Lloyds Bank General Insurance Holdings Limited

Annual Report and Accounts
2020

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

N E T Prettejohn (Chair)

J R A Bond
W L D Chalmers
K Cheetham
J E M Curtis
J C S Hillman*
A Lorenzo*
C J G Moulder
S J O'Connor
G E Schumacher

* denotes Executive Director

Company Secretary

J M Jolly

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Registered Office

Charlton Place
Andover
Hampshire
SP10 1RE

Company Registration Number

01628564

STRATEGIC REPORT

The Directors present their Strategic Report on Lloyds Bank General Insurance Holdings Limited (the 'Company') for the year ended 31 December 2020.

The Company and its subsidiaries contribute to the results of the Insurance and Wealth Division of Lloyds Banking Group, focusing on providing general insurance to meet our customers' needs.

Our strategy is to help our customers by:

- Delivering a leading customer experience
- Digitising Lloyds Banking Group and its subsidiaries (the 'Group')
- Maximising the Group's capabilities
- Transforming ways of working

Through our strategy we have focused on transforming ourselves into a digitised, simple, low risk, customer focused, United Kingdom (UK) general insurance provider, including home insurance, creditor insurance, pet insurance, accident and health insurance marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through direct channels, Lloyds Banking Group distributors and corporate partnerships. The Company is focused on investing in the growth of its customer base and ensuring policyholder obligations are met, while at the same time ensuring the Company is managed to maximise capital efficiency and returns for its shareholder and Lloyds Banking Group.

Principal activities

The Company is a holding company and its subsidiaries provide general insurance services.

Result for the Year

The result for the year ended 31 December 2020 is a profit after tax of £nil (2019 profit: £201.0 million). The total net assets of the Company at 31 December 2020 are £260.7 million (2019: £260.7 million).

No dividends were paid during the year in respect of 2020 (2019: £210.0 million).

The United Kingdom leaving the European Union

The UK / European Union (EU) Trade and Cooperation Agreement (TCA) means a disorderly Brexit has been avoided. While the TCA contains limited, high-level provisions on financial services, further detail is expected to emerge during this year, and the Company will continue to monitor developments closely. Activity to respond to potential risks include customer communications, market volatility scenario exercises, contingency planning and monitoring of emerging European Economic Area (EEA) regulatory requirements. The Directors believe that there will be limited impact on the Company.

Covid-19

Our business has primarily a UK focus and the outbreak of Covid-19, in line with its global impact, is expected to continue to adversely impact the UK economy as well as causing volatility in global financial markets. As the situation continues to evolve, so does our assessment of the risks and the degree to which they might crystallise. The Company's resilience to such events is regularly reviewed through stress and scenario testing; plans to continue to operate critical business processes are in place and are being reviewed in light of the Covid-19 outbreak. It is expected that Covid-19 will have a minimal impact on the performance of 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

The Company's principal business during the year was the holding of investments in subsidiaries. Its principal income is the receipt of dividends from these subsidiaries. No dividends were received from subsidiary undertakings in the year (2019: £210.0 million).

The Directors are of the opinion that the above is the key performance indicator which is appropriate to the principal activity of the Company.

Other Sources where KPIs are presented

The Company also forms part of Lloyds Banking Group's Insurance and Wealth Division. The development, performance and position of the Insurance and Wealth Division are presented within Lloyds Banking Group's Annual Report, which does not form part of this report.

Outlook

The Directors consider that the Company's principal activities will continue to be unchanged in the foreseeable future.

STRATEGIC REPORT (continued)

Principal risks and uncertainties

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 market, credit, financial soundness, conduct and operational risks are set out in note 13.

Legacy customer communications

The subsidiaries of the Company are subject to a confidential ongoing FCA investigation. Given this, it is not currently possible to make a reliable assessment of any liability arising.

Other legal actions and regulatory matters

In addition, the Company is also exposed to financial and prudential regulatory reporting risk, in particular the risk of reputational damage, financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting or over prudential regulatory reporting and financial reporting fraud. The financial and risk management objectives and policies of the Company, in respect of financial and prudential regulatory reporting risk, are also set out in note 13.

The Company, like other insurers, is subject to legal proceedings in the normal course of business. Whilst it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings, including litigation, will have a material effect on the results and financial position of the Company.

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 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.

Stakeholder engagement is embedded in all aspects of the Board's decision-making and can be seen in the range of tailored activities across key stakeholder groups. It is also embedded in the Board's delegation of the management of the Company's business to the Chief Executive Scottish Widows and Group Director Insurance and Wealth, with examples of related actions taken included within the Report.

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.

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

This section (pages 5 to 7) 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 8 to 9.

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.

<u>Customers</u>

The Board's understanding of customer's needs is vital in setting and achieving the Company's goals. Customer needs and a customer-centric approach remain therefore a key consideration in Board decisions.

Covid-19 Response

The Company's response to the Covid-19 pandemic has been a central focus for the Board since the start of the outbreak. The Board has sought to take all possible steps to support customers through these challenging times. Board reporting from management included enhanced monitoring of customer service performance, emerging market and economic impacts, which informed the Company's approach in response to the crisis. Covid-19 Risk Surgeries were established in March 2020 to rapidly assess proposals for customer and business process change. Additional meetings of the Board were convened early in the pandemic to oversee the company's operations as customer servicing transitioned to the remote operating model that was needed to meet UK government expectations and to keep colleagues safe. The Board held colleague engagement sessions during 2020 which considered, among other things, changes made to support customers through the Covid-19 pandemic. Alongside operational matters, the Board considered emerging impacts to customers from markets and the economic environment including changes in customer behaviour as a result of Covid-19 impacts.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

The Board considered and discussed the Customer Treatment response to Covid-19, to include providing support to Vulnerable Customers. Outwith its formal meetings the Board also received executive briefings in respect of these matters at a heightened frequency during the first wave of the Covid-19 pandemic.

Customer Trust

Customer trust is always a priority for the Board. The Board ensures that the Company as part of Lloyds Banking Group works toward achieving its customer ambitions, to treat all customers fairly, and makes it easy for customers to find, understand and access products that are right for them. Regular reporting from management allows the Board to monitor performance. The Board's Risk Oversight Committee (ROC) reviews customer-related risk matters and scrutinises risk performance data (including Complaints and Conduct Risk Appetite Metrics) to identify areas where improvements can be made. Every opportunity is taken by the Board to consider customer feedback and related management information, including as part of the Directors' strategic decision-making process. A key priority for the Board in its early response to the Covid-19 crisis was the oversight of management actions taken to protect critical customer processes and stabilise the Company's operations.

Delivering Value for Customers

The Board routinely reviews the performance of its customer propositions at its meetings and discusses matters particular to each within a cycle of in-depth reviews. During 2020 the Board reviewed the effectiveness of the various channels open to customers to do business with the Company, alongside the impacts of the Covid-19 pandemic on the UK economy and how the Company's propositions might adapt to support customers as a result.

The Company has also given consideration to vulnerability characteristics in customers and how these should be identified and support given to customers.

Technology Transformation

The Board has taken steps to make sure the Company continues to build on its responses to customer demand for technology. Whilst Digital transformation has remained a key focus in improving the customer experience, the Board acknowledges that many customers still value being able to get in touch with customer service staff over the phone, via letter or through email. The importance of the Company continuing to offer and improve these services in parallel is recognised by the Board.

Helping Britain Recover and Society of the Future

The Board ensures it continues to participate and play an appropriate role in all Lloyds Banking Group related initiatives. The needs of customers as the Covid-19 pandemic abates has been a focus of Lloyds Banking Group and underpins the development of its Helping Britain Recover Plan, building on its Helping Britain Prosper ambitions. The development of Lloyds Banking Group's Society of the Future initiative aims to make sure its purpose remains aligned to a changing society and including the changing expectations of all its customers. Further information on these initiatives can be found in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2020, available on the Lloyds Banking Group website.

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.

Two senior leaders of Lloyds Banking Group serve as Directors on the Company's Board and the Chair of the Company's Board serves also on the Board of Lloyds Banking Group. The Company's Board arranged for a special briefing from the Lloyds Banking Group Chief Executive early on in the Covid-19 pandemic to discuss the Group's response to government advice and initiatives to support customers and colleagues. The Company's Board also met with the Board of Lloyds Banking Group on one occasion during 2020 for a discussion of business strategy including digital interconnectivity between the Insurance franchise and its parent.

During 2020, in order to further improve its understanding of external perceptions of the Company, the Board welcomed investment banking experts to share their perceptions of the Company with the Board.

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.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

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.

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. On gender diversity, the Board has a specific objective to maintain membership of at least 30 per cent female Board members. At 31 December 2020, the Board’s membership consisted of 36 per cent female members. The Board will aim to meet the objectives of the Parker review for at least one Black, Asian and Minority Ethnic Board member by, or as soon as possible after, the target date of 2021. 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.

Suppliers

As part of Lloyds Banking Group, the Company relies on a number of partners for important aspects of its operations and customer service provision. As well as external partners, the Company relies on intra-group supplier arrangements for certain services. The Board recognises the importance of its role in overseeing these relationships which are integral to the Company’s future success.

Supplier Experience

Recognising the role of suppliers in the Company’s day to day operations, and its future ambitions, the Board undertakes regular reviews of its key suppliers, this includes asset managers and its outsourced service providers, and takes into consideration supplier feedback on the Company’s processes for potential improvement.

Supplier Framework

Importance is placed on having the right supplier framework to operate responsibly. Lloyds Banking Group’s Sourcing and Supply Chain Management Policy applies to all its businesses, divisions, and subsidiaries, including the Company, with the Directors assuming ultimate responsibility for its application as relevant to the Company. This ensures the most significant supplier contracts receive the approval of the Board, including those which are key in progressing strategic priorities. The framework also ensures appropriate management oversight of supplier spending not considered by the Board, allowing challenge to be made where appropriate, and minimising risks and unnecessary cost.

Suppliers are required to adhere to relevant Lloyds Banking Group policies and comply with its Code of Supplier Responsibility which can be found on the Lloyds Banking Group website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and Lloyds Banking Group to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

Modern Slavery

The Responsible Business Committee of the Board of Lloyds Banking Group as part of its oversight of its performance, including that of the Company, as a Responsible Business, governs Lloyds Banking Group’s approach to human rights.

On a day to day basis, management of and engagement on modern slavery and human rights is guided by a cross-divisional working group led by the Responsible Business team, which meets regularly to assess the embedding of human rights within Lloyds Banking Group’s operations.

Lloyds Banking Group continues to have a zero-tolerance attitude towards modern slavery in its supply chains.

Lloyds Banking Group’s Modern Slavery and Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies, including the Company which is required to publish an annual statement, and sets out the steps taken to prevent modern slavery in Lloyds Banking Group’s business and supply chains. The Board undertakes a regular review of these Statements.

On behalf of the Board of Directors

J C S Hillman

Director

15 April 2021

DIRECTORS' REPORT

The Directors present the audited financial statements of the Company. The Company is a company limited by shares, domiciled and incorporated in the United Kingdom.

Results and dividend

The result for the year ended 31 December 2020 is a profit after tax of £nil (2019 profit: £201.0 million). This reflects the decreased dividend income received from its subsidiaries during the year of £nil (2019: £210.0 million) and the reduction in impairment of investments in subsidiary undertakings of £nil (2019: £9.0 million).

During the year, no dividend was paid on the ordinary shares in respect of 2020 (2019: £210.0 million).

Post balance sheet events

On 4 February 2021, interim dividends of £60.0 million in respect of the year ending 31 December 2021 were received from Lloyds Bank Insurance Services Limited (£55.0 million) and Halifax General Insurance Services Limited (£5.0 million). On 4 February 2021, the Company declared an interim dividend of £60.0 million in respect of the year ending 31 December 2021, which was subsequently paid to Scottish Widows Group Limited on 17 February 2021.

Further information on post balance sheet events is set out in note 17.

Directors

The names of the current Directors are listed on page 3. Changes in Directorships during the year and since the end of the year are as follows:

A M Blance	(Resigned 14 August 2020)
J F Hylands	(Resigned 31 March 2021)

Particulars of the Directors' emoluments are set out in note 15.

Directors' indemnities

Lloyds Banking Group 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. 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 the Directors 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, Lloyds Banking Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditors

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has 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. This confirmation is given, and should be interpreted in accordance with, the provisions of the Companies Act 2006.

Future developments

Future developments are detailed within the Strategic Report and also in note 16.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. As set out in note 7, the Company has uncertainty in relation to the outcomes of a FCA investigation and the impact this may have on outflows in its subsidiaries. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in the risk management note (note 13), and have also considered the courses of action available to the Company in the event of adverse outcomes from the FCA investigation, which may include capital injections from its parent. Having consulted on these, the Directors conclude that it is appropriate to adopt the going concern basis in preparing the accounts.

Financial risk management

Disclosures relating to financial risk management are included in note 13 of the accounts and are therefore incorporated into this report by reference.

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006 for the current year. Deloitte LLP are due to be appointed as auditors for the year ending 31 December 2021.

DIRECTORS’ REPORT (continued)

Statement of Directors’ responsibilities

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company 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 the financial statements, the Directors are required to:

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

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors whose names are listed on page 3 confirms that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company
- the Strategic Report on pages 4 to 7, and the Directors’ Report on pages 8 to 9 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

On behalf of the Board of Directors

J C S Hillman

Director

15 April 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF LLOYDS BANK GENERAL INSURANCE HOLDINGS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Lloyds Bank General Insurance 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, which comprise: the Balance Sheet as at 31 December 2020; the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF LLOYDS BANK GENERAL INSURANCE HOLDINGS LIMITED (continued)

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.

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. Audit procedures performed 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 LLOYDS BANK GENERAL INSURANCE 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.

S. Jassi

Sundash Jassi (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

15 April 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
Finance Income	3	7	210,018
Impairment of investment in subsidiary	7	—	(9,042)
Profit from operating activities		7	200,976
Finance costs	5	(6)	(3)
Profit before tax		1	200,973
Taxation charge	6	—	(3)
Profit for the year		1	200,970

There are no items of comprehensive income which have not already been presented in arriving at the profit for the year. Accordingly, the profit for the year is the same as total comprehensive income for the year.

The notes set out on pages 17 to 27 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Investment in subsidiaries	7	258,302	258,302
Cash and cash equivalents	8	2,440	2,442
Total assets		260,742	260,744
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	9	1,000	1,000
Other reserves	10	302	302
Retained profits		259,440	259,439
Total equity		260,742	260,741
LIABILITIES			
Current tax liabilities	11	—	3
Total liabilities		—	3
Total equity and liabilities		260,742	260,744

The notes set out on pages 17 to 27 are an integral part of these financial statements.

The financial statements on pages 13 to 27 were approved by the Board on 13 April 2021 and signed on behalf of the Board:

J C S Hillman

Director

15 April 2021

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit before tax		1	200,973
Adjusted for:			
Finance Income	3	(7)	(210,018)
Finance costs	5	6	3
Impairment of investment in subsidiary	7	—	9,042
Taxation paid		(3)	(2)
Net cash flows used in operating activities		(3)	(2)
Cash flows from investing activities			
Interest received	3	7	18
Dividends received	3	—	210,000
Net cash flows generated from investing activities		7	210,018
Cash flows from financing activities			
Dividends paid	12	—	(210,000)
Interest paid	5	(6)	(3)
Net cash flows used in financing activities		(6)	(210,003)
Net (decrease)/increase in cash and cash equivalents		(2)	13
Cash and cash equivalents at the beginning of the year		2,442	2,429
Net cash and cash equivalents at the end of the year	8	2,440	2,442

The notes set out on pages 17 to 27 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share capital £'000	Other reserves £'000	Retained profits £'000	Total equity £'000
Balance as at 1 January 2019		1,000	302	268,469	269,771
Profit and total comprehensive income for the year		—	—	200,970	200,970
Dividend	12	—	—	(210,000)	(210,000)
Balance as at 31 December 2019		1,000	302	259,439	260,741
Profit and total comprehensive income for the year		—	—	1	1
Dividend	12	—	—	—	—
Balance as at 31 December 2020		1,000	302	259,440	260,742

The notes set out on pages 17 to 27 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies

The accounting policies adopted in the preparation of the financial statements, which have been consistently applied to all periods presented in these financial statements unless stated otherwise, are set out below.

(a) Basis of preparation

The financial statements of the Company have been prepared:

(1) in accordance with the International Accounting Standards (IASs) and in conformity with the requirements of the Companies Act 2006 (IFRSs)

(2) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

In accordance with IAS 1 'Presentation of Financial Statements', assets and liabilities in the Balance Sheet are presented in accordance with management's estimated 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.

Standards and interpretations effective in 2020

The Company has not adopted any new standards, amendments to standards or interpretations of published standards which became effective for financial years beginning on or after 1 January 2020 which have had a material impact on the Company.

(b) Finance Income

Dividend income in respect of the Company's investments in subsidiaries is recognised when the right to receive the dividend is established. All dividends received are recognised through the Statement of Comprehensive Income, within finance income.

Interest income for all interest-bearing financial instruments is recognised in the Statement of Comprehensive Income as it accrues, within finance income.

(c) Finance costs

Finance costs consisting of interest expense from bank accounts held with fellow Lloyds Banking Group subsidiaries are recognised in the period to which they relate.

(d) Investment in subsidiaries

The Company owns a number of subsidiaries as set out in note 7. These subsidiaries are held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company's impairment policy is set out at policy (f).

(e) Cash and cash equivalents

Cash and cash equivalents include investments in liquidity funds, which are short-term highly liquid investments (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes 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 ongoing basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies (continued)

(f) Impairment

Financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses for financial assets held at amortised cost. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

For financial instruments that are considered to have low credit risk, the credit risk is assumed to not have increased significantly since initial recognition. Financial instruments are considered to have low credit risk when the borrower is considered to have a low risk of default from a market perspective, such as external bank accounts.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Company uses this 90 day backstop.

Non-financial assets

Assets that have an indefinite useful life, for example investment 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.

(g) Taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement 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 income statement (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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies (Continued)

(h) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

Dividends payable

Dividends payable on ordinary shares are recognised in equity in the period in which they are approved.

2. Critical accounting judgments and estimates

The Company's management makes estimates and judgments that affect the reported amount of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Critical accounting estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. Impairment of Investments

The recoverable amount of investments in subsidiaries involves critical accounting estimates with regard to future cash flows and the applied growth and discount rates. In determining these estimates, key judgements are applied concerning the future operations and estimation uncertainty at the reporting date in particular when calculating the value in use for subsidiaries still trading. Further information on these estimates is given in note 7.

3. Finance Income

	2020 £'000	2019 £'000
Dividend Income	—	210,000
Cash and cash equivalents interest income	7	18
Total	7	210,018

During the year the Company received total dividend income of £nil (2019: £210.0 million) from the following entities: St Andrew's Insurance plc £nil (2019: £40 million) and Lloyds Bank General Insurance Limited £nil (2019: £170 million).

Interest income of £7 thousand (2019: £18 thousand) is generated from cash held in Liquidity Funds.

4. Auditors' remuneration

	2020 £'000	2019 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	3	3
Total	3	3

Audit fees are borne by another entity and recharged to a subsidiary of the Company.

5. Finance costs

	2020 £'000	2019 £'000
Interest expense	6	3
Total	6	3

All interest expense arises from accounts held with a fellow Lloyds Banking Group subsidiary.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

6. Taxation charge

(a) Current year tax charge

	2020 £'000	2019 £'000
Current tax		
UK corporation tax	—	(3)
Total tax charge	—	(3)

Corporation tax is calculated at a rate of 19 per cent (2019: 19 per cent) of the taxable profit for the year.

(b) Reconciliation of tax charge

	2020 £'000	2019 £'000
Profit before tax	1	200,973
Tax at 19% (2019: 19%)	—	(38,185)
Effects of:		
Non-taxable income	—	39,900
Disallowable expenses	—	(1,718)
Total tax charge	—	(3)

7. Investment in subsidiaries

	1 January 2020 £'000	Impairment £'000	31 December 2020 £'000
Lloyds Bank Insurance Services Limited (LBIS)	53,075	—	53,075
Lloyds Bank General Insurance Limited (LBGI)	90,661	—	90,661
St Andrew's Insurance plc (STAI)	93,800	—	93,800
St Andrew's Group Limited (STAG)	4,400	—	4,400
Halifax General Insurance Services Limited (HGISL)	16,366	—	16,366
Net Book Value	258,302	—	258,302

No impairment of investment in subsidiaries has been recognised during 2020. (2019: £9.0 million, Halifax General Insurance Services)

The subsidiaries of the Company (LBGI, STAI, LBIS and HGISL) are subject to a FCA investigation. Given the matter is ongoing and the extent of discretion available to the FCA in its penalty framework, it is not currently possible to make a reliable assessment of any liability resulting from the investigation including the size of a financial penalty, if any. Therefore no provision has been made in the financial statements of these subsidiaries.

Accordingly, it is not currently possible to quantify whether the outcome of this investigation will lead to outflows in these subsidiaries which may lead to the need for additional capital to be subscribed by the Company.

Significant Estimate: Key assumptions used for value-in-use calculations

A review of the carrying value of the subsidiary investments to assess indications of impairment is performed on an annual basis. The recoverable amount for 2019 and 2020 have both been calculated on a value in use basis. A discount factor has been applied to underlying profit and dividend payments over the expected life of the subsidiary in order to establish a net present value. The applicable discount factor used for 2020 is 9.88 per cent (2019: 8.64 per cent).

Significant Estimate: Impact of possible changes in the 2019 key assumptions

If the discount rate applied to the cash flow projections had been 1% higher (9.64% instead of 8.64%), the impairment charge in 2019 would have been £9.2m, an increase of £0.2m. If the discount rate had been 1% lower (7.64% instead of 8.64%), the impairment charge in 2019 would have been £8.9m, a decrease of £0.1m.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

7. Investment in subsidiaries (continued)

The Company owned the whole of the issued ordinary share capital of the following subsidiaries during the reporting period:

Name	Class of Share	Percentage held	Country of registration or Incorporation	Nature of Business
Lloyds Bank Insurance Services Limited (i)	Ordinary	100	England	General insurance broker
Lloyds Bank General Insurance Limited (i)	Ordinary	100	England	General insurance underwriter
St Andrew's Insurance plc (ii)	Ordinary	100	England	General insurance underwriter
St Andrew's Group Limited (ii)	Ordinary	100	England	Administration of general insurance products
Halifax General Insurance Services Limited (iii)	Ordinary	100	England	General insurance broker

The year-end of all subsidiaries is 31 December and their country of incorporation and principal operations (where relevant) is the UK.

Principal Place of Business:

(i) 25 Gresham Street, London, EC2V 7HN

(ii) 33 Old Broad Street, London, EC2N 1HZ

(iii) Trinity Road, Halifax, West Yorkshire, HX1 2RG

The ability of the regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by regulatory solvency requirements as well as Companies Act distributable reserve requirements. The ability of non-regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by Companies Act distributable reserve requirements.

8. Cash and cash equivalents

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

	2020 £'000	2019 £'000
Investments held through liquidity funds	2,440	2,442
Total	2,440	2,442

9. Share capital

	2020 £'000	2019 £'000
Issued and fully paid share capital:		
1,000,000 (2019: 1,000,000) ordinary shares of £1 each	1,000	1,000
Total	1,000	1,000

10. Other reserves

	2020 £'000	2019 £'000
At 1 January and 31 December		
Capital contribution reserve	302	302
Total	302	302

Other reserves represent a capital contribution from the Company's holding company which is not repayable, but which forms part of the Company's distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

11. Current tax liabilities

	2020	2019
	£'000	£'000
Current tax liabilities	—	3
Total	—	3

12. Dividends paid

	2020	2019
	£'000	£'000
Total dividends paid on equity shares	—	210,000
Total	—	210,000

No dividends were paid during the year in respect of 2020 (2019: £210 million, £210 per share).

13. Risk management

The Company is a holding company and its subsidiaries provide General Insurance services.

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

(a) Governance framework

Lloyds Banking Group has established a Risk function with responsibility for implementing the Lloyds Banking Group risk management framework (with appropriate Insurance focus) within the Company.

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 and the Board that risks are recognised, monitored and managed within acceptable parameters.

This enterprise-wide risk management framework for the identification, assessment, measurement and management of risk covers the full spectrum of risks that the Company are exposed to, with risks categorised according to an approved Lloyds Banking Group risk language. This covers the principal risks faced by the company, including the exposures to market, insurance underwriting, model risk, credit, capital, liquidity, regulatory and legal, conduct, people, governance and operational risks. The Company assesses the relative costs and concentrations of each type of risk and material issues are escalated to the appropriate Insurance executive committees and onto the Board if required. The performance of the Company, its continuing ability to write business 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 Lloyds Banking Group and Insurance risk policies. The Board has delegated certain risk matters to the Insurance Risk Oversight Committee with operational implementation assigned to the Insurance and Wealth Risk Committee (IWRC).

Policy owners, identified from appropriate areas of Lloyds Banking Group and the Insurance and Wealth Division, are responsible for drafting risk policies, ensuring 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 company within the Group 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.

In response to the contingency planning requirements for Covid-19, daily Risk Surgeries were put in place establishing a control amendment process to support colleagues to continue to serve customers and to maintain the operation of business processes. A key aim of the Risk Surgery and control amendment process is to take reasonable steps to ensure that all changes to current ways of working (including operational home working), operational processes or customer treatment is robustly risk assessed and reviewed by the appropriate risk SMEs across the three lines of defence. Following the success of the Risk Surgeries, these will continue beyond Covid-19 and are part of our ongoing governance activity. In addition, through the Group’s incident management process, we managed key business continuity factors such as absence levels, productivity, IT stability, strategic change activity, regulatory focus, supplier performance and health and safety measures.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

13. Risk management (continued)

(b) Risk appetite

The Board has approved a risk appetite framework that covers Customer Risk, Strategy and Brand Risk and Financial Risks.

Risk appetite is the amount and type of risk that the Board prefers, accepts or wishes to avoid and is aligned to Company strategy. 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 Board. Executive owned Tier 2 and Tier 3 limits sit beneath Board owned risk appetite (Tier 1) and are managed and governed within the Insurance and Wealth Division.

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

(c) Financial risks

The Company is exposed to financial risk through its financial assets and financial liabilities.

(1) Market risk

Market risk is defined as the risk that our capital or earnings profile is affected by adverse market rates, in particular equity, credit default spreads, interest rates and inflation in Insurance business.

Investments in liquidity funds are categorised as level 1 in the fair value hierarchy.

The Directors do not consider market risk to be a significant risk to the Company.

(2) Credit risk

Credit risk is defined as the risk that parties with whom the Company has contracted, fail to meet their financial obligations (both on or off balance sheet).

The Directors do not consider credit risk to be a significant risk to the Company.

(i) Investment credit risk

The Company's investment policy sets rules limiting exposure to concentrations of risk as a result of aggregation of exposure to any single counterparty. Setting limits mitigates such credit risk exposure. Credit default risk is the most significant financial risk, but this is mitigated by a very cautious approach to counterparty risk.

(ii) Loans and receivables

Other loans and receivables are considered not to carry significant credit risk as they are primarily due from fellow subsidiary companies within the Insurance and Wealth Division.

(3) Liquidity risk

Liquidity risk is defined as the risk that the Company does not have sufficient 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 Lloyds Banking Group Funding and Liquidity Risk Policy.

There are no assets or liabilities exposed to liquidity risk as at 31 December 2020 (2019: £nil).

(d) Non-financial risks

The Company faces a variety of non-financial risks through its operations and service provision. The Company manages these risks by following the embedded Risk Management Framework, which uses methodologies and systems consistent with those implemented across the Company. The various stages of the framework are:

Identification

- Emerging risks
- Implement Risk and Control Framework and standards

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

13. Risk management (continued)

(d) Non-financial risks (continued)

Measurement

- Evaluate risk exposure vs appetite
- Scenario analysis

Management

- Identify and operate controls
- Perform day-to-day control activities
- Ensure appropriate segregation of duties
- Control assessment and estimation of residual risk
- Controls testing activities
- Effectiveness reviews

Monitoring

- Performance vs risk appetite
- Regulatory and external environment
- Action management

Reporting

- Monthly Executive Risk Reporting presented through the corporate governance structure leads to top down review and challenge evidenced via the Insurance Consolidated Risk Report
- Material Events escalation, including related actions

The primary non-financial risk categories deemed most relevant for this entity are:

Governance risk

Governance risk is defined as the risk that the Company's organisational infrastructure fails to provide robust oversight of decision-making and the control mechanisms to ensure strategies and management instructions are implemented effectively.

Operational risk

Operational risk is defined as the risk of loss from inadequate or failed internal processes, people and systems or from external events. As operational risk covers such a range of elements, there are secondary risk-types within this area, including:

- **Cyber and information security**

  The risk of financial loss, disruption or damage to the reputation of Lloyds Banking Group from a malicious attack that impacts the confidentiality and/or integrity of electronic data or the availability of systems. The risk also to the security of information and data.

- **Financial crime**

  Financial crime is the risk of acts intended to bribe, corrupt, launder money, fund terrorist activity or circumvent sanctions intended for personal gain or to cause loss to another party, by customers/clients, suppliers, third parties or colleagues.

- **Financial reporting risk**

  Financial reporting risk is defined as the risk that the Company suffers reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over business or finance processes impacting financial, prudential regulatory, and tax reporting, failure to manage the associated risks of changes in taxation rates, law, corporate ownership or structure and the failure to disclose timely and appropriate information in accordance with regulatory requirements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

13. Risk management (continued)

(d) Non-financial risks (continued)

- **Fraud**

  The risk of acts of deception or omission intended for personal gain or to cause loss to another party, by customers/clients, third parties or colleagues.

- **IT systems**

  The risk of failure in technology governance and the development, delivery and maintenance of effective IT solutions.

- **Operational resilience risk**

  Operational resilience risk covers the risk that the Company fails to design resilience into business operations, underlying infrastructure and controls (people, process, technical) so that it is able to withstand external or internal events which could impact the continuation of operations, and fails to respond in a way which meets stakeholder expectations and needs when the continuity of operations is compromised.

Regulatory and legal risk

The risk of financial penalties, regulatory censure, criminal or civil enforcement action or customer detriment as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.

(e) UK political uncertainties including EU exit

The UK / EU Trade and Cooperation Agreement means a disorderly Brexit has been avoided. While the TCA contains limited, high-level provisions on financial services, further detail is expected to emerge during this year, and the Company will continue to monitor developments closely. As a result of Brexit, some customers' bank accounts have had to be closed, meaning these customers will need to set up alternative payment arrangements to continue insurance cover. Measures have been put in place to support affected customers, although to date customer responses remain low. The Company continues to monitor the wider post-Brexit environment, including for market volatility. Scenario planning exercises are performed as part of business as usual, while contingency plans have been recalibrated and are regularly reviewed for potential strategic, operational and reputational impacts.

(f) Economic Risk

UK economic growth is muted due to impacts from the Covid-19 pandemic and political uncertainty. High levels of credit market liquidity have reduced spreads and weakened terms in some sectors, creating a potential under-pricing of risk and heightened risk of a market correction. The Company's response is:

- The Company has a robust through the cycle credit risk appetite, including individual limit guidelines, specific sector appetite statements and policies, and affordability and indebtedness controls at origination. In addition to on-going focused monitoring, we conduct portfolio deep dives and larger exposure reviews. We have enhanced our use of early warning indicators including sector specific indicators
- Capital and liquidity are reviewed regularly through committees, ensuring compliance with risk appetite and regulatory requirements
- Internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts
- Wide array of risks considered in setting strategic plans

14. Contingencies and commitments

Tax Authorities

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in early 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £297 thousand (including interest) (2019: £291 thousand). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

14. Contingencies and commitments (continued)

Other legal actions and regulatory matters

During the ordinary course of business, the Company is subject to complaints and threatened or actual legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas.

All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases, it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters. However, the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

15. Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Scottish Widows Group Limited, a Company registered in the United Kingdom. Scottish Widows Group 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, which is the parent undertaking of the only group to consolidate these financial statements. Once approved, copies of the consolidated Annual Report and Accounts of Lloyds Banking Group may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

(b) Transactions and balances with related parties

Transactions with other Lloyds Banking Group companies

The Company has entered into transactions with related parties in the normal course of business during the year.

	2020			
	Income during period £'000	Expenses during period £'000	Payable at period end £'000	Receivable at period end £'000
Relationship				
Parent	—	—	—	—
Subsidiary	—	—	—	—

	2019			
	Income during period £'000	Expenses during period £'000	Payable at period end £'000	Receivable at period end £'000
Relationship				
Parent	—	210,000	—	—
Subsidiary	210,000	—	—	—

The above balances are unsecured in nature and are expected to be settled in cash.

Transactions between the Company and entity employing key management

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 a management entity, transactions with this entity are as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

15. Related party transactions (continued)

(b) Transactions and balances with related parties (continued)

Transactions between the Company and entity employing key management (continued)

Key management compensation:

	2020 £'000	2019 £'000
Short-term employee benefits	867	1,096
Post-employment benefits	4	2
Share-based payments	115	238
Total	986	1,336

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by directors in respect of qualifying services of £405 thousand (2019: £503 thousand).

There were no retirement benefits accrued to directors (2019: no directors) under defined benefit pension schemes. Two directors (2019: three directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2019: Nil).

Certain members of key management in the Company, including the highest paid director, provide services to other companies within Lloyds Banking Group. In such cases, for the purposes of this note, figures have been included based on an apportionment to the Company of the total compensation earned.

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £81 thousand (2019: £115 thousand). During the year, two directors exercised share options (2019: two Directors) and two Directors received qualifying service shares under long term incentive schemes (2019: three Directors). Movements in share options are as follows:

	2020 Thousand Options	2019 Thousand Options
Outstanding at 1 January	2,276	2,333
Granted	1,873	1,280
Exercised	(598)	(717)
Forfeited	(1,015)	(655)
Dividends awarded	34	35
Outstanding at 31 December	2,570	2,276

Detail regarding the highest paid Director is as follows:

	2020 £'000	2019 £'000
Apportioned aggregate emoluments	223	274
Apportioned share-based payments	68	84

The highest paid Director did exercise share options during the year. (2019: The highest paid Director did not exercise share options during the year).

16. Future accounting developments

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

17. Post balance sheet events

On 4 February 2021, interim dividends of £60.0 million in respect of the year ending 31 December 2021 were received from Lloyds Bank Insurance Services Limited (£55.0 million) and Halifax General Insurance Services Limited (£5.0 million). On 4 February 2021, the Company declared an interim dividend of £60.0 million in respect of the year ending 31 December 2021, which was subsequently paid to Scottish Widows Group Limited on 17 February 2021.