

# Barclays Mercantile Business Finance Limited

Directors' report and financial statements  
For the year ended 31 December 2020

REGISTERED NUMBER IN ENGLAND AND WALES: 898129

Restricted - External



**Barclays Mercantile Business Finance Limited**

**INDEX**

	Page
Directors' report	2-5
Strategic Report	6-8
Independent auditor's report to the members of Barclays Mercantile Business Finance Limited	9-11
Income statement	12
Statement of comprehensive income	13
Statement of financial position	14
Statement of changes in equity	15-16
Cash flow statement	17
Notes to the financial statements	18-46

**Barclays Mercantile Business Finance Limited**  
**Directors' report**  
**For the year ended 31 December 2020**

The Directors present their annual report together with the audited financial statements of Barclays Mercantile Business Finance Limited (the 'Company') for the year ended 31 December 2020.

**Profit and dividends**

During the year the Company made a loss after tax of £2.4m (2019: £23m profit). A dividend of £2 was paid during the year (2019: £Nil).

The Board of Directors intend to propose a final dividend of £35.36m (£0.38 per share) in respect of the year ended 31 December 2020 and interim dividend of £24.64m (£0.26 per share) from 2021 profits. The final dividend appropriations will be accounted for subsequent to the year end post approval from the Board.

**Post Balance Sheet events**

**Sale of Barclays Mercantile Business Finance Limited (BMBF)**

As part of a strategic review of the businesses within Barclays, the parent Barclays Principal Investment Limited (BPIL) has entered into a sale agreement to transfer all of its shareholding to HPS Investment Partners LLC on 31<sup>st</sup> of March 2021. The transfer of ownership is expected to be completed by 30<sup>th</sup> June 2021.

HPS Investment Partners LLC, who is selected as the proposed buyer, has existing experience of the asset based leasing (as demonstrated by their existing portfolio company, PEAC). In addition, they were considered credible based on numerous deals executed with Barclays (as either client or counterparty).

The change in ownership of this entity would not result in any other material changes to the business or the balance sheet of this company. The buyers have indicated that they plan to run this company as a separate legal entity within the PEAC group.

Under the sales agreement, the legal title to the shares (which indirectly represent the right to the cash flow of the assets) will transfer to the buyer on the completion date and at that date the buyer will pay the holding company BPIL, the proceeds calculated in relation to the net asset value of BMBF's balance sheet. The overdraft with BBPlc would be settled on the completion date upon receipt for consideration from the Buyer.

Post change in ownership, the entity would continue to operate as a separate legal entity and is expected to retain the employees and the balance sheet. The exposures, credit risk and revenues would materially remain with the entity.

**Change in UK Corporation tax**

In the 3<sup>rd</sup> of March 2021 UK Budget, it was announced that the UK rate of corporation tax will increase from 19% to 25% effective 1 April 2023. The change was not substantively enacted or enacted at the balance sheet date and this is not expected to have a material impact on the rate at which the company's deferred tax balances will unwind.

**Directors**

The Directors of the Company, who served during the year and up to the date of signing the financial statements, together with their dates of appointment and resignation, where appropriate, are as shown below:

D C Hawkins – appointed on 21<sup>st</sup> May 2014

S.G. Bolton – appointed on 1<sup>st</sup> April 2014

P.K. Vukalam – appointed on 24<sup>th</sup> May 2016, resigned on 23<sup>rd</sup> June 2021

Jonathan Brown – appointed on 1<sup>st</sup> March 2019

Donna Barnes – appointed on 27<sup>th</sup> September 2019, resigned on 23<sup>rd</sup> June 2021

**Barclays Mercantile Business Finance Limited**  
**Directors' report**  
**For the year ended 31 December 2020**

**Going concern**

On 31<sup>st</sup> March 2021, the parent Barclays Principal Investment Limited (BPIL) entered into an agreement to sell its entire shareholding in this company to HPS Investment partners LLC. The transfer of ownership is expected to be completed by 30<sup>th</sup> June 2021. Under the new ownership, the buyer has agreed to provide debt and equity funding which will be utilised to for settlement of overdraft positions of the company. The change in ownership of this entity is not expected to result in any other material changes to the business or the balance sheet of this company. The buyers have indicated that they plan to continue to run the business via the Company as part of the PEAC group.

The financial statements have been prepared on a going concern basis as the directors are satisfied that the company has sufficient resources to continue in business for a period of at least 12 months from approval of the financial statements. In making this assessment, the directors have considered a wide range of information relating to present and future conditions including:

- the Company's performance projections, cashflows and relevant stress scenario analysis (including the implication from the COVID-19 outbreak), the available banking facilities and taking into account the support available from Barclays Bank PLC under the current ownership until the date of transfer of the business to the buyer; and
- Financial support through equity and debt funding arrangement by the buyer, the Directors are satisfied that the Company has adequate access to resources to enable it to meet its obligations and to continue in operational existence for at least 12 months from approval of the financial statements.

**Statement of directors' responsibilities in respect of the Strategic report, the Directors' Report and the Financial Statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**Barclays Mercantile Business Finance Limited**  
**Directors' report**  
**For the year ended 31 December 2020**

**Financial risk management**

The Company's activities are exposed to a variety of financial risks. The Company is required to follow the requirements of the Group risk management policies, which include specific guidelines on the management of foreign exchange, interest rate and credit risks, and advice on the use of financial instruments to manage them. The key business risks affecting the Company are set out below.

Risks are formally reviewed by The Board and appropriate processes put in place to monitor and mitigate them.

**Competition**

The Group operates in a highly competitive environment particularly around price and product availability and quality. This results not only in downward pressure on margins, but also in the risk that we will not meet our customers' expectations. In order to mitigate this risk, we undertake routine market research to understand our customers' expectations and whether their needs are being met.

**Foreign exchange risk**

The Company is exposed to foreign exchange risk due to the extent of its foreign currency assets not matched by foreign currency borrowings in the same currency. In order to mitigate this risk, the Company has in place forward exchange contracts used to hedge its net foreign currency exposure.

**Interest rate risk**

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs and/ or reduced income from the Company's interest bearing financial assets and liabilities. The Company mitigates this risk by ensuring that some of its borrowings are fixed rate. The remaining floating rate debt is hedged using interest rate swaps.

**Credit risk**

Credit risk is the risk that counterparties to the Company's financial assets may default. To mitigate this risk, the Company assesses all counterparties, including its customers, for credit risk before contracting with them.

**Liquidity risk**

Liquidity risk is the risk that the Company's cash and committed facilities may be insufficient to meet its debts as they fall due. The Company maintains a mixture of long term and short term committed facilities, including financial support from the parent, Barclays PLC, that are designed to ensure the Company has sufficient available funds for operations and planned expansion.

The Company is required to follow the requirements of the Group risk management policies, which include specific guidelines on the management of foreign exchange, interest rate and credit risks, and advice on the use of financial instruments to manage them. The main financial risks that the Company is exposed to are outlined in note 23 'Financial Risks'.

**Directors third party indemnity provisions**

Qualifying third party indemnity provisions were in force (as defined by section 234 of the Companies Act 2006) during the course of the financial year ended 31 December 2020 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which may occur (or have occurred) in connection with their duties, powers or office.

**Directors' remuneration**

The Directors did not receive any emoluments in respect of their services to the Company in 2019 or 2020. During the year, no Director exercised options under the Barclays PLC share save scheme and long term incentive schemes (2019: nil)

**Pillar 3 disclosures**

In accordance with the rules of the Financial Conduct Authority and/ or the Prudential Regulation Authority, the Company's parent, Barclays Bank PLC has published information on its risk management objectives and policies and on its regulatory capital requirements and resources. This information is available at <http://group.barclays.com/Investor-Relations/Financial-results-and-publications/Annual-Reports>

**Barclays Mercantile Business Finance Limited**  
**Directors' report**  
**For the year ended 31 December 2020**

**Creditor payment policy**

The principle activity of the company is the provision of financial services. It does not have trade creditors but under the sell down portfolio arrangement, the company owes the rentals received from customers to SMBC Leasing & Finance which is accounted for in the creditors account.

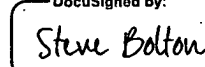
**Independent auditor**

Post the sale of entity, the investor will decide the appointment/ re-appointment of the auditor of the entity under the new ownership structure.

**Statement of disclosure of information to auditor**

So far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware. The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

FOR AND ON BEHALF OF THE BOARD

DocuSigned by:  
  
EA99BA17A861458...

Director

Date: 28 June 2021

Company number: 898129

Company address: 1 Churchill Place, London, E14 5HP

**Barclays Mercantile Business Finance Limited**  
**Strategic Report**  
**For the year ended 31 December 2020**

**Business review and principal activities**

During the year the principal activity of the Company, its subsidiaries and associated undertakings continued to be the provision of leasing and other financial facilities to business customers. The Company specifically provides main wheeled assets (cars, heavy and light commercial vehicles, trailers and buses etc) on finance lease as well as lease purchase facilities to customers at both fixed and variable rates.

**Business performance**

The results of the Company show a loss before tax of £3.6m (2019: £28.5m profit) and a loss after tax of £2.4m (2019: £23m profit). The Company has net assets of £143.1m (2019: £144m). Net cash generated from operating activities for 2020 was £223.5m (2019: £97.6m). The decline in profits is driven by increased impairment charges (£25.6m) and lower revenues mainly due to COVID-19 impact.

**Future outlook**

The Directors consider the Company's balance sheet and cash flow position to be satisfactory with £1bn finance lease receivable portfolio as on 31 December 2020.

The management of the holding company Barclays Principal Investment Limited (BPIL) has decided to sell their ownership in this entity and has entered into an agreement to transfer the ownership to HPS investment partners LLC. Under the new ownership, the investor has agreed to provide debt and equity funding which will be utilised to take over the ownership of the entity and settlement of overdraft positions with Barclays on the sale. The transfer of ownership is expected to be completed by 30<sup>th</sup> June 2021.

As part of the sale, the entity would continue to operate as a separate legal entity and is expected to retain the employees and the balance sheet. The exposures, credit risk and revenues would materially remain with the entity.

**Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks. These risks are more fully explained in note 21 of the financial statements. Risks are formally reviewed by The Board and appropriate processes put in place to monitor and mitigate them.

Whilst the direct and indirect impact of the Coronavirus (COVID-19) outbreak remains uncertain, a number of central banks and governments have announced financial stimulus packages in anticipation of a very significant negative impact on GDP during 2020. Concerns remain as to whether these policy tools will counter anticipated macro-economic risks and a prolongation of the outbreak could significantly adversely affect economic growth, affect specific industries or countries or affect the Company's employees and business operations in affected countries. In addition, an escalation in geopolitical tensions or increased use of protectionist measures may also negatively impact the Company's business.

**Operational risk**

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors or from external agents.

**Business risk**

Business risk is the risk of adverse outcomes resulting from a weak competitive position or from poor choice of strategy, markets, products, activities or structures.

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Barclays PLC group and are not managed separately. Accordingly, the principal risks and uncertainties of Barclays PLC, which include those of the Company, are discussed in the Group's annual report which does not form part of this report.

**Key performance indicators**

The directors of Barclays PLC manage the group's operations on a business cluster basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company.

**Barclays Mercantile Business Finance Limited**  
**Strategic Report**  
**For the year ended 31 December 2020**

The development, performance and position of the relevant business cluster, which includes the Company, is discussed in the Barclays PLC 2020 annual report, which does not form part of this report.

**Section 172(1) statement**

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of Barclays Mercantile Business Finance Limited (the 'Company') for the benefit of its member as a whole and this section forms our section 172 disclosure, describing how, in doing so, the Directors considered the matter set out in section 172 (1)(a) to (f) of the Companies Act 2006. The directors also took into account the views and interest of a wider set of stakeholders, including regulators.

The Directors have acted in a way that they considered, in good faith, to be most likely promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company's maintaining a reputation for high standards of business conduct; and
- to act fairly between members of the Company.

The Directors also took into account the views and interests of a wider set of stakeholders, including our regulator, the Government, and non-government organisations. You can find out more about who key stakeholders are, how management and/ or the Directors engaged with them, the key issues raised and actions taken on pages 18 to 19 of the Barclays PLC Annual Report 2020 and also page 11 of the Barclays Bank PLC Annual Report 2020 (both of which are incorporated by reference into this statement).

Considering this broad range of interests is an important part of the way the Board makes decisions; however, in balancing those different perspectives it won't always be possible to deliver everyone's desired outcome.

**How does the board engage with stakeholders?**

Depending on the decision in question, the relevance of each particular stakeholder group may differ, and equally the Board adopts a variety of methods of engagement with different stakeholder groups. The Board will sometimes engage directly with certain stakeholders on certain issues, but the size and distribution of our stakeholders and of Barclays means that stakeholder engagement often takes place at an operational level.

In addition, to ensure a more efficient and effective approach, certain stakeholder engagement is led at Barclays group level, in particular where matters are of group-wide significance or have the potential to impact the reputation of the Barclays group.

The Board considers and discusses information from across the organisation to help it understand the impact of Barclays' operations, and the interests and views of our key stakeholders. It also reviews strategy, financial and operational performance, as well as information covering areas such as key risks, and legal and regulatory compliance. This information is provided to the board through reports sent in advance of each board meeting, and through in-person presentations.

As a result of these activities, the board has an overview of engagement with stakeholders, and other relevant factors, which enables the directors to comply with their legal duty under section 172 of the Companies Act 2006. The following is an example of how the directors have had regard to the matters set out in sections 172(1) -(f) when discharging their section 172 duties and the effect of that on certain of the decisions taken by them.

**Engagement in action**

**COVID-19**

The Company monitored the potential downside risk associated with both the direct and indirect impact of the COVID-19 outbreak, the financial effect of which has been a reduction in the total assets by £237.8m and fall in revenue by £8.4m. There has been increase in ECL stock by £25.6m as at Dec'20. The Company continues to operate

**Barclays Mercantile Business Finance Limited**  
**Strategic Report**  
**For the year ended 31 December 2020**

within its internal risk and regulatory capital limits which are being actively monitored by management in line with management's expectations.

At the peak of COVID-19, the majority of the lease receivables had moved from low credit risk bucket to higher risk bucket, but there was no significant increase in the impaired loans at the end of Q2'20. By the end of 2020 post the peak of COVID -19, credit quality for the loans had improved back and the balance of loans at higher risk was reduced significantly and moved back to low credit risk. The overall impact to the economy from the second wave of the pandemic was milder compared to the shock seen in Q2 2020 when strict lockdown measures were initially put in place in all major economies. The macro-economic factors have further improved in 2021, also the credit quality and IFRS 9 staging of customers have upgraded, resulting the decline in the ECL stock of 2021.

The key areas of risk being handled by Management on the ground are – our people, our clients, client credit risk and income flow.

The safety of our staff is paramount at all times, to maintain this approach we have moved to a home working model for all BMBF staff, these arrangements will be reviewed in line with Government advice as the COVID19 crisis evolves. Barclays Plc have a comprehensive suite of wellbeing support measures in place that all employees can access at this time, this is being supported locally via regular update calls with all staff.

The financial impact of COVID19 on our clients has caused immediate cash flow challenges, BMBF have supported this by providing temporary 'Emergency Payment Freezes' (EPF) to impacted clients following the application of the Pandemic Lending framework criteria across Barclays. These arrangements are interest bearing at the prevailing rate on each individual agreement with accrued interest collected through the remaining life of the agreement.. This approach reflects the guidance issued by the UK Finance & Leasing Association (FLA) and supports our clients at this time of need.

COVID19 related EPFs have the effect of deferring our capital collection under existing affected agreements and therefore increasing the risk factor in that area of our book, BMBF managed this by limiting the length of the EPF to 3 months in line with industry guidance and only exceeded this in exceptional circumstances. The economic risk to BMBF has been mitigated by the accrual and collection of the prevailing interest charges for the period of the EPF.

FOR AND ON BEHALF OF THE BOARD

DocuSigned by:

*Steve Bolton*

EA998A17A881458...

Director

Date: 28<sup>th</sup> June 2021

Company number: 898129

Company address: 1 Churchill Place, London, E14 5HP

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARCLAYS MERCANTILE BUSINESS FINANCE LIMITED**

## **Opinion**

We have audited the financial statements of Barclays Mercantile Business Finance Limited ("the Company") for the year ended 31 December 2020 which comprise the Income statement, Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Cashflow statement, and related notes, including the accounting policies in note 5.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at date and of its loss 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
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Going concern**

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

## **Fraud and breaches of laws and regulations – ability to detect**

### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud
- Reading Board minutes
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries especially for revenue recognition. On this audit we do not believe there is a fraud risk related to revenue recognition because the calculation of revenue is automated with limited judgement involved in the calculation, and therefore limited opportunities to manipulate revenue. No pressures or incentives for management to manipulate revenue have been identified.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the Barclays Group wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted which contained certain key words, posted by senior finance management or those who are not authorized to post journal entries, those posted without a user ID, those posted at certain time periods, and those with missing descriptions.
- Assessing significant accounting estimates for bias.

*Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with Directors (as required by auditing standards), and discussed with Directors the policies and procedures regarding compliance with laws and regulations.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

*Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatements. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

**Strategic report and Directors' report**

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the Directors' report;

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **Matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 3, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### **The purpose of our audit work and to whom we owe our responsibilities**

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



**Rahim Butt (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
 15 Canada Square  
 London  
 E14 5GL  
 Date: 28/06/2021

**Barclays Mercantile Business Finance Limited**  
**Income Statement**  
**For the year ended 31 December 2020**

	Notes	2020 £m	2019 £m
<b>Continuing operations</b>			
Lease revenue	6	39.7	48.1
<b>Gross profit</b>		39.7	48.1
IFRS 9-ECL (charge)/release	8	(19.5)	6.1
Foreign exchange gain		0.01	0.3
Administrative expenses	7	(10.9)	(12.1)
Income from partnerships and group undertakings		0.0	0.0*
Fair value loss on derivative financial instruments		(5.6)	(4.3)
<b>Operating Profit</b>		<b>3.7</b>	<b>38.1</b>
Interest income	9	1.2	2.2
Interest expense	9	(8.5)	(11.8)
<b>(Loss)/Profit before tax</b>		<b>(3.6)</b>	<b>28.5</b>
Tax	11	1.2	(5.5)
<b>(Loss)/Profit for the year</b>		<b>(2.4)</b>	<b>23.0</b>

The accompanying notes on pages 18 to 46 form an integral part of the financial statements.

Loss for the year was £2.4m (profit 2019: £23m).

\*Income from partnerships and group undertakings for the year was Nil (2019: £0.05m)

**Barclays Mercantile Business Finance Limited**  
**Statement of comprehensive Income**  
**For the year ended 31 December 2020**

	Notes	2020 £m	2019 £m
Loss after tax		(2.4)	23.0
Other comprehensive expense not routed through profit or loss			
Actuarial (loss)/income on retirement benefit remeasurement	18	(0.3)	(0.3)
<b>Total comprehensive (loss)/income for the year</b>		<b>(2.7)</b>	<b>22.7</b>

Total comprehensive loss for the year 2020 is (£2.7) (2019 profit: 22.7)

The accompanying notes on pages 18 to 46 form an integral part of the financial statements.

Per IAS 1.91, the Company may present items of other comprehensive income either net of tax or before related tax effects with one amount shown for the aggregate amount of income tax relating to those items. When the latter option is presented the entity allocates the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified subsequently to the profit or loss section.

Per IAS 1.92 for any reclassification adjustments relating to other comprehensive income must be disclosed.

**Barclays Mercantile Business Finance Limited**  
**Statement of Financial position**  
**As at 31 December 2020**

	Notes	2020 £m	2019 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		0.0*	0.0
Investments	12	0.0*	0.0
Deferred tax assets	17	6.0	2.9
Finance lease receivables	16	572.0	710.6
Derivative financial instruments	22	0.2	1.0
<b>Total non-current assets</b>		<b>578.2</b>	<b>714.5</b>
<b>Current assets</b>			
Finance lease receivables	16	411.5	492.8
Derivative financial instruments	22	0.0	0.0
Amounts due from immediate parent undertaking	13	10.7	7.9
Amounts due from other related parties	13	122.4	145.4
Other receivables	13	0.3	0.3
<b>Total current assets</b>		<b>544.9</b>	<b>646.4</b>
<b>Total assets</b>		<b>1,123.1</b>	<b>1,360.9</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Amounts payable to immediate parent undertaking	14	(18.3)	(77.1)
Bank Overdraft	14	(917.9)	(1,104.5)
Amount due to other related parties	14	(10.3)	(8.6)
Current Tax Liability	11	(6.1)	(4.0)
Derivative financial instruments	22	0.0	0.0
Other payables	14	(8.6)	(8.6)
<b>Total current liabilities</b>		<b>(961.2)</b>	<b>(1,202.8)</b>
<b>Net current liabilities</b>		<b>(416.3)</b>	<b>(556.4)</b>
<b>Non-current liabilities</b>			
Provisions	18	(8.5)	(8.7)
Derivative financial instruments	22	(10.3)	(5.3)
<b>Total non-current liabilities</b>		<b>(18.8)</b>	<b>(14.0)</b>
<b>Net assets</b>		<b>143.1</b>	<b>144.1</b>

**Barclays Mercantile Business Finance Limited**  
**Statement of changes in equity**  
**For the year ended 31 December 2020**


	Notes	2020 £m	2019 £m
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	20	94.0	94.0
Retained earnings		52.7	53.3
Retirement Benefit Remeasurement Reserve		(3.6)	(3.2)
<b>Total shareholders' equity</b>		<b>143.1</b>	<b>144.1</b>

**\*Note-**

1. Property, Plant & Equipment are £142 in 2020 (2019 : £391)
2. Investments are £5,403 in 2020 (2019 : £5,607)

The accompanying notes on pages 18 to 46 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 28 June 2021 and were signed on its behalf by:

DocuSigned by:  
  
 EA998A17A861456...

Director

Date: 28 June 2021

Company number: 898129

Company address: 1 Churchill Place, London, E14 5HP

**Barclays Mercantile Business Finance Limited**  
**Statement of changes in equity**  
**For the year ended 31 December 2020**

<b>2020</b>	<b>Share capital £m</b>	<b>Retained Earnings £m</b>	<b>Total Equity £m</b>
<b>Balance at 1 January 2020</b>	94.0	50.1	144.1
IFRS9 Impairment allowance	-	0.5	0.5*
<b>Adjusted balance as at 1 January 2020</b>	94.0	50.6	144.6
Loss for the year	-	(2.4)	(2.4)
Post retirement medical benefit remeasurement gain	-	0.9	0.9
Dividend paid	-	-	-
<b>Balance at 31 December 2020</b>	<b>94.0</b>	<b>49.1</b>	<b>143.1</b>

<b>2019</b>	<b>Share capital £m</b>	<b>Retained Earnings £m</b>	<b>Total Equity £m</b>
<b>Balance at 1 January 2019</b>	94	27.4	121.4
Profit for the year	-	23.0	23.0
Post retirement medical benefit remeasurement Loss	-	(0.3)	(0.3)
Dividend paid	-	-	-
<b>Balance at 31 December 2019</b>	<b>94.0</b>	<b>50.1</b>	<b>144.1</b>

\* This adjustment related to expected credit loss recognized in 2020 relating to 2019 which was corrected

The accompanying notes on pages 18 to 46 form an integral part of the financial statements.

**Barclays Mercantile Business Finance Limited**  
**Cash flow statement**  
**For the year ended 31 December 20**

	2020 £m	2019 £m
<b>Continuing operations</b>		
<b>Reconciliation of profit before tax to net cash flows from operating activities</b>		
(Loss)/Profit before tax	(3.6)	28.5
Other non-cash movement in finance lease receivables	(66.4)	(105.8)
Allowance for impairment	19.5	9.7
Interest income	(1.2)	(2.2)
Interest expense	8.5	11.8
Profit on termination/sale of finance lease receivables	(2.0)	(3.0)
Fair value losses / (gain) on derivative financial instruments	5.8	4.1
<b>Cash used in operating activities</b>	<b>(39.4)</b>	<b>(56.9)</b>
Purchase of assets for use in finance lease receivables	(395.0)	(740.5)
Repayment of principal for finance leases	592.8	799.3
Proceeds from sale of finance lease receivables	71.2	110.0
Provision payments	0	(0.6)
Net increase in payables	0.1	2.6
Net (increase)/ decrease in receivables	(0.1)	0.1
Movement in provisions	1.8	(0.1)
Share based payment adjustment	0.0	0.1
Interest received	1.2	2.2
Interest paid	(8.5)	(11.8)
Tax payments	(0.6)	(6.8)
<b>Net cash generated from operating activities</b>	<b>223.5</b>	<b>97.6</b>
<b>Cash flows from investing activities</b>		
Purchase of Investments	-	-
<b>Net cash generated from investing activities</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Dividends paid	-	-
(Repayment to)/Financing from immediate parent undertaking	(36.9)	4.0
Change in overdraft	(186.6)	(101.6)
<b>Net cash (used in) from financing activities</b>	<b>(223.5)</b>	<b>(97.6)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at beginning of year	-	-
<b>Cash and cash equivalents at end of year</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents comprise:</b>		
Amounts due to immediate parent undertaking	-	-

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**1. Reporting entity**

These financial statements are prepared for Barclays Mercantile Business Finance Limited (the 'Company'), the principal activity of which is the provision of leasing and other financial facilities to business and agricultural customers. The financial statements are prepared for the Company, in line with the UK Companies Act 2006. The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group. The parent undertaking of the smallest group that presents consolidated financial statements is Barclays Bank PLC and the ultimate holding company and the parent undertaking of the largest group that presents group financial statements is Barclays PLC, both of which prepare consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee ('IFRS IC'), as published by the International Accounting Standards Board ('IASB'), and accordingly consolidated financial statements have not been prepared based on the exemption provided under paragraph 4(a) of IFRS 10.

The Company is a private limited company, domiciled and incorporated in the United Kingdom. The address of the registered office of the Company is 1 Churchill Place, London, E14 5HP.

**2. Compliance with International Financial Reporting Standards**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB). They are also in accordance with IFRS and IFRIC interpretations endorsed by the European Union. The principal accounting policies applied in the preparation of the financial statements are set out below, and in the relevant notes to the financial statements. These policies have been consistently applied.

**3. Basis of preparation**

The financial statements have been prepared on a going concern basis under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required or permitted under IFRS 9 - 'Financial Instruments' as set out in the relevant accounting policies. They are presented in millions of pounds sterling, £m, the currency of the country in which the Company is incorporated.

**Going concern**

On 31<sup>st</sup> March 2021, the parent Barclays Principal Investment Limited (BPIL) entered into an agreement to sell its entire shareholding in this company to HPS Investment partners LLC. The transfer of ownership is expected to be completed by 30<sup>th</sup> June 2021. Under the new ownership, the buyer has agreed to provide debt and equity funding which will be utilised to for settlement of overdraft positions of the company. The change in ownership of this entity is not expected to result in any other material changes to the business or the balance sheet of this company. The buyers have indicated that they plan to continue to run the business via the Company as part of the PEAC group.

The financial statements have been prepared on a going concern basis as the directors are satisfied that the company has sufficient resources to continue in business for a period of at least 12 months from approval of the financial statements. In making this assessment, the directors have considered a wide range of information relating to present and future conditions including:

- the Company's performance projections, cashflows and relevant stress scenario analysis (including the implication from the COVID-19 outbreak), the available banking facilities and taking into account the support available from Barclays Bank PLC under the current ownership until the date of transfer of the business to the buyer; and
- Financial support through equity and debt funding arrangement by the buyer, the Directors are satisfied that the Company has adequate access to resources to enable it to meet its obligations and to continue in operational existence for at least 12 months from approval of the financial statements.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**4. New and amended standards**

**IFRS9-Financial Instruments- Amendment to IFRS9**

IFRS 9 allows companies when they first apply IFRS 9, to make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39. The Company made the election to continue to apply the IAS 39 hedge accounting requirements, and consequently, the amendments to IAS 39 in respect of hedge accounting have been adopted by the Company.

The objective of the amendments are to provide certain reliefs to companies when changes are made to the contractual cash flows or hedging relationships resulting from interest rate benchmark reform. The reliefs adopted by the Company have been described below.

**Changes in the basis for determining contractual cash flows**

A change in the basis of determining the contractual cash flows of a financial instrument that are required by the reform is accounted for by updating the effective interest rate, without the recognition of an immediate gain or loss. This practical expedient is only applied where (1) the change to the contractual cash flows is necessary as a direct consequence of the reform and (2) the new basis for determining the contractual cash flows is economically equivalent to the previous basis. For changes made in addition to those required by the reform, the practical expedient is applied first, after which the normal IFRS 9 requirements for modifications of financial instruments is applied.

The amendments to IFRS 7 require certain disclosures to be made to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

**IFRS 17 – Insurance contracts**

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts that was issued in 2005.

IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

In June 2020, the IASB published amendments to IFRS 17. The amendments that are relevant to the Group are the scope exclusion for credit card contracts and similar contracts that provide insurance coverage, the optional scope exclusion for loan contracts that transfer significant insurance risk, and the clarification that only financial guaranteed issues are in scope of IFRS9.

The amendments also defer the effective date of IFRS 17, including the above amendments, to annual reporting periods beginning on or after 1 January 2023.

IFRS 17, including the amendments to IFRS 17 has not yet been endorsed by the EU as of the date that the financial statements are authorised for issue.

Following the UK's withdrawal from the EU on 31 December 2020, the UK-adopted international accounting standards will be applicable. IFRS 17, including the amendments to IFRS 17, has not yet been endorsed by the UK. The Company is not expected to have a material impact on adopting this standard.

**IFRS16-Leases-Amendment to IFRS16-Rent Concessions**

The changes were made to IFRS 16 in a response to the impact of the Covid-19 pandemic on business conditions. Many lessees are seeking rent concessions from lessors. Prior to the amendment, rent concessions often met the definition of a lease modification and accounting for this was complex. The IASB has issued amendments to IFRS 16 to simplify how lessee account for rent concessions.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the Covid-19 pandemic and if they met all 3 criteria as noted in IFRS 16.46A-B (criteria summarised below).

The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- ii) there is no substantive change to the other terms and conditions of the lease.

This is not expected to have a material impact on adoption.

**5. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

**(a) Foreign currency translation**

Items included in the financial statements of the Company are measured using their functional currency, being Pound Sterling (GBP) the currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items 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. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss, are reported as part of the fair value gain or loss.

**(b) Revenue recognition**

Other than income from leasing as described below (see 5(m)), the income statement is credited with income from instalment credit and other financing arrangements using the actuarial method which apportions interest and charges over the period during which repayments fall due, to give a constant periodic rate of return on the net investment.

**(c) Dividends from subsidiaries and associates**

Dividend income is recognised when the right to receive payment is established, which is when the dividends are received or the dividends are appropriately authorised by the subsidiary or associate.

**(d) Interest**

Interest income or expense is recognised on all interest bearing financial assets recorded at amortised cost, Fair Value through Profit and Loss or Fair Value through other Comprehensive Income and on interest bearing financial liabilities using the effective interest method.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (or expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

**(e) Current and deferred income tax**

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

Income tax payable on taxable profits ('current tax') is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current year or prior year taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the Company's financial statements. Deferred income tax is determined using tax rates and legislation enacted or substantively enacted by the balance sheet date and that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised on deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is regarded as probable that sufficient taxable profits will be available against which the deductible temporary difference, unused tax losses and unused tax credits can be utilised.

Deferred and current tax assets and liabilities are only offset where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously with the same tax authority.

**(f) Financial assets and liabilities**

The Company applies IFRS 9 'Financial Instruments' to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

*Recognition*

The Company recognises financial assets and liabilities when it becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset.

*Classification and measurement*

Financial assets are classified on the basis of two criteria:

- the business model within which financial assets are managed; and
- their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

The Company assesses the business model criteria at a portfolio level. Information that is considered in determining the applicable business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management, and (iii) the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. In assessing whether contractual cash flows are SPPI compliant, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including: (i) contingent and leverage features, (ii) non-recourse arrangements and (iii) features that could modify the time value of money.

**Financial assets will be measured at amortised cost**

Financial assets will be measured at *amortised cost* if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets will be measured at *fair value* through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**Financial instruments at fair value through profit or loss**

Other financial assets are measured at *fair value through profit and loss*. There is an option to make an irrevocable election on initial recognition for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in the income statement.

**Accounting for financial assets mandatorily at fair value**

Financial assets that are held for trading are recognised at fair value through profit or loss. In addition, financial assets are held at fair value through profit or loss if they do not contain contractual terms that give rise on specified dates to cash flows that are SPPI, or if the financial asset is not held in a business model that is either (i) a business model to collect the contractual cash flows or (ii) a business model that is achieved by both collecting contractual cash flows and selling. Subsequent changes in fair value for these instruments are recognised in the income statement in net investment income, except if reporting it in trading income reduces an accounting mismatch.

**Accounting for financial assets designated at fair value**

Financial assets, other than those held for trading, are classified in this category if they are so irrevocably designated at inception and the use of the designation removes or significantly reduces an accounting mismatch.

Subsequent changes in fair value are recognised in the income statement in net investment income.

**Determining fair value**

The Companies' policies for determining the fair values of the assets and liabilities are set out in Note 22.

**Derecognition**

The Company derecognises a financial asset, or a portion of a financial asset, from its balance sheet where the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, and with them either substantially all the risks and rewards of the asset or significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities are derecognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms – generally a difference of 10% in the present value of the cash flows or a substantive qualitative amendment – is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Transactions in which the Barclays Group transfers assets and liabilities, portions of them, or financial risks associated with them can be complex and it may not be obvious whether substantially all of the risks and rewards have been transferred, it is often necessary to perform a quantitative analysis. Such an analysis compares the Barclays Group's exposure to variability in asset cash flows before the transfer with its retained exposure after the transfer.

**Impairment of financial assets**

The Company is required to recognise expected credit losses (ECLs) based on unbiased forward-looking information for all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. At the reporting date, an allowance (or provision for loan commitments and financial guarantees) is required for the 12 month (Stage 1) ECLs. If the credit risk has significantly increased since initial recognition (Stage 2), or if the financial instrument is credit impaired (Stage 3), an allowance (or provision) should be recognised for the lifetime ECLs. The measurement of ECL is calculated using three main components: (i) probability of default (PD) (ii) loss given default (LGD) and (iii) the exposure at default (EAD). The 12 month ECL is calculated by multiplying the 12 month PD, LGD and the EAD. The 12 month and lifetime PDs represent the PD occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. Determining a significant increase in credit risk since initial recognition:

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

The company assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. The credit risk of an exposure is considered to have significantly increased when:

i. Quantitative test

The annualised lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination. PD deterioration thresholds are defined as percentage increases, and are set at an origination score band and segment level to ensure the test appropriately captures significant increases in credit risk at all risk levels. Generally, thresholds are inversely correlated to the origination PD, i.e. as the origination PD increases, the threshold value reduces.

The assessment of the point at which a PD increase is deemed 'significant', is based upon analysis of the portfolios' risk profile against a common set of principles and performance metrics (consistent across both retail and wholesale businesses), incorporating expert credit judgement where appropriate.

ii. Qualitative test

Relevant for accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

High risk customers may not be in arrears but either through an event or an observed behaviour exhibit credit distress. The definition and assessment of high risk includes as wide a range of information as reasonably available, such as industry and Group-wide customer level data, including but not limited to bureau scores and high consumer indebtedness index, wherever possible or relevant.

Whilst the high risk populations applied for IFRS 9 impairment purposes are aligned with risk management processes, they are also regularly reviewed and validated to ensure that they capture any incremental segments where there is evidence of credit deterioration.

iii. Backstop Criteria

Relevant for accounts that are more than 30 calendar days past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into Stage 2. Exposures will move back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk. This means that, at a minimum: all payments must be up-to-date, the PD deterioration test is no longer met, the account is no longer classified as high risk, and the customer has evidenced an ability to maintain future payments.

Management overlays and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk.

iv. Forward-looking information

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate (EIR). ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, five forward-looking economic scenarios are considered to ensure a sufficient unbiased representative sample of the complete distribution is included in determining the expected loss. Stress testing methodologies are leveraged within forecasting economic scenarios.

The measurement of ECL involves increased complexity and judgement, including estimation of PDs, LGD, a range of unbiased future economic scenarios, estimation of expected lives, and estimation of EAD and assessing significant increases in credit risk. Impairment charges will tend to be more volatile and will be recognised earlier. Unsecured products with longer expected lives, such as revolving credit cards, are the most impacted.

The Company utilises an external consensus forecast as the baseline scenario. In addition, two adverse and two favourable scenarios are derived, with associated probability weightings. The adverse scenarios are calibrated to a

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

similar severity to internal stress tests, whilst also incorporating IFRS 9 specific sensitivities and non-linearity. The most adverse scenarios are benchmarked to the Bank of England's annual cyclical scenarios and to the most severe scenarios from Moody's inventory, but are not designed to be the same. The favourable scenarios are calibrated to be symmetric to the adverse scenarios, subject to a ceiling calibrated to relevant recent favourable benchmark scenarios. The scenarios include six core variables, (GDP, unemployment and House Price Index in both the UK & US markets), and expanded variables using statistical models based on historical correlations. The probability weights of the scenarios are estimated such that the baseline (reflecting current consensus outlook) has the highest weight and the weights of adverse and favourable scenarios depend on the deviation from the baseline; the further from the baseline, the smaller the weight.

**v. Definition of default, credit impaired assets, write-offs, and interest income recognition**

The definition of default for the purpose of determining ECLs has been aligned to the Regulatory Capital CRR Article 178 definition of default, which considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due. When exposures are identified as credit impaired or purchased or originated as such interest income is calculated on the carrying value net of the impairment allowance.

Credit impaired is when the exposure has defaulted which is also anticipated to align to when an exposure is identified as individually impaired.

Uncollectible loans are written off against the related allowance for loan impairment on completion of the Barclays Group's internal processes and when all reasonably expected recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement.

**(g) Derivatives**

Derivatives are measured at fair value on initial recognition and subsequently the resulting gains and losses are recognised in the income statement.

**Accounting for derivatives**

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward-rate agreements, futures, options and combinations of these instruments and primarily affect the Barclays Group's net interest income, net trading income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet.

All derivative instruments are held at fair value through profit or loss, except for derivatives that are in a designated cash flow or net investment hedge accounting relationship. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes terms included in a contract or financial liability (the host), which, had it been a standalone contract, would have met the definition of a derivative. If these are separated from the host, i.e. when the economic characteristics of the embedded derivative are not closely related with those of the host contract and the combined instrument is not measured at fair value through profit or loss, then they are accounted for in the same way as derivatives.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement. Profits or losses cannot be recognised on the bifurcation of an embedded derivative.

**(h) Property, plant and equipment**

Property and equipment is stated at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful lives. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of replaced parts are derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

When deciding on depreciation rates and methods, the principal factors the Company takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Company estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

**(i) Impairment of property, plant and equipment and intangible assets**

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

The carrying values of tangible and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the related asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. For the purpose of conducting impairment reviews, cash-generating units are the lowest level at which management monitors the return on investment in assets.

**(j) Investments in subsidiaries**

Investments in subsidiaries are stated at cost less impairment, if any. Refer note 12 for further details.

**(k) Investments in associates and joint ventures**

Investments in associates and joint ventures are stated at cost less impairment if, any.

**(l) Share capital and dividends**

*Share issue costs*

Incremental costs directly attributable to the issue of new shares or options or the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

*Dividends on ordinary shares*

Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Company's shareholder.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**(m) Leases**

*As lessor*

Assets leased to customers under agreements, which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return. Where there is a change in the lease cash flow assumptions, for example as a result of a change in the corporation tax rate, the resultant change in the lease receivable balances is recognised in the current period income statement within lease revenue.

Renewal rental income earned during the secondary rental period is recognised as lease revenue on a receivable basis. Termination profits and/or losses are included in lease revenue. Profit on sell down of any deals i.e. contractual agreement with third party to receive the rental over the life of an agreement against one time lumpsum amount received by Barclays shall be recognised on actual basis. This has been classified as fees in Note 6.

**IFRS 16 – Leases**

IFRS 16 applies to all leases with the exception of licenses of intellectual property, rights held by licensing agreement within the scope of IAS 38, Intangible Assets, service concession arrangements, leases of biological assets within the scope of IAS 41, Agriculture, and leases of minerals, oil, natural gas and similar non-regenerative resources. IFRS 16 includes an accounting policy choice for a lessee to elect not to apply IFRS 16 to remaining assets within the scope of IAS 38, Intangible Assets, which the company has decided to apply.

As per IFRS 16, there is no distinction between operating and finance leases. Lessees will be required to recognise both:

A lease liability, measured at the present value of remaining cash flows on the lease, and

A right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

Subsequently the lease liability will increase for the accrual of interest, resulting in a constant rate of return throughout the life of the lease, and reduce when payments are made. The right of use asset will amortise to the income statement over the life of the lease.

The Company applies the recognition exemption in IFRS 16 for leases with a term not exceeding 12 months. For these leases the lease payments are recognised as an expense on a straight line basis over the lease term unless another systematic basis is more appropriate.

For the Company, there is no significant impact on implementation of IFRS 16.g

**(n) Employee benefits**

*Defined benefit schemes*

The Company is a member of the post retirement health care scheme as well as other benefit schemes offered by Barclays PLC. The Company also bears costs in relation to Barclays PLC UK Retirement Fund where Barclays Mercantile Limited is the employing entity. There are no contractual arrangements to share actuarial gains and losses arising in these schemes. Contributions to the fund are recognised as an expense in the income statement in the accounting period to which they relate. Any unpaid contributions are recognised in the balance sheet as a liability.

IAS 19 (revised) was adopted by the Group from the mandatory effective date of 1 January 2013 and application is retrospective. The main change is that the Group recognises the liabilities (or assets) arising from its defined benefit pension schemes in full. The deferral of actuarial gains and losses, which was an option applied by Barclays under the previous standard, is no longer permitted. The expected return on assets assumption has also been replaced by an assumed return on assets in line with the discount rate.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

Changes in pension scheme liabilities or assets (remeasurements) that do not arise from regular pension cost, interest on net defined benefit liabilities or assets, past service costs, settlements or contributions to the plan, are recognised in other comprehensive income. For further details on the impacts of IAS 19 (Revised) remeasurements please refer to Note 18.

Remeasurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

*Defined contribution schemes*

For defined contribution schemes, the Company recognises contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

*Post retirement healthcare*

The Company also provides healthcare to certain retired employees, which are accrued as a liability in the financial statements over the period of employment, using a methodology similar to that for defined benefit pension plans.

*Short-term employee benefits*

Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the Company has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recognised in the income statement in staff costs, which is included within operating expenses.

**(p) Provisions**

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefits will be necessary to settle the obligation, and these can be reliably estimated.

When a leasehold property ceases to be used in the business, or a demonstrable commitment has been made to cease to use a property where the costs exceed the benefits of the property, provision is made, where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income. The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Company has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

**(q) Cash and cash equivalents**

For the purposes of the cash flow statement, cash comprises cash on hand, demand deposits, and cash equivalents. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months. Trading balances are not considered to be part of cash equivalents.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**(r) Residual value impairments**

Residual values represent the estimated value of the leased asset at the end of the lease period. Residual values are calculated after analysing the market place and the Company's own historical experience in the market. Residual values of leased assets are reviewed regularly and any impairment identified is charged to the income statement in the period in which it arises.

**(s) Critical accounting estimates and judgements**

The preparation of financial statements in accordance with IFRS requires the use of estimates. It also requires management to exercise judgment in applying the accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements are highlighted under the relevant note. Critical accounting estimates and judgements are disclosed in:

**Credit impairment**

IFRS 9 impairment involves several important areas of judgement, including estimating forward looking modelled parameters (PD, LGD and EAD), developing a range of unbiased future economic scenarios, estimating expected lives and assessing significant increases in credit risk.

The calculation of impairment involves the use of judgement, based on the Company's experience of managing credit risk.

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows in a range of economic scenarios are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Company's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge. The impairment (charge)/release reflected in the financial statements in relation to lease portfolios is (£19.5)m (2019: £6.1m).

**Tax**

There are two key areas of judgement that impact the reported tax position. Firstly, the level of provisioning for uncertain tax positions; and secondly, the recognition and measurement of deferred tax assets.

The Company does not consider there to be a significant risk of a material adjustment to the carrying amount of current and deferred tax balances, including provisions for uncertain tax positions in the next financial year. The provisions for uncertain tax positions cover a diverse range of issues and reflect advice from external counsel where relevant. It should be noted that only a proportion of the total uncertain tax positions will be under audit at any point in time, and could therefore be subject to challenge by a tax authority over the next year.

Deferred tax assets have been recognised based on business profit forecasts. Details on the recognition of deferred tax assets is provided in note 17.

**Post Retirement benefits**

Actuarial valuation of the schemes' obligation is dependent upon a series of assumptions and demographics. Refer Note 18 for further details.

**Provisions**

The financial reporting of provisions involves a significant degree of judgement and is complex. Identifying whether a present obligation exists and estimating the probability, timing, nature and quantum of the outflows that may arise from past events requires judgements to be made based on the specific facts and circumstances relating to individual events and often requires specialist professional advice. When matters are at an early stage, accounting judgements and estimates can be difficult because of the high degree of uncertainty involved. Management continues to monitor matters as they develop to re-evaluate on an ongoing basis whether provisions should be recognised, however there can remain a wide range of possible outcomes and uncertainties, particularly in relation

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

to legal, competition and regulatory matters, and as a result it is often not practicable to make meaningful estimates even when matters are at a more advanced stage.

The complexity of such matters often requires the input of specialist professional advice in making assessments to produce estimates. Customer redress and legal, competition and regulatory matters are areas where a higher degree of professional judgement is required. The amount that is recognised as a provision can also be very sensitive to the assumptions made in calculating it. This gives rise to a large range of potential outcomes which require judgement in determining an appropriate provision level.

## 6. Lease Revenue

Lease revenue represents interest income from Lease agreements entered into relating to leased assets, instalment credit, and other financial facilities. Income is calculated in accordance with note 5(m).

Lease revenue comprises of:

	2020	2019
	£m	£m
Rental Income	36.8	45.0
Profit/(loss) on the sale of finance leases	2.0	3.0
RV Impairment Provision	0.1	(0.3)
Fees	0.8	0.4
<b>Lease revenue</b>	<b>39.7</b>	<b>48.1</b>

Lease revenue was calculated using the EIR method.

## 7. Administrative expenses

	2020	2019
	£m	£m
Wages and salaries	3.2	4.2
Social security costs	0.4	0.4
Pension Cost	1.6	1
Other post retirement benefits	0.2	0.2
<b>Total staff Cost</b>	<b>5.4</b>	<b>5.8</b>
Other Administration costs		
-Servco costs	5.4	5.6
-Other costs	0.1	0.7
<b>Total Administration Cost</b>	<b>10.9</b>	<b>12.1</b>

The average number of employees of Barclays Mercantile Limited and Barclays Bank PLC seconded to the Company and its subsidiaries during the year was as follows:

	2020	2019
	Number	Number
Selling and Marketing	42	77
Administration	0	0
	<b>42</b>	<b>77</b>

The Directors of the Company include employees of other Barclays group companies whose remuneration is borne by these companies and similarly, there are employees remunerated by the Company who act as directors of other

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

companies in the Barclays group. The directors have not received a remuneration in respect of their services to the Company.

Audit fees for £48,000 (2019: 48,000) are borne by Barclays Bank PLC.

In order to maintain Operational Continuity, Barclays UK ServCo Limited (BX entities) are required to identify, map and allocate costs at arm's length price, in respect of all activities (including technology and group central functions) to facilitate decision making and provide a fair view on the provision of critical shared services required to support core leasing activities in the event of recovery and resolution.

As a result, the Company has received £5.4m of allocation from BX entities in 2020 (2019: £ 5.6m).

## 8. ECL Charge

ECL charge for the year is (£19.5m) in the Income Statement (2019: release of £6.1m) in respect of impairment booked/released majorly on Finance lease and Hire purchase agreements.

Post Write-Off Recoveries for the year is £0.3m (2019: £0.5m)

## 9. Interest income and interest expense

Interest income and interest expense comprise the following:

	2020 £m	2019 £m
<b>Interest income</b>		
Amount due from other related parties	1.2	2.2
<b>Total interest income</b>	<b>1.2</b>	<b>2.2</b>
<b>Interest expense</b>		
Amount due to Immediate parent undertaking	(8.5)	(11.8)
Amount due to other related parties		
<b>Total interest expense</b>	<b>(8.5)</b>	<b>(11.8)</b>

## 10. Dividends

The Board of Directors intend to propose a final dividend of £35.36m (£0.38 per share) in respect of the year ended 31 December 2020 and interim dividend of £24.64m (£0.26 per share) from 2021 profits. The final dividend appropriations will be accounted for subsequent to the year end post approval from the Board.

## 11. Tax

The analysis of the tax credit for the year is as follows:

	2020 £m	2019 £m
<b>Current Tax:</b>		
Current Year	(1.7)	(4.6)
Adjustment for prior years	0.0	0.6
<b>Deferred tax: (Note 17)</b>		
Current Year	2.5	(0.7)
Adjustment for prior years	0.0	(0.8)
Rate Change Adjustment	0.4	-
<b>Overall tax credit/(charge) in the Income Statement</b>	<b>1.2</b>	<b>(5.5)</b>

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

On 22 July 2020 the Finance Act 2020 received Royal Assent, enacting the UK corporation tax rate would remain at 19% from 1 April 2020 onwards instead of reducing to 17%, the previously enacted rate. This rate has therefore been used to calculate current and deferred taxes for the year ended 31 December 2020. A numerical reconciliation of the applicable tax rate and the average effective tax rate is as follows:

	2020 £m	2019 £m
<b>Profit before tax</b>	<b>(3.6)</b>	<b>28.5</b>
Tax charge at standard UK corporation tax rate of 19% (2019: 19%)	0.7	(5.4)
Adjustment for prior years	0.0	(0.2)
Non-taxable income and non-deductible expenses	0.1	0.1
Foreign Exchange Indemnity Provision		
Rate Change Adjustment	0.4	
<b>Overall tax charge</b>	<b>1.2</b>	<b>(5.5)</b>
<b>Effective tax rate %</b>	<b>33.33%</b>	<b>19.39%</b>

## 12. Investments

### Subsidiary undertakings

The investment in Subsidiary Limited is stated in the balance sheet at a cost of £5,403 (2019: £5,607).

The Company owns the whole of the issued ordinary share capital of the following undertakings, which are mainly engaged in leasing or other financial activities.

Name of Subsidiary	Registered Office Address	Class of Shares/Units	Number of shares	Name of immediate parent	Total proportion of nominal value held by immediate parent (%)	Financial Year End
BMBF (No.24) Limited	1 Churchill Place London E14 5HP.	Ordinary Shares	100	BMBF Limited	100%	31 December
J.V. Estates Limited	1 Churchill Place London E14 5HP.	Ordinary Shares	2	BMBF Limited	100%	31 March
Omnium	1 Churchill Place London E14 5HP.	Ordinary Shares	5,250	BMBF Limited	7.5%	31 March

## 13. Amounts due from related parties, cash and other receivables

An analysis of amounts due from related parties and other receivables is as follows:

	2020 £m	2019 £m
Amounts due from:		
Immediate parent undertaking	10.7	7.9
Other related parties	122.4	145.4
Other receivables	0.3	0.3
<b>Total</b>	<b>133.4</b>	<b>153.6</b>

The amounts due from other related party is the funding provided to BMBF 24 (i.e. subsidiary of BMBF).

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

The remaining amounts due from the parent company, subsidiary and other group undertakings have no fixed maturity date and are unsecured, bearing interest at rates varying throughout the year based on prevailing market interest rates.

Other receivables have no fixed maturity date, are unsecured and are non-interest bearing. Their fair value is disclosed in note 22.

Information relating to financial risks is contained in note 21.

#### **14. Amounts owed to related parties, bank overdraft and other payables**

An analysis of amounts owed to related parties and other payables is as follows:

	2020 £m	2019 £m
Amounts due to:		
Immediate parent undertaking	(18.3)	(77.1)
Bank Overdraft	(917.9)	(1,104.5)
Other related parties	(10.3)	(8.6)
Other payables	(8.6)	(8.6)
<b>Total</b>	<b>(955.1)</b>	<b>(1,198.8)</b>

The amounts owed to the parent company, subsidiary and other group undertakings have no fixed maturity date and are unsecured, bearing interest at rates varying throughout the year based on prevailing market interest rates. Other payables have no fixed maturity date, are unsecured and are non-interest bearing. The fair value of borrowings is disclosed in note 22.

#### **15. Allowance for impairment**

The movement in the allowance for impairment for each class of financial asset is as follows:

2020 (£'m)	Finance Lease Receivables	Off Balance sheet loan commitments	Total
At 1st January	(5.1)	-	(5.1)
Amount Written Off	0.0	-	0.0
Amount Charged to P&L	(19.5)	-	(19.5)
At 31 December	(24.6)	-	(24.6)

2019 (£'m)	Finance Lease Receivables	Off Balance sheet loan commitments	Total
At 1st January	(14.6)	-	(14.6)
Amount Written Off	3.9	-	3.9
Amount Released/(Charged) to P&L	5.6	-	5.6
At 31 December	(5.1)	-	(5.1)

#### **16. Leasing**

The Company is a lessor under finance leases, providing asset financing for its customers and leasing assets for its own use. In addition, assets leased by the Company may be sublet to other parties. An analysis of the impact of these transactions on the Company's balance sheet and income statement is as follows:

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**Finance lease receivables**

An analysis of finance lease receivables is as follows:

2020	Gross investment in finance lease receivables	Future Finance Income	Net investment in finance leases	Unguaranteed residual values
	£m	£m	£m	£m
Not more than one year	456.9	(25.8)	431.1	62.5
One to two years	264.7	(14.9)	249.8	37.9
Two to three years	187.2	(10.6)	176.6	45.2
Three to four years	95.3	(5.4)	89.9	24.0
Four to five years	44.4	(2.5)	41.9	15.1
More than five years	20.3	(1.1)	19.2	11.6
<b>Total</b>	<b>1,068.8</b>	<b>(60.3)</b>	<b>1,008.5</b>	<b>196.3</b>

2019	Gross investment in finance lease receivables	Future finance income	Net investment in finance lease receivables	Unguaranteed residual values
	£m	£m	£m	£m
Not more than one year	497.5	(3.9)	493.6	68.9
One to two years	308.2	(7.6)	300.6	47.1
Two to three years	199.9	(10.1)	189.8	38.0
Three to four years	132.6	(14.3)	118.3	37.6
Four to five years	73.9	(12.9)	61.0	16.1
More than five years	63.0	(17.8)	45.2	20.2
<b>Total</b>	<b>1,275.1</b>	<b>(66.6)</b>	<b>1,208.5</b>	<b>227.9</b>

During the year £395m (2019: £740.5m) of assets were acquired for use in finance leases. Finance leases with a net book value of £230.7m (2019: £216.9m) were terminated/sold. The credit and interest rate risk inherent in these leases is detailed in note 21.

An analysis of the fair value of the Company's finance lease receivables is detailed in note 22

**17. Deferred tax**

The components of and the movement on the deferred income tax account during the year were as follows:

**Deferred tax (assets) / liabilities**

	2020 £m	2019 £m
Provision at start of period	(3.2)	(4.5)
Transitional adjustment		
Deferred tax charge to income statement for the period	(2.5)	0.7
Prior period adjustment		0.9
Effect of changes in tax rates	(0.3)	
<b>Provision at end of period</b>	<b>(6.0)</b>	<b>(2.9)</b>

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

	2020 £m	2019 £m
Fixed asset timing differences	(6.4)	(3.4)
Rental apportionment	0.4	0.5
Provision for impairment on finance leases		
<b>Total</b>	<b>(6.0)</b>	<b>(2.9)</b>

Legislation has been introduced to maintain the main rate for corporation tax at 19% from 1 April 2020 (cancelling the enacted reduction to 17%). As a result, relevant deferred tax balances have been re-measured. The closing deferred tax assets and liabilities have been measured at a rate of 19%.

In the March 2021 UK Budget, it was announced that the UK rate of corporation tax will increase from 19% to 25% effective 1 April 2023. The change was not substantively enacted or enacted at the balance sheet date but is expected to impact on the rate at which the company's deferred tax balances unwind once the rate change is substantively enacted. The company has therefore assessed the impact of the change in rate on its deferred tax assets and liabilities and the impact would be to increase the deferred tax assets at the balance sheet date by £1,894,721.

#### 18. Provisions

Movements on the Company's provisions in the year were as follows:

	Post retirement benefits £m	Payment Protection Insurance redress £m	Total Total £m
At 1 January 2020	(8.7)	-	(8.7)
Payments made	0.6	-	0.6
Provision movements	(0.1)	-	(0.1)
Write off	-	-	-
Actuarial loss as per IAS 19 (revised)	(0.3)	-	(0.3)
<b>At 31 December 2020</b>	<b>(8.5)</b>	<b>-</b>	<b>(8.5)</b>

	Post retirement benefits £m	Payment Protection Insurance redress £m	Total £m
At 1 January 2019	(8.8)	(0.3)	(9.1)
Payments made	0.6	-	0.6
Provision movements	(0.2)	-	(0.2)
Write off	-	0.3	0.3
Actuarial loss as per IAS 19 (revised)	(0.3)	-	(0.3)
<b>At 31 December 2019</b>	<b>(8.7)</b>	<b>-</b>	<b>(8.7)</b>

#### Post-retirement benefits

The provision of £8.5m (2019: £8.7m) relates to healthcare post-retirement benefits (see note 19).

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

IAS 19 (revised) has been adopted by the Group from the mandatory effective date of 1 January 2013 and application is retrospective. The main change is that the Group recognises the liabilities (or assets) arising from its defined benefit pension schemes in full. The deferral of actuarial gains and losses, which was an option applied by Barclays under the previous standard, is no longer permitted. The expected return on assets assumption has also been replaced by an assumed return on assets in line with the discount rate.

Changes in pension scheme liabilities or assets (remeasurements) that do not arise from regular pension cost, interest on net defined benefit liabilities or assets, past service costs, settlements or contributions to the plan, are recognised in other comprehensive income.

Remeasurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

### **19. Retirement benefit obligations**

The Company is a member of the post retirement benefits scheme offered by Barclays PLC. There are no contractual arrangements between the Company and Barclays Bank PLC to charge the net defined benefit cost arising in this scheme. The Company recognises as a pension expense an allocation of the group charge, which is determined based on pensionable salaries of the Company's employees.

#### **Pension Schemes**

##### **UK Retirement Fund (UKRF)**

The UKRF is the Group's main scheme, representing 97% of the Group's total retirement benefit obligations. The UKRF was closed to new entrants on 1 October 2012, and comprises ten sections, the most significant of which are:

- i. Afterwork, which comprises a contributory cash balance defined benefit element, and a voluntary defined contribution element. The cash balance element is accrued each year and revalued until Normal Retirement Age in line with the increase in Retail Price Index (RPI) (up to a maximum of 5% p.a.). An investment related increase of up to 2% a year may also be added at Barclays' discretion. The costs of ill-health retirements and death in service benefits for Afterwork members are borne by the UKRF. The main risks that Barclays runs in relation to Afterwork are limited to needing to make additional contributions if pre-retirement investment returns are not sufficient to provide for the benefits.
- ii. The 1964 Pension Scheme. Most employees recruited before July 1997 built up benefits in this non-contributory defined benefit scheme in respect of service up to 31 March 2010. Pensions were calculated by reference to service and pensionable salary. From 1 April 2010, members became eligible to accrue future service benefits in either Afterwork or the Pension Investment Plan (PIP), a historic defined contribution section which is now closed to future contributions. The risks that Barclays runs in relation to the 1964 section are typical of final salary pension schemes, principally that investment returns fall short of expectations, that inflation exceeds expectations, and that retirees live longer than expected.

##### **Barclays Pension Savings Plan (BPSP)**

From 1 October 2012 a new UK pension scheme, the BPSP, was established to satisfy Auto Enrolment legislation. The BPSP is a defined contribution scheme (Group Personal Pension) providing benefits for all new Barclays UK hires from 1 October 2012, Investment Bank UK employees who were in PIP as at 1 October 2012, and also all UK employees who were not members of a pension scheme as at that date. As a defined contribution plan, BPSP is not subject to the same investment return, inflation or longevity risks that defined benefit plans face. Members' benefits reflect contributions paid and the level of investment returns achieved.

The Barclays Healthcare Trust provides private medical benefits for those former Barclays employees (including Barclays Asset Finance) who had a certain managerial grade as at 1st January 1991 and who left Barclays with an immediate pension before 30th June 1999. The benefit is funded by the Barclays Healthcare Trust and is administered by AXA PPP Healthcare Administration Services Limited.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

BMBF has £8.5m(2019: £8.7m) provision in respect of Asset Finance Retiree Healthcare plan in the Balance sheet.

## 20. Share capital

Particulars of the Company's share capital were as follows:

	Number of Ordinary shares £m	Ordinary Share capital £m	Total £m
At 31 December 2020 authorised, issued and fully paid ordinary shares of £1 each	94	94	94

## 21. Financial risks

The Company's activities expose it to a variety of financial risks. The Company's Directors are required to follow the requirements of the Barclays Group risk management policies, which include specific guidelines on the management of credit, foreign exchange and interest rate risk and advises on the use of financial instruments to manage them. Similarly the Group policies are followed in relation to liquidity, operational and business risks.

The Board of Directors monitor the Company's financial risks and has responsibility for ensuring effective risk management and control.

Whilst the direct and indirect impact of the Coronavirus (COVID-19) outbreak remains uncertain, a number of central banks and governments have announced financial stimulus packages in anticipation of a very significant negative impact on GDP during 2020. Concerns remain as to whether these policy tools will counter anticipated macro-economic risks and a prolongation of the outbreak could significantly adversely affect economic growth, affect specific industries or countries or affect the Company's employees and business operations in affected countries. In addition, an escalation in geopolitical tensions or increased use of protectionist measures may also negatively impact the Company's business.

The macro economic variables have been extensively evaluated and disclosed in BPIL, that is, the financial statements of parent entity.

The main financial risks that the Company is exposed to and its management policy with respect to those risks are as follows:

### Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company's customers or market counterparties fail to fulfil their contractual obligations to the Company.

The Company assesses all counterparties, including its customers, for credit risk before contracting with them. Risk rating is the main method used to measure credit risk. Third party financial instrument counterparties are required to be rated, and the Company's exposure to them is subject to financial limits.

### Collateral

Collateral can be an important mitigant of credit risk and the Company commonly obtains security for the funds advanced. When collateral is deemed appropriate, the Company takes specific, agreed classes of collateral. Alternatively, the Company may put in place other forms of credit risk mitigation, such as the use of credit derivatives.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, disclose the fair value of the collateral held; the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and the terms and conditions associated with its use of the collateral.

**Maximum exposure to credit risk**

Whilst the Company's maximum exposure to credit risk is the carrying value of the assets, the likely exposure is far less due to the collateral and credit risk mitigants described in the section above. The analysis presented below shows the financial effects of these mitigants.

<b>As at 31 December 2020</b>	<b>Total exposure £m</b>	<b>Total collateral and other enhancements £'m</b>
<b>On-Balance sheet</b>		
Finance lease receivables	983.5	596.9
Amounts due from immediate parent undertaking	10.7	-
Amounts due from other related parties	122.4	-
Bank Overdraft	-	-
Other receivables	0.3	-
Derivative financial instruments	0	-
<b>Total On-Balance sheet</b>	<b>1,116.9</b>	<b>596.9</b>
<b>Off-Balance sheet</b>		
Loan commitments	60.1	-
<b>Total Off-Balance sheet</b>	<b>60.1</b>	<b>-</b>
<b>Total maximum exposure at 31 December</b>	<b>1,177.0</b>	<b>596.9</b>

<b>As at 31 December 2019</b>	<b>Total Exposure £m</b>	<b>Total collateral and other enhancements £'m</b>
Finance lease receivables	1,203.4	703.9
Amounts due from immediate parent undertaking	7.9	-
Amounts due from other related parties	145.4	-
Other receivables	0.3	-
Derivative financial instruments	1.0	-
<b>Total maximum exposure at 31 December</b>	<b>1,358.0</b>	<b>703.9</b>
<b>Off-Balance sheet</b>		
Loan commitments	60.1	-
<b>Total Off-Balance sheet</b>	<b>60.1</b>	<b>-</b>
<b>Total maximum exposure at 31 December</b>	<b>1,418.1</b>	<b>703.9</b>

**Off balance sheet loan commitment**

A loan has been made from Barclays Corporate to DPD, drawing down over three years. After three years, the lease finance for £ 60.1m commences with proceeds paid to DPD account. These proceeds will be used to pay the trade loan (£55.7 m), with excess principal amount drawdown by DPD (£4.4m). The DPD will repay 50% of lease finance principal over 7 years +1 day, with 50% bullet to be repaid on maturity or a lease extension negotiated at that time.

**Credit Risk Exposure:**

**Financial assets subject to credit risk**

For the purposes of the Company's disclosures regarding credit quality, financial assets (including loan commitments) subject to credit risk have been analysed as follows:

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**i) Staging**

For the purposes of the Company's disclosures regarding credit quality, financial assets subject to credit risk have been analysed as follows

2020								
PD Range%	Stages/Credit quality	Gross exposure			Impairment			Total
		£'m			£'m			
		1	2	3	1	2	3	
0%-60%	Strong	370.8	197.6	0.4	(1.5)	(2.7)	0.0	564.6
60%-11.35%	Satisfactory	263.8	156.3	3.0	(7.3)	(6.2)	0.0	409.6
11.35%-100%	Weak	0.0	7.3	9.3	0.0	(1.4)	(5.8)	9.4
	Grand Total	634.6	361.2	12.7	(8.8)	(10.3)	(5.8)	983.6

2019								
PD Range%	Stages/Credit quality	Gross exposure			Impairment			Total
		£'m			£'m			
		1	2	3	1	2	3	
On- Balance sheet								
0%-60%	Strong	781.9	16.0	0.7	(1.2)	(0.1)	0.0	797.3
.60%-11.35%	Satisfactory	335.3	61.7	-	(1.8)	(1.1)	(0.0)	394.1
11.35%-100%	Weak	0.0	3.0	9.9	0.0	(0.3)	(0.6)	12.0
	Total	1117.2	80.7	10.6	(3.0)	(1.5)	(0.6)	1,203.4
Off- Balance sheet								
Loan commitments	-	60.1	-	-	-	-	-	60.1
	Total	60.1	-	-	-	-	-	60.1

**Strong** indicates there is a very high likelihood of the asset being recovered in full.

**Satisfactory** while there is a high likelihood that the asset will be recovered and therefore, of no cause for concern to the Barclays Group, the asset may not be collateralised, or may relate to unsecured retail facilities. At the lower end of this grade there are customers that are being more carefully monitored; for example, corporate customers which are indicating some evidence of deterioration, mortgages with a high loan to value, and unsecured retail loans operating outside normal product guidelines.

**Weak** there is concern over the obligor's ability to make payments when due. There may also be doubts over the value of collateral or security provided. However, majorly the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

There may also be doubts over the value of collateral or security provided. However, majorly the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**ii) Stage transfers**

Movement in gross exposure and impairment allowance including provisions for loan commitments

Stages	1		2		3	
	Gross exposure	Impairment	Gross exposure	Impairment	Gross exposure	Impairment
Opening Balance as on 1.01.2020	1,117.2	(3)	80.7	(1.5)	10.6	(0.6)
Transfer to Stage 1	9.8	(0.1)	(9.6)	0.1	(0.3)	(0)
Transfer to Stage 2	(324.2)	0.7	324.6	(0.7)	(0.4)	0
Transfer to Stage 3	(11.4)	0.2	(7.3)	0.3	18.7	(0.5)
New assets originated or purchased	308.3	(1.8)	86.5	(2.6)	0.1	(0)
Increase in impairment on existing exposures	0	0	0	0	0	0
Asset derecognised due to Repayments	(465.0)	(4.7)	(113.7)	(5.8)	(16)	(4.8)
Write off					(0.0)	
Closing Balance as on 31.12.2020	634.7	(8.7)	361.2	(10.2)	12.7	(5.9)

Stages	1		2		3	
	Gross exposure	Impairment	Gross exposure	Impairment	Gross exposure	Impairment
Opening Balance as on 01.01.2019	1,131.1	(5.2)	152.0	(5.5)	4.5	(3.9)
Transfer to Stage 1	62.1	(3.3)	(62.1)	3.3	0.0	0.0
Transfer to Stage 2	(37.1)	0.4	37.1	(0.4)	0.0	0.0
Transfer to Stage 3	(0.5)	0.0	(9.9)	0.3	10.40	(0.3)
New assets originated or purchased	696.3	(0.7)	43.2	(0.9)	1.2	(1.2)
Increase in impairment on existing exposures	0.0	0.0	0.0	0.0	0.0	0.0
Asset derecognised due to Repayments	(734.7)	5.8	(79.6)	1.7	(1.6)	0.7
Write off	0.0	0.0	0.0	0.0	(3.9)	3.9
Closing Balance as on 31.12.2019	1,117.2	(3.0)	80.7	(1.5)	10.6	(0.6)

**Write-off subject to enforcement activity**

Enforcement activity is subject to local legislation and therefore maybe subject to enforcement activity.

**iii) Past Due category**

The past due category of finance lease receivables is as follows:

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**2020**

Stage	Past Due Category	Gross Exposure £m	Impairment £m	Net Exposure £m
1		634.7	(8.8)	625.9
2	Not Past Due	328.4	(9.0)	319.4
	Past Due upto 30 Days	14.1	(0.4)	13.7
	Past Due more than 30 Days	18.6	(0.8)	17.8
3		12.7	(5.9)	6.8
Total (£m)		1,008.5	(24.9)	983.6

**2019**

Stage	Past Due Category	Gross Exposure £m	Impairment £m	Net Exposure £m
1		1,117.2	(3.0)	1,114.2
2	Not Past Due	53.1	(1.1)	52
	Past Due up to 30 Days	23.1	(0.3)	22.8
	Past Due more than 30 Days	4.5	0.0	4.5
3		10.6	(0.6)	10
Total (£m)		1,208.5	(5.1)	1,203.4

An asset is considered past due when a counterparty has failed to make a payment when contractually due.

**Market risk**

Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates and foreign exchange rates.

**Foreign exchange risk**

The Company is exposed to two sources of foreign exchange risk:

a) that the Company's foreign currency assets are not matched by foreign currency borrowings in the same currency, creating exposure to exchange gains/losses.

b) the translational foreign currency exposure arising from changes in foreign exchange rates resulting in changes to the Sterling equivalent value of non-Sterling denominated capital resources (including investments in subsidiaries).

The Company manages its foreign currency exposure by matching its foreign currency lending with the same foreign currency borrowing.

The Company's principal exchange rate related contracts are foreign exchange currency swaps. These contracts are agreements to buy or sell a specified amount of foreign currency, usually on a specified future date at an agreed rate. The Company uses these contracts to purchase assets on behalf of the customer for the immediate drawdown

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

into sterling financial assets. Customers indemnify the Company against foreign exchange risk arising from failure to drawdown on the due date.

At 31 December 2020, the Company had net USD assets of £0.5m (2019: £6.5m), net EUR Liability of £0.2m (2019: £2.5m).

The following sensitivity table demonstrates the effects of a 10% rise or fall in Euro and USD exchange rates, which is the major foreign currency exposure of the Company:

**Effect on income**

	2020				2019			
	Impact on profit/Loss after tax if EUR weakens 10% vs GBP		Impact on profit after tax if EUR strengthens 10% vs GBP		Impact on profit after tax if EUR weakens 10% vs GBP		Impact on profit after tax if EUR strengthens 10% vs GBP	
	£m	%	£m	%	£m	%	£m	%
Income	(0.03)	(0.80)	(0.02)	0.66	(0.2)	0.88	0.1	0.74

	2020				2019			
	Impact on profit after tax if USD weakens 10% vs GBP		Impact on profit after tax if USD strengthens 10% vs GBP		Impact on profit after tax if USD weakens 10% vs GBP		Impact on profit after tax if USD strengthens 10% vs GBP	
	£m	%	£m	%	£m	%	£m	%
Income	(0.04)	1.33	0.03	(1.09)	(0.4)	1.79	0.3	1.54

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will result in higher financing costs and/or reduced income from the Company's interest bearing financial assets and liabilities. The Company primarily lends at a variable rate and finances it with floating rate debt with the parent company. To the extent of fixed rate lending, cash flows arising are hedged using interest rate swaps contracted with the parent company. Of the Company's borrowings £nil (2019: £nil) are at fixed rate.

**Interest rate sensitivity analysis**

The sensitivity of the income statement is the effect of assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2020.

At 31 December 2020, if interest rates for the year had been 25 basis points higher with all other variables being constant, there would have been a Increase of £2,034,155 (2019: £2,592,691) in the loss before tax arising as a result of higher interest expense on balances owed to the parent company. The resulting net loss before tax would have been £5,715,968 (2019: £26,012,011).

Similarly, as there was no cap on the variable interest rate, had interest rates for the year been 25 basis points lower, the loss would have decreased by £2,034,155 (2019: £2,592,691, giving a net loss before tax of £1,647,657 (2019: £31,197,394).

**Interest rate swaps**

An interest rate Swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

The notional principal of the outstanding interest rate swaps together with the fair value of the contracts is shown below:

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

	Notional Principal	Contracts with positive fair values	2020 Contracts with negative fair values	Notional principal	Contracts with positive fair values	2019 Contracts with negative fair values
	£m	£m	£m	£m	£m	£m
Sterling interest rate swaps	946.3	0.2	(10.3)	1,218.5	1.0	(5.3)
Currency interest rate swaps	11.3	0.0		13.5	0.0	
	<b>957.6</b>	<b>0.2</b>	<b>(10.3)</b>	<b>1,232.0</b>	<b>1.0</b>	<b>(5.3)</b>

The loss on derivatives in the income statement is due to the unfavourable changes in the mark to market value of the Company's interest rate swaps.

**Liquidity risk**

Liquidity risk is the risk that the Company's cash and committed facilities may be insufficient to meet its payment obligations as they fall due. The Company has the financial support of its parent, Barclays Principal Investment Limited (BPIL), that is designed to ensure the Company has sufficient available funds for operations and planned expansion.

**Contractual maturity of financial assets and financial liabilities**

The table below presents the discounted cash flows receivable/payable by the Company under financial assets/liabilities by remaining contractual maturities at the balance sheet date. The related party funding is provided with no fixed maturity date, and is therefore treated as on demand in the table below. In effect, this funding is provided on a long term basis to support the activities of the Company.

As all financial liabilities are either on demand or are short-term in nature, the amounts disclosed in the table for financial liabilities represent both the contractual cash flows (i.e. nominal values).

2020	On demand £m	<1 Year £m	1-5 Years £m	>5 Years £m	Total 2020 £m
<b>Assets</b>					
Finance lease receivables	-	431.1	558.2	19.2	1008.5
Derivative financial instruments	-	-	0.2	-	0.2
Amounts due from immediate parent undertaking	10.7	-	-	-	10.7
Amounts due from related parties	122.4	-	-	-	122.4
Bank Overdraft	-	-	-	-	-
Other receivables	-	0.3	-	-	0.3
<b>Total</b>	<b>133.1</b>	<b>431.4</b>	<b>558.4</b>	<b>19.2</b>	<b>1,142.1</b>
<b>Liabilities</b>					
Derivative financial instruments	-	-	(1.7)	(8.6)	(10.3)
Amounts due to immediate parent undertaking	(18.3)	-	-	-	(18.3)
Amounts due to related parties	(10.3)	-	-	-	(10.3)
Bank Overdraft	(917.9)	-	-	-	(917.9)
Other payables	-	(8.6)	-	-	(8.6)
<b>Total</b>	<b>(946.5)</b>	<b>(8.6)</b>	<b>(1.7)</b>	<b>(8.6)</b>	<b>(965.4)</b>
Contractual maturity gap	(813.4)	422.8	556.7	10.6	
Cumulative contractual maturity gap	(813.4)	(390.6)	166.1	176.7	

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

2019	On demand £m	<1 Year £m	1-5 Years £m	>5 Years £m	Total 2019 £m
<b>Assets</b>					
Finance lease receivables	-	493.5	669.7	45.3	1,208.5
Derivative financial instruments	-	-	1.0	-	1.0
Amounts due from immediate parent undertaking	127.7	-	-	-	127.7
Amounts due from related parties	146.7	-	-	-	146.7
Bank Overdraft	20.9	-	-	-	20.9
Other receivables	-	0.3	-	-	0.3
<b>Total</b>	<b>295.3</b>	<b>493.8</b>	<b>670.7</b>	<b>45.3</b>	<b>1,505.1</b>
<b>Liabilities</b>					
Derivative financial instruments	-	-	(5.3)	-	(5.3)
Amounts due to immediate parent undertaking	(197.0)	-	-	-	(197.0)
Amounts due to related parties	(10.0)	-	-	-	(10.0)
Bank Overdraft	(1,125.4)	-	-	-	(1,125.4)
Other payables	-	(8.6)	-	-	(8.6)
<b>Total</b>	<b>(1,332.4)</b>	<b>(8.6)</b>	<b>(5.3)</b>	<b>-</b>	<b>(1,346.3)</b>
Contractual maturity gap	(1,037.1)	485.2	665.4	45.3	
Cumulative contractual maturity gap	(1,037.1)	(551.9)	113.5	158.8	

## 22. Fair value of financial instruments

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

For all other financial assets and liabilities, the fair value approximates carrying value due to the short-term nature of these financial assets and liabilities.

The fair value of derivative financial instruments is assessed using observable inputs such as market standard pricing techniques. The result of this assessment is disclosed in the income statement.

### Valuation

IFRS 13 Fair Value Measurement requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below.

#### Quoted market prices - Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

#### Valuation technique using observable inputs- Level 2

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include assets and liabilities such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

inputs to the market standard pricing models are observable.. Level 2 valuation techniques can also include unobservable inputs that are not significant of the fair value measurement in its entirety.

**Valuation technique using significant unobservable inputs - Level 3**

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques.

The following table shows the Company's assets and liabilities that are held at fair value analysed by fair value hierarchy and balance sheet classification:

Assets and liabilities held at fair value	Valuation technique using			Total £'000
	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	£'000	£'000	£'000	
<b>As at 31 December 2020</b>				
Derivative financial assets	-	0.2	-	0.2
<b>Total assets</b>	-	0.2	-	0.2
Derivative financial liabilities	-	(10.3)	-	(10.3)
<b>Total Liabilities</b>	-	(10.3)	-	(10.3)
<b>As at 31 December 2019</b>				
Derivative financial assets	-	1.0	-	1.0
<b>Total assets</b>	-	1.0	-	1.0
Derivative financial liabilities	-	(5.3)	-	(5.3)
<b>Total Liabilities</b>	-	(5.3)	-	(5.3)

The following table shows the Company's assets and liabilities that are held at amortised cost analysed by fair value hierarchy and balance sheet classification:

Assets and liabilities held at amortised cost	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair Value / Amortised cost
	£m	£m	£m	£m
<b>As at December 31, 2020</b>				
<b>Assets</b>				
Finance Lease Receivables	-	983.6	-	983.6
Bank Overdraft	-	-	-	-
<b>Total Assets</b>	-	-	-	-
<b>Liabilities</b>				
Bank Overdraft	-	(917.9)	-	(917.9)
<b>Total Liabilities</b>	-	(917.9)	-	(917.9)

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

Assets and liabilities held at amortised cost	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	Fair Value / Amortised cost £m
<b>As at December 31, 2019</b>				
<b>Assets</b>				
Finance Lease Receivables	-	1,203.4	-	1,203.4
Bank Overdraft		20.9		20.9
<b>Total Assets</b>	-	<b>1,224.3</b>	-	<b>1,224.3</b>
<b>Liabilities</b>				
Bank Overdraft	-	(1,125.4)	-	(1,125.4)
<b>Total Liabilities</b>	-	<b>(1,125.4)</b>	-	<b>(1,125.4)</b>

### 23. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions, or one other party controls both.

The definition of related parties includes parent company, ultimate parent company, subsidiary, associated and joint venture companies, as well as the Company's key management which includes its Directors. The Company, which is a wholly owned subsidiary and is consolidated within the financial statements of Barclays PLC (see note 26), has disclosed transactions with related parties which are members of the Barclays Group.

In addition, Key management personnel (i.e. directors) have confirmed that there are no financial relationships with them or their close relatives. As such no such relationship is disclosed.

### 24. Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Board of Directors is responsible for capital management and has approved minimum control requirements for capital and liquidity risk management. The Company regards equity as its retained earnings and share capital, as shown in the balance sheet. Total capital is as follows:

	2020 £m	2019 £m
Called up share capital	94.0	94.0
Retained earnings	49.1	50.1
<b>Total capital</b>	<b>143.1</b>	<b>144.1</b>

In order to maintain or adjust the capital structure, the Company may limit the payment of dividends to shareholders, return capital to shareholders or issue new shares.

#### Change In Ownership

In order to reduce solus capital inefficiencies for BBPLC arising from its holdings in financial sector entities, BBPLC's shareholding (94m) in BMBF had transferred to BPIL, an existing group holding company which is a direct subsidiary of BPLC.

Specifically, the transaction have given rise to a solus CET1 benefit for BBPLC as it has remove the CET1 capital deduction associated with BBPLC's investment in BMBF.

This transfer was completed successfully in June'20.

**Barclays Mercantile Business Finance Limited**  
**Notes to Financial Statement**  
**For the year ended 31 December 2020**

**25. Post Balance Sheet event**

On 31<sup>st</sup> March 2021, the parent (BPIL) entered into an agreement to sell its entire shareholding in this company to HPS Investment partners LLC. This would result in a change in ownership of this entity. This transfer of ownership is expected to be completed by 30<sup>th</sup> June 2021.

The Board of Directors intend to propose a final dividend of £35.36m (£0.38 per share) in respect of the year ended 31 December 2020 and interim dividend of £24.64m (£0.26 per share) from 2021 profits. The final dividend appropriations will be accounted for subsequent to the year end post approval from the Board.

**26. Parent undertaking and ultimate holding company**

The parent of the Company is Barclays Principal Investment Limited (BPIL). The parent undertaking of the smallest group that presents consolidated financial statements is Barclays Principal Investment Limited (BPIL). The ultimate holding company and the parent company of the largest group that presents group financial statements is Barclays PLC. Both companies are incorporated in the United Kingdom and registered in England. Barclays Bank PLC's and Barclays PLC's statutory financial statements are available from Barclays Corporate Secretariat, 1 Churchill Place London E14 5HP.