

HBOS International Financial Services Holdings Limited

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

Registered office

33 Old Broad Street
London
EC2N 1HZ

Registered number

02108698

Current directors

S W Lowther
J M Phythian

Company Secretary

K J McKay

Member of Lloyds Banking Group plc

Strategic report

For the year ended 31 December 2020

The directors present their Strategic report and the audited financial statements of HBOS International Financial Services Holdings Limited (the "Company") for the year ended 31 December 2020.

The Company contributes to the results of the Insurance and Wealth Division of Lloyds Banking Group.

Business overview

The Company acted as an intermediate holding company for its two subsidiaries during the year ended 31 December 2020. It did not act in any other capacity.

The Company's result for the year shows a profit before tax of £2,000 (2019: £5,000) for the year as set out in the Statement of comprehensive income on page 5.

The Company has shareholders' equity of £17,609,000 (2019: £17,607,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Insurance and Wealth Division, which is part of the Lloyds Banking Group (the "Group"). The management of the business and the execution of the Company's strategy are subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to credit, market, interest rate risk and financial soundness risk are set out in note 12.

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

Climate Change

As a subsidiary of Lloyds Banking Group, the Company is aligned with Lloyds Banking Group's approach to supporting the successful transition to a more sustainable, low carbon economy. Further details of this can be found in the Lloyds Banking Group Annual Report and Accounts via www.lloydsbankinggroup.com. There is expected to be minimal impact upon 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. The development, performance and position of the Insurance and Wealth Division are discussed in the Group's financial statements, which do not form part of this report.

Future outlook

The directors consider that the Company's activities will continue unchanged in the foreseeable future.

The effects on the UK, European and global economies following the UK's exit from the EU and the impact of the EU-UK Trade and Cooperation Agreement signed on 30 December 2020 (the "EU-UK TCA") remain difficult to predict but may include economic and financial instability, constitutional instability in the UK and other types of risks that could adversely impact the business of the Company, results of operations, financial condition and prospects. In the event of any further substantial weakening in the UK's economic growth, the possibility of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on the Company's interest margins and potentially adversely affect its profitability and prospects. However, limited impact is anticipated for the Company, due to the minimal assets and operations within the Company as at 31 December 2020.

Section 172(1) Statement

The Board is collectively responsible for the long-term success of the Company. Understanding the interests of key stakeholders (this includes customers, shareholders, communities and environment, regulators and suppliers), is central to the Company's strategy, crucial to the Company's success, and informs key aspects of Board decision making as set out in this Statement.

Management provide the Board with details of material stakeholder interaction and feedback, through regular business updates. Stakeholder interests are also identified by management in the wider proposals put to the Board.

The Company is an intermediate holding company and therefore as such does not address customers as part of this statement.

During 2020, interaction with stakeholders was adapted in response to the government's provisions on COVID-19 and has been undertaken virtually as necessary.

Strategic report (continued)

For the year ended 31 December 2020

Section 172(1) Statement (continued)

This section (pages 1 to 2) acts as our Section 172(1) Statement, however given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this Statement describing the ways in which 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 to 4.

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

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group, forming part of its Insurance and Wealth Division. As a wholly owned subsidiary the Board ensures that the strategy, priorities, processes and practices of the Company are aligned where appropriate to those of Lloyds Banking Group, ensuring that its interests as the Company's shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group with its shareholders is included within the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2020, available on the Lloyds Banking Group website.

Communities and the Environment

The Company is part of Lloyds Banking Group, one of the largest financial services providers in the UK whose goals are to be a trusted, sustainable, and responsible business.

The Responsible Business Committee of the Board of Lloyds Banking Group is responsible for overseeing its performance, including that of the Company, as a Responsible Business, and has given much focus to overseeing the development of the Lloyds Banking Group's Helping Britain Recover Plan. This plan continues its strategy of Helping Britain Prosper ambitions, designed to play a part in the UK's recovery from the COVID-19 pandemic. The views of stakeholders have also informed the Responsible Business Committee's role in the development of Lloyds Banking Group's Society of the Future ambitions, which aim to fully integrate its societal objectives, with its business objectives, and will be key in the next phase of its strategy, including that of the Company's strategy where appropriate.

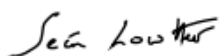
Environmental Ambitions

The Company's strategy in relation to Environmental Ambitions is covered in the Climate Change section commencing on page 1 of this report.

Board Diversity

The Board considers its current size and composition is appropriate to the Company's circumstances and places great emphasis on ensuring its membership reflects the diversity of modern Britain and is inclusive for everyone. The Company also supports the Lloyds Banking Group's high-level approach to diversity in senior management roles which is governed in greater detail through Lloyds Banking Group policies.

On behalf of the Board of Directors



S W Lowther
Director

3 June 2021

Directors' report

For the year ended 31 December 2020

The directors present their annual report for the year ended 31 December 2020.

General information

The Company is a private company limited by shares, incorporated in the United Kingdom, registered in England and Wales and domiciled in England (registered number: 02108698).

Dividends

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

Going concern

The Company has a net asset position, and there are no future obligations which would impact its ability to continue as a going concern. Further, in the event of any unforeseen circumstances, the directors are satisfied that it is the intention of Lloyds Banking Group plc ("LBG") that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

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.

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on page 1.

Statement of Engagement with Employees and Other Stakeholders

A statement of Engagement with Employees and other Stakeholders is included in the Strategic report page 1.

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the Directors who join the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period of office.

The deed indemnifies the Directors to the maximum extent permitted by law. 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 2020

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' and Strategic Reports 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 prepared the company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Independent auditors and disclosure of information to auditors

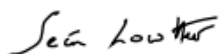
In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the report is approved:

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

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

This report has been prepared in accordance with section 414 of the Companies Act 2006.

On behalf of the Board of Directors



S W Lowther
Director

3 June 2021

Statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Finance income	3	2	5
Profit before tax		2	5
Taxation	7	-	-
Profit for the year, being total comprehensive income		2	5

The notes set out on pages 9 to 15 are an integral part of these financial statements.

Balance sheet

As at 31 December 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Cash and cash equivalents	8	676	674
Investment in subsidiary undertakings	9	16,933	16,933
<hr/>			
Total assets		17,609	17,607
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EQUITY			
Share capital	10	100	100
Retained earnings		17,509	17,507
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Total equity		17,609	17,607
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The notes set out on pages 9 to 15 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:



S W Lowther

Director

3 June 2021

Statement of changes in equity

For the year ended 31 December 2020

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 January 2019	100	17,502	17,602
Profit for the year being total comprehensive income	-	5	5
At 31 December 2019	100	17,507	17,607
Profit for the year being total comprehensive income	-	2	2
At 31 December 2020	100	17,509	17,609

The notes set out on pages 9 to 15 are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2020

	2020 £'000	2019 £'000
Cash flows used in operating activities		
Profit before tax	2	5
Adjustments for:		
- Finance income	(2)	(5)
Cash used in operations		
Group relief paid	-	(1)
Net cash used in operating activities	-	(1)
Cash flows generated from investing activities		
Finance income	2	5
Net cash generated from investing activities	2	5
Change in Cash and cash equivalents	2	4
Cash and cash equivalents at beginning of year	674	670
Cash and cash equivalents at end of year	676	674
Cash and cash equivalents comprise		
Cash at bank	676	674
Cash and cash equivalents	676	674

The notes set out on pages 9 to 15 are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2020

1. Accounting policies

1.1 Basis of preparation

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

These financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006.

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. Analysis of the assets and liabilities of the Company, into amounts expected to be received or settled within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current), is presented in the notes, where required.

There have been no new IFRS pronouncements relevant to the Company adopted in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2020 and which have not been applied in preparing these financial statements are given in note 14. No standards have been early adopted.

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

The financial statements have been prepared on a going concern basis. There is a net asset position of £17,609,000 (2019: £17,607,000).

The Company has a net asset position, and there are no future obligations which would impact its ability to continue as a going concern. Further, in the event of any unforeseen circumstances, the directors are satisfied that it is the intention of Lloyds Banking Group plc ("LBG") that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

1.2 Income recognition

Finance income for all interest bearing financial instruments is recognised in the Statement of comprehensive income as it accrues.

1.3 Financial assets and liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Financial assets comprise Cash and cash equivalents. The Company does not have any financial liabilities.

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all of the risks and rewards of ownership.

Financial assets are stated at fair value through profit and loss. In order to ensure that a fair value is recognised for cash invested in a liquidity fund, an external valuation is received.

Cash and cash equivalents includes short-term highly liquid investments with original maturities of three months or less (excluding such investments as otherwise meet this definition but which are held for investment purpose rather than for the purpose of meeting short-term cash commitments). Holdings in liquidity funds are measured at fair value through profit or loss, with income received recognised in investment income.

The fair value of holdings in liquidity funds is determined as the last published price applicable to the vehicle at the reporting date. Holdings in liquidity funds are categorised as level 1 in the fair value hierarchy. These assets are valued using quoted prices in active markets for identical assets to those being valued. An active market is one in which similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an on-going basis.

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

1.4 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 another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

1.5 Investment in subsidiary undertakings

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

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

1.6 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.

1.7 Impairment

Non-financial assets

Assets that have an indefinite useful life, for example investments in subsidiaries, are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is charged to the relevant line in the statement of comprehensive income in the period in which it occurs. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Critical accounting estimates and judgements in applying accounting policies

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2020

3. Finance income

	2020 £'000	2019 £'000
Interest on investment in a liquidity fund	2	5

4. Other operating expenses

Fees payable to the Company's auditors for the audit of the financial statements of £5,000 (2019: £5,000) have been borne by a fellow group company and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are not recharged to the Company.

5. Staff costs

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

6. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2019: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 11).

7. Taxation

	2020 £'000	2019 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	-	-

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

b) Factors affecting the tax charge for the year

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

	2020 £'000	2019 £'000
Profit before tax	2	5
Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	-	1
Factors affecting charge:		
- Group relief not paid for	-	(1)
Tax charge on profit on ordinary activities	-	-
Effective rate	0.00%	0.00%

8. Cash and cash equivalents

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

	2020 £'000	2019 £'000
Investment in liquidity fund	676	674

Investments held through liquidity funds are used to optimise returns on surplus funds held by the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2020

9. Investment in subsidiary undertakings

	2020	2019
	£'000	£'000
Cost		
Cost at 1 January and 31 December	16,933	16,933
Carrying value of investments at 31 December	16,933	16,933

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

The subsidiary undertakings at 31 December 2020 and 31 December 2019, listed below:

Subsidiary undertakings	Company interest	Nature of business	Registered address
Clerical Medical Financial Services Limited	100.00%	Service company	33 Old Broad Street, London, EC2N 1HZ
Clerical Medical International Holdings B.V.	100.00%	Intermediate holding company	Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands.

Clerical Medical Financial Services Limited is incorporated in England and Wales. Clerical Medical International Holdings B.V. is incorporated in the Netherlands.

Clerical Medical International Holdings B.V. had two subsidiaries which were incorporated in Luxembourg. CMI Asset Management (Luxembourg) SA was dissolved 17 February 2017 and CMI Insurance (Luxembourg) SA was dissolved 6 September 2019.

10. Share capital

	2020	2019
	£	£
Allotted, issued and fully paid		
100,000 (2019: 100,000) ordinary share of £1	100,000	100,000

All ordinary shares rank pari passu in all respects including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company.

11. Related party transactions

The Company's immediate parent undertaking is Scottish Widows Financial Services Holdings, a Company registered in the United Kingdom. Scottish Widows Financial Services Holdings Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the only group to consolidate these Financial Statements. Once approved, copies of the consolidated Annual Report and Financial Statements of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

Key management personnel

There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are all Directors and Insurance and Wealth Executive Committee (IWEC) members. Key management personnel, as defined by IAS 24, are employed by other companies within Lloyds Banking Group and consider that their services to the Company are incidental to their activities within Lloyds Banking Group.

Notes to the financial statements (continued)

For the year ended 31 December 2020

12. Financial risk management

This note summarises the risks associated with the activities of the Company and the way in which these are managed.

12.1 Governance framework

The Company is part of the Insurance Division of the Group, which has established a risk management function with responsibility for implementing the risk management framework within the Company.

This enterprise-wide risk management framework for the identification, assessment, measurement and management of risk covers the full spectrum of risks that the Company is exposed to, with risks categorised according to an approved risk language. This covers the principal risks faced by the Company, including the exposures to credit, market, interest rate, regulatory, liquidity and capital risks. The performance of the Company and the strategic management of the business depend on its ability to manage these risks.

Responsibility for setting and managing risk appetite and risk policy resides with the Board. Risks are managed in line with the Group and Insurance division risk policies. The Board has delegated certain risk matters to the Insurance Risk Oversight Committee ("ROC") with operational implementation assigned to the Insurance and Wealth Risk Committee ("IWRC").

The risk management approach aims to ensure effective independent checking or "oversight" of key decisions by operating a "three lines of defence" model. The first line of defence is line management, who have direct accountability for risk decisions. The Risk function provides oversight and challenge and is the second line of defence. Internal Audit, the third line of defence, provide independent assurance to the Insurance Audit Committee, Insurance Board and the Company Board that risks are recognised, monitored and managed within acceptable parameters.

Policy owners, identified from appropriate areas of the Group, are responsible for drafting risk policies, for ensuring that they remain up-to-date and for facilitating any changes. Policies are subject to at least an annual review. Limits are prescribed within which those responsible for the day to day management of each Group company can take decisions. Line management are required to follow prescribed reporting procedures to the bodies responsible for monitoring compliance with policy and controlling the risks.

12.2 Risk appetite

Risk appetite is the amount and type of risk that the Board prefers, accepts or wishes to avoid and is aligned to Group strategy. The Insurance Board has defined a framework for the management of risk and approved a set of risk appetite statements that cover financial risks (credit, market, interest rate, liquidity and capital), operational risks, people, conduct risks, regulatory & legal risks, model risk and governance risks. The risk appetite statements set limits for exposures to the key risks faced by the business. Risk appetite is reviewed at least annually by the Insurance Board. Executive owned Tier 2 and Tier 3 limits sit beneath Insurance Board owned risk appetite (Tier 1) and are managed and governed within the Insurance business.

Experience against Risk Appetite is reported monthly (by exception) to each meeting of IWRC and ROC. Copies are also supplied regularly to the Group's regulators as part of the close and continuous relationship. Reporting focuses on ensuring, and demonstrating to the Insurance Board, and their delegate the ROC that the Insurance Group is run in line with approved risk appetite. Any breaches of risk appetite require clear plans and timescales for resolution.

12.3 Financial risks

The Company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of this financial risk are credit risk and financial soundness risk.

Descriptions of how the various classes of financial instruments are measured, as well as how income and expenses are recognised, can be found under note 1.

Cash and cash equivalents comprise of investments in a liquidity fund and are carried at fair value through profit and loss, and are valued at level 1.

Notes to the financial statements (continued)

For the year ended 31 December 2020

12. Financial risk management (continued)

12.3 Financial risks (continued)

Credit risk

Credit risk is the risk that counterparties with whom we have contracted, fail to meet their financial obligations, resulting in loss to the Company.

Credit risk is managed in line with the Insurance Credit Risk Policy and the wider Group Credit Risk Policy which set out the principles of the credit control framework.

Credit risk to the Company arises primarily from exposure to financial assets at fair value through profit or loss. Cash and cash equivalents consists of holdings in the Schroder Liquidity Fund, which is rated AAA by Standard & Poor's rating or equivalent. Given this credit rating, management does not expect any counterparty to fail to meet its obligations.

There were no past due or impaired financial assets at 31 December 2020 (2019: none). No terms in respect of financial assets had been renegotiated at 31 December 2020 or 31 December 2019.

Market risk

Market risk is defined as the risk that unfavourable market movements lead to reductions in earnings and/or value. Management considers this risk to be low as the only financial asset held is Cash and cash equivalents.

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk arises in respect of cash balances which are either held on deposit or invested in a cash fund.

If interest rates were to increase or decrease by 25 basis points, the impact on profit before tax would be an increase or decrease respectively of £2,000 (2019: £2,000) in respect of cash balances.

The Company is not exposed to equity and property risk or foreign exchange risk through its financial assets and financial liabilities.

12.4 Financial soundness risk

Financial soundness risk covers the risk of financial failure, reputational loss or loss of earnings and/or value arising from a lack of liquidity, funding or capital and/or the inappropriate recording, reporting or disclosure of financial, taxation and regulatory information.

Financial reporting, tax and disclosure risk

The Company is exposed to the risk that policies and procedures are not sufficient to maintain adequate books and records to support statutory, regulatory and tax reporting and to prevent and detect financial reporting fraud.

The Group has developed procedures to ensure that compliance with both current and potential future requirements are understood and that policies are aligned to its risk appetite. The Group maintains a system of internal controls, consistently applied, providing reasonable assurance that transactions are recorded and undertaken in accordance with delegated authorities that permit the preparation and disclosure of financial statements and tax returns in accordance with IFRSs and statutory requirements.

The Group undertakes a programme of work designed to support an annual assessment of the effectiveness of internal controls over financial reporting, to identify tax liabilities and to assess emerging legislation and regulation.

Notes to the financial statements (continued)

For the year ended 31 December 2020

12. Financial risk management (continued)

12.4 Financial soundness risk (continued)

Liquidity risk

Liquidity risk is defined as the risk that the Company has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from the inability to generate cash inflows as anticipated.

Liquidity risk is managed in line with the Insurance Liquidity Risk Policy and the wider Group Funding and Liquidity Policy.

Capital risk

Capital risk is defined as the risk that the Group has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Company.

Within the Insurance Division, capital risk is actively monitored by the Insurance and Wealth Asset and Liability Committee ("IWALCO").

The Company's objectives when managing capital are:

- to have sufficient capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders; and
- when capital is needed, to require an adequate return to the shareholder by pricing contracts according to the level of risk associated with the business written.

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

12.5 Non-financial risks

The Company faces a variety of non-financial risks through its operations and service provision. The primary non-financial risk categories are: Conduct risk, Governance risk, Operational risk, Change risk, Cyber and information security risk, Data management risk, IT systems risk and People risk.

The Company manages these risks by following the embedded Risk Management Framework, which uses methodologies and systems consistent with those implemented across the Group.

12.6 Fair values of financial assets and liabilities

The directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

13. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the Balance sheet date (2019: £nil).

14. Future developments

The following pronouncements are relevant on the Company's financial statements but are not applicable for the year ending 31 December 2020 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes is being assessed by the Company. However, the initial view is that this is not expected to cause any material adjustments to the reported numbers in the financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).	1 January 2021 and 1 January 2022

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company.

Independent Auditors' report to the member of HBOS International Financial Services Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, HBOS International Financial Services Holdings Limited's financial statements:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

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

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

Independent Auditors' report to the member of HBOS International Financial Services Holdings Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to failure to comply with UK tax regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial performance and misappropriation of assets. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing relevant meeting minutes of the Board; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

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

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

Use of this report

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

Independent Auditors' report to the member of HBOS International Financial Services Holdings Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Neil Riches (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
4 June 2021