors and Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings, Bank overdraft and Trade and other payables.

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 assets and liabilities held on the balance sheet are organised by liquidity, with those deemed most liquid presented first.

**Investments in debt securities held at amortised cost**

Debt securities held at amortised cost not quoted on active market are classified as loans and receivables. They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the Balance sheet at amortised cost using the effective interest rate method less provision for impairment. Income on Debt securities held at amortised cost is recognised on an effective interest rate basis where it can be reliably estimated and recognised upon receipt where it cannot be reliably estimated and recorded as Investment income in the Income statement.

**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 held at amortised cost 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.

**Financial instruments held at fair value through other comprehensive income**

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement other than in respect of equity shares, for which the cumulative revaluation amount is transferred directly to retained profits. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. In addition, the Group recognises a charge for expected credit losses in the income statement. As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, it is reflected in other comprehensive income.

**1.6 Impairment**

**Impairment of financial assets**

The impairment charge in the income statement includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for loans and advances held at amortised cost, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated by using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Group at the point of default after taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

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

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

**1. Accounting policies (continued)**

**1.6 Impairment (continued)**

**Impairment of financial assets (continued)**

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Group uses quantitative tests based on relative and absolute probability of default ("PD") movements linked to internal credit ratings together with qualitative indicators such as watch lists and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due.

In certain circumstances, the Group will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer in default (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

A loan or advance held at amortised cost is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. For both secured and unsecured retail balances, the write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

**1.7 Dividends paid**

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

**1.8 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.

**1.9 Taxation, including deferred income taxes**

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Income statement 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 Income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

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

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

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the Balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

**1.10 Investments**

**Investment in associated undertakings**

Investment in associated undertakings is stated in the Balance sheet at cost less any provision for impairment.

Investment in associated undertakings are reviewed for impairment losses at the end of each period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and value in use. For the purposes of assessing impairment, investments are grouped at the lowest level at which cash flows are separately monitored by management.

**Investment in subsidiary undertakings**

Investment in subsidiary undertakings is stated in the Balance sheet at cost less any provision for impairment.

Investment in subsidiary undertakings is reviewed for impairment losses at the end of each period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and value in use. For the purposes of assessing impairment, investments are grouped at the lowest level at which cash flows are separately monitored by management.

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

1. Accounting policies (continued)

1.11 Other financial liabilities

Other financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short term nature of the amounts included within other financial liabilities.

1.12 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate method.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The following are critical accounting estimates that the 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 2020 the Company classified £598,923,000 of financial assets (2019: £513,341,000) as Level 3 financial instruments.

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. 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.

**Valuation of assets fair valued through other comprehensive income**

Financial instruments classified as fair value through other comprehensive income are carried at fair value which is determined as the amount for which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Management judgement is required in determining the appropriate classification of financial instruments.

**Allowance for impairment losses**

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

**Definition of default**

The probability of default ("PD") of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Group is described in note 1.6 Impairment of financial assets.

**Lifetime of an exposure**

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Group to estimate a product's expected life. Changes to the assumed expected lives of the Group's assets could have a material effect on the ECL allowance recognised by the Group.

**Significant increase in credit risk**

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The Group uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

**Origination PDs**

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

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

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

Impairment of investments

As explained in the accounting policy, investment securities are continually reviewed at the specific investment level for impairment. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Objective evidence of impairment might include a significant or prolonged decline in market value below the original cost of a financial asset and, in the case of Debt securities held at amortised cost, non-receipt of due interest or principal repayment, a breach of covenant within the security's terms and conditions or a measurable decrease in the estimated future cash flows since their initial recognition. The disappearance of active markets, declines in market value and ratings downgrades do not in themselves constitute objective evidence of impairment and, unless a default has occurred on a debt security, the determination of whether or not objective evidence of impairment is present at the Balance sheet date requires the exercise of management judgement.

Deferred Tax

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

3. Other Income

|                                                           | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------------------------------------|---------------|---------------|
| Interest received from investments held at amortised cost | 11            | 4,629         |
| Bank interest received                                    | 54            | 226           |
| Other financing income                                    | -             | 955           |
| Other income                                              | -             | 9             |
|                                                           | 65            | 5,819         |

4. Income from Investments

|                                                 | 2020<br>£'000 | 2019<br>£'000 |
|-------------------------------------------------|---------------|---------------|
| Income received from Equity securities          | 432           | 889           |
| Dividends received from subsidiary undertakings | 26,216        | -             |
|                                                 | 26,648        | 889           |

5. Changes in fair value of investments

|                   | 2020<br>£'000 | 2019<br>£'000 |
|-------------------|---------------|---------------|
| Equity securities | 64,054        | 26,209        |
|                   | 64,054        | 26,209        |

6. Impairment (losses)/gain

|                                           | 2020<br>£'000 | 2019<br>£'000 |
|-------------------------------------------|---------------|---------------|
| Subsidiaries (note 14)                    | (15,082)      | -             |
| Debt securities held at amortised cost    | (29)          | (1)           |
| Loans and advances held at amortised cost | -             | 23,590        |
| Associates                                | -             | (1,188)       |
|                                           | (15,111)      | 22,401        |

7. Finance costs

Finance costs comprise interest payable on borrowings, bank service charges, net ineffectiveness on fair value hedge, and foreign exchange gains and losses in relation to balances not included within the fair value hedge. Interest payable 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.

8. Other operating expenses

|                             | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------|---------------|---------------|
| Legal and professional fees | 113           | 106           |
| Other expenses              | 476           | 502           |
|                             | 589           | 608           |

Fees payable to the Company's auditors for the audit of the financial statements of £28,500 (2019: £32,500) have been borne by the ultimate parent company and are not recharged to the Company.

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

8. Other operating expenses (continued)

The Company has no employees (2019: 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.

9. Taxation

|                                                  | 2020<br>£'000   | 2019<br>£'000  |
|--------------------------------------------------|-----------------|----------------|
| <b>a) Analysis of charge for the year</b>        |                 |                |
| UK corporation tax:                              |                 |                |
| - Current tax on taxable profit for the year     | (768)           | (3,188)        |
| - Adjustments in respect of prior years          | 20              | (2)            |
| <b>Current tax charge</b>                        | <b>(748)</b>    | <b>(3,190)</b> |
| UK deferred tax:                                 |                 |                |
| - Origination and reversal of timing differences | (15,963)        | (5,113)        |
| - Impact of deferred tax rate change             | (714)           | 538            |
| <b>Deferred tax charge (see note 16)</b>         | <b>(16,677)</b> | <b>(4,575)</b> |
| <b>Tax charge</b>                                | <b>(17,425)</b> | <b>(7,765)</b> |

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

b) Factors affecting the tax charge for the year

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

|                                                                        | 2020<br>£'000   | 2019<br>£'000  |
|------------------------------------------------------------------------|-----------------|----------------|
| Profit before tax                                                      | 63,020          | 43,778         |
| Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%) | (11,974)        | (8,318)        |
| Factors affecting charge:                                              |                 |                |
| - Effect of change in tax rate and related impacts                     | (714)           | 538            |
| - Disallowed and non-taxable items                                     | 2,292           | 150            |
| - Adjustments in respect of prior years                                | 20              | (2)            |
| - Other                                                                | (7,049)         | (133)          |
| <b>Tax charge on profit on ordinary activities</b>                     | <b>(17,425)</b> | <b>(7,765)</b> |
| <b>Effective rate</b>                                                  | <b>27.65%</b>   | <b>17.74%</b>  |

10. Dividends

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

11. Cash and cash equivalents

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

|                                            | 2020<br>£'000 | 2019<br>£'000 |
|--------------------------------------------|---------------|---------------|
| Cash at bank, held with group undertakings | 40,128        | 29,070        |
|                                            | <b>40,128</b> | <b>29,070</b> |

12. Trade and other receivables

|                                                   | 2020<br>£'000 | 2019<br>£'000 |
|---------------------------------------------------|---------------|---------------|
| <b>Current</b>                                    |               |               |
| Amounts due from group undertakings (see note 21) | 122           | 122           |
|                                                   | <b>122</b>    | <b>122</b>    |

Amounts due from group undertakings is unsecured, non-interest bearing and repayable on demand.



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

13. Investment in associate undertaking

|                                                       | 2020<br>£'000 | 2019<br>£'000  |
|-------------------------------------------------------|---------------|----------------|
| <b>Cost</b>                                           |               |                |
| Cost brought forward                                  | 7,210         | 7,210          |
| Additions                                             | -             | -              |
| Disposals                                             | (1,187)       | -              |
| <b>Cost at 31st December</b>                          | <b>6,023</b>  | <b>7,210</b>   |
| <b>Provision for Impairment</b>                       |               |                |
| Provision brought forward                             | (1,941)       | (753)          |
| Impairment charge                                     | -             | (1,188)        |
| Disposals                                             | 1,187         | -              |
| <b>Provision at 31st December</b>                     | <b>(754)</b>  | <b>(1,941)</b> |
| <b>Carrying value of investments at 31st December</b> | <b>5,269</b>  | <b>5,269</b>   |

| Investment in associate undertaking        | Company interest | Principal activities       | Registered Address                                                                    |
|--------------------------------------------|------------------|----------------------------|---------------------------------------------------------------------------------------|
| Europa Property Company (Northern) Limited | 35%              | Non-Financial Corporations | Europa House 20 Esplanade, Scarborough, North Yorkshire, YO11 2AQ                     |
| Intelligent Processing Solutions Limited   | 20%              | Financial Institute        | Building 6 Chiswick Park, 566 Chiswick High Road, London, United Kingdom, W4 5HR      |
| LBG Brazil Administracao LTDA              | 31%              | Financial Institute        | Avenida Jurubatuba 73, 8° Andar, Vila Cordeiro, São Paulo, SP, CEP, 04583-100, Brazil |

14. Investment in subsidiary undertakings

|                                                     | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------------------------------|---------------|---------------|
| <b>Cost</b>                                         |               |               |
| Cost brought forward                                | 80,491        | 80,491        |
| Impairment                                          | (15,082)      | -             |
| <b>Cost at 31 December</b>                          | <b>65,409</b> | <b>80,491</b> |
| <b>Carrying value of investments at 31 December</b> | <b>65,409</b> | <b>80,491</b> |

Investment in subsidiary undertakings is stated at cost less impairment. As permitted by section 611 of the Companies Act 2006, where the relief afforded under section 612 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiaries.

| Subsidiary undertakings                    | Company interest | Principal activities       | Registered Address                                        |
|--------------------------------------------|------------------|----------------------------|-----------------------------------------------------------|
| Bank of Scotland Capital Funding LP        | 100%             | Debt Issuance              | Sanne Group, 13 Castle Street, St Helier, JE4 5UT, Jersey |
| HBOS Capital Funding No 1 LP               | 100%             | Investment / Debt Issuance | Sanne Group, 13 Castle Street, St Helier, JE4 5UT, Jersey |
| Lloyds Bank MTCH Limited                   | 100%             | Investment                 | 25 Gresham Street, London, EC2V 7HN                       |
| Uberior Equity Limited                     | 100%             | Investment                 | The Mound, Edinburgh, EH1 1YZ                             |
| Uberior Fund Investment Limited            | 100%             | Investment                 | The Mound, Edinburgh, EH1 1YZ                             |
| Uberior Ventures Limited                   | 100%             | Investment                 | The Mound, Edinburgh, EH1 1YZ                             |
| Uberior Infrastructure Investments Limited | 100%             | Investment                 | The Mound, Edinburgh, EH1 1YZ                             |
| Prestonfield Investments Limited           | 100%             | Investment                 | The Mound, Edinburgh, EH1 1YZ                             |
| Horizon Capital 2000 Limited               | 100%             | Investment                 | The Mound, Edinburgh, EH1 1YZ                             |
| Uberior Trading Limited                    | 100%             | Investment                 | The Mound, Edinburgh, EH1 1YZ                             |
| Uberior ENA Limited                        | 100%             | Investment                 | The Mound, Edinburgh, EH1 1YZ                             |
| BOS Mistral Limited                        | 100%             | Investment                 | Charterhall House, Charterhall Drive, Chester, CH88 3AN   |

The Company's interest in each of these entities is in the form of ordinary share capital. The proportion of the voting rights in the subsidiary undertaking held directly by the Company do not differ from the proportion of ordinary shares held.

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

## 15. Investments

|                                           | 2020<br>£'000  | 2019<br>£'000  |
|-------------------------------------------|----------------|----------------|
| <b>Investments</b>                        |                |                |
| Loans and advances held at amortised cost | -              | -              |
| Debt securities held at amortised cost    | 969            | 998            |
| Equity securities                         | 597,954        | 512,343        |
|                                           | <b>598,923</b> | <b>513,341</b> |

**Income statement impairment gain in the year**

|                                           |      |          |
|-------------------------------------------|------|----------|
| Loans and advances held at amortised cost | -    | (23,590) |
| Debt securities held at amortised cost    | (29) | -        |

**Loans and advances held at amortised cost**

The movement in Loans and advances held at amortised cost can be summarised as follows:

|                     | 2020<br>£'000 | 2019<br>£'000 |
|---------------------|---------------|---------------|
| As at 1 January     | -             | 39,069        |
| Additions           | -             | 3,208         |
| Disposal            | -             | (67,277)      |
| Impairment reversal | -             | 23,590        |
| Interest released   | -             | 1,410         |

As at 31 December

**Debt securities held at amortised cost**

The movement in Debt securities held at amortised cost, classified as Loans and receivables, can be summarised as follows:

|                                                                      | Stage 1<br>£'000 | Stage 2<br>£'000 | Stage 3<br>£'000 | Total<br>£'000 |
|----------------------------------------------------------------------|------------------|------------------|------------------|----------------|
| As at 31 December 2019                                               | 1,000            | -                | 1,566            | 2,566          |
| Balance as at 1 January 2020                                         | 1,000            | -                | 1,566            | 2,566          |
| Exchange and other adjustments                                       | -                | -                | 72               | 72             |
| Disposal                                                             | -                | -                | (1,153)          | (1,153)        |
| Gross debt securities held at amortised cost                         | 1,000            | -                | 485              | 1,485          |
| Less: allowance for losses on debt securities held at amortised cost | (31)             | -                | (485)            | (516)          |
| Net debt securities held at amortised cost                           | 969              | -                | -                | 969            |

|                                                     | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------------------------------|---------------|---------------|
| <b>Gross Debt securities held at amortised cost</b> |               |               |
| As at 1 January                                     | 2,566         | 2,625         |
| Exchange translation                                | 72            | (59)          |
| Disposals                                           | (1,153)       | -             |
| As at 31 December                                   | 1,485         | 2,566         |

**Provision for impairment**

|                      |         |       |
|----------------------|---------|-------|
| As at 1 January      | 1,568   | 1,626 |
| Exchange translation | 72      | (59)  |
| Charge for the year  | 29      | 1     |
| Disposals            | (1,153) | -     |

|                                                   |            |            |
|---------------------------------------------------|------------|------------|
| As at 31 December                                 | 516        | 1,568      |
| <b>Net Debt securities held at amortised cost</b> | <b>969</b> | <b>998</b> |

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

15. Investments (continued)

Equity securities

The movement in Equity securities can be summarised as follows:

|                                            | Designated at<br>fair value<br>through<br>profit and<br>loss<br>£'000 | Designated at<br>fair value<br>through other<br>comprehensive<br>income<br>£'000 | Total<br>£'000 |
|--------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------|
| <b>For the year ended 31 December 2020</b> |                                                                       |                                                                                  |                |
| At 1 January 2020                          | 509,642                                                               | 2,701                                                                            | 512,343        |
| Movement in FVOCI equity securities        | -                                                                     | (1,160)                                                                          | (1,160)        |
| Changes to fair value                      | 64,054                                                                | -                                                                                | 64,054         |
| Additions                                  | 39,625                                                                | -                                                                                | 39,625         |
| Disposals                                  | (16,908)                                                              | -                                                                                | (16,908)       |
| <b>At 31 December 2020</b>                 | <b>596,413</b>                                                        | <b>1,541</b>                                                                     | <b>597,954</b> |
|                                            |                                                                       |                                                                                  |                |
|                                            | Designated at<br>fair value<br>through<br>profit and<br>loss<br>£'000 | Designated at<br>fair value<br>through other<br>comprehensive<br>income<br>£'000 | Total<br>£'000 |
| <b>For the year ended 31 December 2019</b> |                                                                       |                                                                                  |                |
| At 1 January 2019                          | 440,852                                                               | 3,211                                                                            | 444,063        |
| Movement in FVOCI equity securities        | -                                                                     | (510)                                                                            | (510)          |
| Changes to fair value                      | 26,209                                                                | -                                                                                | 26,209         |
| Additions                                  | 47,318                                                                | -                                                                                | 47,318         |
| Disposals                                  | (4,737)                                                               | -                                                                                | (4,737)        |
| <b>At 31 December 2019</b>                 | <b>509,642</b>                                                        | <b>2,701</b>                                                                     | <b>512,343</b> |

The Company has a number of significant holdings that are accounted for as fair value investments. If these holdings were accounted for as associates the Company would have recognised additional loss for the year of £32,971,000 (2019: profit of £17,976,000) and a share of net assets of £440,605,000 as at 31 December 2020 (2019: £423,885,000). Significant holdings which are material to the Company are disclosed below:

| Company                           | % of capital held |
|-----------------------------------|-------------------|
| BoS Mezzanine Partners Fund, L.P. | 50%               |
| BGF Group plc                     | 24%               |

16. Deferred tax liability

The movement in the Deferred tax liability is as follows:

|                                                                                                | 2020<br>£'000   | 2019<br>£'000  |
|------------------------------------------------------------------------------------------------|-----------------|----------------|
| Brought forward                                                                                | (6,067)         | (1,492)        |
| Charge for the year (see note 9)                                                               | (16,677)        | (4,575)        |
| <b>At 31 December</b>                                                                          | <b>(22,744)</b> | <b>(6,067)</b> |
|                                                                                                |                 |                |
| The deferred tax charge in the Income statement comprises the following temporary differences: |                 |                |
|                                                                                                | 2020<br>£'000   | 2019<br>£'000  |
| Other temporary differences                                                                    | (16,677)        | (4,575)        |
|                                                                                                | (16,677)        | (4,575)        |
|                                                                                                |                 |                |
| Deferred tax liability comprises:                                                              | 2020<br>£'000   | 2019<br>£'000  |
| Other temporary differences                                                                    | (22,744)        | (6,067)        |
|                                                                                                | (22,744)        | (6,067)        |

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

**16. Deferred tax liability (continued)**

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

The Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

Had this change in corporation tax been enacted on 31 December 2020, the effect would have been to increase net deferred tax liabilities by £7,182,000.

A deferred tax asset of £11,254,000 relating to capital losses has not been recognised on the basis that the Company has insufficient forecast chargeable gains to recover the asset in future periods. Once crystallised following disposal of the assets, capital losses can be carried forward indefinitely. The Finance Act 2021, which received Royal Assent on 10 June 2021, increased the rate of corporation tax from 19% to 25% with effect from 1 April 2023. Had this change in corporation tax been enacted on 31 December 2020, the effect would have been to increase the unrecognised deferred tax asset by £3,554,000.

**17. Borrowed funds**

|                                                 | 2020<br>£'000 | 2019<br>£'000 |
|-------------------------------------------------|---------------|---------------|
| Amounts due to group undertakings (see note 21) | 417,306       | 400,579       |
|                                                 | 417,306       | 400,579       |

**18. Trade and other payables**

|                | 2020<br>£'000 | 2019<br>£'000 |
|----------------|---------------|---------------|
| Trade payables | 238           | 265           |
|                | 238           | 265           |

|                                                     | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------------------------------|---------------|---------------|
| Trade payables: amounts falling due within one year |               |               |
| Amounts due to group undertakings (see note 21)     | 40            | 46            |
| Accruals and deferred income                        | -             | 18            |
| Other creditors                                     | 198           | 201           |

|                                     |            |            |
|-------------------------------------|------------|------------|
| <b>Total current trade payables</b> | <b>238</b> | <b>265</b> |
|-------------------------------------|------------|------------|

**19. Intercompany creditor**

|                                                 | 2020<br>£'000 | 2019<br>£'000 |
|-------------------------------------------------|---------------|---------------|
| Amounts due to group undertakings (see note 21) | 6,274         | 143           |
|                                                 | 6,274         | 143           |

**20. Capital and reserves**

| <b>Share capital</b>                   |               |               |
|----------------------------------------|---------------|---------------|
|                                        | 2020<br>£'000 | 2019<br>£'000 |
| <b>Allotted, issued and fully paid</b> |               |               |
| 2,000,000 ordinary shares of £1 each   | 2,000         | 2,000         |

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.

**Fair value through other comprehensive income reserve**

The fair value through other comprehensive income reserve includes the cumulative net change in the fair value of financial instruments designated at fair value through other comprehensive income, until the investment is derecognised by disposal or impaired and is transferred to profit or loss.

**21. Related party transactions**

The Company is controlled by LBG Equity Investments Limited. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related expense for the year are set out below.

|                                                                | 2020<br>£'000 | 2019<br>£'000 |
|----------------------------------------------------------------|---------------|---------------|
| <b>Amounts due from group undertakings</b>                     |               |               |
| Bank of Scotland plc                                           | 122           | 122           |
| <b>Total Amounts due from group undertakings (see note 12)</b> | <b>122</b>    | <b>122</b>    |

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

21. Related party transactions (continued)

|                                                                            | 2020<br>£'000  | 2019<br>£'000  |
|----------------------------------------------------------------------------|----------------|----------------|
| <b>Amounts due to group undertakings</b>                                   |                |                |
| Bank of Scotland plc                                                       | 4              | 4              |
| LBG Equity Investments Limited                                             | 417,306        | 400,579        |
| Lloyds Bank plc                                                            | 40             | 42             |
| Lloyds TSB MTCH Limited                                                    | 4,217          | 139            |
| BoS Mistral Ltd                                                            | 2,049          | -              |
| Lloyds UDT Limited                                                         | 4              | 4              |
| <b>Total Amounts due to group undertakings (see notes 17, 18 &amp; 19)</b> | <b>423,620</b> | <b>400,768</b> |
| <b>Cash and cash equivalents held with group undertakings</b>              |                |                |
| Bank of Scotland plc                                                       | 40,128         | 29,070         |
| <b>Interest expense</b>                                                    |                |                |
| Bank of Scotland plc                                                       | -              | 68             |
| LBG Equity Investments Limited                                             | 11,132         | 10,864         |
| <b>Total Interest expense</b>                                              | <b>11,132</b>  | <b>10,932</b>  |
| <b>Interest income</b>                                                     |                |                |
| Bank of Scotland plc                                                       | 54             | 226            |
| <b>Total Interest income</b>                                               | <b>54</b>      | <b>226</b>     |

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Income statement.

The Company has a loan facility with LBGEIL to provide credit up to £500,000,000. The loan facility is due to expire on 31 December 2038. As at 31 December 2020 the Company had used £415,000,000 of the facility. On 30 June 2021 the Company repaid £45,000,000 and received an additional £85,000,000. The Company is expected to repay loans of £45,000,000 on 31 December 2021 and 30 June 2022 and also borrow an additional £135,000,000 by 30 June 2022.

The Company paid interest on LBGEIL borrowings of £11,132,000 (2019: £10,864,000) on which interest rates of between 0.86% and 3.29% (2019: 0.86% and 3.29%) were charged.

The Company paid Enil bank related interest in the year (2019: £68,000). The interest rates applied during the year were base rate plus 1.50% (2019: base rate plus 1.50%).

The Company earned interest of £54,000 on bank deposits (2019: £226,000). The interest rates applied during the year were base rate minus 0.30% (2019: base rate minus 0.30%).

**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 LBG Equity Investments Limited. 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.

22. Financial risk management

The Company's operations expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate risk, exchange risk, and equity risk). Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by LBG Equity Investments Limited, and the ultimate parent, Lloyds Banking Group plc. Interest rate hedges are used to mitigate interest rate risk relating to a proportion of the Company's intercompany borrowings. The remaining interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by the Retail Division's credit committee and credit functions. Market risk is managed by the Company through the terms negotiated in commercial agreements and management regularly reviewing its portfolio of leases for impairment. Business risk is managed through regular reporting and oversight.

22.1 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 held at amortised cost into the Company's asset portfolio.

In measuring the credit risk of loans and advances held at amortised cost, the Company reflects three components: (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and their likely future development, from which the Company derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Cash and cash equivalents and Amounts due from other group undertakings are held with other companies within the Group. The credit risk associated with these 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.
- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.

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

22. Financial risk management (continued)

22.1 Credit risk (continued)

Credit risk mitigation (continued)

- 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.

|                             | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------|---------------|---------------|
| Trade and other receivables | 122           | 122           |
| Cash and cash equivalents   | 40,128        | 29,070        |
|                             | 40,250        | 29,192        |

Allowance for loans and advances held at amortised cost which are impaired

|                                                 | 2020<br>£'000 | 2019<br>£'000 |
|-------------------------------------------------|---------------|---------------|
| Gross loans and advances held at amortised cost |               |               |
| Brought forward                                 | -             | 64,249        |
| Charge for year (including recoveries)          | -             | (64,249)      |
| At 31 December                                  | -             | -             |

|                                                         | 2020<br>£'000 | 2019<br>£'000 |
|---------------------------------------------------------|---------------|---------------|
| Provision for loans and advances held at amortised cost |               |               |
| Brought forward                                         | -             | (25,180)      |
| Movement in provision                                   | -             | 25,180        |
| At 31 December                                          | -             | -             |

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.6. All Loans and advances held at amortised cost are individually assessed for impairment.

22.2 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. Such funding is repayable over the following 4 years. New loans will be granted to meet additional funding requirements, and there is no expectation that full repayment will be made.

The table below sets out the cash flows payable by the Company in respect of Amounts due to related undertakings, by remaining contractual undiscounted repayments of principal and interest, at the Balance sheet date. All other financial liabilities are repayable on demand.

As at 31 December 2020

|                                         | Up to<br>1 month<br>£'000 | 1-3<br>months<br>£'000 | 3-12<br>months<br>£'000 | 1-5<br>years<br>£'000 | Total<br>£'000 |
|-----------------------------------------|---------------------------|------------------------|-------------------------|-----------------------|----------------|
| Interest - bearing loans and borrowings | -                         | -                      | 45,062                  | 372,244               | 417,306        |
| Trade and other payables                | 40                        | -                      | 199                     | -                     | 239            |
| Intercompany creditor                   | 8                         | -                      | -                       | 6,266                 | 6,274          |
| Undrawn financial commitments           | 9,906                     | 17,083                 | 76,875                  | -                     | 103,864        |
| At 31 December                          | 9,954                     | 17,083                 | 122,136                 | 378,510               | 527,683        |

As at 31 December 2019

|                                         | Up to<br>1 month<br>£'000 | 1-3<br>months<br>£'000 | 3-12<br>months<br>£'000 | 1-5<br>years<br>£'000 | Total<br>£'000 |
|-----------------------------------------|---------------------------|------------------------|-------------------------|-----------------------|----------------|
| Interest - bearing loans and borrowings | -                         | -                      | 47,830                  | 352,749               | 400,579        |
| Trade and other payables                | 66                        | -                      | 199                     | -                     | 265            |
| Intercompany creditor                   | 4                         | -                      | -                       | 139                   | 143            |
| Undrawn financial commitments           | 10,346                    | 17,708                 | 79,688                  | -                     | 107,742        |
| At 31 December                          | 10,416                    | 17,708                 | 127,717                 | 352,888               | 508,729        |

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

**22. Financial risk management (continued)**

**22.2 Liquidity risk (continued)**

All other funding is repayable on demand, although there is no expectation that such a demand would be made. All other financial liabilities are repayable on demand.

**22.3 Market risk**

The Company is exposed to market risk, which is analysed below in notes 22.4 to 22.7

Market risk is defined as the potential loss in value or earnings of the Company arising from changes in external market factors such as:

- Interest rates (interest rate risk);
- Foreign exchange rates (foreign exchange risk);
- Equity markets (equity risk);

At the reporting date, the Company's exposure to market risk arose from interest rate, foreign exchange and equity risk.

**22.4 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 primarily have fixed interest rates, it is not considered to have any significant interest rate exposure.

**22.5 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.

**22.6 Foreign currency risk**

Foreign exchange risk arises on monetary financial assets (included in "investments", and "cash and cash equivalents") and borrowings denominated in a currency other than Pounds Sterling. The currency giving rise to this risk is the Euro. The Company follows a policy of ensuring that all foreign currency financial assets are matched with borrowings in the same currency, thus minimal sensitivity to foreign exchange exposure is considered to exist.

The Company operates a fair value hedge to mitigate the foreign exchange risk arising from the fair value through profit and loss instruments. This risk is hedged through a net portfolio of foreign currency fixed interest borrowings and deposits with £2,244,000 foreign currency fixed interest term loans being designated in a fair value hedge relationship at year end (2019: £15,544,000).

The fair value hedge results in foreign exchange gains or losses on the hedged portion of FVTPL assets classified in the Income Statement against the foreign exchange gain or loss of borrowings designated in a hedge relationship.

The following net ineffectiveness on fair value hedge was recognised throughout the year:

|                                                    | 2020<br>£'000 | 2019<br>£'000 |
|----------------------------------------------------|---------------|---------------|
| Foreign exchange (loss)/gain on hedging instrument | (801)         | 923           |
| Foreign exchange gain/(loss) on hedged item        | 877           | (1,015)       |
| <b>Net ineffectiveness on fair value hedge</b>     | <b>76</b>     | <b>(92)</b>   |

**22.6 Foreign currency risk**

Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The currencies giving rise to this risk are Euros and US Dollars.

**22.7 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 and in Note 22.9 to the financial statements. At the reporting date the carrying value of equity investments amounted to £597,954,000 (2019: £512,343,000). For investments carried at fair value through profit or loss changes in fair value would have a direct impact on profit before tax (PBT) whereas fair value through other comprehensive income investments will be recognised in other comprehensive income through the fair value through comprehensive income reserve, unless the investment is deemed to be impaired and changes in fair value are taken to the Income Statement. The table below sets out the sensitivity of PBT and the fair value through other comprehensive income reserve (before tax) to a 10% fall in fair value of equity investments as at the Balance sheet date.

|                             | Profit<br>before<br>tax<br>2020<br>£'000 | Fair value<br>through<br>other<br>comprehensive<br>income<br>reserves<br>2020<br>£'000 | Profit<br>before<br>tax<br>2019<br>£'000 | Fair value<br>through<br>other<br>comprehensive<br>income<br>reserves<br>2019<br>£'000 |
|-----------------------------|------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------------|----------------------------------------------------------------------------------------|
| Unlisted equity investments | 59,641                                   | 154                                                                                    | 50,964                                   | 270                                                                                    |
|                             | <b>59,641</b>                            | <b>154</b>                                                                             | <b>50,964</b>                            | <b>270</b>                                                                             |

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

**22. Financial risk management (continued)**

**22.7 Equity risk (continued)**

The investment portfolio remains well diversified across fund managers and underlying investment sector.

The underlying investment sector has concentrations around Retail and Professional Services: 18% (2019: 20%) and Manufacturing: 17% (2019: 16%), but is otherwise well diversified over a variety of investment sectors.

Geographic exposure is wholly within the UK (100%; 2019: 100%) and there is an insignificant market concentration outside of the European Union at the fund manager level.

**22.8 Financial strategy**

The Company uses financial instruments to mitigate interest rate risk. However, the Company does not trade in financial instruments.

**22.9 Fair values of financial assets and liabilities**

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**Fair 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.

**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.

**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 2020                                               | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|-------------------------------------------------------------------|------------------|------------------|------------------|----------------|
| Financial assets at fair value through profit and loss            | -                | -                | 596,413          | 596,413        |
| Financial assets at fair value through other comprehensive income | -                | -                | 1,541            | 1,541          |
|                                                                   | -                | -                | 597,954          | 597,954        |
| At 31 December 2019                                               | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
| Financial assets at fair value through profit and loss            | -                | -                | 513,412          | 513,412        |
| Financial assets at fair value through other comprehensive income | -                | -                | 2,701            | 2,701          |
|                                                                   | -                | -                | 516,113          | 516,113        |

For a reconciliation from the opening balances to the closing balances for fair value movement in Level 3 of the fair value hierarchy, see note 15.

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.



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

22. Financial risk management (continued)

22.9. Fair values of financial assets and liabilities (continued)

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

|                                                                               |                        | As at<br>31 December<br>2020   |                                  |                        | As at<br>31 December<br>2019   |                                  |
|-------------------------------------------------------------------------------|------------------------|--------------------------------|----------------------------------|------------------------|--------------------------------|----------------------------------|
|                                                                               | Fair<br>Value<br>£'000 | Favourable<br>changes<br>£'000 | Unfavourable<br>changes<br>£'000 | Fair<br>value<br>£'000 | Favourable<br>changes<br>£'000 | Unfavourable<br>changes<br>£'000 |
| <b>Financial assets at<br/>fair value through<br/>profit or loss</b>          |                        |                                |                                  |                        |                                |                                  |
| Equity Securities                                                             | 596,413                | 54,456                         | (82,628)                         | 509,642                | 45,239                         | (69,452)                         |
| <b>Financial assets at<br/>fair value through<br/>other<br/>comprehensive</b> |                        |                                |                                  |                        |                                |                                  |
| Equity Securities                                                             | 1,541                  | -                              | (308)                            | 2,701                  | -                              | (270)                            |
|                                                                               | <b>597,954</b>         | <b>54,456</b>                  | <b>(82,936)</b>                  | <b>512,343</b>         | <b>45,239</b>                  | <b>(69,722)</b>                  |

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:

**Equity investments (including venture capital)**

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.

Depending on the business sector and the circumstances of the investment, unlisted equity valuations are based on earnings multiples, net asset values or discounted cash flows.

- A number of earnings multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation (EBITDA). The particular multiple selected being appropriate for the type of business being valued and is derived by reference to the current market-based multiple. Consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple, and as such this multiple has been considered in establishing the possible alternatives above.
- Discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, with the application of appropriate exit yields or terminal multiples and discounted using rates appropriate to the specific investment, business sector or recent economic rates of return. Recent transactions involving the sale of similar businesses may sometimes be used as a frame of reference in deriving an appropriate multiple. The rates of discount applied have been considered in establishing the possible alternatives above.
- For fund investments the most recent capital account value calculated by the fund manager is used as the basis for the valuation and adjusted, if necessary, to align valuation techniques with the Group's valuation policy. In line with International Private Equity and Venture Capital Guidelines the values of underlying investments in these portfolios have been considered, and possible alternatives considered on both a positive and negative basis.

22.10 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.

23. 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 group relief is not available. In 2020, HMRC concluded their inquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in early 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the Company of approximately £18,591,000 (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 2020, the Company has undrawn commitments in private equity funds of £103,864,000 (2019: £107,742,000). Of these, the main undrawn commitments are described below:

**Business Growth Fund (£102,500,000)**

In May 2011, the Group agreed, together with The Royal Bank of Scotland plc (and three other non-related parties), to commit up to £300,000,000 each of equity investment by subscribing for shares in the Business Growth Fund plc which is the company created to fulfil the role of the Business Growth Fund as set out in the British Bankers' Association Taskforce Report of October 2010. In January 2017, each party agreed to commitment of up to an additional £250,000,000 with an annual review of what would be committed for the next year. At 31 December 2020, the Group had invested £442,657,000 (2019: £403,032,000) in the Business Growth Fund and carried the investment at a fair value of £562,157,000 (2019: £437,454,000). Agreed commitments totalled £102,500,000 at 31 December 2020.

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

**23. Contingent liabilities and financial commitments (continued)**

**Other Funds (£1,364,000)**

The remaining undrawn commitments are related to the following investments - BoS Mezzanine Partners Fund LP (£1,314,000) and Scottish Loan Fund LP (£50,000).

**24. Post balance sheet events**

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

**25. Future developments**

The following pronouncements are not applicable for the year ending 31 December 2020 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 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company.

**26. Ultimate parent undertaking and controlling party**

The immediate parent company is LBG Equity Investments Limited (incorporated in England and Wales). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com).

## Independent Auditors' report to the member of UBERIOR Investments Limited

### Report on the audit of the financial statements

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#### Opinion

In our opinion, UBERIOR Investments Limited's financial statements:

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

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

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#### Basis for opinion

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

#### Independence

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

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#### Conclusions relating to going concern

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

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.

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

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

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#### Reporting on other information

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

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### Strategic report and Directors' report

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

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

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

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

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of 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.

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

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 Auditors' report to the member of Uberior Investments Limited (continued)**

**Responsibilities for the financial statements and the audit (continued)**

*Auditors' responsibilities for the audit of the financial statements (continued)*

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of relevant tax and anti-money laundering legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manual elements of the control environment, specifically the posting of inappropriate journal entries and areas of critical accounting estimates. Audit procedures performed by the engagement team included:

- Obtaining an understanding of the legal and regulatory framework applicable to the company and how the company complies with that framework;
- Held discussions with management and those charged with governance including making specific inquiries about any consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewed minutes of meetings of those charged with governance along with key transaction documents; and
- Audited the risk of management override of controls through testing a sample of manual journal entries and other adjustments impacting the company's accounting

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

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

*Use of this report*

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

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**Other required reporting**

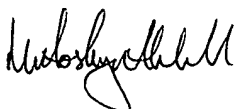
**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

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Mark Hoskyns-Abraham (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
8 July 2021