Lloyds Bank Insurance Services Limited

Annual Report and Accounts
2020

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

S C Quinn (Chair)
C J Thornton*
M K Staples*
J M Phythian*

* denotes Executive Director

Company Secretary

N C Gracey

Independent Auditors

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

Registered Office

25 Gresham Street
London
EC2V 7HN

Company Registration Number

00968406

STRATEGIC REPORT

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

The Company forms part of the General Insurance business unit within the Insurance and Wealth Division of Lloyds Banking Group, focusing on providing general insurance to meet our customers' needs.

Our strategy to help our customers is by:

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

As part of the Insurance strategy to become the 'Go to Provider' for home insurance, the Company acts as an intermediary for General Insurance, including home insurance, creditor insurance, business insurance and 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 Insurance. To support this, the Company is focused on the following key performance indicators:

- Net commission income
- Regulatory capital in excess of internal buffers
- Liquidity position

Principal activities

The principal activity of the Company is to act as an intermediary for third party underwriters. General Insurance includes home insurance, creditor insurance, business insurance and 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. All contracts of insurance are written in the United Kingdom (UK).

In home insurance, we continue to focus on direct business, responding to a rapid customer shift to digital channels, adapting to ensure we can compete more effectively online. Creditor, accident and health books of business are all in run off.

Result for the year

The result of the Company for the year ended 31 December 2020 is a profit after tax of £17.5 million (2019: £4.3 million). The total net assets of the Company at 31 December 2020 are £106.5 million (2019: £89.0 million restated*).

Profit after tax increased from £4.3 million to £17.5 million due to a decrease in total expenses predominately as a result of the reduction caused by a one-off indemnity related expense in 2019.

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

*See note 25 for details regarding restatement.

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.

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.

STRATEGIC REPORT (continued)

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

Key performance indicators

Net commission income

Net commission income has decreased by £3.1 million to £28.7 million in 2020 (2019: £31.8 million). The Company's net commission income only reflects commission in respect of third parties.

Capital resources

The Directors assess that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. The Company's surplus in excess of regulatory capital requirements (on 'MIPRU' - Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries) is £105.7 million (2019: £88.0 million restated*). MIPRU represents the excess of equity over and above a proportion of the Company's annual commission income and further detail around this measure can be seen in note 20. The increase in the Company's capital surplus is primarily due to £17.5 million post tax profit for the year.

*See note 25 for details regarding restatement.

Liquidity

The Company regularly monitors its liquidity position to ensure that, even under stressed conditions, the Company has sufficient liquidity to meet its obligations and remains within approved risk appetite as set out in note 20.

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.

The Directors consider that the above are the key performance indicators which are appropriate to the principal activity of the Company. These, together with other metrics which cover customer, operational measures and capital are included in the balanced scorecard which is used to measure all aspects of the performance of the business. In addition, the Directors are of the opinion that the information presented in the financial statements as a whole, provide the management information necessary for the Directors to understand the development, performance and position of the business of the Company.

Along with fellow direct and indirect subsidiaries of the ultimate insurance parent undertaking, the Company is included in the calculation of the Scottish Widows Group Solvency II capital surplus.

Outlook

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

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy is subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to market, credit, conduct and operational risks are set out in note 20.

Legacy Customer Communications

The Company has undertaken a review in connection with wording of insurance renewals communications. Remediation costs associated with this review are provided for (refer to Note 16). In addition the Company is subject to a related FCA investigation. Further details relating to this matter and indemnification by its sister company, Lloyds Bank General Insurance (LBGI), are disclosed in Note 16.

STRATEGIC REPORT (continued)

Key performance indicators (continued)

FCA Market Pricing Study

In September 2020 the FCA released its General Insurance Pricing Practices Final Report which included proposals aimed at tackling the industry pricing approach which it determined does not work well for some customers. The key proposals are that firms should offer renewal prices no higher than the equivalent new business price and a focus on ensuring fair value for consumers. The Company participated in the consultation period which ended on 25 January 2021, the final outcomes are expected in Q2 2021 and implementation of new rules will be by the end of 2021.

The Company is supportive of the FCA aims and we have been taking action to reduce the differential between new business and renewal prices over several years. We believe that there is an opportunity to address areas of the General Insurance value chain, in addition to pricing, via the final proposals and look forward to working with the FCA and industry to implement the new rules. Our multi-brand strategy, manufacturing strength and unique distribution opportunities will enable us to succeed in the future market although we anticipate short-term challenges for insurers as the market finds a new sustainable pricing equilibrium. We will maintain a balanced approach to participation as we assess the new market dynamics, supporting our customers through value-led propositions in their channel of choice.

Other legal actions and regulatory matters

During the ordinary course of business the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) 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 UK 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.

Section 172(1) Statement and Statement of Engagement with Other Stakeholders

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.

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 management, 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 6 to 9) 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 10 to 11.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

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 interests 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.

Customers

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.

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 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. 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. In addition, the Board undertook a tender process in 2019 to choose a partner for the provision of Motor Insurance products and oversaw the agreement of contractual terms for this partnership in 2020, with the development of customer propositions a central focus.

The Company has engaged proactively with its regulator to drive forward good business conduct in its core markets including in response to the FCA's General Insurance Market Study.

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.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

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 5 of this report.

Regulators

The Board and the Group continue to maintain strong, open and transparent relationships with relevant regulators and government authorities. Liaison with regulators and the government, both directly and as part of Lloyds Banking Group, is an ongoing priority at all levels of the organisation, ensuring Lloyds Banking Group, and the Company's strategic aims align with the requirement of these important stakeholders.

Covid-19 Response

Senior leaders worked closely with the Financial Conduct Authority (FCA) in the initial response to the Covid-19 crisis keeping the Board apprised of all developments. This helped ensure the Company's response could best support customers alongside the maintenance of day to day business operations.

As the year progressed the Board remained close to the developing priorities of the government for supporting the stability of the wider UK economy and regulatory initiatives that reflect the changing demands of wider society.

Regulatory Agenda

Individual Directors have had in the ordinary course of business continuing discussions with the FCA on several aspects of the regulatory agenda and, during 2020, this included a heightened level of engagement in respect of managing impacts from the Covid-19 pandemic. The Board, in turn receives regular updates on this and wider Lloyds Banking Group interaction. This provided a view of key areas of regulatory focus, alongside progress made on addressing regulatory actions.
The Board continues to monitor the status of the Company's relationship with the FCA, prioritising engagement in key areas of regulatory change.

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.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

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

Martin Staples

M K Staples
Director
14 May 2021

DIRECTORS' REPORT

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

The Company is a wholly owned subsidiary of Lloyds Bank General Insurance Holdings Limited. The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc.

Results and dividend

The result of the Company for the year ended 31 December 2020 is a profit after tax of £17.5 million (2019: £4.3 million). The total net assets of the Company at 31 December 2020 are £106.5 million (2019: £89.0 million restated*).

Profit after tax increased from £4.3 million to £17.5 million due to a decrease in total expenses predominately as a result of the reduction caused by a one-off indemnity related expense in 2019

No Dividends were paid during the year in respect of 2020 (2019: £nil). The Directors do not recommend any further dividends in respect of 2020.

*See note 25 for details regarding restatement.

Post balance sheet events

On 1 February 2021, the Company declared an interim dividend of £55.0 million in respect of the year ending 31 December 2021, which was subsequently paid to Lloyds Bank General Insurance Holdings Limited on 17 February 2021.

Further information on post balance sheet events is set out in note 24.

Directors

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

J M Phythian (Appointed 27 November 2020)

Particulars of the Directors' emoluments are set out in note 22.

Directors' indemnities

Lloyds Banking Group plc as 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, Lloyds Banking Group plc 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 23.

Engagement with suppliers, customers and others

Disclosures relating to engagement with suppliers, customers and others are included in the Strategic Report and are therefore incorporated into this report by reference.

DIRECTORS' REPORT (continued)

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. As set out in note 16, the Company has uncertainty in relation to the outcomes of a FCA investigation. 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 20), and have also considered the courses of action available to the Company in the event of adverse outcomes from the FCA investigation, which the Company is indemnified for by LBGI. In particular, the Directors have considered the courses of action which are open to LBGI in assessing its ability to maintain adequate levels of capital and liquidity which may affect its ability to support indemnification provided to the Company. These actions may include capital injections from its parent. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Financial risk management

Disclosures relating to financial risk management are included in note 20 to the financial statements and are therefore incorporated into this report by reference.

Independent auditors

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the 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 judgements and accounting estimates that are reasonable and prudent 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 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 United Kingdom 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 9, and the Directors' Report on pages 10 to 11, 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

Martin Staples

M K Staples
Director
14 May 2021

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Lloyds Bank Insurance Services 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 Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income, the statement of cash flows and 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.

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

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.

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 breaches of UK regulatory principles, such as those governed by the Financial Conduct Authority, 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 management bias in accounting estimates and judgemental areas of financial statements such as additional commission and remediation provision. 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;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Reading key correspondence with the Financial Conduct Authority in relation to compliance with laws and regulations;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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.

<u>OTHER REQUIRED REPORTING</u>

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
14 May 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	Restated* 2019 £000
Revenue - Commission income*		29,095	36,145
Commission expense*		(427)	(4,347)
Net commission income	3	28,668	31,798
Investment income	4	1,154	1,597
Net gains on assets at fair value through profit or loss	5	40	59
Other Income		1,194	1,656
Expenses			
Expenses for the acquisition of insurance contracts	6	(3,460)	(6,809)
Expenses for administration	6	(4,791)	(21,304)
Profit before tax		21,611	5,341
Taxation charge	8	(4,089)	(1,013)
Profit for the year		17,522	4,328

*See note 25 for details regarding restatement.

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 19 to 41 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2020

	Note	2020 £000	Restated* 2019 £000	Restated* 1 January 2019 £000
ASSETS				
Deferred tax assets	9	139	148	176
Financial assets:				
Loans and receivables at amortised cost*	10	100,865	121,624	130,825
Investments at fair value through profit or loss	11	5,396	5,356	5,297
Prepayments	12	-	3	28
Cash and cash equivalents	13	81,935	58,104	50,478
Total assets		188,335	185,235	186,804
EQUITY AND LIABILITIES				
Capital and reserves attributable to Company's equity shareholder				
Share capital	14	100	100	100
Retained profits*		106,429	88,907	84,579
Total equity		106,529	89,007	84,679
Liabilities				
Current tax liabilities*	15	4,306	1,455	4,688
Provisions for other liabilities and charges	16	10,969	17,908	3,918
Financial liabilities:				
Other financial liabilities*	17	66,531	76,865	93,519
Total liabilities		81,806	96,228	102,125
Total equity and liabilities		188,335	185,235	186,804

*See note 25 for details regarding restatement.

The notes set out on pages 19 to 41 are an integral part of these financial statements.

The financial statements on pages 15 to 41 were approved by the Board on 06 May 2021 and signed on its behalf by:

Martin Staples

M K Staples
Director
14 May 2021

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Cash flows from operating activities			
Profit before tax		21,611	5,341
Adjusted for:			
Investment income and net fair value gains on assets held at fair value	4,5	(1,194)	(1,656)
Net increase in operating assets and liabilities	18	3,489	6,563
Taxation paid		(1,229)	(4,219)
Net cash flows generated from operating activities		22,677	6,029
Cash flows from investing activities			
Investment income	4	1,154	1,597
Net movement in investments at fair value through profit or loss		-	-
Net cash flows generated from investing activities		1,154	1,597
Cash flows from financing activities			
Dividends paid	19	-	-
Net cash flows used in financing activities		-	-
Net increase in cash and cash equivalents		23,831	7,626
Cash and cash equivalents at the beginning of the year	13	58,104	50,478
Cash and cash equivalents at the end of the year	13	81,935	58,104

The notes set out on pages 19 to 41 are an integral part of these financial statements.

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

	Note	Share capital £000	Retained profits £000	Total equity £000
Balance as at 1 January 2019 Previously Reported		100	83,616	83,716
Prior year adjustment (see note 25)		-	963	963
Balance as at 1 January 2019 (restated*)		100	84,579	84,679
Profit for the year			4,328	4,328
Balance as at 31 December 2019 (restated*)		100	88,907	89,007
Profit for the year			17,522	17,522
Balance as at 31 December 2020		100	106,429	106,529

*See note 25 for details regarding restatement.

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 20.

The notes set out on pages 19 to 41 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 (IFRS)

(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.

The Company forms part of Lloyds Banking Group, which prepares a group set of consolidated financial statements under IFRS.

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) Financial assets and financial liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Management's policies for the recognition of specific financial assets and financial liabilities, as identified on the Balance Sheet, are set out under the relevant accounting policies.

On initial recognition, financial assets are classified as measured at amortised cost or fair value through profit or loss, depending on the Company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Company reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

The Company initially recognises loans and receivables when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

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

Transaction costs incidental to the acquisition of a financial asset are expensed through the Statement of Comprehensive Income, within net gains and losses on assets and liabilities at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet only when there is a legally enforceable right to offset the recognised amounts, both in the normal course of business and in the event of default, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

1. Accounting policies (continued)

(c) Fair value methodology

All assets and liabilities carried at fair value, or for which a fair value measurement is disclosed, are categorised into a 'fair value hierarchy' as follows:

(i) Level one

Valued using quoted prices (unadjusted) in active markets for identical assets and liabilities to those being valued. An active market is one in which arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis. Examples include listed equities, listed debt securities, Open Ended Investment Companies (OEICs) and unit trusts traded in active markets and exchange traded derivatives such as futures.

(ii) Level two

Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). If the asset or liability has a specified (contractual) term, a Level two input must be observable for substantially the full term of the asset or liability. Level two inputs include the following:

- Quoted prices for similar (but not identical) instruments in active markets
- Quoted prices for identical or similar instruments in markets that are not active, where prices are not current, or price quotations vary substantially either over time or among market makers
- Inputs other than quoted prices that are observable for the instrument (for example, interest rates and yield curves observable at commonly quoted intervals and default rates)
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means

Examples of these are securities measured using discounted cash flow models based on market observable swap yields, and listed debt or equity securities in a market that is inactive.

(iii) Level three

Valued using inputs for the asset or liability that include significant unobservable inputs (inputs not based on observable market data). Unobservable inputs may have been used to measure fair value where observable inputs are not available. This approach allows for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability, for example certain private equity investments held by the Company. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

Further analysis of the Company's instruments held at fair value is set out in note 11. The Company's management, through a fair value pricing committee, review information on the fair value of the Company's financial assets and financial liabilities and the sensitivities to these values on a regular basis.

Transfers between different levels of the fair value hierarchy are deemed to have occurred at the next reporting date after the change in circumstances that caused the transfer.

(d) Revenue recognition

Commission income

Income comprises brokerage fees and commission income, which are recognised in the Statement of Comprehensive Income at the later of the inception or renewal of the underlying policy and when the policy placement has been completed and confirmed, having regard to the nature and term of the policy involved. Allowance is made for commission clawback refunds on the basis of prior lapse experience. Additional commission is due from certain insurers based upon their underwriting results. This is recognised in to the Statement of Comprehensive Income for the relevant period only when, or to the extent that it is highly probable that a significant reversal in the amount of additional commission recognised will not occur when reliable data becomes available, or the income is received.

Investment income

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

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

1. Accounting policies (continued)

(d) Revenue recognition (continued)

Net gains on assets at fair value through profit or loss

Net gains on assets at fair value through profit or loss include both realised and unrealised gains and losses. Movements are recognised in the Statement of Comprehensive Income in the period in which they arise.

(e) Expense recognition

Commission expense

Commission and profit share expense to third parties are recognised in the Statement of Comprehensive Income as incurred.

Expenses for the acquisition of insurance contracts

Expenses for the acquisition of insurance contracts are recognised in the Statement of Comprehensive Income as incurred. These consist of costs either incurred directly by the Company or recharged from fellow Lloyds Banking Group subsidiaries.

Administrative expenses

Administrative expenses are recognised in the Statement of Comprehensive Income as incurred. These consist of costs either incurred directly by the Company or recharged from fellow Lloyds Banking Group subsidiaries.

(f) Loans and receivables at amortised cost

Loans and receivables at amortised cost are financial assets, other than cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest.

Loans and receivables at amortised cost are initially recognised at fair value less directly attributable transactions costs and subsequently measured at amortised cost, subject to impairment. Further information on the Company's impairment policy is set out in policy (i).

(g) Investments at fair value through profit or loss

Investments at fair value through profit or loss comprise investments in collective investment vehicles, and certain holdings in liquidity funds included within cash and cash equivalents as set out in note 13.

Classification

Financial assets are classified at fair value through profit or loss where they are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis or they do not meet the criteria to be measured at amortised cost.

Recognition

Purchases and sales of financial assets are recognised on the trade date, i.e. the date the Company commits to purchase the asset from, or deliver the asset to, the counterparty. Investments are initially recognised at cost, being the fair value of the consideration given, and are subsequently remeasured at fair value.

Measurement

The fair value of holdings in collective investment vehicles (including OEICs and Unit Trusts) is determined as the last published price applicable to the vehicle at the reporting date.

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

1. Accounting policies (continued)

(g) Investments at fair value through profit or loss (continued)

Structured entities

The Company holds investments in structured entities arising from investments in collective investment vehicles. Unconsolidated collective investment vehicles are carried at fair value.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at bank, 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) and bank overdrafts where a legal right of offset exists.

Cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Cash and cash equivalents that are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis or do not meet the criteria to be measured at amortised cost are classified and measured as investments at fair value through profit or loss.

Holdings in liquidity funds are measured at fair value through profit or loss, with income received recognised in investment income.

(i) 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, adjusted to take into account a range of possible future economic scenarios, 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. In determining whether there has been a significant increase in credit risk, the Group uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings and other indicators of historic delinquency. 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. Typically financial instruments with an external credit rating of investment grade are considered to have low credit risk.

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.

The loss allowance for trade receivables without a significant financing component is measured at an amount equal to lifetime expected credit losses, in accordance with the simplified approach in IFRS 9.

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

1. Accounting policies (continued)

(i) Impairment (continued)

A loan or receivable is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income.

(j) Taxes

Tax expense comprises current and deferred tax. Current and deferred tax are 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

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.

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

(j) 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.

(k) Dividends payable

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

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

1. Accounting policies (continued)

(l) Provisions for other liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that the obligation will result in an outflow of resources to settle the obligation and when a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from contracts are less than the unavoidable costs of meeting the obligations under the contracts.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless the likelihood of possible obligations arising is remote.

(m) Other financial liabilities

Other financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within other financial liabilities.

2. Critical accounting estimates and judgements in applying accounting policies

The Company's management makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements 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.

The following estimates have the most significant effect on the amounts recognised in the financial statements:

Additional commission

Additional commission is due from certain insurers based upon their underwriting results. Additional commission is only recognised in the period to the extent that it is highly probable that a significant reversal in the amount of additional commission recognised will not occur when reliable data becomes available, or the income is received. The amount to be recognised for the accounting period in respect of each relevant insurer is an accounting estimate.

The additional commission recognised in the period is based on amounts paid subsequent to the period end, calculated based on relevant data received from the insurer, or estimated based on past experience. In some cases it is not possible to make a reliable estimate and income is recognised in a subsequent period on receipt.

Remediation provisions

On initial recognition estimates and judgments may be used where granular detail is not yet available. The Company's most critical estimates will be in relation to the population of policy holders impacted. Population size drives the number of payments and subsequently drives the duration of the remediation activity. Duration impacts the estimated delivery costs and interest due on payments. Where granular detail is not available on initial recognition, sampling is used to determine the percentage of policy holders impacted.

3. Net commission income

Net commission income comprises commission and profit share income from third parties net of commission and profit share expense to third parties, and ancillary income from an insurance intermediary.

*See note 25 for details regarding restatement.

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

4. Investment income

	2020 £000	2019 £000
Cash and cash equivalents interest income	223	509
Interest on loan to Insurance intermediary	931	1,088
Total	1,154	1,597

5. Net gain on assets at fair value through profit or loss

	2020 £000	2019 £000
Investments at fair value through profit or loss	40	59
Total	40	59

6. Expenses for the acquisition of insurance contracts and administration

	2020 £000	2019 £000
Other Expenses	-	18,900
Expenses for the acquisition of insurance contracts	3,460	6,809
Expenses for administration	4,791	2,404
Total	8,251	28,113

The administration of the Company is undertaken by another Lloyds Banking Group company. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company, in addition there are some operating expenses which are incurred directly by the Company. In 2020, net costs recharged to the Company were £8.4 million (2019: £9.8 million).

The Company had no direct employees during the year (2019: nil). The employee costs, including pension costs and share-based payment costs, are included in the recharge noted above.

Other expenses of £18.9 million in 2019 are in respect of an indemnity payment to the underwriter Lloyds Bank General Insurance. The Company remains liable for certain conduct-related operational risk liabilities associated with historic sales, communication practices for policies underwritten by Lloyds Bank General Insurance as well as any future amounts in respect of past events which that company may incur in this regard. The Company has entered into an intra-group agreement with Lloyds Bank General Insurance whereby Lloyds Bank General Insurance will indemnify the Company for liabilities and costs associated with such operational losses.

7. Auditors' remuneration

	2020 £000	2019 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	91	91
Total	91	91

Audit fees are borne by another company within Lloyds Banking Group and recharged to the Company.

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

8. Taxation charge

(a) Current year tax charge

	2020 £000	2019 £000
Current tax		
UK corporation tax	4,080	985
Total current tax charge	4,080	985
Deferred tax		
Origination and reversal of timing differences	26	30
Impact of deferred tax rate change	(17)	(2)
Total deferred tax charge	9	28
Total income tax charge	4,089	1,013

(b) Reconciliation of tax charge

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	21,611	5,341
Tax charge at effective UK corporation tax rate of 19 per cent (2019: 19 per cent)	4,106	1,015
Effects of:		
-Non-taxable items	-	-
-Corporation tax rate change and related impacts	(17)	(2)
-Other	-	-
Total	4,089	1,013

The effective tax rate for the year is 18.9 per cent (2019: 19.0 per cent).

9. Deferred tax assets

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19 per cent (2019: 17 per cent). The movement in the Deferred Tax Asset is as follows:

Deferred tax assets

	Accelerated capital allowances £000	Other short term differences and provisions £000	Total £000
At 1 January 2019	106	70	176
Statement of Comprehensive Income charge during 2019	(19)	(9)	(28)
At 31 December 2019	87	61	148
Statement of Comprehensive Income charge during 2020	(7)	(2)	(9)
At 31 December 2020	80	59	139

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by The Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020.

On 3 March 2021, the UK Government announced its intention to increase the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

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

10. Loans and receivables at amortised cost

	2020 £000	Restated* 2019 £000
Loans and receivables:		
- commission receivable and accrued income*	9,151	10,833
- due from related parties	44,731	55,359
- due from Insurance intermediary	46,983	55,432
Total	100,865	121,624

*See note 25 for details regarding restatement.

Amounts due from Insurance intermediary of £47.0 million (2019: £55.4 million) represent a premium financing debtor agreement balance of £36.2 million (2019: £40.0 million) and £10.8 million (2019: £15.4 million) of commission and profit share due. The premium financing debtor balance of £36.2 million bears interest at 1 month LIBOR +2 per cent, this agreement is subject to a maximum drawdown of £40.0 million.

All loans and receivables except as stated below are expected to be settled less than one year after the reporting date. In 2020 £21.2 million (2019: nil) are non-current assets. Non-current assets comprise of amounts due from Insurance intermediary.

11. Investments at fair value through profit or loss

	2020 £000	2019 £000
Collective Investment Schemes - Unlisted	5,396	5,356
Total	5,396	5,356

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss and cash and cash equivalents (note 13) are investments in unconsolidated structured entities of £85.6 million (2019: £63.3 million) arising from investments in collective investment schemes and liquidity funds.

The collective investment schemes are primarily financed by investments from investors in the vehicles. The investments are carried at fair value and the Company’s maximum exposure to loss is equal to the carrying value of the investment.

12. Prepayments

	2020 £000	2019 £000
Amounts relating to trading balances	-	3
Total	-	3

Of the above total, all prepayments are expected to be recovered less than one year after the reporting date.

13. Cash and cash equivalents

Cash and cash equivalents for the purposes of the Statement of Cash Flows include the following:

	2020 £000	2019 £000
Cash at bank and in hand	1,704	156
Investments held through liquidity funds	80,231	57,948
Total	81,935	58,104

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

14. Share capital

	2020 £000	2019 £000
Issued and fully paid share capital:		
100,000 (2019: 100,000) ordinary shares of £1 each	100	100
Total	100	100

15. Current tax liabilities

	2020 £000	Restated* 2019 £000
Current tax liabilities*	4,306	1,455
Total	4,306	1,455

*See note 25 for details regarding restatement.

16. Provision for other liabilities and charges

	Commission clawbacks £000	Premium rebates £000	Customer discount communications £000	Other provisions £000	Total £000
At 1 January 2019	3,708	-	-	210	3,918
Utilised during the year	(297)	-	-	9	(288)
Additional provisions	2,554	724	11,000	-	14,278
At 31 December 2019	5,965	724	11,000	219	17,908
Utilised during the year	(5,249)	(2,311)	(1,922)	(219)	(9,701)
Additional provisions	91	2,262	409	-	2,762
At 31 December 2020	807	675	9,487	-	10,969

The Company remains liable for certain conduct-related operational risk liabilities associated with historic sales, communication practices for policies underwritten by LBGI as well as any future amounts in respect of past events which the company may incur in this regard. LBGI has entered into an Intragroup agreement with the Company signed on 10 March 2015 and varied on 19 December 2016 and 1 July 2019, whereby LBGI will indemnify the Company's liabilities and costs associated with such operational losses.

(a) Commission clawbacks

This relates to commission received on an indemnity basis, which results in a proportion of commission being repayable to the third party underwriter in the event of the policy being cancelled by the policyholder. The provision is calculated with respect to past experience of the impact of refunded commission, and of predicted future cancellation of policies, which are subject to indemnity commission.

(b) Premium rebates

In accordance with the ABI Statement of Recommended Practice a provision has been made in respect of premiums that may be refunded in the future but on which the premiums have already been fully earned. This estimate has been based upon prior experience and also includes an amount in respect of potential rebates required for customers identified as having dual insurance cover.

(c) Customer Discount Communications

Following investigations relating to an anomaly with communication of discounts on certain home insurance contracts, provisions have been established in the Company to reflect the best estimate of rectification payments to be made to customers by the Company, which are indemnified by Lloyds Bank General Insurance.

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

16. Provision for other liabilities and charges (continued)

(c) Customer Discount Communications (continued)

In addition the Company is involved in a related 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.

Any liability would be fully covered by the Intragroup Agreement between the Company and LBGI, its sister company, signed on 10 March 2015 and varied on 19 December 2016 and 1 July 2019

(d) Other provisions

Other provisions comprise a number of individually small liabilities.

17. Other financial liabilities

	2020 £000	Restated* 2019 £000
Trade payables and accrued expenses*	4,442	4,882
Amounts due to related parties	62,089	71,983
Total	66,531	76,865

*See note 25 for details regarding restatement.

All other financial liabilities except as stated below are expected to be settled less than one year after the reporting date. In 2020 there are no non-current liabilities (2019: £0.7 million). Non-current liabilities in 2019 of £0.7 million comprised of trade payables and deferred commissions.

18. Net increase/(decrease) in operating assets and liabilities

	2020 £000	Restated* 2019 £000
Net increase in operating assets:		
Loans and receivables at amortised cost	20,759	9,201
Prepayments	3	25
Net increase in operating assets	20,762	9,226
(Decrease)/ increase in operating liabilities:		
Provisions for other liabilities and charges	(6,939)	13,990
Other financial liabilities	(10,334)	(16,653)
Decrease in operating liabilities	(17,273)	(2,663)
Net increase in operating assets and liabilities	3,489	6,563

*See note 25 for details regarding restatement.

19. Dividends paid

	2020 £000	2019 £000
Total dividends paid on equity shares	-	-
Total	-	-

No Dividends were paid on the ordinary shares during the year in respect of 2020 (2019: nil).

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

20. Risk management

The principal activity of the Company is to act as an insurance intermediary for Lloyds Bank General Insurance and other third party underwriters. The Company brokers a range of general insurance products such as home and domestic all risks insurance, creditor insurance and accident and health insurance. Products are marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through the Lloyds Banking Group network and corporate partnerships. The Company also brokers business with insurance entities external to the Company.

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 is 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, 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 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 (ROC) with operational implementation assigned to the Insurance and Wealth Risk Committee (IWRC).

Policy owners, identified from appropriate areas of Lloyds Banking Group and Insurance are responsible for drafting risk policies, ensuring they remain up-to-date and facilitating 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. The changes implemented helped to manage operational and conduct risks. 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.

(b) Risk appetite

The Board 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 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.

Experience against Risk Appetite is reported quarterly (by exception) to the Board. Reporting focuses on ensuring, and demonstrating to the Board that the Company is run in line with approved risk appetite. Any breaches of risk appetite require clear plans and timescales for resolution.

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

20. Risk management (continued)

(c) Financial risks

The Company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of financial risk are market, credit, capital and liquidity risk.

The timing of the unwind of the deferred tax assets and liabilities is dependent on the timing of the unwind of the temporary timing differences, arising between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes, to which these balances relate.

The sensitivity analyses given throughout this note are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated, for example changes in interest rates and changes in market values. The sensitivity analysis presented also represents management's assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

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.

The Company's objective in managing market risk is to maximise returns from investments whilst ensuring regulatory requirements are met and adequate financial security is maintained on an ongoing basis.

The Company was exposed in the year to market risk in Collective Investment Schemes: unlisted investments which are authorised and regulated by the Financial Conduct Authority (FCA) and fall under the EU directive on Undertakings for Collective Investment in Transferable Securities.

The investments in the Collective Investment Scheme and holdings in the liquidity funds are categorised as Level 1 in the fair value hierarchy.

As at 31 December 2020

	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Collective Investment Schemes - unlisted	5,396	-	-	5,396
Investments held through liquidity funds	80,231	-	-	80,231
Total assets	85,627	-	-	85,627

As at 31 December 2019

	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Collective Investment Schemes - unlisted	5,356	-	-	5,356
Investments held through liquidity funds	57,948	-	-	57,948
Total assets	63,304	-	-	63,304

Investments in unconsolidated structured entities of £85.6 million (2019: £63.3 million) arising from investments in Collective Investment Schemes is categorised as level 1 in the fair value hierarchy. There were no investments categorised as level 2 or level 3.

(i) 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 in respect of the Company's insurance and investment contracts arises when there is a mismatch in duration or yield between liabilities and the assets backing those liabilities.

If interest rates were to increase or decrease by 25 basis points, the impact on profit and loss would be an increase or decrease respectively of £0.3 million (2019: increase or decrease respectively of £0.2 million) in respect of financial assets and financial liabilities bearing floating rates of interest.

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

20. Risk management (continued)

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).

Credit risk is managed in line with the Insurance Credit Risk Policy and the wider Lloyds Banking Group Credit Risk Policy which set out the principles of the credit control framework. Credit risk to the Company arises primarily from exposure to loans and receivables at amortised cost and financial assets at fair value through profit or loss. Exposure to loans and receivables at amortised cost is assessed on a case by case basis, using a credit rating agency where appropriate.

Expected credit losses are calculated using three key input parameters: the probability of default (PD) (except for lifetime expected credit losses), the loss given default (LGD) and the exposure at default (EAD). The probability of default and expected loss given default are determined using internally generated credit ratings.

Expected credit losses are measured on a collective basis for certain groups of financial assets, such as trade receivables due from external parties which are considered to be homogenous in terms of their risk of default.

The following table sets out details of the credit quality of financial assets that are neither past due nor impaired:

As at 31 December 2020

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Loans and receivables at amortised cost	80,982	-	44,732	-	-	36,250
Cash and cash equivalents	1,705	-	-	1,705	-	-
Loss allowance	(30)	-	-	-	-	(30)
Exposure to credit risk	**82,657**	**-**	**44,732**	**1,705**	**-**	**36,220**
Simplified approach assets						
Loans and receivables at amortised cost	19,932	-	2,755	6,001	307	10,869
Loss allowance	(19)	-	-	-	-	(19)
Exposure to credit risk	**19,913**	**-**	**2,755**	**6,001**	**307**	**10,850**
Assets at fair value through profit and loss						
Collective Investment Scheme - unlisted	5,396	5,396	-	-	-	-
Cash and cash equivalents	80,230	80,230	-	-	-	-
Total	**188,196**	**85,626**	**47,487**	**7,706**	**307**	**47,070**

Amounts classified as ‘not rated’ in the above tables are not rated by Standard and Poor or an equivalent rating agency.

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

20. Risk management (continued)

(c) Financial risks (continued)

2) Credit risk (continued)

As at 31 December 2019

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Loans and receivables at amortised cost	95,359	-	-	55,359	-	40,000
Cash and cash equivalents	157	-	-	157	-	-
Loss allowance	(11)	-	-	-	-	(11)
Exposure to credit risk	**95,505**	**-**	**-**	**55,516**	**-**	**39,989**
Simplified approach assets						-
Loans and receivables at amortised cost*	26,465	28	1,949	7,955	583	15,950
Loss allowance	(189)	-	-	-	-	(189)
Exposure to credit risk	**26,276**	**28**	**1,949**	**7,955**	**583**	**15,761**
Assets at fair value through profit and loss						
Collective Investment Scheme - unlisted	5,356	5,356	-	-	-	-
Cash and cash equivalents	57,947	57,947	-	-	-	-
Total	**185,084**	**63,331**	**1,949**	**63,471**	**583**	**55,750**

*See note 25 for details regarding restatement.

(i) Concentration risk

Credit concentration risk relates to the inadequate diversification of credit risk.

Credit concentration risk

Credit risk is managed through the setting and regular review of counterparty credit and concentration limits on asset types which are considered more likely to lead to a concentration of credit risk. However, for other assets, such as investments in funds falling under the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive (which are almost all the Company's assets) no limits are prescribed as the risk of credit concentration is deemed to be immaterial.

Exposure to credit risk is concentrated across counterparties as follows:

	2020 £000	Restated* 2019 £000
Trade and other receivables:		
Amounts due from group undertakings	44,731	55,359
Amounts due from Insurance intermediary	46,983	55,432
Other receivables*	9,151	10,833
Cash and cash equivalents (amounts due from financial institutions)	81,935	58,104
Collective Investment Scheme - unlisted	5,396	5,356
Total	**188,196**	**185,084**

*See note 25 for details regarding restatement.

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

20. Risk management (continued)

(c) Financial risks (continued)

Liquidity concentration risk

Liquidity concentration risk arises where the Company is unable to meet its obligations as they fall due or do so only at an excessive cost, due to over-concentration of investments in particular financial assets or classes of financial asset.

As most of the Company's invested assets are diversified across a range of marketable equity and debt securities it is unlikely that a material concentration of liquidity concentration could arise.

This is supplemented by active liquidity management in the Group, to ensure that even under stress conditions the Group has sufficient liquidity as required to meet its obligations. This is delegated by the Board to and monitored through the Insurance and Wealth Asset and Liability Committee (IWALCO), IWRC, ISIM and Banking and Liquidity Operating Committee (BLOC).

3) Capital risk

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

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 to comply with the capital requirements set out by the Financial Conduct Authority (FCA) in the UK.

In order to maintain or adjust the capital structure to meet the objectives above including ensuring sufficient capital is held to meet capital requirements, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares, sell assets or raise debt which can be included as available capital for capital requirement purposes under FCA regulations.

Consistent with others in the non-life insurance intermediation industry, the FCA imposes a Minimum Capital Requirement on the Company as defined in FCA regulations. Total available capital for capital requirement purposes is calculated as 'Total equity' as shown in the Balance Sheet.

The Company held sufficient capital to meet its minimum capital requirement throughout the reporting year.

The retained profits balance of £106.4 million (2019: £88.9 million restated*) represents the amount available for dividend distribution to the equity shareholders of the Company (excluding any regulatory restrictions).

	2020 £000	Restated* 2019 £000
Regulatory capital held*	106,429	88,907
Regulatory capital required*	(727)	(904)
Regulatory Surplus	105,702	88,003

*See note 25 for details regarding restatement.

All minimum regulatory requirements were met during the year.

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

20. Risk management (continued)

4) 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 and Wealth Liquidity Risk Policy and the wider Lloyds Banking Group Funding and Liquidity Policy.

The table below analyses the Company's financial liabilities into relevant maturity groupings, based on the remaining period at the Balance Sheet date to the contractual maturity date. The amounts disclosed in the table are undiscounted.

	Up to 3 months £000	Between 3 and 12 months £000	Between 1 and 2 years £000	Over 2 years £000	Carrying value £000
At 31 December 2020					
Other financial liabilities (note 17)	66,531	-	-	-	66,531
Carrying value	66,531	-	-	-	66,531
At 31 December 2019 Restated*					
Other financial liabilities* (note 17)	60,639	15,497	729	-	76,865
Carrying value	60,639	15,497	729	-	76,865

*See note 25 for details regarding restatement.

(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

- Risks identified in products, processes, channels, customers and people
- Emerging risks
- Changes to the risk profile through on-going tracking, pricing reviews and monitoring of external factors
- Change Management at project, programme or portfolio level
- Implement Risk and Control Framework and standards, including loss estimation and provisioning

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
- Control testing activities
- Effectiveness reviews

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

20. Risk management (continued)

(d) Non-financial risks (continued)

Monitoring

- Performance vs risk appetite
- Risk metrics on for example products, processes, customer experience, service, retention
- Change portfolio
- Regulatory and external environment
- Quality checking
- 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 are:

Conduct risk

Conduct risk is defined as the risk of customer detriment across the customer lifecycle including: failures in product management, distribution and servicing activities; from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss.

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.

Model risk

The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of Models and Ratings systems.

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:

– **Change risk**

Change risk is defined as the risk that, in delivering its change agenda, the Company fails to ensure compliance with laws and regulation, maintain effective customer service and availability, and/or operate within the Company's risk appetite.

– **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.

– **Data management**

The risk that the Company fails to effectively govern, manage and protect its data (or the data shared with Third Party Suppliers) impacting the Company's agility, accuracy, access and availability of data, ultimately leading to poor customer outcomes, loss of value to the Company and mistrust from regulators.

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

20. Risk management (continued)

(d) Non-financial risks (continued)

Operational risk (continued)

– **External service provision**

Failure in the provision of the formally agreed services (i.e. within the scope for the Group Service Provision Policy / supporting Procedures) which are required so Business Units meet their agreed deliverables.

– **Financial crime**

Financial crime is the risk of acts intended to bribe, corrupt, launder money, fund terrorist activity or circumvent sanctions 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.

– **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.

– **Internal service provision**

The risk associated with the management of internal service arrangements.

– **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.

– **Physical security risk**

The risk to the security of people and property (including damage (malicious or non-malicious) to Lloyds Banking Group branches and buildings managed through Group Property).

– **Sourcing**

Sourcing risk covers the risk associated with the activity related to the agreement and management of services provided by third parties including outsourcing (excludes internal service arrangements).

– **People risk**

People risk is defined as the risk that the Company fails to provide an appropriate colleague and customer centric culture, supported by robust regard and wellbeing policies and processes; effective leadership to manage colleague resources; effective talent and succession management; and robust control to ensure all colleague-related requirements are met.

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

20. Risk management (continued)

(d) Non-financial risks (continued)

Operational risk (continued)

– **Regulatory and legal risk**

The risk of financial penalties, regulatory censure, criminal or civil enforcement action or customer detriment as a result 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. 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 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 ongoing 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 to the Company
- Wide array of risks considered in setting strategic plans

Additionally, the Covid-19 outbreak and related global health issues are impacting economies and markets. More detail is given in respect of market risk (note 20 (c) (1)), credit risk (note 20 (c) (2)) and capital risk (note 20 (c) (3)).

21. 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 £7.0 million (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

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

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

21. Contingencies and commitments (continued)

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.

22. Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent company is Lloyds Bank General Insurance Holdings Limited, a company registered in the UK. Lloyds Bank General Insurance 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.

(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	-	-	-	-
Other related parties	2,670	14,768	62,415	46,750

	2019 Restated*			
	Income during period £000	Expenses during period £000	Payable at period end £000	Receivable at period end £000
Relationship				
Parent	-	-	-	-
Other related parties*	16,456	33,230	72,767	56,279

*See note 25 for details regarding restatement.

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

Parent undertaking transactions relate to all reported transactions and balances with parent companies, such transactions include cash and cash equivalent balances and Group relief for corporation tax.

Transactions with other related parties (which include fellow Subsidiaries and other Insurance Intermediaries) are primarily in relation to Intra Lloyds Banking Group trading and operating and employee expenses.

Related party income is in respect if the Intragroup Agreement between the Company and LBGI, its sister company, signed on 10 March 2015 and varied on 19 December 2016 and 1 July 2019. There is no impact on income as there is an offsetting expense within the reported income.

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

22. Related party transactions (continued)

Key management compensation:

	2020 £000	2019 £000
Salaries and other short-term employee benefits	767	960
Post-employment benefits	3	2
Share-based payments	117	154
Total	**887**	**1,116**

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £767k (2019: £960k).

There were no retirement benefits accrued to directors (2019: one Director) under defined benefit pension schemes. Three directors (2019: four directors) are paying into a defined contribution scheme. The aggregate value of contributions paid to a pension scheme for qualifying services was £3k (2019: £2k).

Certain members of key management in the Group, 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 Group 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 £117k (2019: £154k). During the year, three directors exercised share options (2019: five directors) and three directors' received qualifying services shares under long term incentive schemes (2019: five directors). Movements in share options are as follows:

	2020 Thousands options	2019 Thousands options
Outstanding at 1 January	1,038	1,455
Granted	1,564	1,581
Vested	(533)	(1,069)
Forfeited	(217)	(979)
Dividend awarded	33	50
Outstanding at 31 December	**1,885**	**1,038**

Detail regarding the highest paid Director is as follows:

	2020 £000	2019 £000
Apportioned aggregate emoluments	399	485
Apportioned share-based payments	74	78
	473	563

The highest paid Director did exercise share options during the year. (2019: The highest paid director did exercise share options during the year).

23. 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.

24. Post balance sheet events

On 1 February 2021, the Company declared an interim dividend of £55.0 million in respect of the year ending 31 December 2021, which was subsequently paid to Lloyds Bank General Insurance Holdings Limited on 17 February 2021.

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

25. Restatement of comparatives

The comparative information reported has been restated as explained below:

	Restated £000	Adjustment £000	Previously Reported £000
Balance sheet as at 1 January 2019			
Equity			
Retained profits	**84,579**	963	83,616
Assets			
Loans and receivables at amortised cost	**130,825**	6,000	124,825
Liabilities			
Current tax liabilities	**4,688**	226	4,462
Other financial liabilities – Related Party	**85,101**	5,600	79,501
Other financial liabilities – Trade payables and accrued expenses	**4,825**	(789)	5,614
Statement of comprehensive income for the year ended 31 December 2019			
Net commission income			
Commission income	**36,145**	910	35,235
Commission expense	**4,347**	910	3,437
Balance sheet as at 31 December 2019			
Equity			
Retained profits	**88,907**	963	87,944
Assets			
Loans and receivables at amortised cost	**121,624**	6,910	114,714
Liabilities			
Current tax liabilities	**1,455**	226	1,229
Other financial liabilities – Related Party	**71,983**	6,510	65,473
Other financial liabilities – Trade payables and accrued expenses	**4,882**	(789)	5,671

Correction of error in accounting for net commission income

- Profit share in respect of prior periods has not been accrued in the correct accounting period.
  - The retained profits at the 1 January 2019 have been restated to reflect commission income in respect of 2018 and the related commission expense which had not been recognised in the statement of comprehensive income.

    Commission income for 2018 has increased £6.0 million. Commission expense has increased £5.6 million resulting in a net commission increase of £0.4 million and tax charge of £0.1 million.
  - The retained profits at the 1 January 2019 have been restated to reflect commission income in respect of 2018 which had not been recognised in the statement of comprehensive income.

    Commission income for 2018 has increased £0.8 million and tax charge increased £0.1 million.
- Commission income and expense for 2019 has been incorrectly netted off.
  - Commission income for 2019 has increased £0.9 million. Commission expense has increased £0.9 million. There is no impact on net commission income.

The impact of this on the balance sheet at 1 January 2019 and 31 December 2019 has been shown in the table above. Net assets have increased by £1.0 million at 31 December 2018 and at 31 December 2019.