

HBOS UK Limited

Annual report and financial statements for the year ended 31 December 2021

Registered office

The Mound
Edinburgh
EH1 1YZ

Registered number

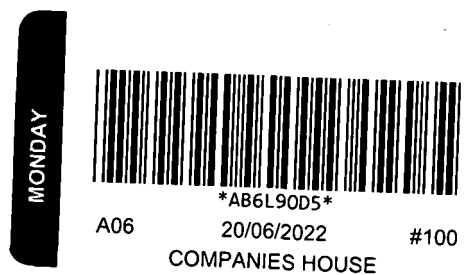
SC261259

Current directors

S J Langan
R D Shrimpton

Company Secretary

P Gittins



Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2021

The Directors present their Annual report and the audited financial statements of HBOS UK Limited (the "Company") for the year ended 31 December 2021.

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

General information

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

Principal activity

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

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

The securities held by the Company comprise 2% "AAA" index linked gilts with a redemption date of January 2035. The gilts have a nominal value of £42,460,000 and were purchased in 2007, 2008 and 2011 at a total cost of £59,770,000. They were valued at a fair value of £131,124,000 as at 31 December 2021 (2020: £129,353,000).

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

Company performance

The results of the Company show a profit after taxation of £2,949,000 (2020: £1,724,000) for the year as set out in the Statement of comprehensive income on page 4.

The Company has Shareholders' equity of £57,994,000 (2020: £55,016,000).

Key performance indicators ("KPIs")

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

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 15 to the financial statements.

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

The Company has not been directly impacted by COVID-19 but the Directors continue to monitor for further developments however at this stage they do not anticipate any material issues for the Company.

Uncertainties in respect of the medium to long-term implications of the UK's exit from the EU on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. Activity to respond to potential risks includes customer communications, market volatility scenario exercises, contingency planning and monitoring of emerging European Economic Area ("EEA") regulatory requirements.

The Company has not been directly impacted by UK's exit from the EU but the Directors will continue to monitor for further developments however at this stage they do not anticipate any material issues for the Company.

Future outlook

The Company's activities will continue unchanged for the foreseeable future.

Directors' report (continued)

For the year ended 31 December 2021

Employees

The Company has no direct employees (2020: none). All staff are employed by other group undertakings and no staff costs are recharged to the Company.

Dividends

No dividends were paid or proposed during the year ended 31 December 2021 (2020: £nil).

Going concern

The Company has a net asset position at the year end. The Directors have considered this, along with the expected activities of the Company for the foreseeable future, and have reached the conclusion that the Company will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis.

The Directors are also satisfied that it is the intention of Lloyds Banking Group that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future.

Directors

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

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

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

Directors' indemnities

Lloyds Banking Group plc ("LBG") has granted to the Directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement of director's responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). 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, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

Directors' report (continued)

For the year ended 31 December 2021

Statement of disclosure of information to auditor


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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditor

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

Approved by the Board of Directors and signed on its behalf by:



R D Shrimpton
Director
10th June 2022

Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest and similar income		3,190	2,185
Interest and similar expense		(50)	(316)
Net interest income	4	3,140	1,869
Other income	5	35	35
Administrative expenses	6	(22)	(22)
Impairment charge		-	(5)
Profit before tax	7	3,153	1,877
Taxation	8	(204)	(153)
Profit for the year		2,949	1,724
Other comprehensive income			
- Movements in Assets held at fair value through other comprehensive income		35	6,902
- Movements in Assets held at fair value through other comprehensive income, tax charge		(6)	(1,311)
Other comprehensive income		29	5,591
Total comprehensive income for the year		2,978	7,315

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

Balance sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Trade and other receivables	9	2,441	2,482
Assets held at fair value through other comprehensive income	10	131,124	129,353
<hr/>			
Total assets		133,565	131,835
<hr/>			
LIABILITIES			
Amounts owed to group undertakings	11	75,349	75,349
Trade and other payables	12	6	6
Current tax liability	210	1,464	
<hr/>			
Total liabilities		75,571	76,819
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EQUITY			
Share capital	12	50	50
Other reserves	13	42,749	42,720
Retained earnings		15,195	12,246
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Total equity		57,994	55,016
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Total equity and liabilities		133,565	131,835

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

The financial statements were approved by the Board of Directors and were signed on its behalf by:



R D Shrimpton
Director

10th June 2022

Statement of changes in equity

For the year ended 31 December 2021

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020	50	37,129	10,522	47,701
Comprehensive income				
Profit for the year	-	-	1,724	1,724
Other comprehensive income for the year	-	5,591	-	5,591
Total comprehensive income	-	5,591	1,724	7,315
At 31 December 2020	50	42,720	12,246	55,016
At 1 January 2021	50	42,720	12,246	55,016
Profit for the year	-	-	2,949	2,949
Other comprehensive income for the year	-	29	-	29
Total comprehensive income	-	29	2,949	2,978
At 31 December 2021	50	42,749	15,195	57,994

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

Cash flow statement

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Cash flows used in operating activities		
Profit before tax	3,153	1,877
Adjustments for:		
- Impairment charge on assets held at fair value through profit and loss	-	5
- Interest and similar income	(3,190)	(2,185)
- Interest and similar expense	50	316
Cash generated from operations	13	13
Tax paid	(1,464)	(720)
Net cash used in operating activities	(1,451)	(707)
Cash flows generated from investing activities		
Interest received	1,433	1,442
Cash generated from investing activities	1,433	1,442
Cash flows generated from/(used in) financing activities		
Paid to immediate parent company	63	(317)
Interest paid	(45)	(418)
Net cash generated from/(used in) financing activities	18	(735)
Cash and cash equivalents comprise		
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

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

Notes to the financial statements

For the year ended 31 December 2021

1. Basis of preparation

These financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The financial information has been prepared under the historical cost convention. As stated below, the Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

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

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

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

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2021 and which have not been applied in preparing these financial statements are given in note 18. No standards have been early adopted.

The Company has a net asset position at the year end. The Directors have considered this, along with the expected activities of the Company for the foreseeable future, and have reached the conclusion that the Company will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis.

The Directors are also satisfied that it is the intention of Lloyds Banking Group that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future.

2. Accounting policies

The Company's accounting policies are set out below. These accounting policies have been applied consistently.

2.1 Income recognition

Income and expense from financial instruments

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

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

2.2 Finance costs

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

2.3 Financial assets and liabilities

Financial assets comprises Assets held at fair value through other comprehensive income and Trade and other receivables. Financial liabilities comprises Amounts due to group undertakings and Trade and other payables.

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

2. Accounting policies (continued)

2.3 Financial assets and liabilities (continued)

A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

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

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

2.4 Financial instruments measured at amortised cost

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

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

2.5 Financial instruments measured at fair value through other comprehensive income

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

2.6 Impairment of financial assets

The Company has not adopted the simplified expected credit loss model for its financial assets, as allowed by IFRS 9, paragraph 5.5.15. Instead, the general expected credit loss model has been applied to financial assets.

2.7 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory balances with central banks and amounts due from banks with a maturity of less than three months.

2.8 Taxation

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

2. Accounting policies (continued)

2.9 Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency.

2.10 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Dividends on ordinary shares are recognised as a reduction in equity in the period in which they are paid.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

4. Net interest income

	2021 £'000	2020 £'000
Interest and similar income		
Index linked treasury stock	3,189	2,179
Amounts owed by immediate parent company (see note 14)	1	6
	3,190	2,185
Interest and similar expense		
Amounts owed to immediate parent company (see note 14)	(50)	(316)
	3,140	1,869

Notes to the financial statements (continued)

For the year ended 31 December 2021

5. Other income

	2021 £'000	2020 £'000
UK Pension Annual Fees (see note 14)	35	35

6. Administrative expenses

	2021 £'000	2020 £'000
Custodian fees (see note 14)	22	22

7. Profit before tax

Fees payable to the Company's auditors for the audit of the financial statements of £15,750 (2020: £15,000) have been borne by the ultimate parent company and are not recharged to the Company.

The Company has no employees (2020: nil).

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

8. Taxation

	2021 £'000	2020 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	(204)	(153)
Current tax charge	(204)	(153)
Tax charge	(204)	(153)

Corporation tax is calculated at a rate of 19.00% (2020: 19.00%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

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

	2021 £'000	2020 £'000
Profit before tax	3,153	1,877
Tax charge thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	(599)	(357)
Factors affecting charge		
- Non-taxable items	395	204
Tax charge on profit	(204)	(153)
Effective rate	6.47%	8.14%

Notes to the financial statements (continued)

For the year ended 31 December 2021

8. Taxation (continued)

c) Tax effects relating to Other comprehensive income

The tax effect relating to Other comprehensive income is as follows:	Before tax amount £'000	Tax charge £'000	Net of tax amount £'000
2021			
- Movements in financial assets held at fair value	35	(6)	29
2020			
- Movements in financial assets held at fair value	6,902	(1,311)	5,591

9. Trade and other receivables

	2021 £'000	2020 £'000
Amounts due from group undertakings (see note 14)	1,768	1,864
Custodian fees (see note 14)	35	-
Interest receivable on Assets held at fair value through other comprehensive income	638	618
	2,441	2,482

10. Assets held at fair value through other comprehensive income

	2021 £'000	2020 £'000
Assets held at fair value through other comprehensive income	131,124	129,353
Analysis of Index linked treasury stock:		
	2021 £'000	2020 £'000
At beginning of the year	129,353	121,727
Change in fair value recognised in Statement of other comprehensive income	35	6,902
Changes in fair value recognised in Statement of comprehensive income	1,736	724
At end of the year	131,124	129,353

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

As at 31 December 2021 the financial assets at fair value through other comprehensive income had a contractual residual maturity of greater than one year.

11. Amounts owed to group undertakings

	2021 £'000	2020 £'000
Amounts due to group undertakings (see note 14)	75,349	75,349

The amount owed to HBOS plc is a floating rate instrument, reset at three month intervals. The fair value of the deposit at 31 December 2021 and 31 December 2020 is approximately equal to its book value. The deposit is with maturity date of 26 January 2035.

12. Share capital

	2021 £'000	2020 £'000
Allotted, issued and fully paid		
50,000 ordinary shares of £1 each (2020: 50,000)	50	50

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

13. Other reserves

The movements in the Balance sheet are as follows:

	Other reserves £'000
At 1 January 2020	37,129
Changes in fair value through other comprehensive income	6,902
Tax credit in statement of changes in equity	(1,311)
At 31 December 2020	42,720
At 1 January 2020	42,720
Changes in fair value through other comprehensive income	35
Tax charge through other comprehensive income	(6)
At 31 December 2021	42,749

14. Related party transactions

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

The Company's related parties include other companies in the Group and the Company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's Directors, who are listed on the cover of these financial statements.

A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

				2021 £'000	2020 £'000
Nature of transaction	Related party	Repayment	Interest		
Trade and other receivables	HBOS plc (see note 9)	26/01/2035	N/A	1,768	1,864
Nature of transaction	Related party	Repayment	Interest		
Custodian fees	HBOS plc (see note 9)	On demand	N/A	35	-
Nature of transaction	Related party	Repayment	Interest		
Amounts due to group undertakings	HBOS plc (see note 11)	26/01/2035	0.05% - 0.17%	75,349	75,349
Nature of transaction	Related party	Repayment	Interest		
Trade and other payables	HBOS plc	25/01/2022	N/A	12	6
Nature of transaction	Related party				
Group interest income	HBOS plc (see note 4)			1	6
Nature of transaction	Related party				
Group interest expense	HBOS plc (see note 4)			50	316

Notes to the financial statements (continued)

For the year ended 31 December 2021

14. Related party transactions (continued)

		2021 £'000	2020 £'000
Nature of transaction	Related party		
Other income	HBOS plc (see note 5)	35	35
Nature of transaction	Related party		
Administrative expenses	HBOS plc (see note 6)	22	22

There were no credit losses or bad debt expenses relating to the above balances incurred during the year, or in the prior year.

Amounts due from group undertakings earned interest on gilt investments on which interest rate of 2% was received.

Amounts due to group undertakings are interest bearing and during the year rates of interest between 0.05% and 0.17% (2020: 0.05% and 0.08%) were charged.

The Company paid taxation of £1,463,909 (2020: £720,000) during the year to fellow subsidiary undertakings.

The registered offices of related parties are noted below:

Related party	Related party relationship	Registered address
Lloyds Banking Group plc	Ultimate parent company	The Mound, Edinburgh, EH1 1YZ
HBOS plc	Immediate parent company	The Mound, Edinburgh, EH1 1YZ
Bank of Scotland Edinburgh Nominees Limited	Minority shareholder	The Mound, Edinburgh, EH1 1YZ

15. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, market risk and interest rate risk. It is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the Board of Directors, operating within a management framework established by Lloyds Banking Group, and the ultimate parent, Lloyds Banking Group plc.

The Company used financial instruments to meet the financial needs of its counterparties and to reduce its own exposure to fluctuations in interest rates. The Company made loans to other Group companies at floating rates for various years.

15.1 Credit risk

Credit risk management

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

Maximum credit exposure

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

	2021 £'000	2020 £'000
Trade and other receivables ¹	638	618
Amounts due from group undertakings ²	1,803	1,864
Assets held at fair value through other comprehensive income ³	131,124	129,353
Total credit risk exposure	133,565	131,835

¹ The current rating of Lloyds Bank plc is A1 (2020: A1) as per Moody's.

² The current rating of HBOS plc is A1 (2020: A1) as per Moody's

³ The current rating of the index linked gilt assets are Aa3 (2020: Aa3) as per Moody's.

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. Financial risk management (continued)

15.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

To manage this risk borrowing facilities are available from within the Group and are managed as part of the Group by its immediate parent company. Typically this funding is repayable on demand, although there is no expectation that such a demand would be made.

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

The liquidity profile of financial liabilities at the year end was as follows:

As at 31 December 2021

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Borrowed funds	-	-	-	-	75,349	75,349
Interest payable	12	-	-	-	-	12
Current tax liability	-	-	210	-	-	210
	12	-	210	-	75,349	75,571

As at 31 December 2020

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Borrowed funds	-	-	-	-	75,349	75,349
Interest payable	6	-	-	-	-	6
Current tax liability	-	-	1,464	-	-	1,464
	6	-	1,464	-	75,349	76,819

15.3 Market risk

Market risk is the risk of financial loss from changes in market prices of financial assets and liabilities, typically from changes and volatility in interest rates (see note 15.4 for interest rate risk) and foreign exchange rates (see note 15.5 for foreign currency risk).

15.4 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times.

Interest rate risk arises from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets. From the perspective of the Company, the interest rate risks are integrated with the interest rate risks of the Group and are not managed separately. The scenarios are run only for assets and liabilities that represent the major interest bearing positions. Based on the simulations performed, the full year impact on post tax profit of a 0.25% shift would be a maximum increase or decrease of approximately £66,600 (2020: £66,600).

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. Financial risk management (continued)

15.4 Interest rate risk (continued)

As at 31 December 2021

	Up to 1 month	1-3 months	3-12 months	1-5 years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets:						
Trade and other receivables	-	-	-	-	638	638
Amounts due from group undertakings	1,768	-	-	-	-	1,768
Assets held at fair value through other comprehensive income	131,124	-	-	-	-	131,124
Total assets	132,892	-	-	-	638	133,530
Liabilities:						
Amounts owed to immediate parent	75,349	-	-	-	-	75,349
Trade and other payables	-	-	-	-	12	12
Current tax liability	-	-	-	-	210	210
Total liabilities	75,349	-	-	-	222	75,571
Total interest sensitivity gap	57,543	-	-	-	416	57,959

As at 31 December 2020

	Up to 1 month	1-3 months	3-12 months	1-5 years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets:						
Trade and other receivables	-	-	-	-	618	618
Amounts due from group undertakings	1,864	-	-	-	-	1,864
Assets held at fair value through other comprehensive income	129,353	-	-	-	-	129,353
Total assets	131,217	-	-	-	618	131,835
Liabilities:						
Amounts owed to immediate parent	75,349	-	-	-	-	75,349
Trade and other payables	-	-	-	-	6	6
Current tax liability	-	-	-	-	1,464	1,464
Total liabilities	75,349	-	-	-	1,470	76,819
Total interest sensitivity gap	55,868	-	-	-	(852)	55,016

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. Financial risk management (continued)

15.5 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's transactions are all denominated in pounds sterling and as such the Company has no exposure to foreign currency risk.

15.6 Fair values of financial assets and liabilities

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

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

The fair value of the 2% Index linked treasury stock 2035 is estimated by calculating the future cash flows (including interest at contractual rates) at the interest rate of 2% indexed to the prevailing RPI at the Balance sheet date. The fair value is £131,124,000 (2020: £129,353,000) as stated in the Balance sheet.

Valuation of financial assets and liabilities

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

Valuation Hierarchy

At 31 December 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets held at fair value through other comprehensive income	131,124	-	-	131,124
<hr/>				
At 31 December 2020				
Assets held at fair value through other comprehensive income	129,353	-	-	129,353

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

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise equity shares, treasury bills and government securities.

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 portfolios

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

16. Capital disclosures

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

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

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

17. Contingent liabilities and capital commitments

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £770,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

18. Future developments

The following pronouncement is not applicable for the year ending 31 December 2021 and has not been applied in preparing these financial statements. Save as disclosed below, the impact of this accounting change is still being assessed by the Company and reliable estimates cannot be made at this stage.

With the exception of certain minor amendments, as at 31 December 2021 this pronouncement has been endorsed for use in the United Kingdom.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company.

Independent auditor's report to the members of HBOS UK Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of HBOS UK Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 18.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Independent auditor's report to the members of HBOS UK Limited (continued)

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report to the members of HBOS UK Limited (continued)

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

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

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

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

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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

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

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

Independent auditor's report to the members of HBOS UK Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

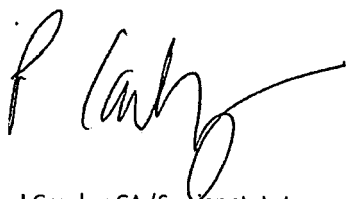
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Paul Cowley CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
Date: - 13 June 2022