LBG Capital Holdings Limited

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

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

06395378

Current Directors

R D Shrimpton
C E Padley

Company Secretary

A E Mulholland

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2021

The Directors present their Strategic report and the audited financial statements of LBG Capital Holdings Limited (the "Company") for the year ended 31 December 2021.

Business overview and principal activity

The Company's principal objective is to carry on the business of an investment holding company. The Company was originally funded by borrowing £524,000,000 from HBOS plc ("HBOS"), which was later transferred to Lloyds Banking Group plc ("LBG"). The Company invested the proceeds in capital securities issued by Scottish Widows Group Limited ("SWG") which were designated at fair value through profit or loss and disposed of during the year.

During the year capital securities issued by SWG were settled along with the corresponding bond with LBG which was unwound in May 2021.

The financial performance of the company is detailed in the Statement of comprehensive income on page 5.

The position of the Company at the year end is detailed in the Directors' report on pages 3 and 4.

Future outlook

The bond matured in May 2021 and the Company does not intend to write any new business. It is the intention of the Directors to place the Company into voluntary liquidation as soon as practicable.

Section 172(1) statement

In accordance with the Companies Act 2006 (the "Act"), for the year ended 31 December 2021, the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172. Further details on key actions in this regard are also contained within the Directors' Report on pages 3 and 4.

Statement of engagement with other stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the Directors have engaged with, and had regard to, the interest of key stakeholders only as the Company has no direct employees. The Company is a subsidiary of LBG, and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant.

Customers

The Directors' ensure the Company, as part of Lloyds Banking Group plc, works towards achieving LBG customer ambitions and focusing on treating customers fairly. LBG regularly benchmarks amongst its customers the performance of itself and its subsidiaries, and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience.

Shareholders

The Company is a wholly owned subsidiary of LBG. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of LBG, ensuring that the interests of LBG are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2021, which does not form part of this report, available on the LBG website.

The Board receives updates on regulatory interaction as required. The status of regulatory relationships continue to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of LBG, including that of the Company, to managing regulatory change is discussed further in the LBG Annual Report and Accounts for 2021 available on the LBG website.

Communities and the Environment

Due to its limited physical presence, the Company has a minimal direct impact on the community and the environment, it does however continue to support LBG's related initiatives. Further information in respect of LBG's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the LBG's Annual Report and Accounts for 2021, which does not form part of this report. Additional information on LBG's Helping Britain Prosper Plan is available on the LBG plc website.

Strategic report (continued)

For the year ended 31 December 2021

Section 172(1) statement and statement of engagement with other stakeholders (continued)

Climate change

The Company remains committed to the ambitious climate change goals set for the Group in 2020, including reducing the emissions the Group finances by more than 50 per cent by 2030 and achieving net zero by 2050 or sooner, with a number of key steps already having been taken in this regard, under the Board of LBG's supervision. Further information is available in the LBG Annual Report and Accounts for 2021 available on the LBG website.

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 14 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 in the current year but the Directors continue to monitor for futher 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 futher developments however at this stage they do not anticipate any material issues for the Company.

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.

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

R D Shrimpton
Director

18th May 2022

Directors' report

For the year ended 31 December 2021

The Directors present their report and the audited financial statements of LBG Capital Holdings Limited (the "Company") for the year ended 31 December 2021.

General information

The Company is a private company limited by shares, incorporated and domiciled in England and Wales (registered number: 06395378).

Company performance

The results of the Company show a loss after taxation of £1,396,000 (2020: £19,693,000) for the year as set out in the Statement of comprehensive income on page 5.

The Company has shareholders' equity of £24,950,000 (2020: £26,346,000).

The Company is funded entirely by other companies within LBG.

Employees

The Company has no direct employees (2020: nil). 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 financial statements have been prepared on a basis 'other than going concern' as the Directors intend to liquidate the Company as soon as practicable. There would be no difference to asset values between a 'going concern' basis and a basis 'other than going concern' under the historical cost convention.

Directors

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

The following changes have taken place between the beginning of the reporting period and the approval of the Annual report and financial statements:

A T Rougier	(resigned 27 January 2022)
C E Padley	(appointed 24 March 2022)

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

Information included in the Strategic report

The disclosures for Principal risks and uncertainties and future developments that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on page 1.

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.

Directors' report (continued)

For the year ended 31 December 2021

Statement of Directors' 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.

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 Directors' report is

- 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

18th May 2022

Statement of comprehensive income

For the year ended 31 December 2021

	Note	**2021 £'000**	2020 £'000
Interest income		**14**	26
Interest expense		**(5,702)**	(16,998)
Net interest expense	4	**(5,688)**	(16,972)
Other operating income/(expense)	5	**5,221**	(77)
Loss before tax	6	**(467)**	(17,049)
Taxation charge	7	**(929)**	(2,644)
Loss after tax, being total comprehensive expense		**(1,396)**	(19,693)

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

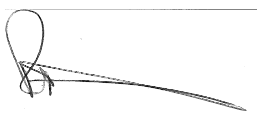
Balance sheet

As at 31 December 2021

	Note	**2021** **£'000**	2020 £'000
ASSETS			
Trade and other receivables	8	**25,879**	30,174
Financial assets at fair value through profit or loss	9	**-**	529,357
Total assets		**25,879**	559,531
LIABILITIES			
Borrowed funds	10	**-**	524,000
Trade and other payables	11	**-**	3,834
Current tax liability		**929**	5,351
Total liabilities		**929**	533,185
EQUITY			
Share capital	12	**100**	100
Retained earnings		**24,850**	26,246
Total equity		**24,950**	26,346
Total equity and liabilities		**25,879**	559,531

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

18th May 2022

Statement of changes in equity

For the year ended 31 December 2021

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020	100	45,939	46,039
Comprehensive expense			
Loss for the year	-	(19,693)	(19,693)
Total comprehensive expense	-	(19,693)	(19,693)
At 31 December 2020	**100**	**26,246**	**26,346**
Comprehensive expense			
Loss for the year	-	(1,396)	(1,396)
Total comprehensive expense	**-**	**(1,396)**	**(1,396)**
At 31 December 2021	**100**	**24,850**	**24,950**

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
Loss before tax	(467)	(17,049)
Adjustments for:		
- Interest income treated as Other operating income	(10,913)	(30,884)
- Interest income	(14)	(26)
- Interest expense	5,702	16,998
- Fair value loss on financial assets at fair value through profit and loss	5,692	30,961
Cash used in operations	**-**	-
Tax paid	(5,351)	-
Net cash used in operating activities	**(5,351)**	-
Cash flows generated from investing activities		
Interest received	18,237	31,828
Realised loss on disposal	(335)	-
Net cash generated from investing activities	**17,902**	31,828
Cash flows used in financing activities		
Increase in amounts due from other group undertakings	(3,029)	(13,923)
Interest paid	(9,522)	(17,905)
Net cash used in financing activities	**(12,551)**	(31,828)
Change in Cash and cash equivalents	**-**	-
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 a basis other than going concern in preparing the financial statements.

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

The company meets the definition of a special purpose entity under IFRSs. In accordance with the requirement of IFRS 10 "Consolidation Financial Statements", the Company's financial statements are consolidated within the group financial statements of LBG for the year ended 31 December 2021.

The financial statements have been prepared on a basis 'other than going concern' as the Directors intend to liquidate the Company as soon as practicable. There would be no difference to asset values between a 'going concern' basis and a basis 'other than going concern' under the historical cost convention.

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.

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 16. No standards have been early adopted.

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 method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

The calculation includes all amounts expected to be 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. Interest on financial instruments at fair value through profit and loss is recognised under Other operating income.

2.2 Financial assets and liabilities

Financial assets comprise Trade and other receivables and Financial assets at fair value through profit or loss. Financial liabilities comprise Borrowed funds 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 Company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Company reclassifies financial assets when and only when its business model for managing those assets changes.

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

2. Accounting policies (continued)

2.2 Financial assets and liabilities (continued)

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 of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

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

2.3 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 are Trade and other receivables. 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.

2.4 Financial instruments measured at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch.

Financial assets measured at fair value through profit or loss are recognised in the Balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within other operating income.

Financial liabilities measured at fair value through profit or loss are recognised in the Balance sheet at their fair value. Fair value gains and losses are recognised in the income statement in the period in which they occur, except that gains and losses attributable to changes in own credit risk are recognised in other comprehensive income.

2.5 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.

2.6 Amounts due to group companies

Amounts due to group companies including Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost using the effective interest method and are classified as financial liabilities. The coupon paid on these instruments is recognised in the Statement of comprehensive income as Interest expense.

2.7 Share capital

Irredeemable ordinary shares which carry rights to discretionary dividends are classified as equity.

2.8 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.

2.9 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.

2. Accounting policies (continued)

2.9 Taxation (continued)

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.

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 judgements or estimates have been made in the process of applying the Company's accounting policies.

4. Net interest expense

	2021	2020
	£'000	£'000
Interest income		
Group interest income (see note 13)	**14**	26
Interest expense		
Group interest expense (see note 13)	**(5,702)**	(16,998)
Net interest expense	**(5,688)**	(16,972)

5. Other operating income/(expenses)

	2021	2020
	£'000	£'000
Interest income treated as Other operating income/(expenses) (see note 9 and 13)	**10,913**	30,884
Financial assets at fair value through profit or loss:		
- Fair value loss	**(5,357)**	(30,961)
- Realised loss on disposal	**(335)**	-
	5,221	(77)

Interest on financial assets held at fair value through profit or loss is disclosed as Other operating income.

Notes to the financial statements (continued)

For the year ended 31 December 2021

6. Loss 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: none).

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.

7. Taxation

	2021 £'000	2020 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**(929)**	(2,644)
Current tax charge	**(929)**	(2,644)
Tax charge	**(929)**	(2,644)

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)/credit for the year

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

	2021 £'000	2020 £'000
Loss before tax	**(467)**	(17,049)
Tax credit thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	**89**	3,239
Factors affecting charge:		
- Disallowed items	**(1,018)**	(5,883)
Tax charge on loss	**(929)**	(2,644)
Effective rate	**198.93%**	15.51%

8. Trade and other receivables

	2021 £'000	2020 £'000
Amounts due from group undertakings (see note 13)	**25,879**	22,850
Accrued Interest receivable on debt securities held at fair value through profit or loss (see note 9 and note 13)	**-**	7,324
	25,879	30,174

9. Financial assets at fair value through profit or loss

	2021 £'000	2020 £'000
At beginning of the year	**529,357**	560,318
Loss on financial assets held at fair value through profit or loss	**(5,357)**	(30,961)
Capital security matured during the year	**(524,000)**	-
At end of the year	**-**	529,357
Representing:		
Scottish Widows Group Limited (see note 13)	**-**	529,357
Interest income earned (see note 5)	**10,913**	30,884
Interest income receivable (see note 8)	**-**	7,324

The above investment refers to perpetual subordinated debt issued by SWG. This was acquired by the Company in 2011. Interest is payable on a floating rate basis. The asset includes a contingent conversion feature and as such the contractual cash flows do not represent solely payments of principal and interest.

In case total capital falls below 120% of Solvency Capital Requirements ("SCR") or if equity falls below 56% of SCR, the Company may be required to deliver the subordinated debt to SWG in satisfaction of its obligations under a netting agreement entered into between the Company, SWG and LBG. In this event the Company would be paid an amount equal to the principal amount of the subordinated debt by LBG. This has not occurred during the year and the Company has not received any receipts in relation to this.

This contingent settlement feature is considered an embedded derivative with negligible value that is not closely related to the underlying instrument. Management also considers the probability of the total capital falling below 120% or equity falling below 56% of SCR, as extremely remote since historically total capital ratio has been above 120%. The accounting classification treatment for the above asset was assessed during 2018 as part of the transition to IFRS 9. As part of the transition the Company has classified the subordinated debt as fair value through profit or loss.

The notes have been unwound in May 21.

10. Borrowed funds

	2021 £'000	2020 £'000
Amounts due to group undertakings (see note 13)	**-**	524,000

The Company fully repaid the borrowed funds in May 2021 reducing the borrowed funds amount to £nil and the Directors intend to liquidate the Company as soon as practicable.

11. Trade and other payables

	2021 £'000	2020 £'000
Accrued interest payable (see note 13)	**-**	3,834

Accrued interest payable related to the interest due on the Company's borrowed funds at the end of the previous year.

During the year the bond issed by LBG was unwound in May 2021, worth £524,000,000, hence there is no accrued interest to be payable.

12. Share capital

	2021 £'000	2020 £'000
Allotted, issued and fully paid		
100,000 (2020: 100,000) ordinary shares of £1 each	**100**	100

Notes to the financial statements (continued)
For the year ended 31 December 2021

13. Related party transactions

The Company's immediate parent company is Lloyds Banking Group plc. The company regarded by the Directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled 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. Lloyds Banking Group plc is the parent company of the smallest such group of undertakings. Copies of the financial statements of Lloyds Banking Group plc may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

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
Amounts due from group undertakings					
Nature of transaction	**Related party**	**Repayment**	**Interest**		
Amounts due from parent undertaking	Lloyds Banking Group plc	On demand	N/A	**25,382**	22,367
Amounts due from group undertaking	Lloyds Bank plc	On demand	N/A	**497**	483
Total Amounts due from group undertakings (see note 8)				**25,879**	**22,850**
Amounts due to group undertakings					
Nature of transaction	**Related party**	**Repayment**	**Interest**		
Borrowed funds	Lloyds Banking Group plc (see note 10)	N/A	N/A	**-**	524,000
Interest payable	Lloyds Banking Group plc (see note 11)	N/A	N/A	**-**	3,834
Total Amounts due to group undertakings (see note 10)				**-**	**527,834**
Financial assets held with group undertakings					
Nature of transaction	**Related party**	**Repayment**	**Interest**		
Capital securities	Scottish Widows Group Limited (see note 9)	N/A	N/A	**-**	529,357
Interest receivable					
Scottish Widows Group Limited (see note 8)				**-**	7,324
Interest income					
Lloyds Bank plc (see note 4)				**14**	26

13. Related party transactions (continued)

	2021	2020
	£'000	£'000
Interest expense		
Lloyds Banking Group plc (see note 4)	**5,702**	16,998
Other operating income		
Scottish Widows Group Limited (see note 5)	**10,913**	30,884

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

The Company paid taxation of £5,351,000 (2020: £nil) during the year to a fellow subsidiary undertaking.

No dividends were paid or proposed during the current year or previous year.

The registered offices of related parties are noted below:

Related party	**Related party relationship**	**Registered address**
Lloyds Banking Group plc	Immediate parent company	The Mound, Edinburgh, EH1 1YZ
Lloyds Bank plc	Fellow group undertaking	25 Gresham Street, London, EC2V 7HN
Scottish Widows Group Limited	Fellow group undertaking	69 Morrison Street, Edinburgh, EH3 8YF

14. 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.

14.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

Financial assets subject to credit risk

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

	2021	2020
	£'000	£'000
Financial assets at fair value through profit or loss	**-**	529,357
Trade and other receivables	**25,879**	7,324
	25,879	536,681

At the Balance sheet date of signing these financial statements, the ultimate parent company, Lloyds Banking Group plc had a current long-term rating of A2 (2020: A3), and Lloyds Bank plc, had a current long-term rating of A1 (2020: A1) per Moody's.

14. Financial risk management (continued)

14.2 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.

The Directors have elected to cease the activities of the Company as the notes were redeemed in May 2021, in accordance with the terms.

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

As at 31 December 2021

	On demand	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amounts owed to group company	**-**	**-**	**-**	**-**	**-**	**-**
Trade and other payables	**-**	**-**	**-**	**-**	**-**	**-**
Current tax liablity	**-**	**-**	**929**	**-**	**-**	**929**
	-	**-**	**929**	**-**	**-**	**929**

As at 31 December 2020

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Amounts owed to group company	-	3,959	-	532,153	-	536,112
Trade and other payables	3,834	-	-	-	-	3,834
Current tax liablity	-	-	5,531	-	-	5,531
	3,834	3,959	5,531	532,153	-	545,477

14.3 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 14.4 for interest rate risk) and foreign exchange rates (see note 14.5 for foreign currency risk).

14.4 Interest rate risk

Interest rate risk arises from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets. From the perspective of the Company, the interest rate risks are integrated with the interest rate risks of the Group and are not managed separately. The scenarios are run only for assets and liabilities that represent the major interest bearing positions.

Based on the simulations performed, the full year impact on post tax profit of a 0.25% shift would be a maximum increase or decrease of approximately £52,000 (2020: £46,000).

14. Financial risk management (continued)

14.5 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.

14.6 Fair values of financial assets and liabilities

Fair value 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. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

At 31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit or loss	-	-	-	-

	Level 1	Level 2	Level 3	Total
At 31 December 2020	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss	-	-	529,357	529,357

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 listed equity shares, treasury bills and other government securities.

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable 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 include the Company's venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

Notes to the financial statements (continued)

For the year ended 31 December 2021

14. Financial risk management (continued)

14.6 Fair values of financial assets and liabilities (continued)

The fair value of the subordinated debt asset is categorised as a level 3 financial asset. The fair value of this instrument was determined using discounted cash flow analysis. This valuation technique involves management judgement in determining expected future cash flows and then discounting these cash flows at market rates for similar instruments. The future cash flows are driven by future interest payments and these have been based on the assets' contractual terms. The market rates used for discounting the instrument have been estimated based on similar note issuances by the Group. The determination of this market rate is a key assumption and the following analysis has been performed to disclose the effect of a 10 basis points increase and decrease relating to the conversion premium on the valuation of the asset. There is a conversion premium of 120 basis points included in the valuation therefore flexing the premium by 10 basis points will provide example of the impact, which is shown below:

	As at 31 December 2021	**Effects of reasonably possible alternative assumptions**		As at 31 December 2020	Effects of reasonably possible alternative assumptions	
	Carrying value £'000	**Favourable changes £'000**	**Unfavourable changes £'000**	Carrying value £'000	Favourable changes £'000	Unfavourable changes £'000
Financial assets at fair value through profit or loss	**-**	**-**	**-**	536,681	256	(257)

Fair values of Borrowed funds are considered to be level 2 in the valuation hierarchy as their fair value is estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the Balance sheet date.

15. Capital disclosures

The Company's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt (including 'current and non-current borrowings' as shown in the balance sheet) divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet date plus net debt.

	2021 £'000	2020 £'000
Total liabilities	**929**	533,185
Less : Cash and cash equivalents	**-**	-
Net debt	**929**	533,185
Total equity	**24,950**	26,346
Total capital	**25,879**	559,531
Gearing ratio	**4%**	95%

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity.

16. 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 2021 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 LBG Capital Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of LBG Capital Holdings 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 loss 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;
- the related notes 1 to 16.

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.

Emphasis of matter- Financial statement prepared other than on a going concern basis

We draw attention to note 1 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of going concern. Our opinion is not modified in respect of this matter.

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.

Other information (continued)

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.

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 its 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.

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

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 and legal counsel 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.

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

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

Independent auditor’s report to the members of LBG Capital Holdings Limited (continued)

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.

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:- 18 May 2022