

St Andrew's Insurance plc

Annual Report and Accounts **2020**

Member of Lloyds Banking Group

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COMPANY INFORMATION**Board of Directors**

N E T Prettejohn (Chair)

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

* denotes Executive Director

Company Secretary

J M Jolly

Independent Auditors

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

Registered Office

33 Old Broad Street
London
EC2N 1HZ

Company Registration Number

03104671

STRATEGIC REPORT

The Directors present their strategic report on St Andrew's Insurance plc (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 is to help our customers by:

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

As part of the Insurance strategy the Company has been closed to new business but continues to focus on servicing existing renewal customers for home and creditor insurance. Accordingly, the Company is focused on 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 insurance premiums
- Claims and loss adjustment expenses
- Combined ratio
- Solvency II Regulatory capital
- Liquidity position

Principal activities

The principal activity of the Company is to underwrite home insurance and creditor insurance, which were marketed primarily under the Halifax and Bank of Scotland brands and which were sold through the Lloyds Banking Group distribution channels and other corporate partnerships.

Result for the Year

The result for the year ended 31 December 2020 is a profit after tax of £34 million (2019: £57 million).

The United Kingdom leaving the European Union

The United Kingdom (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.

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.

STRATEGIC REPORT (Continued)

Key performance indicators

Net insurance premiums

Net insurance premiums reduced by 19 per cent to £117 million in 2020 (2019: £145 million). The decrease reflects the run-off of both the home and creditor books.

Claims and loss adjustment costs

Claims and loss adjustment costs increased by 5 per cent to £46 million in 2020 (2019: £44 million). The increase in current year claims and loss adjustment costs is due to weather events during the year and the impacts of Covid-19 on unemployment claims more than offsetting the reduction in costs due to book run off.

Combined ratio

The Company's combined ratio has increased to 67 per cent (2019: 61 per cent). This reflects an increase in the claims ratio of 9pp to 39 per cent (2019: 30 per cent) and a decrease in the expense ratio of 3pp to 28 per cent (2019: 31 per cent).

Solvency II

During the year, the Company has delivered Solvency II reporting including full annual quantitative reporting as at 31 December 2020, as well as the narrative reporting required by Solvency II. The Company has a waiver from the PRA exempting it from preparing a solo Solvency and Financial Condition Report (SFCR). Instead, in May 2020, the Company reported publicly through a Group SFCR for Scottish Widows Group Limited. The next SFCR will be published in April 2021.

The Directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. On a Solvency II basis the estimated regulatory surplus of the Company in excess of capital requirements is £51 million (2019: £51 million).

As agreed with the Prudential Regulation Authority (PRA), the wider Insurance and Wealth Division submitted a single Own Risk and Solvency Assessment (ORSA) for 2019 covering the Group headed by Scottish Widows Group Limited, and the assessment of own risks and solvency needs of the Company is therefore covered by that assessment. The ORSA report for 2020 was submitted to the PRA in March 2021.

The Solvency II ratio for the Company is 146 per cent (2019: 160 per cent) reflecting the net profit for the period less dividends paid. Further information on the capital position of the Company is given in note 25.

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 remain within the approved risk appetite. As at 31 December 2020, the Company had liquidity coverage of 160 per cent (2019: 137 per cent) over and above the liquidity required under stressed conditions.

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 contained in the Company's Solvency II reporting on capital resources and requirements and regular actuarial reports, in conjunction with 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.

Review of the business

In addition to the progress made against the strategic initiatives summarised earlier there are other areas that are worthy of note and these are described below. Decisions taken in the areas described below and in pursuit of our strategy are brought to the Board for due consideration and approval.

Investment strategy

As part of its efficient balance sheet management, the Company is focused on low risk, very short duration assets to match its liabilities.

Further details on the credit risk and fair value measurement of these assets can be found in note 25.

STRATEGIC REPORT (Continued)

Review of the business (continued)

Changes in terms of trade

New terms of trade arrangements were implemented with an effective date of 1 July 2018 to align with current market practice and to simplify the approach. This has resulted in a reduction of commission and profit share payments from the Company to the Retail division of Lloyds Banking Group.

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, insurance, credit, conduct and operational risks are set out in note 25.

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 19). In addition the Company is subject to a related confidential ongoing FCA investigation. Further details relating to this matter are disclosed in note 19.

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 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.

STRATEGIC REPORT (Continued)

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 the Chief Executive Scottish Widows and Group Director Insurance and Wealth, with examples of related actions taken included within the Report.

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

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

This section (pages 7 to 10) 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 11 to 12.

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

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. Additional meetings of the Board were convened early in the pandemic to oversee the company's operations as customer servicing transitioned to the remote operating model that was needed to meet UK government expectations and to keep colleagues safe. The Board held colleague engagement sessions during 2020 which considered, among other things, changes made to support customers through the Covid-19 pandemic. Alongside operational matters, the Board considered emerging impacts to customers from markets and the economic environment including changes in customer behaviour as a result of Covid-19 impacts. The Board considered and discussed the Customer Treatment response to Covid-19, to include providing support to Vulnerable Customers. Outwith its formal meetings the Board also received executive briefings in respect of these matters at a heightened frequency during the first wave of the Covid-19 pandemic.

Customer Trust

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

STRATEGIC REPORT (Continued)

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

Delivering Value for Customers

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

The Company has engaged proactively with its regulator to drive forward good business conduct in its core markets including in response to the Financial Conduct Authority's General Insurance Market Study. The Company has also given consideration to vulnerability characteristics in customers and how these should be identified and support given to customers.

Technology Transformation

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

Helping Britain Recover and Society of the Future

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

Shareholders

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

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

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

Communities and the Environment

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

The Responsible Business Committee of the Board of Lloyds Banking Group is responsible for overseeing its performance, including that of the Company, as a Responsible Business, and has given much focus to overseeing the development of the Lloyds Banking Group's Helping Britain Recover Plan. This plan continues its strategy of Helping Britain Prosper ambitions, designed to play a part in the UK's recovery from the Covid-19 pandemic. 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 4 of this report.

STRATEGIC REPORT (Continued)

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

Board Diversity

The Board considers its current size and composition is appropriate to the Company's circumstances and places great emphasis on ensuring its membership reflects the diversity of modern Britain and is inclusive for everyone. On gender diversity, the Board has a specific objective to maintain membership of at least 30 per cent female Board members. At 31 December 2020, the Board's membership consisted of 36 per cent female members. The Board will aim to meet the objectives of the Parker review for at least one Black, Asian and Minority Ethnic Board member by, or as soon as possible after, the target date of 2021. The Company also supports the Lloyds Banking Group's high-level approach to diversity in senior management roles which is governed in greater detail through Lloyds Banking Group policies.

Regulators

The Board and the Company 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 and engaged with the Prudential Regulation Authority (PRA) and the FCA to support 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 and the PRA 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.

During 2020, the Board has routinely addressed regulatory feedback provided both through its periodic summary meetings and through other engagement channels. The Company's Board welcomed representatives from both the FCA and the PRA to address its meetings during 2020. A key area of focus for the Board will be addressing the outcome of the FCA pricing review.

Suppliers

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

Supplier Experience

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

Supplier Framework

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

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

STRATEGIC REPORT (Continued)**Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)***Modern Slavery*

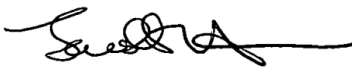
The Responsible Business Committee of the Board of Lloyds Banking Group as part of its oversight of its performance, including that of the Company, as a Responsible Business, governs Lloyds Banking Group's approach to human rights.

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

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

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

On behalf of the Board of Directors



J C S Hillman

Director

15 April 2021

DIRECTORS' REPORT

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

Principal activities

The principal activity of the Company is to underwrite General Insurance, including home and creditor insurance, which were marketed primarily under the Halifax and Bank of Scotland brands and which were sold through the Lloyds Banking Group distribution channels and other corporate partnerships.

Results for the year

The result for the year ended 31 December 2020 is a profit after tax of £34 million (2019: £57 million).

The reduction in profit reflects the non recurrence of £12.7million of income received in 2019 from Halifax General Insurance Services Ltd (HGISL) in respect of an indemnity arrangement (further details are set out in note 6) and the run off of the business.

During the year, no dividends were paid on the ordinary shares in respect of 2020 (2019: £40million).

Directors

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

A M Blance (Resigned 14 August 2020)

J F Hylands (Resigned 31 March 2021)

Particulars of the Directors' emoluments are set out in note 26.

Directors' indemnities

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

The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, Lloyds Banking Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditors

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

Future developments

Future developments are detailed within the Strategic Report and also in note 28.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. As set out in note 19, 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 section (note 25) and have also considered the courses of action available to the Company in the event of adverse outcomes from the FCA investigation, which may include capital injections from its parent. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Financial risk management

Disclosures relating to financial risk management are included in note 25 to the financial statements and are therefore incorporated into this report by reference.

Independent auditors

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

DIRECTORS' REPORT (continued)**Information incorporated by reference**

The following additional information forms part of the Directors' Report, and is incorporated by reference.

Content	Section
Disclosures required under the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Statement of other stakeholder engagement Strategic report

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

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

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

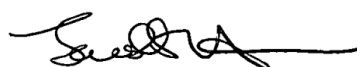
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

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

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

- the Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company
- the Company Strategic Report on pages 4 to 10, and the Directors' Report on pages 11 to 12 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

On behalf of the Board of Directors



J C S Hillman

Director

15 April 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS****Opinion**

In our opinion, St Andrew's Insurance Plc'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: Balance Sheet as at 31 December 2020; Statement of Comprehensive Income, Statement of Cash flows, 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.

Our opinion is consistent with our reporting to the Insurance Audit Committee.

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, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach*Overview**Audit scope*

- The company's registered office is in London however a number of the company's functions are performed at locations in Bristol and Leeds. Due to Covid-19 lockdown restrictions, site visits did not take place during the audit, however virtual meetings were held with staff in multiple locations and we have adapted how we obtain audit evidence, where necessary, in light of Covid remote working restrictions.
- Our audit scope has been determined to provide coverage of all material financial statement line items. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Key audit matters

- Accounting for and disclosures of liabilities in relation to conduct matters
- Valuation of insurance contract liabilities - particularly judgements surrounding the determination of the incurred but not reported (IBNR) reserve
- Impact of Covid-19

Materiality

- Overall materiality: £1,507,000 (2019: £1,100,000) on 1% of net assets.
- Performance materiality: £1,130,000.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)*Capability of the audit in detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, 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 Prudential Regulation Authority and 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 preparation of 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 increase revenue, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of insurance contract liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Insurance division's Board, management, senior management involved in the company's Risk and Compliance functions and legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Insurance board and its key sub-committees (including the Risk Oversight Committee and the Insurance Audit Committee);
- Attendance at the Insurance Division's Audit Committee and Risk Oversight Committee meetings;
- Reviewing data regarding policyholder complaints, the company's register of litigation and claims, and compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of insurance contract liabilities described in the related key audit matter below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, posted by infrequent users, posted by senior management or posted with descriptions indicating a higher level of risk;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- Assessing the impact of Covid-19 on the inherent risk of fraud, including potential opportunities for fraud with more remote working.

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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Impact of Covid-19 is a new key audit matter this year. In the prior year, we included a key audit matter in respect of contingent liabilities and disclosure in relation to conduct matters which has been updated to reflect the current circumstances of conduct matters. Otherwise, the key audit matters below are consistent with last year.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="135 226 667 277">Accounting for and disclosures of liabilities in relation to conduct matters</p> <p data-bbox="135 293 686 344">Refer to note 1(o) 'Accounting policies' and note 19 'Provisions for other liabilities and charges'.</p> <p data-bbox="135 374 710 647">The Company has undertaken a review in relation to legacy customer communications and governance. As a result of this review it has provided for expected remediation costs relating to customer discount communications following investigations which highlighted anomalies with communications of discounts on certain home insurance contracts. Until the remediation process is complete, there is a significant amount of uncertainty as to the magnitude of cash outflows arising from this review.</p> <p data-bbox="135 676 722 896">In addition the Company is subject to a confidential ongoing FCA regulatory investigation. Given the matter is ongoing and the extent of discretion available to the FCA in its penalty framework, the company has determined it is not currently possible to make a reliable assessment of any liability resulting from the investigation including the size of any financial penalty, if any.</p> <p data-bbox="135 925 694 1032">Given the uncertainty around the remediation costs and the extent of any financial penalty there is a risk that future cash outflows are not appropriately provided for or disclosed in the financial statements.</p>	<p data-bbox="735 293 1437 374">We have discussed potential conduct regulatory matters with the internal and external legal counsel of the Insurance division which the company is a part of.</p> <p data-bbox="735 403 1358 483">We have read correspondence with the Financial Conduct Authority and notes of management meetings with them to understand any potential matters arising.</p> <p data-bbox="735 512 1398 620">We have read the minutes of key governance meetings where conduct issues have been considered. We have reviewed customer complaints to identify any new conduct issues which could have a material impact on the financial statements.</p> <p data-bbox="735 676 1417 728">Specifically in relation to the customer discount communications provision we have:</p> <ul data-bbox="735 757 1437 1308" style="list-style-type: none"> ● Obtained and tested evidence of review and approval of the provision from the Rectifications Committee. ● We obtained a listing of products and policies which have been identified as requiring remediation and ensured the correct discount and interest has been applied in calculating the provision for a sample of policies. ● We tested completeness of the policies by ensuring the policies used in the calculation can be reconciled back to the policy administration system and reviewed the data scripts used to identify the products requiring remediation. ● We have reviewed adjustments made to the provision post year end to ensure these should not have been included in the provision at the balance sheet date. ● For a sample of changes to the provision we have tested management's controls over authorisation and approval of the provision and agreed the details to authorisation from the Rectifications Committee. ● For a sample of payments made during the year, we have agreed the amounts back to bank statements and authorisation by management. <p data-bbox="735 1361 1278 1391">Specifically in relation to the potential FCA penalty:</p> <ul data-bbox="735 1397 1437 1720" style="list-style-type: none"> ● We challenged the rationale as to whether a provision or contingent liability is required by reviewing the available regulatory correspondence. ● We obtained the data provided to the regulator and assessed whether a provision could be determined. We concluded that a reliable estimate could not be ascertained based on the information available. ● We challenged whether the disclosures in the financial statements explained why a provision could not be reliably measurable. We also discussed the matter with the regulator. ● We assessed the impact of any potential fine on the going concern assessment of the company. <p data-bbox="735 1749 1437 1825">Based on the results of our audit work and the evidence available, we are satisfied that conduct matters are appropriately accounted for and disclosed in the financial statements.</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)**Valuation of insurance contract liabilities - particularly judgements surrounding the determination of the incurred but not reported (IBNR) reserve**

Refer to note 2 'Critical accounting estimates and judgement in applying accounting policies', note 1(n) 'Accounting Policies' and Note 17 'Insurance contracts'.

The Company writes two principal classes of business, household and creditor. The valuation of insurance contract liabilities represents a significant judgement. In particular, judgements surrounding uncertainties include determining the incurred but not reported (IBNR) reserve and consideration of the assumptions management have made as regards significant events such as weather or subsidence, which can materially impact the value of the liabilities.

We note that the level of uncertainty has increased this year as a result of Covid-19, which has directly impacted the creditor portfolio in respect of unemployment claims but also increased uncertainty in the paid and incurred development in respect of household liabilities.

We engaged our actuarial specialists to perform an independent re-projection of the household claims liabilities as at 30 November 2020 and creditor claims liabilities as at 30 September 2020. In addition, they performed roll-forward procedures to the balance sheet date.

The independent re-projection has involved our actuarial specialists making judgements and assumptions in respect of:

- the claims development pattern;
- claims numbers and average costs per claim; and
- expected loss ratios.

We have tested key inputs of paid, incurred and reported claims in the actuarial modelling to the source data in the administration systems. We have reconciled the model outputs to the financial statements.

We have considered significant adjustments to the modelled best estimate in more detail and challenged how these are determined and calculated an independent estimate where appropriate.

Through the procedures detailed above and having considered the specific nature and circumstances of the company's business, we have concluded that management's valuation of insurance contract liabilities is appropriate.

Impact of Covid-19

As disclosed in the Strategic report and note 25 'Risk Management', the impact of the global pandemic due to Covid-19 continues to cause significant social and economic disruption up to the date of reporting. In our audit, we have considered the following key impacts of Covid-19:

Ability of the company to continue as a going concern

There are a number of potential matters in relation to Covid-19 which could have an impact on the going concern status of the company. The Directors' have considered the implications of the Covid-19 pandemic on the company's performance and projected funding and capital positions and also have taken into account the impact of further stress scenarios as well. The Directors have concluded that the company is a going concern.

In assessing management's consideration of the impact of Covid-19 on the company we have performed the following procedures:

- Obtained, evaluated and challenged management's updated going concern assessment (specifically covering current and projected capital and liquidity positions) using our knowledge of the Company's business performance and review of regulatory correspondence. We agree with the Directors' conclusions in respect of going concern.

Impact on Estimation Uncertainty in the Financial Statements

The pandemic has increased the level of estimation uncertainty in the financial statements, particularly in Insurance Contract Liabilities. In particular, Covid-19 has directly impacted the creditor portfolio in respect of unemployment claims but also increased uncertainty in the paid and incurred development in respect of household liabilities

- Considered whether there has been any impact on the design and operating effectiveness of key controls impacting the preparation of financial statement information.
- Challenged management's judgements in the valuation of insurance contracts liabilities in relation to Covid-19, in particular the impact on paid and incurred development during the year and the impact on unemployment claims.

Qualitative Disclosures in the Annual Report and Accounts

In addition, the Directors have considered the qualitative disclosures included in the Annual Report and Accounts in respect of Covid-19 and the impact that the pandemic has had, and continues to have, on the company.

- Reviewed the appropriateness of disclosures within the Annual Report and Accounts with respect to Covid-19 and where relevant checked the material consistency of other information to the audited financial statements.

Based on the audit procedures performed and evidence obtained, we consider the disclosure of Covid-19 in the financial statements to be appropriate.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)*How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of the Lloyds Banking Group ("LBG") Insurance Division, the entity acts as an underwriter of the General Insurance policies for Lloyds Banking Group, where home and creditor insurance is underwritten. All contracts of insurance are underwritten in the United Kingdom.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<i>Overall company materiality</i>	£1,507,000 (2019: £1,100,000).
<i>How we determined it</i>	1% of net assets
<i>Rationale for benchmark applied</i>	In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded that net assets was the most appropriate benchmark. The primary use of the financial statements is to determine the company's solvency and its ability to pay dividends. Users are therefore focused on the company's solvency capital position and its equity both of which are captured using a net asset benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,130,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Insurance Audit Committee that we would report to them misstatements identified during our audit above £75,000 (2019: £57,301) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining, evaluating and challenging management's updated going concern assessment specifically covering current and projected capital and liquidity positions) using our knowledge of the Company's business performed and review of regulatory correspondence
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of the impact of Covid-19
- Inquiring and understanding the actions taken by management to mitigate the impacts of Covid-19, including reviewing attendance of all Audit and Risk Oversight Committees.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)**Reporting on other information**

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

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

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

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

Strategic report and Directors' Report

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

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

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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)**OTHER REQUIRED REPORTING****Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Insurance Audit Committee, we were appointed by the directors on 30 April 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2009 to 31 December 2020.



Gail Tucker (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

15 April 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
Revenue			
Gross earned premiums	3	121,094	149,638
Premiums ceded to reinsurers	3	(3,704)	(4,605)
Premiums net of reinsurance		117,390	145,033
Investment income	4	524	579
Net gain on assets and liabilities at fair value through profit or loss	5	592	1,236
Other income	6	4,436	12,700
Total revenue		122,942	159,548
Net Insurance Claims			
Claims and loss adjustment costs	7	(48,734)	(44,452)
Claims and loss adjustment costs recoverable from reinsurers	7	2,701	666
Claims and loss adjustment costs		(46,033)	(43,786)
Expenses			
Expenses for acquisition of Insurance contracts	8	(5,261)	(12,404)
Expenses for administration	8	(27,127)	(32,647)
Other expenses	8	(1,603)	—
		(33,991)	(45,051)
Total expenses		(80,024)	(88,837)
Profit before tax		42,918	70,711
Taxation charge	10	(8,564)	(13,435)
Profit for the year and total comprehensive income		34,354	57,276

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 24 to 57 are an integral part of these financial statements.

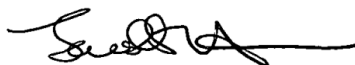
BALANCE SHEET AS AT 31 DECEMBER 2020

	Note	2020 £'000	Restated* 2019 £'000	Restated* 1 January 2019 £'000
ASSETS				
Intangible insurance assets	11	1,176	1,392	4,075
Reinsurance assets	12	4,550	2,575	2,885
Financial Assets:				
Loans and receivables at amortised cost	13	69,587	85,262	106,043
Investments at fair value through profit or loss	14	104,336	106,270	118,134
Cash and cash equivalents	15	119,805	101,459	72,526
Total assets		299,454	296,958	303,663
EQUITY AND LIABILITIES				
Capital and reserves attributable to the Company's equity shareholder				
Share capital	16	1,000	1,000	1,000
Retained profits*		149,798	115,444	98,168
Total equity		150,798	116,444	99,168
LIABILITIES				
Insurance contracts	17	110,448	120,510	151,849
Deferred tax liabilities	18	2,224	4,038	6,261
Current tax liabilities*	18	10,810	16,091	15,070
Provisions for other liabilities and charges	19	10,077	8,207	5,848
Accruals	20	1,715	—	—
Financial liabilities:				
Other financial liabilities*	21	13,382	31,668	25,467
Total liabilities		148,656	180,514	204,495
Total equity and liabilities		299,454	296,958	303,663

*See note 29 for details regarding the restatement.

The notes set out on pages 24 to 57 are an integral part of these financial statements.

The financial statements on pages 20 to 57 were approved by the Board on 13 April 2021 and signed on behalf of the Board:



J C S Hillman

Director

15 April 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		42,918	70,711
Adjusted for:			
Investment income and net fair value gains on assets held at fair value through profit or loss	4,5	(1,116)	(1,815)
Net (increase)/decrease in operating assets and liabilities	22	(10,847)	995
Taxation paid		(15,659)	(14,637)
Net cash flows generated from operating activities		15,296	55,254
Cash flows from investing activities			
Net decrease of investments at fair value through profit or loss	5,14	2,526	13,100
Dividends and other income received	4	524	579
Net cash flows generated from investing activities		3,050	13,679
Cash flows from financing activities			
Dividends paid	23	—	(40,000)
Net cash flows used in financing activities		—	(40,000)
Net increase in cash and cash equivalents		18,346	28,933
Cash and cash equivalents at the beginning of the year		101,459	72,526
Net cash and cash equivalents at the end of the year	15	119,805	101,459

The notes set out on pages 24 to 57 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		1,000	96,325	97,325
Prior year adjustment (see note 29)			1,843	1,843
Balance as at 1 January 2019 (restated*)		1,000	98,168	99,168
Profit and total comprehensive income for the year		—	57,276	57,276
Dividend paid	23	—	(40,000)	(40,000)
Balance as at 31 December 2019 (restated*)		1,000	115,444	116,444
Profit and total comprehensive income for the year		—	34,354	34,354
Dividend paid	23	—	—	—
Balance as at 31 December 2020		1,000	149,798	150,798

*See note 29 for details regarding the 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 25.

The notes set out on pages 24 to 57 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**1. Accounting policies**

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

- (1) in accordance with the International Accounting Standards (IASs) and in conformity with the requirements of the Companies Act 2006 (IFRSs)
- (2) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies.

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

In accordance with IAS 1 'Presentation of Financial Statements', assets and liabilities in the balance sheet are presented in accordance with management's estimated order of liquidity. Analysis of the assets and liabilities of the Company into amounts expected to be received or settled within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

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.

Details of standards and interpretations in issue but which have not been adopted early are set out at note 28.

(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 financial assets and liabilities 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 1

Valued using quoted prices in active markets for identical assets and liabilities to those being valued. An active market is one in which similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an on-going basis. 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 2

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 2 input must be observable for substantially the full term of the asset or liability. Level 2 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 such as Over the Counter interest rate swaps, listed debt and restricted equity securities.

(iii) Level 3

Valuations are based on mathematical models, market prices/data (where available) and subjective assumptions, including unobservable inputs. 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 private equity investments held by 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 at note 25. The Company's management, through a fair value pricing committee, review information on the fair value of the Company's financial assets 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**Premiums**

Premiums received in respect of all general insurance contracts are recognised as revenue proportionally over the period of coverage. Written premiums, gross of commission payable to intermediaries, comprise the premiums on contracts entered into in a financial year, regardless of whether such amounts may relate in whole or in part to a later financial year, exclusive of insurance premium tax and duties levied on premiums. The amount of insurance premium tax due by the Company which has not been paid over to Her Majesty's Revenue and Customs (HMRC) as at the Balance Sheet date is included as a liability under the heading 'Other financial liabilities'.

Premiums written include adjustments for any differences between unearned premiums recorded in prior years and amounts ultimately received. Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the inwards insurance business.

Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
1. Accounting policies (continued)**Investment income**

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

Dividends receivable in respect of listed shares and collective investment vehicles are recognised on the date that these are quoted ex-dividend; other dividend income is recognised when the right to receive the dividend is established. All dividends received are recognised through the statement of comprehensive income, within investment income.

Net gains and losses on assets and liabilities at fair value through profit or loss

Net gains and losses on assets and liabilities at fair value through profit or loss includes 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**Claims and loss adjustment expenses**

Claims and loss adjustment expenses, including claims handling expenses, are charged to the Statement of Comprehensive Income as incurred based on the estimated liability for compensation owed to policyholders or to third parties where policyholders are liable. They include direct and indirect claims settlement costs and arise from events that have occurred up to the Balance Sheet date even if they have not yet been reported to the Company.

Operating expenses

Commissions and other acquisition costs are recognised through the Statement of Comprehensive Income, within expenses for the acquisition of insurance contracts. Commission and other acquisition costs that vary with and are directly related to renewing existing contracts are deferred as set out in policy (f).

Other operating expenses are recognised in the Statement of Comprehensive Income as incurred, within expenses for administration.

(f) Intangible insurance assets**Deferred acquisition costs (DAC)**

Commissions and other acquisition costs that vary with and are directly related to renewing existing contracts are capitalised as an intangible asset, where they can be identified separately and measured reliably and it is probable that they will be recovered. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised in line with earned premiums.

(g) Assets arising from reinsurance contracts held

The Company cedes reinsurance in the normal course of business. Where the reinsurance contract transfers significant insurance risk to the reinsurer, the assets arising from reinsurance contracts held are classified as insurance contracts.

Assets arising from reinsurance contracts held – classified as insurance contracts

These assets are recognised within assets arising from reinsurance contracts held. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying contracts and in accordance with the terms of each reinsurance contract. These balances are subject to an annual impairment review. Further information on the Company's impairment policy is set out at policy (k).

Changes in these assets are recognised on the face of the statement of comprehensive income, through change in assets arising from reinsurance contracts held.

Premiums ceded and claims recoverable are recognised when corresponding insurance premiums are assumed and claims incurred. These items are disclosed separately on the face of the statement of comprehensive income.

(h) 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 transaction costs and subsequently measured at amortised cost, subject to impairment. Further information on the Company's impairment policy is set out at policy (k).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**1. Accounting policies (continued)****(i) Investments at fair value through profit or loss**

Investments at fair value through profit or loss comprise debt and equity securities and certain cash and cash equivalents.

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. All equity instruments are carried at fair value through profit or loss.

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 values of investments are based on current bid prices. If the market for a financial asset is not active, and also for unlisted securities, the Company establishes fair value by using valuation techniques. These include the use of similar arm's length transactions and reference to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Refer to note 1(c) Fair value methodology and note 25(c) Financial risk management for details of valuation techniques and significant inputs to valuation models.

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.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, short-term highly liquid investments with original maturities of three months or less (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments) and bank overdrafts where a legal right of set off 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, as set out in policy (i).

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

(k) Impairment**Financial assets**

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**1. Accounting policies (continued)****(k) Impairment (continued)**

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 Company 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 initial recognition, 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.

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.

Non-financial assets

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

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

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

(l) Taxes

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

Current tax

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**1. Accounting policies (continued)****(l) Taxes (continued)**

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries 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.

(m) Share capital

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

Dividends payable

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

(n) Insurance contracts

The Company issues insurance contracts, which transfer significant insurance risk. The Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event which are significantly more than the benefits payable if the insured event were not to occur. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly over time.

Recognition and measurement

All insurance contracts issued by the Company are short-term contracts categorised as home and creditor.

Home insurance contracts mainly compensate the Company's customers for damage suffered to their properties and their contents.

Creditor contracts mainly compensate the Company's customers against the cost to the insured of sustaining injury, suffering sickness or infirmity or suffering loss of income where the benefits payable under the contract relate to loans, credit card balances or other debts.

For all these contracts, the portion of premium received on in-force contracts that relates to unexpired risks at the Balance Sheet date is reported as the unearned premium reserve.

The Company does not discount its liabilities for unpaid claims.

The provision for outstanding claims represents the ultimate cost of settling all claims, including direct and indirect claims settlement costs, arising from events that have occurred up to the Balance Sheet date. This provision comprises an amount for the cost of claims notified but not settled and for claims incurred but not yet reported.

The provision for claims incurred but not reported at the date of the Balance Sheet and the related claims settlement expenses together with the anticipated reinsurance and other recoveries, is made on the basis of the best information currently available, having regard, in particular, to past claims experience. Subsequent information and events may result in the ultimate liabilities being more than, or less than, the amount provided for the estimated net liabilities at a particular Balance Sheet date. The estimates made are regularly reviewed in the light of subsequent information and any resulting adjustments are reflected in the earnings of the year in which the adjustments are made.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**1. Accounting policies (continued)****(o) 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.

(p) 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 judgments in applying accounting policies

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

Critical accounting estimates

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

a. Insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

In particular, home insurance policies are exposed to claims for a wide variety of perils with the most material being Escape of Water, Fire and Subsidence. In relation to subsidence claims, the Company subscribes to the Association of British Insurers (ABI) Subsidence 'Change of Insurer' Claims Agreement which places an obligation upon it to deal with subsidence claims. Hence the estimation of the ultimate cost of subsidence claims is complex.

In addition, the Company writes Creditor policies which are exposed to claims for a wide variety of perils with the most material being unemployment and accident and health. While these claims make up a smaller proportion of the overall reserves they are subject to an increased degree of uncertainty at this point given the impact of the Covid-19 pandemic on the UK economy.

Where there is insufficient information to determine the required provision, statistical techniques are used which take into account the cost of claims that have recently been settled and make assumptions about the future development of the outstanding cases. Similar statistical techniques are used to determine a provision for claims incurred but not reported at the Balance Sheet date.

Further information on the Company's assumptions, change in assumptions and sensitivities are set out in note 24.

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

3. Premiums net of reinsurance

	2020	2019
	£'000	£'000
Short-term insurance contracts		
- premiums receivable (note 17)	112,405	132,448
- change in unearned premium reserve (note 17)	8,689	17,190
Total gross earned premiums	121,094	149,638
Short-term reinsurance contracts		
- premiums payable (note 17)	(3,473)	(3,939)
- change in unearned premium reserve (note 17)	(231)	(666)
Total premiums ceded to reinsurers	(3,704)	(4,605)
Total premiums net of reinsurance	117,390	145,033

4. Investment income

	2020	2019
	£'000	£'000
Net income on investments at fair value through profit or loss	192	303
Other Interest Income	332	276
Total	524	579

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

	2020	2019
	£'000	£'000
Net gains on assets held at fair value through profit or loss	592	1,236
Total	592	1,236

Net gains on assets held at fair value through profit or loss include net realised losses of nil (2019: gains of nil) and net unrealised gains of £0.6 million (2019: gains of £1.0 million).

6. Other income

	2020	2019
	£'000	£'000
Other income	4,436	12,700
Total	4,436	12,700

Other income of £4.4m in 2020 is in respect of the write back of balances due to other Lloyds Banking Group entities where the counterparty has agreed that the liability has been extinguished.

Other income of £12.7million in 2019 was in respect of an indemnity payment from Halifax General Insurance Services Ltd. Halifax General Insurance Services Ltd remains liable for certain conduct-related operational risk liabilities associated with historic sales, communication practices for policies underwritten by the Company as well as any future amounts which that company may incur in this regard. Halifax General Insurance Services Ltd has entered into an Intragroup agreement with the Company whereby the Company will indemnify Halifax General Insurance Services Ltd for liabilities and costs associated with such operational losses.

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

7. Claims and loss adjustment costs

	2020			2019		
	£'000	£'000	£'000	£'000	£'000	£'000
	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>
Current year claims and loss adjustment costs (note 17)	56,542	(1,836)	54,706	56,822	(661)	56,161
Movement in costs of prior year claims and loss adjustment costs (note 17)	(10,706)	(865)	(11,571)	(12,370)	(5)	(12,375)
Movement in the expected cost of claims for unexpired risks (note 17)	2,898	—	2,898	—	—	—
Total claims and loss adjustment costs	48,734	(2,701)	46,033	44,452	(666)	43,786

8. Expenses

	2020	2019
	£'000	£'000
Fees and commissions payable	5,045	9,721
Change in deferred costs	216	2,683
Expenses for the acquisition of insurance contracts	5,261	12,404
Expenses for administration	27,127	32,647
Other expenses	1,603	—
Total	33,991	45,051

The administration of the Company is undertaken by another group company. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company, although there are some operating expenses which are incurred directly by the Company. In 2020 expenses recharged to the Company were £22.6 million (2019: £26.2 million) of which £4.5 million (2019: £4.8 million) of claims handling expenses were allocated to insurance claims costs.

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

Other expenses relate to the impairment of premiums receivable from intermediaries where there is no likelihood of recoverability.

9. Auditors' remuneration

	2020	2019
	£'000	£'000
Audit fees		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	242	242
Fees payable to the Company's auditors and its associates for other services:		
<i>Audit-related assurance services</i>	48	48
Total fees payable	290	290

Audit fees are borne by another company within the group and recharged to the Company.

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

10. Taxation charge

(a) Current year tax charge

	2020	2019
	£'000	£'000
Current tax:		
UK corporation tax	10,378	15,659
Total current tax	10,378	15,659
Deferred tax:		
Deferred tax credit	(2,224)	(2,224)
Change in tax rate	410	0
Total deferred tax	(1,814)	(2,224)
Total income tax charge	8,564	13,435

(b) Reconciliation of tax charge

	2020	2019
	£'000	£'000
Profit before tax	42,918	70,711
Tax at 19% (2019: 19.0%)	8,154	13,435
Effects of:		
Rate Change and related impacts	410	—
Total	8,564	13,435

The effective tax rate for the year is 19.9 per cent (2019: 19.0 per cent).

11. Intangible insurance assets

Deferred acquisition costs

	2020	2019
	£'000	£'000
At 1 January	1,392	4,075
Additions	5,165	6,510
Amortisation through Statement of Comprehensive Income	(5,381)	(9,193)
At 31 December	1,176	1,392

Of the above total, £1.2 million (2019: £1.4 million) is expected to be released within one year after the reporting date.

Amortisation is charged to expenses for the acquisition of insurance contracts in the Statement of Comprehensive Income.

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

12. Reinsurance assets

	2020	2019
	£'000	£'000
Reinsurers' unearned premium	1,683	1,914
Reinsurers' share of claims reserves	2,867	661
Total	4,550	2,575

The total of the Reinsurers' unearned premium is expected to be recovered less than one year after the reporting date as the amounts relate to home contracts of insurance. The Reinsurers' share of claims reserves relate to Flood Re and are therefore only recovered once the claim has settled.

13. Loans and receivables at amortised cost

	2020	2019
	£'000	£'000
Receivables arising from insurance and reinsurance contracts:		
Due from related parties	11,620	20,300
Due from policyholders	50,260	59,459
Other loans and receivables:		
Due from related parties	7,276	3,472
Due from external underwriters	431	2,031
Total	69,587	85,262

All of the above Loans and Receivables at Amortised Cost are expected to be received within one year of the reporting date.

14. Investments at fair value through profit or loss

	2020	2019
	£'000	£'000
Collective Investment Schemes - unlisted	97,168	96,451
Debt securities- unlisted	7,168	9,819
Total	104,336	106,270

Of the above total, £7.2 million (2019:£9.8 million) is expected to be received more than one year after the reporting date.

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss and cash and cash equivalents are investments in unconsolidated structured entities of £201.4 million (2019: £182.1 million) arising from investments in collective investment vehicles and limited partnerships.

The collective investment vehicles 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.

15. Cash and cash equivalents

	2020	2019
	£'000	£'000
Cash at bank and in hand	15,534	15,781
Investments held through liquidity funds	104,271	85,678
Total	119,805	101,459

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

16. Share capital

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

17. Insurance contracts

	2020			2019		
	£'000	£'000	£'000	£'000	£'000	£'000
	<i>Gross</i>	<i>Recoverable from reinsurers</i>	<i>Net</i>	<i>Gross</i>	<i>Recoverable from reinsurers</i>	<i>Net</i>
Short-term insurance contracts						
Claims reported & loss adjustment costs	35,118	(1,901)	33,217	33,455	(661)	32,794
Claims incurred but not reported	22,306	(966)	21,340	28,240	—	28,240
Unexpired risk reserve	2,898	—	2,898	—	—	—
Unearned premiums	50,126	(1,683)	48,443	58,815	(1,914)	56,901
Total insurance liabilities	110,448	(4,550)	105,898	120,510	(2,575)	117,935

Of the above total £17.1 million (2019: £19.1 million) is expected to be settled more than one year after the reporting date.

The unexpired risk reserve of £2.9 million (2019: £0.0 million) is in respect of the creditor insurance business.

Movements in insurance liabilities and reinsurance assets(a) **Claims and loss adjustment expenses**

	2020			2019		
	£'000	£'000	£'000	£'000	£'000	£'000
	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>
Notified claims	33,455	(661)	32,794	44,941	(305)	44,636
Incurred but not reported	28,240	—	28,240	30,903	—	30,903
Total at beginning of the year	61,695	(661)	61,034	75,844	(305)	75,539
Cash paid for claims settled in the year	(50,105)	495	(49,610)	(58,601)	310	(58,291)
Increase in liabilities:						
Arising from current year claims	56,542	(1,836)	54,706	56,822	(661)	56,161
Arising from prior year claims	(10,706)	(865)	(11,571)	(12,370)	(5)	(12,375)
Total at the end of the year	57,426	(2,867)	54,559	61,695	(661)	61,034
Notified claims	35,119	(1,901)	33,218	33,455	(661)	32,794
Incurred but not reported	22,307	(966)	21,341	28,240	—	28,240
Total at the end of the year	57,426	(2,867)	54,559	61,695	(661)	61,034

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

17. Insurance contracts (continued)

(b) Unearned premiums and unexpired short-term insurance risks

	2020			2019		
	£'000	£'000	£'000	£'000	£'000	£'000
	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>
Unearned premiums						
At 1 January	58,815	(1,914)	56,901	76,005	(2,580)	73,425
Increase in the year	112,405	(3,473)	108,932	132,448	(3,939)	128,509
Release in the year	(121,094)	3,704	(117,390)	(149,638)	4,605	(145,033)
At 31 December	50,126	(1,683)	48,443	58,815	(1,914)	56,901

	2020			2019		
	£'000	£'000	£'000	£'000	£'000	£'000
	<i>Gross</i>	<i>Recoverable from reinsurers</i>	<i>Net</i>	<i>Gross</i>	<i>Recoverable from reinsurers</i>	<i>Net</i>
Unexpired risk reserve						
At 1 January	—	—	—	—	—	—
Increase in the year	2,898	—	2,898	—	—	—
At 31 December	2,898	—	2,898	—	—	—

18. Tax liabilities

	2020	Restated*
	£'000	2019
	£'000	£'000
Current tax liabilities*	10,810	16,091
Deferred tax liabilities	2,224	4,038
Total tax liabilities	13,034	20,129

*See note 29 for details regarding the restatement.

Of the deferred tax liabilities in the above table, £2.2 million is expected to be settled within one year of the reporting date.

Recognised deferred tax

Deferred tax assets and deferred liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred 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 on the deferred income tax account is as follows:

	2020	2019
	£'000	£'000
Deferred tax liabilities comprise:		
Claims equalisation reserve (CER) provision	2,224	4,038
Total deferred tax liabilities	2,224	4,038

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 19 per cent (2019: 17 per cent).

On 3 March 2021, the UK Government announced its intention to increase the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023. There is no impact of this proposed rate change on the Company's deferred tax balances as the deferred tax balance is due to fully unwind before 1 April 2023.

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

18. Tax liabilities (continued)

Recognised deferred tax (continued)

The tax credit in the statement of comprehensive income relating to each of the above items is as follows

	2020	2019
	£'000	£'000
Claims equalisation reserve provision	(1,814)	(2,224)
Total deferred tax credit	(1,814)	(2,224)

Finance Act 2012, s26 abolished relief for claims equalisation reserves with effect from an appointed day, confirmed as 1 January 2016 per Statutory Instrument 2015/1999. As a result, the CER will unwind as to 1/6th each year from the accounting period ending 31 December 2016.

19. Provisions for other liabilities and charges

	2020				
	Levies	Premium Rebates	Customer Discount Communications	Payment Protection Insurance (PPI)	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January	—	2,196	2,070	3,941	8,207
Increase in the year	4,138	2,156	5,859	—	12,153
Utilised during the year	(4,138)	(476)	(2,952)	(2,717)	(10,283)
At 31 December	—	3,876	4,977	1,224	10,077

	2019				
	Levies	Premium Rebates	Customer Discount Communications	Payment Protection Insurance (PPI)	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January	—	2,895	—	2,953	5,848
Increase in the year	5,772	4,270	2,070	5,106	17,218
Utilised during the year	(5,772)	(4,969)	—	(4,118)	(14,859)
At 31 December	—	2,196	2,070	3,941	8,207

(a) Levies

(i) Financial Services Compensation Scheme ('FSCS') Levy

This levy of £0.1 million (2019: £0.5 million) relates to the amount payable to the Financial Services Compensation Scheme (FSCS) in the event of the failure of a company authorised by the Prudential Regulatory Authority (PRA) and/or the Financial Conduct Authority (FCA). In accordance with IFRIC 21 the FSCS Levy was accrued and paid during the year.

(ii) Flood Re Levy

In 2016 the Company entered the market wide Flood Re scheme to ensure at risk customers are able to obtain flood protection. This requires the Company to pay, based on its proportion of total market gross written premium, a levy. This was £4.0 million in (2019: £5.3 million).

(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 is based upon prior experience and includes an amount in respect of potential rebates required for customers identified as having dual insurance cover.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
19. Provisions for other liabilities and charges (continued)**(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 whether directly incurred by the Company or indemnified for Halifax General Insurance Services Limited, Intragroup Agreement dated 21 December 2005 and varied on 19 December 2016 and 1 July 2019.

In addition the Company is subject to 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 incurred by the Company or indemnified for Halifax General Insurance Services Limited, under the Intragroup Agreement signed on 21 December 2005 and varied on 19 December 2016 and 1 July 2019.

(d) Payment Protection Insurance (PPI)

The Company provided for redress costs pertaining to sales related complaints on PPI products following sales made up until 2010. The Company's estimate of the likely remaining redress costs from these sales at the end of 2020 is £1.2 million and has provided for this cost appropriately. The Company holds an indemnity with Lloyds Banking Group whereby Lloyds Banking Group will indemnify the Company for liabilities and costs associated with related complaints on PPI products, up to a limit of £49.0 million.

20. Accruals

	2020	2019
	£'000	£'000
Accrued expenses	1,715	—
Total	1,715	—

All accruals are current liabilities.

21. Other financial liabilities

	2020	Restated*
	£'000	2019
	£'000	£'000
Insurance payables*	1,302	3,839
Due to related parties	6,895	20,072
Other taxes payable	3,208	3,721
Other payables	1,977	4,036
Total	13,382	31,668

All insurance and other payables are current liabilities.

*See note 29 for details regarding the restatement.

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

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

	2020	2019
	£'000	£'000
Net decrease in operating assets		
Intangible insurance assets	216	2,683
Loans and receivables	15,675	20,781
Net decrease in operating assets	15,891	23,464
Net (decrease)/increase in operating liabilities		
Insurance contract liabilities (net)	(12,037)	(31,029)
Provisions for other liabilities and charges	1,870	2,359
Other financial liabilities and accruals	(16,571)	6,201
Net decrease in operating liabilities	(26,738)	(22,469)
Net (increase)/decrease in operating assets and liabilities	(10,847)	995

23. Dividends paid

	2020	2019
	£'000	£'000
Total dividends paid on equity shares	—	40,000

No dividends were paid during the year in respect of 2020 (2019: £40 million, £40 per share).

24. Short-term insurance contracts - assumptions, change in assumptions and sensitivities

(1) Processes used to determine key assumptions in respect of insurance contracts

The methodology and assumptions used in relation to determining the bases of the earned premium levels are derived for each individual underwritten product and contained within the appropriate software programmes of the in-house policy underwriting system. Assumptions are intended to be neutral estimates of the most likely or expected outcome (best estimates).

The levels, adequacies and assumptions used to determine claims reserves are set out in the Claims and Reserving Working Group (CRWG) and Claims and Reserving Committee (CRC) Reports.

These reports from the Head of GI Actuarial and recommendations are formally reviewed by the Claims and Reserving Committee on a regular basis.

An analysis of methodology and assumptions in calculating technical reserves is shown below for each significant product class.

(2) Key assumptions(a) **Home**

Significant perils and loss factors include accidental damage, fire, escape of water, subsidence, public liability, theft and adverse weather. The reserving methodology and associated assumptions are set out below:

Outstanding claims reserve (OCR)

The OCR represents the case estimate reserves held in respect of claims which have been reported before the accounting date.

Claims incurred but not reported reserve (IBNR)

The IBNR reflects the difference between the total reserves (set using standard actuarial techniques), and the OCR (which reflects reported reserves only).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
24. Short-term insurance contracts - assumptions, change in assumptions and sensitivities (continued)

The IBNR covers both:

- Incurred but not enough reported (IBNER) – a reserve to provide for changes in the case estimates of those claims which have been reported before the accounting date
- Pure IBNR – a reserve to provide for those claims which have occurred before the accounting date, but have yet to be reported to the insurer

The IBNR is determined for each peril separately using various actuarial techniques, such as the application of a chain ladder statistical projection method to reported case estimates, paid amounts and volumes. Consideration is also given to the impact of any changes in claims handling. If any considerable uncertainty exists, then an uncertainty provision will be identified and documented within the reserving reports. Particularly, additional provisions are established for fire and liability claims, to reflect the additional volatility over and above that seen in the available data.

Major events such as storms or floods are considered separately, using projection patterns appropriate to the specific event in question.

Unearned premium reserve (UPR)

The UPR is calculated using a daily allocation method.

(b) Creditor

Significant perils and loss factors include unemployment, morbidity, interest rates and the UK economic outlook generally. The vast majority of financial loss business underwritten by the Company consists of loan protection covering accident, sickness and unemployment. The reserving methodology and associated assumptions for loan protection are set out below:

Outstanding claims reserve (OCR)

The OCR is calculated as the product of the number of active claims, the average duration remaining and the monthly repayment amount. The average claim duration assumption is based on past experience of loan protection data adjusted for the current economic conditions. This adjustment is made on a judgemental basis, taking into account the most recent data and economic predictions.

Claims incurred but not reported reserve (IBNR)

IBNR reflects the difference between total reserves set using standard actuarial techniques and the OCR, which reflects claims that are in course of payment.

Unearned premium reserve (UPR)

Earned premiums are calculated on a basis that reflects the length of time for which contracts have been in force and the projected incidence of risk over the term of each contract.

Claims development tables

The development of insurance liabilities is a measure of the Company's ability to estimate the ultimate value of claims.

The top half of each of the following tables below illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the liability amount appearing in the Balance Sheet. The accident year basis is considered the most appropriate for the business written by the Company.

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

24. Short-term insurance contracts - assumptions, change in assumptions and sensitivities (continued)

Home - gross

Accident year	2016	2017	2018	2019	2020	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:						
- at end of accident year	77,685	54,769	55,016	34,726	32,641	
- one year later	77,692	49,817	49,387	30,188	—	
- two years later	71,047	48,799	47,445	—	—	
- three years later	70,579	46,652	—	—	—	
- four years later	70,257	—	—	—	—	
Current estimate of cumulative claims	70,257	46,652	47,445	30,188	32,641	227,183
Cumulative payments to date	(68,672)	(45,074)	(42,627)	(23,895)	(12,487)	(192,755)
Liability recognised in the Balance Sheet	1,585	1,578	4,818	6,293	20,154	34,428
Liability in respect of prior years						8,879
Total gross liability included in the Balance Sheet						43,307

Home - net

Accident year	2016	2017	2018	2019	2020	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:						
- at end of accident year	77,685	54,769	54,696	33,995	30,574	
- one year later	77,692	49,817	49,147	28,892	—	
- two years later	71,047	48,799	47,445	—	—	
- three years later	70,579	46,652	—	—	—	
- four years later	70,257	—	—	—	—	
Current estimate of cumulative claims	70,257	46,652	47,445	28,892	30,574	223,820
Cumulative payments to date	(68,672)	(45,074)	(42,627)	(23,631)	(12,256)	(192,260)
Liability recognised in the Balance Sheet	1,585	1,578	4,818	5,261	18,318	31,560
Liability in respect of prior years						8,879
Total net liability included in the Balance Sheet						40,439

As at the year ended 31 December 2020 the Company limited its exposure to loss within insurance operations through participation in reinsurance arrangements. The home portfolio is protected through a catastrophe excess of loss arrangement which operates across both the Company and Lloyds Bank General Insurance Limited. The reinsurance programme was renewed on 1 July 2020. Amounts recoverable from reinsurers were estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits. The purpose of a home excess of loss catastrophe reinsurance programme is to protect against the adverse effects of large weather related events.

The gross home liability of £43.3 million and net liability of £40.4 million shown in the above tables excludes £1.9 million (2019: £2.4 million) of unallocated claims handling expenses.

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

24. Short-term insurance contracts - assumptions, change in assumptions and sensitivities (continued)

Creditor - gross and net

Accident year	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	Total £'000
Estimate of ultimate claims costs:						
- at end of accident year	14,125	17,352	14,433	11,389	14,625	
- one year later	15,915	13,524	13,012	10,414	—	
- two years later	15,651	12,273	11,042	—	—	
- three years later	15,586	12,186	—	—	—	
- four years later	15,597	—	—	—	—	
Current estimate of cumulative claims	15,597	12,186	11,042	10,414	14,625	63,864
Cumulative payments to date	(15,533)	(12,092)	(10,862)	(8,231)	(6,002)	(52,720)
Liability recognised in the Balance Sheet	64	94	180	2,183	8,623	11,144
Liability in respect of prior years						199
Total Gross liability included in the Balance Sheet						11,343

The Company has not had any reinsurance cover in place for the current and preceding 5 years in respect of creditor insurance.

The creditor liability of £11.3 million shown in the above tables excludes £0.9 million (2019: £1.3 million) of unallocated claims handling expenses and £2.9 million of AURR (2019: £nil).

While management believes that the total insurance liability for all products in the portfolio carried at year end is adequate, the application of statistical techniques requires significant judgment. An increase of 10 per cent in the cost of total claims outstanding would result in the recognition of an additional cost of £5.1 million net of reinsurance (2019: £5.5 million). Similarly, an increase of 10 per cent in the number of all claims would result in the recognition of an additional cost of £5.4 million net of reinsurance (2019: £5.9 million). A 5 per cent increase in the inflation rate of claims would result in the recognition of an additional cost of £2.6 million net of reinsurance (2019: £2.8 million).

25. Risk management

The Company is a part of Lloyds Banking Group. The principal activity of the Company is the undertaking of general insurance business in the UK. The Company underwrites a range of general insurance products such as home insurance and creditor 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 reinsures 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, insurance underwriting, model risk, credit, capital, liquidity, regulatory and legal, conduct, people, governance and operational risks. The Company assesses the relative costs and concentrations of each type of risk and material issues are escalated to the appropriate Insurance executive committees and onto the Board if required. The performance of the Company, its continuing ability to write business and the strategic management of the business depend on its ability to manage these risks.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
25. Risk management (continued)**(a) Governance framework (continued)**

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

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

In response to the contingency planning requirements for Covid-19, daily Risk Surgeries were put in place establishing a control amendment process to support colleagues to continue to serve customers and to maintain the operation of business processes. A key aim of the Risk Surgery and control amendment process is to take reasonable steps to ensure that all changes to current ways of working (including operational home working), operational processes or customer treatment is robustly risk assessed and reviewed by the appropriate risk SMEs across the three lines of defence. 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 has approved a risk appetite framework that covers Customer Risk, Strategy and Brand Risk and Financial Risks.

Risk appetite is the amount and type of risk that the Board prefers, accepts or wishes to avoid and is aligned to Company strategy. The risk appetite statements set limits for exposures to the key risks faced by the business.

Risk appetite is reviewed at least annually by the Board. Executive owned Tier 2 and Tier 3 limits sit beneath Board owned risk appetite (Tier 1) and are managed and governed within the Insurance and Wealth Division.

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

(c) Financial risks

The Company is exposed to financial risk through its financial assets, financial liabilities, assets arising from reinsurance contracts and liabilities arising from insurance and investment contract liabilities. In particular, the key financial risk is that investment proceeds are not sufficient to fund the obligations arising from its insurance contracts.

The Company manages these risks in a number of ways, including risk appetite assessment and monitoring of capital resource requirements. The Company has a defined investment policy which sets out limits on the Company's exposure to its investments. Investment management meetings are held regularly where the Company's investments are reviewed. Exposure to investments are monitored by the finance function in order to ensure compliance with internal and relevant external regulatory limits for solvency purposes and to allow additional measures to be taken if limits are breached.

Financial assets and financial liabilities are measured on an on-going basis either at fair value or at amortised cost. The summary of significant accounting policies (note 1) describes how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

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.

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

25. Risk management (continued)

(c) Financial Risks (continued)

(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 is exposed to market risk through its portfolio of investments, the majority of which are short term in nature. The Company categorises its financial assets at fair value through profit or loss as follows:

- Collective investment schemes: unlisted investments which are authorised and regulated by the FCA and fall under the EU directive on Undertakings for Collective Investment in Transferable Securities;
- Listed debt securities: includes sterling denominated floating rate notes; and
- Unlisted debt securities: All classed as level 3, comprising asset backed securities and covered bonds which are not actively traded and are valued using a discounted cash flow model.

Below is an analysis of assets and liabilities at fair value through profit or loss and assets and liabilities for which a fair value is required to be disclosed, according to their fair value hierarchy (as defined in note 1 (c)).

As at 31 December 2020

	Fair value hierarchy			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Collective Investment Schemes - unlisted	97,168	—	—	97,168
Schroder Sterling Liquidity Fund	104,271	—	—	104,271
Debt securities - unlisted	—	—	7,168	7,168
Total assets	201,439	—	7,168	208,607

As at 31 December 2019

	Fair value hierarchy			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Collective Investment Schemes - unlisted	96,451	—	—	96,451
Aberdeen Liquidity Fund	85,678	—	—	85,678
Debt securities - unlisted	—	—	9,819	9,819
Total assets	182,129	—	9,819	191,948

The unlisted debt securities classified as Level 3 above are not actively traded and are valued using a discounted cash flow model. The valuation incorporates credit risk spreads, which are generally based on observable spreads of similar securities, plus a liquidity premium. Assumptions are made about the expected life of the securities, reflecting prepayment behaviour.

The table below shows movements in the assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only).

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

25. Risk management (continued)

(1) Market risk (continued)

	2020	2019
	£'000	£'000
Balance at 1 January	9,819	12,758
Disposals	(2,557)	(3,137)
Net (losses)/gains recognised within net gains on assets and liabilities at fair value through profit or loss in the statement of comprehensive income	(94)	198
Balance at 31 December	7,168	9,819

Total unrealised (losses)/gains for the period included in the statement of comprehensive income for assets and liabilities held at 31 December	(94)	198
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An additional source of market risk is the mismatch between payout patterns of liabilities and the assets backing those liabilities. However, this component is a minor source of risk for the Company because the majority of assets as well as liabilities are of a short term nature.

The market risk in the investment portfolio is measured using 'Value at Risk' (VaR) methodology. VaR is defined as the maximum loss over a given time horizon, with a defined low probability that the actual loss on the portfolio will be larger. A 5 per cent VaR with a one year time horizon is used to set the Company's tolerance to market risk. A loss equal to VaR is the worst case loss considered for the management of market risk.

The VaR calculation allows for dependencies between the values of investments in the portfolio. Its inputs include 15 years of historic movements in the values of appropriate market indices and interest rates.

The VaR for the Company as at 31 December 2020 was £0.1 million (2019: £0.9 million).

(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.

The Company underwrites predominantly short-term insurance liabilities with durations of less than 5 years, which are not directly sensitive to the level of market interest rates as they are undiscounted and contractually non-interest bearing.

	2020	2019
	£'000	£'000
Impact on profit after tax and equity at reporting date		
100 basis points increase in yield curves	1,043	857
100 basis points decrease in yield curves	(1,043)	(857)

(2) Insurance underwriting risk

Insurance underwriting risk is defined as the risk of adverse developments in the timing, frequency and severity of claims for insured/underwritten events and in customer behaviour, leading to reductions in earnings and/or value.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number of claims will vary from year to year from the estimate established using statistical techniques. When submitting a claim, proof will be needed. The Company follows any principles set up by the ABI and PRA in respect of handling claims. Claims information is retained to help with the estimation of future claim payments and risk pricing.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to ensure that within each of its risk categories sufficiently large populations of risks are achieved to reduce the variability of the expected outcome.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
25. Risk management (continued)**(2) Insurance underwriting risk (continued)****(i) Home****(a) Frequency and severity of claims**

For home insurance contracts, climatic changes appear to be giving rise to more frequent and severe extreme weather events and their consequences. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company can charge a premium appropriate to the risk presented, decline to underwrite certain applications at sale, impose policy terms and conditions or higher excesses and, in the majority of cases, has the right not to renew individual policies. The Company also has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (i.e. subrogation).

The Company has the right to re-price the risk on renewal and also has the ability to impose excesses. These contracts are underwritten by reference to the replacement value of the properties and contents insured. Claim payment limits are always included for contents insurance to cap the amount payable on occurrence of the insured event. Costs of rebuilding properties or replacement of, or indemnity for, contents, are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, fire, flood damage, freeze and subsidence. The Company has reinsurance cover for natural and man-made catastrophes to limit losses in any one year from both large single events and a number of events occurring over the year. For the Company standalone, the maximum loss for a single event up to £71.7 million is £9.4 million (2019: £94.8 million, £10.7 million) and £12.6 million of aggregate protection is provided in excess of £15.2 million (2019: £15.2 million, £17.3 million).

The insurance underwriting risk arising from these contracts is not concentrated in any of the regions in the UK in which the Company operates, and there is a balance between buildings and contents in the overall portfolio.

(b) Sources of uncertainty in the estimation of future claim payments

Home claims are analysed separately for each peril. The development of accumulations of weather claims in a single catastrophic event is analysed separately. The shorter settlement period for non-subsidence/liability claims allows the Company to achieve a higher degree of certainty about the estimated cost of these claims, and a relatively small Incurred but not Reported (IBNR) reserve is held at year-end. However, the longer time needed to assess the emergence of a subsidence or liability claim makes the estimation process more uncertain for these claims.

(ii) Creditor**(a) Frequency and severity of claims**

Significant perils and risk factors include unemployment, morbidity, interest rates and the UK economic outlook generally. The majority of financial loss business underwritten by the Company is payment protection, which has accident, sickness and unemployment as its main perils.

The claim amount paid is fixed at the level of repayment and is capped for a maximum duration for most contracts. There are waiting and exclusion periods during which no claim will be accepted. In addition, in the case of sickness, any pre-existing health conditions will not be covered.

The insurance underwriting risk arising from these contracts is not concentrated in any of the regions in the UK in which the Company operates. A credit scoring system and procedures are in place to approve loans on which insurance will be offered.

(b) Sources of uncertainty in the estimation of future claim payments

The Company's estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims would normally allow the Company to achieve a higher degree of certainty about the estimated cost of claims however there is still an IBNR held at year-end.

The Company ceased writing new creditor business in 2010, consequently the book is now in run-off which in itself establishes an additional source of uncertainty in analysing the behaviours of a diminishing book against a historically stable portfolio. Future claims payments are driven by economic factors such as unemployment rate and as such there is significant uncertainty related to this regarding the impact of Covid-19 over the coming months.

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

25. Risk management (continued)

(3) 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).

Investment counterparty default risk arises primarily from holding invested assets to meet liabilities, and reinsurer default credit risk primarily arises from exposure to reinsurers.

Management considers that the Company's only significant potential credit risk exposures are from reinsurance and financial assets held at fair value through profit or loss. Adequate and effective procedures are in place to mitigate these exposures and all the other sources of credit risk identified by the business. Credit risk exposure from insurance receivables is not considered to be significant, as the risk is diversified across a large volume of policyholders for all products and the amount of unpaid premiums at the Balance Sheet date is not significant. A provision for doubtful debt is recognised when payments due from policyholders have not been received for at least a month.

The Company's risk transfer policy addresses the management of reinsurance credit risk and is authorised by the Insurance and Wealth Asset and Liability Committee (IWALCO). Only reinsurers with a minimum credit rating of 'A-' will be accepted. The Company also requires a 'special termination clause' in all contracts allowing a reinsurer to be replaced mid-term, in the event their security rating is downgraded below an acceptable level during the period of the reinsurance contract.

Reinsurance claims recoveries management information is supplied to the actuarial function by the reinsurance broker. The Company's actuarial function monitors the status of claims made on reinsurance policies. Reinsurance is primarily used to reduce insurance risk. However, it is also sought for other reasons such as improving profitability, reducing capital requirements and obtaining technical support.

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

The table below analyses financial assets subject to credit risk using Moody's or equivalent:

As at 31 December 2020

	Total £'000	AAA £'000	AA/A £'000	BBB £'000	Not rated £'000
Stage 1 assets					
Cash and cash equivalents	119,805	104,271	15,534	—	—
Loans and receivables at amortised cost	19,327	—	—	—	19,327
Exposure to credit risk	139,132	104,271	15,534	—	19,327
Simplified approach assets					
Loans and receivables at amortised cost	50,260	—	—	—	50,260
Exposure to credit risk	50,260	—	—	—	50,260
Assets at FVTPL					
Debt Securities - unlisted	7,168	7,168	—	—	—
Collective investment schemes - unlisted	97,168	97,168	—	—	—
Other					
Reinsurance contracts	4,550	—	4,550	—	—
Total	298,278	208,607	20,084	—	69,587

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

25. Risk management (continued)

(3) Credit Risk (continued)

As at 31 December 2019

	Total £'000	AAA £'000	AA/A £'000	BBB £'000	Not rated £'000
Stage 1 assets					
Cash and cash equivalents	101,459	85,678	15,781	—	—
Loans and receivables at amortised cost	25,803	—	—	—	25,803
Exposure to credit risk	127,262	85,678	15,781	—	25,803
Simplified approach assets					
Loans and receivables at amortised cost	59,459	—	—	—	59,459
Exposure to credit risk	59,459	—	—	—	59,459
Assets at FVTPL					
Debt Securities - unlisted	9,819	9,819	—	—	—
Collective investment schemes - unlisted	96,451	96,451	—	—	—
Other					
Reinsurance contracts	2,575	—	2,575	—	—
Total	295,566	191,948	18,356	—	85,262

(i) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its financial commitments as they fall due, or can secure them only at an excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from an insurance liability falling due for payment earlier than expected; or from the inability to generate cash inflows as anticipated.

The main objective of the Company's liquidity risk policy is to ensure that all funds within the Company that serve to fulfil liabilities are available in sufficiently liquid form to settle liabilities as and when they fall due. Liquidity risk is considered to be small, as the Company primarily holds financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs together with short term cash deposits which are viewed as readily available at short notice. The Company also holds unlisted debt securities which have maturities of longer term duration (3–5 years maximum). The Company routinely reviews its capital and liquidity position and only invests excess liquidity (where balances exceed a level required to settle insurance claims and other creditors including an internal buffer) in longer term assets. As such the assets do not carry any significant liquidity risk.

In order to measure liquidity risk exposure the Company's liquidity is assessed in a stress scenario. Liquidity risk appetite considers two time periods; three month stressed outflow are required to be covered by primary liquid assets; and one year stressed outflow are required to be covered by primary and secondary liquid assets, after taking account of management actions. Primary liquid assets are gilts or cash, and secondary liquid assets are tradable non-primary assets

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

The following table analyses the Company's insurance and financial liabilities into relevant maturity groupings. The analysis of insurance liabilities is an estimated maturity analysis of the amount recognised in the Balance Sheet as permitted by IFRS 4. For financial liabilities, the groupings are based on the period remaining at the Balance Sheet to the contractual maturity date. The amounts disclosed in the table are undiscounted.

As at 31 December 2020

	Carrying amount £'000	Up to 3 months £'000	3-12 months £'000	1-2 years £'000	More than 2 years £'000
Short-term insurance contracts	54,111	17,505	19,518	8,931	8,157
Other financial liabilities	15,097	15,097	—	—	—
Total	69,208	32,602	19,518	8,931	8,157

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

25. Risk management (continued)

(3) Credit Risk (continued)

(i) Liquidity Risk (continued)

As at 31 December 2019	Carrying amount	Restated* Up to 3 months	3-12 months	1-2 years	More than 2 years
	£'000	£'000	£'000	£'000	£'000
Short-term insurance contracts	59,033	19,786	20,144	8,950	10,153
Other financial liabilities*	31,099	27,378	3,721	—	—
Total	90,132	47,164	23,865	8,950	10,153

*See note 29 for details regarding the restatement.

Short-term insurance contracts include claims reported and loss adjustment expenses, claims incurred but not reported and unexpired risk reserve as disclosed in note 17.

(ii) 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 risk that:

- the Company has insufficient capital to meet its regulatory capital requirements
- the Company has insufficient capital to provide a stable resource to absorb all losses up to a confidence level defined in the risk appetite
- the Company loses reputational status by having capital that is regarded as inappropriate, either in quantity, type or distribution

The Company is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The PRA rules, which incorporate all Solvency II requirements, specify the minimum amount of capital that must be held by the regulated Company in addition to their insurance liabilities. Under the Solvency II rules, the Company must hold assets in excess of this minimum amount, which is derived from an economic capital assessment undertaken by each regulated company and the quality of capital held must also satisfy Solvency II tiering rules. This is reviewed on a quarterly basis by the PRA.

The Solvency II minimum required capital must be maintained at all times throughout the year. These capital requirements and the capital available to meet them are regularly estimated in order to ensure that capital maintenance requirements are being met.

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
- to comply with the insurance capital requirements set out by the PRA in the UK
- when capital is needed, to require an adequate return to the shareholder by pricing insurance contracts according to the level of risk associated with the business written

The capital management strategy is such that the integrated insurance business (comprising Scottish Widows Group (SWG) and its subsidiaries, including the Company) will hold capital in line with the stated risk appetite for the business, which is to be able to withstand a one in ten year stress event without breaching the capital requirements. At SWG level it is intended that all surplus capital above that required to absorb a one in ten year stress event will be distributed to Lloyds Banking Group.

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

The table below sets out the regulatory capital held at 31 December in each year for the Company on a Solvency II basis. The current year information is an estimate of the final result:

	2020	2019
	£'000	£'000
Regulatory Capital held	162,309	135,515

All minimum regulatory requirements were met during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
25. Risk management (continued)**(4) Concentration risk***Credit concentration risk*

Credit concentration risk relates to the inadequate diversification of credit 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. This policy supports the approach mandated by the PRA for regulatory reporting.

At 31 December 2020 and 31 December 2019, the Company did not have any significant concentration of credit risk with a single counterparty or Group of counterparties where limits applied.

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.

Almost all of the Company's assets are invested in liquidity funds which are designed to give ready access to liquidity.

This is supplemented by active liquidity management in the Company, to ensure that even under stress conditions the Company 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), the Insurance Risk Committee (IRC) and Insurance Banking Liquidity Operations Committee (BLOC).

(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
- Modelling and stress testing, including Internal Model outputs
- Actual vs expected losses
- Scenario analysis
- Reverse stress testing

Management

- Identify and operate controls
- Perform day-to-day control activities
- Ensure appropriate segregation of duties
- Control assessment and estimation of residual risk
- Controls testing activities including Own Risk and Solvency Assessment (ORSA) review
- Effectiveness reviews

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
25. Risk management (continued)**(d) Non-financial risks (continued)****Monitoring**

- Performance vs risk appetite
- Internal Model performance monitoring
- 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
- ORSA reporting

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 on-going 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
25. Risk management (continued)**(d) Non-financial risks (continued)**– **Financial crime**

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

– **Financial reporting risk**

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

– **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.

Regulatory and legal risk

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

(e) UK political uncertainties including EU exit

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

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

25. Risk management (continued)

(f) Economic Risk

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

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

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 25 (c)(1)), insurance underwriting risk (note 25 (c)(2)), credit risk (note 25 (c)(3)) and capital risk (note 25 (c)(3)(ii)).

26. Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking 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, 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 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 with other Lloyds Banking Group companies

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

Relationship	2020			
	Income during £'000	Expenses during £'000	Payable at period end £'000	Receivable at period £'000
Parent	—	—	—	—
Other related parties	4,458	31,267	8,032	30,133

Relationship	2019			
	Income during £'000	Expenses during £'000	Payable at period end £'000	Receivable at period £'000
Parent	—	40,000	—	—
Other related parties	15,930	40,248	20,528	39,292

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

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

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

Transactions with 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

26. Related party transactions (continued)

Key management compensation:

	2020 £'000	2019 £'000
Short-term employee benefits	347	438
Post-employment benefits	1	1
Share-based payments	46	95
Total	394	534

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £162 thousand (2019: £201 thousand).

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

Certain members of key management in the Company, including the highest paid Director, provide services to other companies within Lloyds Banking Group. In such cases, for the purposes of this note, figures have been included based on an apportionment to the 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 £32 thousand (2019: £46 thousand). During the year, two directors exercised share options (2019: two directors) and two directors' received qualifying service shares under long term incentive schemes (2019: three directors).

Movements in share options are as follows:

	2020 Thousands Options	2019 Thousands Options
Outstanding at 1 January	912	935
Granted	749	512
Exercised	(239)	(287)
Forfeited	(406)	(262)
Dividends awarded	14	14
Outstanding at 31 December	1,030	912

Detail regarding the highest paid Director is as follows:

	2020 £'000	2019 £'000
Apportioned aggregate emoluments	89	109
Apportioned share-based payments	27	34
Total	116	143

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**27. 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 £54.5 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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
28. Future accounting developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2020 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 17 'Insurance Contracts' ¹	<p>IFRS 17 replaces IFRS 4 'Insurance Contracts' and is effective for annual periods beginning on or after 1 January 2023, following the Exposure Draft published on 26 June 2019, and the International Accounting Standards Board (IASB) Board meeting on 17 March 2020.</p> <p>IFRS 17 requires insurance contracts to be measured on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. Changes to estimates of future cash flows from one reporting date to another are recognised either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it. The effects of some changes in discount rates can either be recognised in profit or loss or in other comprehensive income as an accounting policy choice. The risk adjustment is released to profit and loss as an insurer's risk reduces. These requirements will result in changes to the timing of profit recognition for insurance contracts issued by the Company.</p> <p>The Company's IFRS 17 project is progressing to plan. Work has focused on interpreting the requirements of the standard, developing methodologies and accounting policies, and assessing the required changes to reporting and other systems. The development of the Company's data warehousing and actuarial liability calculation processes required for IFRS 17 reporting is progressing in line with the Company's plans.</p> <p>The standard will have a significant impact on the accounting for the insurance issued by the Company. Presentation and disclosure for these contracts will be considerably different and more extensive than under IFRS 4.</p>	Annual periods beginning on or after 1 January 2023
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company.	1 January 2021 and 1 January 2022

¹ At the date of this report, these pronouncements are awaiting endorsement for use in the United Kingdom.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
29. Restatement of comparatives

The comparative information reported has been restated as explained below:

	Restated	Adjustment	Previously Reported
	£'000	£'000	£'000
Balance sheet as at 1 January 2019			
Equity			
Retained Profits	98,168	1,843	96,325
Liabilities			
Current tax liabilities	15,070	432	14,638
Other financial liabilities - Insurance Payables	1,493	(2,275)	3,768
Balance sheet as at 31 December 2019			
Equity			
Retained profits	115,444	1,843	113,601
Liabilities			
Current tax liabilities	16,091	432	15,659
Other financial liabilities - Insurance Payables	3,840	(2,275)	6,115

Correction of error in accounting of insurance payables

During the years ended 31 December 2006 to 31 December 2020, £2.3 million of cancelled claims payments were not fully reversed, resulting in overstatements of claims and insurance payables. This was as a result of an issue in the claims handling process where returned/cancelled payments were not registered on the claims processing system.

The opening and closing 2019 balance sheets have therefore been restated for £2.3 million (as shown in the table above) for errors up to 31 December 2018. £0.04 million has been corrected in 2020 which includes £0.02 million for errors in 2019.

The tax impact of the adjustment has been allowed for in the restatement.