

## **HBOS UK Limited**

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

#### **Registered office**

The Mound  
Edinburgh  
EH1 1YZ

#### **Registered number**

SC261259

#### **Current directors**

S J Langan  
R D Shrimpton

#### **Company Secretary**

P Gittins

Member of Lloyds Banking Group PLC



## Directors' report

For the year ended 31 December 2020

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

The Company qualifies as a small company in accordance with sections 381 - 382 of the Companies Act 2006 (the "Act"). The Directors' report has therefore been prepared taking consideration the provision of Part 15 of the Act.

### Business overview

The Company is a private company limited by shares, incorporated and domiciled in Scotland, United Kingdom (registered number: SC261259).

During the year, the principal activity of the Company was to hold gilts as security against the Secured Unfunded Retirement Benefit Scheme ("SURBS") in the Company's immediate parent company, HBOS plc.

HBOS plc makes pension payments from the SURBS to employees on their retirement based on pre agreed amounts, linked to inflation. The gilts held by the Company are also inflation linked and therefore are used as an effective long term tool for hedging the risk associated with the inflation linked pension liabilities.

The securities held by the Company comprise 2% "AAA" index linked gilts with a redemption date of January 2035. The gilts have a nominal value of £42,460,000 and were purchased in 2007, 2008 and 2011 at a total cost of £59,770,000. They were valued at a fair value of £129,353,000 as at 31 December 2020 (2019: £121,727,000).

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

The results of the Company showing a Profit before tax for the year of £1,877,000 (2019: £2,524,000) are set out in the Statement of comprehensive income on page 4.

The Company has Shareholders' equity of £55,016,000 (2019: £47,701,000).

### 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.

### Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Lloyds Banking Group plc ("LBG") and are not managed separately. Full disclosure of the Company's financial risk management objectives and policies are given in note 15 to the financial statements.

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

Synchronisation of emergency measures to slow the spread of COVID-19 across the world has brought about rapid deterioration in economic growth across all countries and regions, directly adversely impacting the UK through many channels, including trade and capital flows. The UK experienced a deep contraction in economic activity during 2020 as a result of the COVID-19 pandemic, and both private and public sector debt have risen significantly. If the economic downturn damage were to be prolonged significantly by inability to control COVID-19 spread with vaccines, public finances would likely continue to deteriorate and could result in a sovereign downgrade that could also impact the credit ratings of the Lloyds Banking Group. Rating downgrades could have a material adverse impact on Lloyds Banking Group's ability to raise funding in the wholesale markets.

## **Directors' report (continued)**

For the year ended 31 December 2020

### **Principal risks and uncertainties (continued)**

As a result of the COVID-19 pandemic, the potential for conduct and compliance risks as well as operational risks materialising has increased, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers.

The impact on the economy can cause fluctuations in the fair value of the indexed linked treasury stock resulting a negative impact on the Company. The fair value of the bond has increased as the closing index rate is higher than the end of the prior year, as a result of the economy starting to recover. The interest income and interest expense have decreased due to a fall in the average interest rates and indexation rates in the year as a result of Covid-19 and the impact it has had on the economy.

### **Key performance indicators ("KPIs")**

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

### **Employees**

The Company has no direct employees (2019: nil). All staff are employed by other group undertakings and certain staff costs are recharged to the Company.

### **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 £55,016,000 (2019: £47,701,000).

As a result, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual report and financial statements.

### **Directors**

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

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

No director had any interest in any material contract or arrangement with the Company during or at the end of the year.

### **Directors' indemnities**

LBG 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 Act. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The indemnity remains in force for the duration of the directors' period of office. The deed indemnifies the directors to the maximum extent permitted by law. The deeds for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

## Directors' report (continued)

For the year ended 31 December 2020

### Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The 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.

### Statement of disclosure of information to auditors

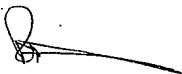
In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

### Independent auditors

PricewaterhouseCoopers LLP (PwC) has been the auditor of the Company and the Group since 1995, and in accordance with legal and regulatory requirements, will be resigning as auditor following completion of the audit for the year ended 31 December 2020. Following a tender process in 2018, the Committee recommended to the Board that Deloitte be appointed as the Group's auditor for the financial year beginning on 1 January 2021.

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



**R D Shrimpton**  
Director  
09 August 2021

**Statement of comprehensive income**

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest and similar income		2,185	3,139
Interest and similar expense		(316)	(628)
<b>Net interest income</b>	3	<b>1,869</b>	<b>2,511</b>
Other income	4	35	35
Administrative expenses	5	(22)	(22)
Impairment charge		(4)	-
<b>Profit before tax</b>		<b>1,877</b>	<b>2,524</b>
Taxation	8	(153)	(84)
<b>Profit for the year</b>		<b>1,724</b>	<b>2,440</b>
<b>Other comprehensive income</b>			
- Movements in Assets held at fair value through other comprehensive income		6,902	3,347
- Movements in Assets held at fair value through other comprehensive income, tax charge		(1,311)	(636)
<b>Other comprehensive income</b>		<b>5,591</b>	<b>2,711</b>
<b>Total comprehensive income for the year</b>		<b>7,315</b>	<b>5,151</b>

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

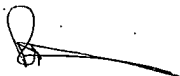
## Balance sheet

As at 31 December 2020

	Note	2020 £'000	2019 £'000
<b>ASSETS</b>			
Trade and other receivables	9	2,482	2,151
Assets held at fair value through other comprehensive income	10	129,353	121,727
<b>Total assets</b>		<b>131,835</b>	<b>123,878</b>
<b>LIABILITIES</b>			
Amounts owed to group undertakings	11	75,349	75,349
Trade and other payables		6	108
Current tax liability		1,464	720
<b>Total liabilities</b>		<b>76,819</b>	<b>76,177</b>
<b>EQUITY</b>			
Share capital	12	50	50
Other reserves	13	42,720	37,129
Retained earnings		12,246	10,522
<b>Total equity</b>		<b>55,016</b>	<b>47,701</b>
<b>Total equity and liabilities</b>		<b>131,835</b>	<b>123,878</b>

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

The financial statements were approved by the board of directors and were signed on its behalf by:



**R D Shrimpton**  
Director

09 August 2021

**Statement of changes in equity**

For the year ended 31 December 2020

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
<b>At 1 January 2019</b>	50	34,418	8,082	42,550
Profit for the year	-	-	2,440	2,440
Other comprehensive income for the year	-	2,711	-	2,711
<b>At 31 December 2019</b>	<b>50</b>	<b>37,129</b>	<b>10,522</b>	<b>47,701</b>
<b>At 1 January 2020</b>	<b>50</b>	<b>37,129</b>	<b>10,522</b>	<b>47,701</b>
Profit for the year	-	-	1,724	1,724
Other comprehensive income for the year	-	5,591	-	5,591
<b>At 31 December 2020</b>	<b>50</b>	<b>42,720</b>	<b>12,246</b>	<b>55,016</b>

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

**Cash flow statement**

For the year ended 31 December 2020

	2020 £'000	2019 £'000
<b>Cash flows used in operating activities</b>		
Profit before tax	1,877	2,524
Adjustments for:		
- Impairment charge on assets held at fair value through profit and loss	4	-
- Interest and similar income	(2,185)	(3,139)
- Interest and similar expense	316	628
<b>Cash generated from operations</b>	12	13
Tax paid	(720)	(111)
<b>Net cash used in operating activities</b>	<b>(708)</b>	<b>(98)</b>
<b>Cash flows generated from investing activities</b>		
Interest received	1,443	1,394
<b>Net cash generated from investing activities</b>	<b>1,443</b>	<b>1,394</b>
<b>Cash flows used in financing activities</b>		
Paid to immediate parent company	(317)	(664)
Interest paid	(418)	(632)
<b>Net cash used in financing activities</b>	<b>(735)</b>	<b>(1,296)</b>
<b>Cash and cash equivalents comprise</b>		
Cash and cash equivalents at beginning of year	-	-
<b>Cash and cash equivalents at end of year</b>	<b>-</b>	<b>-</b>

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

## Notes to the financial statements

For the year ended 31 December 2020

### 1. Accounting policies

#### 1.1 Basis of preparation

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

The financial statements of the Company comply with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). IFRS comprises accounting standards prefixed IFRS issued by International Accounting Standards Board (IASB) and those prefixed IAS issued by the IASB's predecessor Body as well as interpretations issued by the IFRS Interpretations Committee and its predecessor body.

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

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

- (i) Amendments to IAS 1 and IAS 8: The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.  
In particular, the amendments clarify:
  - that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
  - the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.
- (ii) Amendments IFRS 3: The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.  
The amendments will likely result in more acquisitions being accounted for as asset acquisitions.
- (iii) The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms.  
The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
- (iv) The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:
  - increasing the prominence of stewardship in the objective of financial reporting
  - reinstating prudence as a component of neutrality
  - defining a reporting entity, which may be a legal entity, or a portion of an entity
  - revising the definitions of an asset and a liability
  - removing the probability threshold for recognition and adding guidance on derecognition
  - adding guidance on different measurement basis, and
  - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

The Company is out of scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not meet the numerical thresholds in relation to turnover and number of employees.

The financial statements have been prepared on a going concern basis. There is a net asset position of £55,016,000 (2019: £47,701,000).

As a result, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual report and financial statements.

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 1. Accounting policies (continued)

#### 1.2 Income recognition

##### Income and expense from financial instruments

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments 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.

The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts. Fees and commissions, which are not an integral part of the effective interest rate, are generally recognised when the service has been provided. Coupon or dividends received on investment in irredeemable shares, which carry a mandatory coupon, are recognised in the Statement of comprehensive income as interest income.

#### 1.3 Financial assets and liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Financial assets comprise Assets held at fair value through other comprehensive income, and Trade and other receivables. Financial liabilities comprises Amounts due to the company, and Trade and other payables.

On initial recognition, financial assets are measured at fair value. These are subsequently 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. The Company 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 Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

##### Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Financial assets measured at amortised cost comprise Trade and other receivables. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method.

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 1. Accounting policies (continued)

#### Financial instruments measured at fair value through other comprehensive income

Financial assets that are held for sale and to collect contractual cash flows, 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. 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. All other 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 transferred directly to retained profits. The Company 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.

#### 1.4 Impairment of financial assets

Expected credit losses on financial assets held at amortised cost and at fair value through other comprehensive income 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 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 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.

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. 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.

#### 1.5 Taxation, including deferred income taxes

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

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

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

## Notes to the financial statements (continued)

For the year ended 31 December 2020

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

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

In the course of preparing these financial statements, no critical judgements have been made in the process of applying the Company's accounting policies.

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.

#### Impairment of Assets held at fair value through other comprehensive income

At 31 December 2020, no provision was carried by the Company (2019: £nil) in respect of expected impairment losses ("ECL") on the Assets held at fair value through other comprehensive income.

Determining the amount of provision requires judgement around the probability of default, expected recovery amount and wider long term economic trends. Consequently the continued appropriateness of the underlying assumptions are reviewed on a regular basis against actual experience and adjustments are made to the provisions where appropriate.

#### Lifetime of an exposure

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 expected credit losses (ECL) allowance.

The PD of a financial asset is independent of its expected life. A range of approaches have been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing.

#### Significant increase in credit risk

Performing assets are defined 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 in 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.

### 3. Net interest income

	2020 £'000	2019 £'000
<b>Interest and similar income</b>		
Index linked treasury stock	2,179	3,127
Amounts owed by immediate parent company (see note 14)	6	12
	<b>2,185</b>	<b>3,139</b>
<b>Interest and similar expense</b>		
Amounts owed to immediate parent company (see note 14)	(316)	(628)
	<b>1,869</b>	<b>2,511</b>

**Notes to the financial statements (continued)**

For the year ended 31 December 2020

**4. Other income**

	2020 £'000	2019 £'000
UK Pension Annual Fees (see note 14)	35	35

**5. Administrative expenses**

	2020 £'000	2019 £'000
Custodian fees (see note 14)	22	22

Fees payable to the Company's auditors for the audit of the financial statements of £15,000 (2019: £15,000) have been borne by a fellow group undertaking and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are recharged to the Company as part of Custodian fees.

**6. Staff costs**

The company did not have any employees during the year (2019: none).

**7. Directors' emoluments**

No director received any fees or emoluments from the Company during the year (2019: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 14).

**8. Taxation**

	2020 £'000	2019 £'000
<b>a) Analysis of charge for the year</b>		
UK corporation tax:		
- Current tax on taxable profit for the year	(153)	(84)
Current tax charge	(153)	(84)
Tax charge	(153)	(84)

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

**b) Factors affecting the tax charge for the year**

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

	2020 £'000	2019 £'000
Profit before tax	1,877	2,524
Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	(357)	(480)
Factors affecting charge		
- Non-taxable items	204	396
Tax charge on profit	(153)	(84)
Effective rate	8.14%	3.33%

**Notes to the financial statements (continued)**

For the year ended 31 December 2020

**8. Taxation (continued)****c) Tax effects relating to Other comprehensive income**

	Before tax amount £'000	Tax charge £'000	Net of tax amount £'000
The tax effect relating to Other comprehensive income is as follows:			
<b>2020</b>			
- Movements in financial assets held at fair value	6,902	(1,311)	5,591
<b>2019</b>			
- Movements in financial assets held at fair value	3,347	(636)	2,711

**9. Trade and other receivables**

	2020 £'000	2019 £'000
Amounts due from group undertakings (see note 14)	1,864	1,547
Interest receivable on Assets held at fair value through other comprehensive income	618	604
	<b>2,482</b>	<b>2,151</b>

**10. Assets held at fair value through other comprehensive income**

	2020 £'000	2019 £'000
Assets held at fair value through other comprehensive income	<b>129,353</b>	<b>121,727</b>
<b>Analysis of Index linked treasury stock:</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
At beginning of the year	121,727	116,643
Change in fair value recognised in Statement of other comprehensive income	6,902	3,347
Changes in fair value recognised in Statement of comprehensive income	724	1,737
At end of the year	<b>129,353</b>	<b>121,727</b>

A total nominal value of £42,460,000 'AA' rated 2% Index linked treasury stock 2035 were acquired at a cost of £59,770,000 in 2007, 2008 and 2011. These gilts are held as security against the SURBS in the Company's immediate parent company.

As at 31 December 2020 the financial assets at fair value through other comprehensive income had a contractual residual maturity of greater than one year.

**11. Amounts owed to group undertakings**

	2020 £'000	2019 £'000
Amounts due to group undertakings (see note 14)	<b>75,349</b>	<b>75,349</b>

The amount owed to HBOS plc is a floating rate instrument, reset at three month intervals. The fair value of the deposit at 31 December 2020 and 31 December 2019 is approximately equal to its book value. The deposit is repayable on demand with maturity date of 26 January 2035.

**12. Share capital**

	2020 £'000	2019 £'000
<b>Allotted, issued and fully paid</b>		
50,000 ordinary shares of £1 each (2019: 50,000)	<b>50</b>	<b>50</b>

HBOS plc holds 49,999 of the shares of the Company and is deemed to be the immediate parent company. The remaining share is held by Bank of Scotland Edinburgh Nominees Limited. All ordinary shares rank pari passu in all respects including the right to receive all dividends and other distributions hereafter declared, made or paid on the ordinary share capital of the Company.

**Notes to the financial statements (continued)**

For the year ended 31 December 2020

**13. Other reserves**

The movements in the Balance sheet are as follows:

	<b>Other reserves £'000</b>
<b>At 1 January 2019</b>	<b>34,418</b>
Changes in fair value through other comprehensive income	3,347
Tax credit in statement of changes in equity	(636)
<b>At 31 December 2019</b>	<b>37,129</b>
<b>At 1 January 2020</b>	<b>37,129</b>
Changes in fair value through other comprehensive income	6,902
Tax charge through other comprehensive income	(1,311)
<b>At 31 December 2020</b>	<b>42,720</b>

**14. Related party transactions**

The Company is controlled by HBOS plc. A number of transactions are entered into with related parties in the normal course of business. A summary of the outstanding balances at the year end and the related income and expense for the year is set out below:

	<b>2020 £'000</b>	<b>2019 £'000</b>
<b>Amounts due from group undertakings</b>		
HBOS plc (see note 9)	1,864	1,547
<b>Amounts due to group undertakings</b>		
HBOS plc (see note 11)	75,349	75,349
<b>Group interest income</b>		
HBOS plc (see note 3)	6	12
<b>Group interest expense</b>		
HBOS plc (see note 3)	316	628
<b>Other income</b>		
HBOS plc (see note 4)	35	35
<b>Administrative expenses</b>		
HBOS plc (see note 5)	22	22

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Statement of comprehensive income.

**Key management personnel**

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprises the directors of the Company and HBOS plc. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

**Notes to the financial statements (continued)**

For the year ended 31 December 2020

**15. Financial risk management**

The Company's operations expose it to credit risk, liquidity risk and interest rate risk; it is not exposed to any significant market risk, business risk or foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by HBOS plc, 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.

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

**15.1 Credit risk****Credit risk management**

Credit risk arises where there is a possibility that a counterparty may default on its financial obligations resulting in a loss to the Company.

**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 £'000	2019 £'000
Trade and other receivables <sup>1</sup>	618	604
Amounts due from group undertakings <sup>2</sup>	1,864	1,547
Assets held at fair value through other comprehensive income <sup>3</sup>	129,353	121,727
<b>Total credit risk exposure</b>	<b>131,835</b>	<b>123,878</b>

<sup>1</sup> The current rating of Lloyds Bank plc is A1 (2019: Aa3) as per Moody's.

<sup>2</sup> The current rating of HBOS plc is A1 (2019: Aa3) as per Moody's

<sup>3</sup> The current rating of the index linked gilt assets are Aa3 (2019: Aa2) as per Moody's.

**15.2 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.

All liabilities of the Company are classified as on demand on an undiscounted future cash flows basis according to contractual maturity.

**15.3 Interest rate risk**

Interest rate risk arises from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets. From the perspective of the Company, the interest rate risks are integrated with the interest rate risks of the Group and are not managed separately. The scenarios are run only for assets and liabilities that represent the major interest bearing positions. Based on the simulations performed, the full year impact on post tax profit of a 0.25% shift would be a maximum increase or decrease of approximately £66,600 (2019: £66,600).

The table below summarises the repricing mismatches of the Company's non trading interest-bearing assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

**Notes to the financial statements (continued)**

For the year ended 31 December 2020

**15. Financial risk management (continued)****15.3 Interest rate risk (continued)**

As at 31 December 2020

	Up to 1 month	1-3 months	3-12 months	1-5 years	Non- interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets:</b>						
Trade and other receivables	-	-	-	-	618	618
Amounts due from group undertakings	1,864	-	-	-	-	1,864
Assets held at fair value through other comprehensive income	129,353	-	-	-	-	129,353
<b>Total assets</b>	<b>131,217</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>618</b>	<b>131,835</b>
<b>Liabilities:</b>						
Amounts owed to immediate parent	75,349	-	-	-	-	75,349
Trade and other payables	-	-	-	-	6	6
Current tax liability	-	-	-	-	1,464	1,464
<b>Total liabilities</b>	<b>75,349</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,470</b>	<b>76,819</b>
<b>Total interest sensitivity gap</b>	<b>55,868</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(852)</b>	<b>55,016</b>
As at 31 December 2019						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets:</b>						
Trade and other receivables	-	-	-	-	604	604
Amounts due from group undertakings	1,547	-	-	-	-	1,547
Assets held at fair value through other comprehensive income	121,727	-	-	-	-	121,727
<b>Total assets</b>	<b>123,274</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>604</b>	<b>123,878</b>
<b>Liabilities:</b>						
Amounts owed to immediate parent	75,349	-	-	-	-	75,349
Trade and other payables	-	-	-	-	108	108
Current tax liability	-	-	-	-	720	720
<b>Total liabilities</b>	<b>75,349</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>828</b>	<b>76,177</b>
<b>Total interest sensitivity gap</b>	<b>47,925</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(224)</b>	<b>47,701</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 15. Financial risk management (continued)

#### 15.4 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.

The accounting policies in Note 1 describe how the different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The fair value of the 2% Index linked treasury stock 2035 is estimated by calculating the future cash flows (including interest at contractual rates) at the interest rate of 2% indexed to the prevailing RPI at the Balance sheet date. The fair value is £129,353,000 (2019: £121,727,000) as stated in the Balance sheet.

#### 15.5 Fair value estimation

The fair value of available debt securities is based on quoted market prices or broker/dealer valuations. Where this is not available, the fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or similar valuation models.

At 31 December 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets held at fair value through other comprehensive income	129,353	-	-	129,353
<hr/>				
At 31 December 2019				
Assets held at fair value through other comprehensive income	121,727	-	-	121,727

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

#### 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 comprise inflation linked gilts.

#### 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 techniques used inputs that are based significantly on observable market data, the instrument is considered to be level 2. Examples of such instruments include most over the counter derivatives financial institution issued securities, certificates of deposits and certain asset backed securities. There are no level 2 assets at the Balance sheet date.

#### Level 3 portfolios

Level 3 portfolios are those where at least one input which couldn't have a significant effect on the instrument's valuation is not based on observable market data. Such instruments could include venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cashflows. There are no level 3 assets at the Balance sheet date.

### 16. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity. The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally.

## Notes to the financial statements (continued)

For the year ended 31 December 2020

### 17. Contingent liabilities and capital commitments

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the 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 £753,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall

### 18. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2020 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	The IASB's Phase 2 amendments in response to issues arising from the planned replacement of interest rate benchmarks in a number of jurisdictions are effective for annual periods beginning on or after 1 January 2021. Under these amendments, an immediate gain or loss is not recognised in the income statement where the contractual cashflows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms. In addition, hedge accounting is continued for relationships that are directly affected by the reform. These amendments are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2021
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 Group.	Annual periods beginning on or after 1 January 2022

### 19. Ultimate parent undertaking and controlling party

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

## Independent Auditors' report to the member of HBOS UK Limited

### Report on the audit of the financial statements

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#### Opinion

In our opinion, HBOS UK 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 financial statements (the "Annual Report"), which comprise: Balance sheet as at 31 December 2020; Statement of comprehensive income, Statement of changes in equity, and Cash flow statement for the year then ended; and the notes to the 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

#### Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the 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.

## Independent Auditors' report to the member of HBOS UK Limited (continued)

### Responsibilities for the financial statements and the audit

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

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, 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.

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 industry laws and regulations, 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 significant 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 is 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
- Tested a sample of manual journal entries and other adjustments impacting the company's accounting records, including significant accounting estimates.

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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## Independent Auditors' report to the member of HBOS UK Limited (continued)

### Other required reporting

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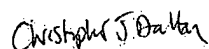
#### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

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Christopher Dalton (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
09 August 2021