Scottish Widows Group Limited

Annual Report and Accounts
2020

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

N E T Prettejohn (Chair)

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

* denotes Executive Director

Company Secretary

J M Jolly

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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Bristol
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Registered Office

69 Morrison Street
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Midlothian
EH3 8YF

Company Registration Number

SC199547

STRATEGIC REPORT

The Directors present their strategic report on Scottish Widows Group Limited ("the Company") for the year ended 31 December 2020. The Company is registered in Scotland and is a private company limited by share capital.

The Company contributes to the results of the Insurance and Wealth Division of Lloyds Banking Group plc. Scottish Widows was founded in 1815, and since then we have been focused on helping customers protect themselves today whilst preparing for a secure financial future. Our objective is to be the best insurance and retirement savings business for customers; providing simple, trusted, value for money products accessible through our customers' preferred channels.

Principal activities

The Company's principal activity is that of a holding company. Its three directly owned subsidiaries are Scottish Widows Limited, Lloyds Bank General Insurance Holdings Limited and Scottish Widows Financial Services Holdings.

The Company has an interest in the life assurance and pensions sector through its investment in Scottish Widows Limited and general insurance through its investment in Lloyds Bank General Insurance Holdings Limited.

Specific risks are addressed in the financial statements of individual subsidiary companies and items identified in these financial statements summarise these. For example, the Company does not have direct dealings with customers or employees other than through its subsidiaries.

Result for the Year

The result for the year ended 31 December 2020 is a profit after tax of £480.9 million (2019 profit: £425.1 million).

Total equity for the Company reduced by £68.0 million, primarily as a result of £548.9 million of dividend payments made in the year, offset by current year retained profit.

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 Lloyds Banking Group will continue to monitor developments closely. Activity to respond to potential risks include customer communications, market volatility scenario exercises, contingency planning and monitoring of emerging European Economic Area (EEA) regulatory requirements. The impact on the Company would appear in the form of reduced Dividends receivable from subsidiary companies and charges to profit related to any impairment of the holdings in these companies.

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. The Directors believe that there will be limited impact on the Company.

Climate Change

As a subsidiary of Lloyds Banking Group, the Company is aligned with Lloyds Banking Group's approach to supporting the successful transition to a more sustainable, low carbon economy. Further details of this can be found in the Lloyds Banking Group Annual Report and Accounts via *www.lloydsbankinggroup.com*. There is expected to be minimal impact upon the Company.

Key performance indicators

The Company's principal business during the year was the holding of investments in subsidiaries. Its principal income is the receipt of dividends from these subsidiaries. In 2020, £560 million of dividends were received from subsidiary undertakings (2019: £510 million).

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

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.

STRATEGIC REPORT (continued)

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 in subsidiaries

Following a review of the net asset values of subsidiary companies, a charge of £58.6 million (2019: £61.8 million) has been made to comprehensive income representing impairment in value of the holding in Scottish Widows Financial Services Holdings.

Outlook

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

Principal risks and uncertainties

Legacy customer communications

The Company has an investment in Lloyds Bank General Insurance Holdings Limited (LBGIH). LBGIH's subsidiaries Lloyds Bank General Insurance Limited (LBGI), St Andrew's Insurance plc (STAI), Lloyds Bank Insurance Services Limited (LBIS) and Halifax General Insurance Services Limited (HGISL) are subject to a confidential ongoing FCA investigation. Given this, it is not currently possible to make a reliable assessment of any liability arising in these subsidiaries.

Other legal actions and regulatory matters

Details of key risks are set out in note 16. Key risks include economic and political uncertainty alongside operational risk which is heightened by the current level of change being undertaken to execute our strategy. Risks and uncertainties to our strategic plan, both positive and negative, are considered by product through the planning process.

The Company's approach to the management of financial risks is detailed in Note 16 to the accounts.

In addition, during the ordinary course of business subsidiaries of the Company may be subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the 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. Other than the legacy customer communications referred to above, the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

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

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

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

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

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

This section (pages 5 to 8) 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 page 9 and the Corporate Governance Report on pages 9 to 11.

STRATEGIC REPORT (continued)

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

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this Statement also provides examples of how the Directors have engaged with and had regard to the 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.   The Directors believe that there will be limited impact on the Company.

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.

The Board periodically reviews the performance of its customer brands and, during 2020, reviewed in detail the Scottish Widows brand and the ongoing relevance of the "Widow" as a brand icon, particularly among younger audience groups and in response to society's changing gender ethics, concluding that the brand remained relevant among all customer groups.

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, customer investment fund choices and their performance, 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.

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.

STRATEGIC REPORT (continued)

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

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 at the start of the COVID-19 pandemic to discuss the Company'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 asked 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 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 are covered in the Climate Change section commencing on page 4 of this report.

Board Diversity

The Board considers its current size and composition is appropriate to the Company's circumstances and places great emphasis on ensuring its membership reflects the diversity of modern Britain and is inclusive for everyone. On gender diversity, the Board has a specific objective to maintain membership of at least 30% female Board members. At 31 December 2020, the Board's membership consisted of 36% 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.

Covid-19 Response

Senior leaders worked closely with the FCA in the initial response to the Covid-19 crisis keeping the Board appraised 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 and the Financial Conduct Authority 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 on several aspects of the regulatory agenda. The Board, in turn, receives regular updates on this and wider Lloyds Banking Group interaction. This provided a view of key areas of FCA focus, alongside progress made on addressing FCA 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 Prudential Regulation Authority to address one of its formal Board meeting during 2020. A key area of focus for the Board has been adapting to changes in regulatory requirements; embedding the prescribed FCA criteria in the development of the annual fund value assessment process of the Division's ACD business and reporting; and ensuring the fair treatment of customers in action plans.

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 with 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.

STRATEGIC REPORT (continued)

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

Supplier Framework

Importance is placed on having the right supplier framework to operate responsibly. Lloyds Banking Group's Sourcing & 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 Executive oversight of supplier spending not considered by the Board, allowing challenge to be made where appropriate, and minimising risks and unnecessary cost.

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

Modern Slavery

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

On a day to day basis, management of and engagement on modern slavery and human rights is guided by a cross-divisional working group led by the Responsible Business team, which meets regularly to assess the embedding of human rights within the 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 & 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. The Company is a wholly owned subsidiary of Lloyds Banking Group plc.

Results and dividend

The result for the year ended 31 December 2020 is a profit after tax £480.9 million (2019 profit: £425.1 million). The result for the year reflects income from shares in subsidiaries and investments and an impairment of a subsidiary company.

The Directors consider this result to be satisfactory in light of the activities of the Company during the year.

During the year, £548.9 million of dividends (2019: £570.2 million) were paid. The Directors recommend no payment of a final dividend in respect of the year ended 31 December 2020 (2019: nil). Details of dividends paid during the year are given in note 15.

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 17.

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. 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, the 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 19.

Corporate Governance Report

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'), for the year ended 31 December 2020, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the 'Principles'). The following section explains the Company's approach to corporate governance, and its application of the Principles.

Fundamental to the Company's strategy are high standards of corporate governance. A Corporate Governance Framework is in place for the Scottish Widows Group of companies, of which the Company is a part, which sets the approach and applicable standards in respect of the Company's corporate governance arrangements whilst addressing the matters set out in the Principles.

This includes the matters reserved to the Board, and the matters the Board has chosen to delegate to management, including decision-making on operational matters such as those relating to credit, liquidity and the day-to-day management of risk, and the governance requirements of the operation of the Company outside of Lloyds Banking Group's Ring-Fenced Bank. Governance arrangements, including the Corporate Governance Framework, are reviewed at least annually to ensure they remain fit for purpose. The Corporate Governance Framework of the Company further addresses the requirements of the Principles as follows.

DIRECTORS' REPORT (continued)

Corporate Governance Report (continued)

Principle One – Purpose and Leadership

The Board is collectively responsible for the long-term success of the Company. It achieves this by agreeing the Company's strategy, within the wider strategy of Lloyds Banking Group, and overseeing delivery against it. The Company's strategy is discussed further in the Strategic Report on pages 4 to 8. The Board also assumes responsibilities for the management of the culture, values and wider standards of the Company, within the equivalent standards set by Lloyds Banking Group.

Consideration of the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers, is a vital part of the corporate culture. The Company's approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for customers. To this end, the Board plays a lead role in establishing, promoting and monitoring the Company's corporate culture and values, with the Corporate Governance Framework ensuring such matters receive the level of prominence in Board and Executive decision-making which they require. The Company's corporate culture and values closely align to those of Lloyds Banking Group, which are discussed in more detail in the Lloyds Banking Group Annual Report and Accounts for 2020.

Principle Two – Board Composition

The Company is led by a Board comprising a Chair, Independent Non-Executive Directors, other Non-Executive Directors and Executive Directors; further details of the Directors can be found on page 3. The Board considers its composition regularly, and is committed to ensuring it has the right balance of skills and experience. The Board considers its current size and composition is appropriate to the Company's circumstances. The Board places great emphasis on ensuring its membership reflects diversity in its broadest sense, for example four out of eleven Directors are women. New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring overall. There are a range of initiatives to help provide mentoring and development opportunities for female and Black, Asian, and Minority Ethnic executives within Lloyds Banking Group, and to ensure unbiased career progression opportunities. Progress on diversity objectives is monitored by the Board and built into its assessment of executive performance.

The Board is supported by its committees, the operation of which is discussed below, which make recommendations to the Board on matters delegated to them, in particular in relation to internal control, risk and financial reporting matters. Each committee has written terms of reference setting out its delegated responsibilities. Each committee comprises individuals with appropriate skills and experiences and is chaired by an experienced Chair. The committee Chairs report to the Board at each Board meeting.

The Board periodically undertakes reviews of its effectiveness, which provide an opportunity to consider ways of identifying greater efficiencies, ways to maximise strengths and highlights areas of further development. The effectiveness reviews are commissioned by the Chair of the Board, assisted by the Company Secretary. In addition to considering the effectiveness of the Board, the effectiveness of the Board committees is also considered. The Chair also ensures that the individual performance of individual Directors is reviewed.

Principle Three – Director Responsibilities

The Directors assume ultimate responsibility for all matters, and along with senior management are committed to maintaining a robust control framework as the foundation for the delivery of good governance, including the effective management of delegation though the Corporate Governance Framework. Policies are also in place in relation to potential conflicts of interest which may arise.

The Board is supported by its committees which make recommendations on matters delegated to them under the Corporate Governance Framework. The management of all committees is in keeping with the basis on which meetings of the Board are managed, with open debate, and adequate time for members to consider proposals which are put forward. The Chair of the Board and each Board Committee assumes responsibility with support from the Company Secretary for the provision to each meeting of accurate and timely information.

Principle Four – Opportunity and Risk

The Board oversees the development and implementation of the Company's strategy, within the context of the wider strategy of Lloyds Banking Group, which includes consideration of all strategic opportunities.

The Board is also responsible for the long-term sustainable success of the Company, generating value for its shareholders and ensuring a positive contribution to society. The Board agrees the Company's culture, purpose, values and strategy - within that of Lloyds Banking Group more widely - and agrees the related standards of the Company, again within the relevant standards of Lloyds Banking Group. Further specific aims and objectives of the Board are formalised within the Corporate Governance Framework.

DIRECTORS' REPORT (continued)

Corporate Governance Report (continued)

Strong risk management is central to the strategy of the Company, which along with a robust risk control framework acts as the foundation for the delivery of effective management of risk. The Board agrees the Company's risk appetite, within the wider risk appetite of Lloyds Banking Group, and ensures the Company manages risk effectively, delegating related authorities to individuals through the Corporate Governance Framework and the further management hierarchy. Board-level engagement, coupled with the direct involvement of senior management in risk issues ensures that escalated issues are promptly addressed and remediation plans are initiated where required. The Company's risk appetite, principles, policies, procedures, controls and reporting are managed in conjunction with those of Lloyds Banking Group, and as such are regularly reviewed to ensure they remain fully in line with regulations, law, corporate governance and industry best practice. The Company's principal risks are discussed further on page 35.

Principle Five – Remuneration

The Remuneration Committee of Lloyds Banking Group (the 'Remuneration Committee'), assumes responsibility for the Company's approach to remuneration. This includes reviewing and making recommendations on remuneration policy as relevant to the Company, ranging from the remuneration of Directors to that of all other colleagues employed by the Company. This includes colleagues where the regulators require the Company to implement a specific approach to their remuneration, such as Senior Managers and other material risk takers.

Principle Six – Stakeholders

The Company as part of Lloyds Banking Group operates under Lloyds Banking Group's wider Responsible Business approach, which acknowledges that the Company has a responsibility to help address the economic, social and environmental challenges which the UK faces, and as part of this understand the needs of the Company's external stakeholders, including in the development and implementation of strategy. Central to this is Lloyds Banking Group's Helping Britain Recover plan, in which the Company participates, which seeks to gather stakeholder views through a dedicated materiality study, as overseen by Lloyds Banking Group's Responsible Business Committee.

In 2020, the Responsible Business Committee determined that the Company and Lloyds Banking Group continued to demonstrate responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers. The approach of the Board in respect of its non colleague stakeholders is described in the separate statement made in compliance with the Regulations, on page 5.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. As set out in note 8, the Company has uncertainty in relation to the outcomes of an FCA investigation into legacy customer communications and the impact this may have on outflows in its subsidiaries. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in the risk management note (note 16), and have also considered the courses of action available to the Company in the event of adverse outcomes from the FCA investigation. This may include use of existing borrowing facilities from other Lloyds Banking Group companies, which are expected to continue to be available. Having consulted on these, the Directors conclude that is appropriate to adopt the going concern basis in preparing the accounts.

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
Disclosures required by the Financial Conduct Authority's Disclosure and Transparency Rule 7.2.5R	Corporate Governance Statement - internal control and risk management systems	Note 16 (Risk Management)

Independent auditors

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

DIRECTORS' REPORT (continued)

Statement of Directors' responsibilities

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

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

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

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

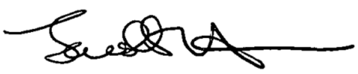
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

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 8, and the Directors' Report on pages 9 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 SCOTTISH WIDOWS GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Scottish Widows Group Limited's financial statements:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

- Evaluating management's going concern assessment specifically covering current and projected liquidity positions using our knowledge of the Company's business performance and by agreeing expected cash flows to supporting documents;
- Considering existing and additional borrowing facilities available to the Company; and
- Considering information obtained through review of minutes of the Insurance division's Board, Audit Committee and Risk Oversight Committee meetings, as well as publicly available information to identify any information that would contradict management's assessment.

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

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

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

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

Reporting on other information

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SCOTTISH WIDOWS GROUP LIMITED (continued)

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

Strategic report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

Use of this report

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SCOTTISH WIDOWS GROUP LIMITED (continued)

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Gail Tucker

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			
Investment income	3	274	745
Income from shares in subsidiary undertakings		560,000	510,000
Total revenue		560,274	510,745
Expenses			
Impairment in value of subsidiary company	8	(58,571)	(61,772)
Finance costs	5	(37,279)	(41,801)
Total expenses		(95,850)	(103,573)
Profit before tax		464,424	407,172
Tax credit	6	16,476	17,953
Profit for the year		480,900	425,125
Total comprehensive income for the year		480,900	425,125

The notes set out on pages 20 to 44 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Investment in subsidiaries	8	10,303,567	10,362,138
Current tax recoverable	7	16,476	17,953
Cash and cash equivalents	9	65,909	80,292
Total assets		10,385,952	10,460,383
EQUITY AND LIABILITIES			
Equity			
Share capital	10	1,005,955	1,005,955
Share premium	10	589,439	589,439
Other Reserves	11	305,000	305,000
Retained profits		6,954,357	7,022,378
Total equity		8,854,751	8,922,772
Liabilities			
Subordinated debt	12	1,159,000	1,159,000
Amounts due to Group undertakings	13	372,196	378,611
Other financial liabilities	14	5	—
Total liabilities		1,531,201	1,537,611
Total equity and liabilities		10,385,952	10,460,383

The notes set out on pages 20 to 44 are an integral part of these financial statements.

The financial statements on pages 16 to 44 were approved by the Board on 13 April 2021.

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			
Net Profit before tax		464,424	407,172
Adjusted for:			
Investment income	3	(274)	(745)
Income from shares in a subsidiary undertaking		(560,000)	(510,000)
Impairment in investment in subsidiary	8	58,571	61,772
Finance costs	5	37,279	41,801
Other non-cash movements		—	(3,680)
Net decrease in operating assets and liabilities	14	(6,410)	3,679
Taxation received		17,953	28,163
Net cash flows generated from operating activities		11,543	28,162
Cash flows from investing activities			
Interest received		274	745
Dividends and other income received		560,000	510,000
Net cash flows generated from investing activities		560,274	510,745
Cash flows from financing activities			
Dividends paid	15	(548,921)	(570,303)
Finance costs paid	5	(37,279)	(38,009)
Net cash flows used in financing activities		(586,200)	(608,312)
Net decrease in cash and cash equivalents		(14,383)	(69,405)
Cash and cash equivalents at the beginning of the year		80,292	149,697
Net cash and cash equivalents at the end of the year	9	65,909	80,292

The notes set out on pages 20 to 44 are an integral part of these financial statements.

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

	Note	Share capital £'000	Share Premium £'000	Other Reserves £'000	Retained earnings £'000	Total Equity £'000
Balance as at 1 January 2019		1,005,955	589,439	305,000	7,167,444	9,067,838
Profit and total comprehensive income for the year					425,125	425,125
Dividend	15				(570,191)	(570,191)
Balance as at 31 December 2019	**10,11**	1,005,955	589,439	305,000	7,022,378	8,922,772
Profit and total comprehensive income for the year					480,900	480,900
Dividend	15				(548,921)	(548,921)
Balance as at 31 December 2020	**10,11**	1,005,955	589,439	305,000	6,954,357	8,854,751

The notes set out on pages 20 to 44 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 have 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 is a parent company that is also a subsidiary included in the consolidated financial statements of its immediate parent undertaking established under the law of an EEA state and is therefore exempt from the requirement to prepare consolidated financial statements under section 400 of the Companies Act 2006.

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 19.

(b) Financial assets and financial liabilities

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

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

The Company initially recognises loans, debt securities and subordinated liabilities when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of securities and other financial assets and trading liabilities are recognised on trade date, being the date that the Company is committed to purchase or sell an asset.

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 the Company. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

Examples of Level 3 assets include portfolio of illiquid loans and advances to customers, investments in private debt funds, private equity shares and complex derivatives.

Further analysis of the Company's instruments held at fair value is set out at note 16. 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

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

Dividend income in respect of the Company's investments in subsidiary undertakings is recognised when the right to receive the dividend is established. All dividends received are recognised through the statement of comprehensive income, within income from shares in subsidiary undertakings.

(e) Expense recognition

Finance costs

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

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

1. Accounting policies (continued)

(f) Investment in subsidiaries

The Company owns a number of subsidiaries and has associated companies as set out in note 8. These subsidiaries trade with a view to making a profit, and the risks and rewards of owning these subsidiaries primarily rests with the equity shareholder of the Company. These subsidiaries are held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment.The carrying values are assessed for reasonableness at least once in each financial year. Further information on the Company's impairment policy is set out in the Non Financial Assets section of policy (h).

(g) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and 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).

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

The fair value of holdings in liquidity funds is determined as the last published price applicable to the vehicle at the reporting date.

Holdings in liquidity funds are categorised as level 1 in the fair value hierarchy. These assets are valued using quoted prices in active markets for identical assets to those being valued. An active market is one in which similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis.

(h) 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 costs. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

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

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. 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.

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.

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

1. Accounting policies (continued)

(h) Impairment (continued)

Non-financial assets

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

(i) Taxes

Tax expense comprises current tax. Current tax is 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 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..

(j) Share capital

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

(k) Subordinated debt

Subordinated debt that meets the definition of a financial liability is initially recognised at fair value and subsequently measured at amortised cost. Extension features that are not closely related to the underlying liability are accounted for as separate instruments.

Subordinated debt that does not include contractual obligations to deliver cash or other assets to another entity is classified as equity and is recognised in Equity Instruments as described in note 1(n). Subordinated debt, which includes features of both equity and a financial liability, is classified as a compound financial instrument, as described in note 1(o).

(l) Dividends payable

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

(m) Other financial liabilities

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

(n) Equity instruments

Financial instruments, other than ordinary shares, that do not include contractual obligations to deliver cash or other assets to another entity are classified as equity and are recognised in Equity Instruments at the value of the net proceeds received from issuing the instrument. The measurement of those that represent the equity component of a compound financial instrument is described in note 1(o).

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

1. Accounting policies (continued)

(o) Compound financial instruments

Financial instruments that include features of both equity and a financial liability are classified as a compound financial instrument.

The liability component of the compound financial instrument is recognised within subordinated debt initially at fair value. Any equity component is recognised within Equity Instruments initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

2. Critical accounting judgments and estimates

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

Critical accounting estimates

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

(a) Impairment of investments

The recoverable amount of investments in subsidiaries requires judgement with regard to future cash flows and trading activities. Further details of estimates used appear in note 8.

3. Investment income

	2020	2019
	£'000	£'000
Interest receivable on investments in a liquidity fund	274	745
Total	274	745

4. Auditors' remuneration

	2020	2019
	£000	£000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	14	14
Fees payable to the Company's auditors and its associates for other services:		
Fees in relation to Solvency II work	58	58
Total fees payable	72	72

Audit fees for 2020 and 2019 were paid by another Company within Lloyds Banking Group and were not recharged to the Company.

5. Finance costs

	2020	2019
	£'000	£'000
Interest on dated subordinated debt	23,504	26,627
Interest on loans from subsidiary undertakings	13,775	15,174
Total	37,279	41,801

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

6. Tax credit

(a) Current year tax charge

	2020 £'000	2019 £'000
Current tax:		
UK corporation tax	16,476	17,953
Total current tax	16,476	17,953

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

(b) Reconciliation of tax credit

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

	2020 £'000	2019 £'000
Profit before tax	464,424	407,172
Tax charged thereon at UK Corporation tax rate of 19% (2019: 19%)	(88,241)	(77,363)
Effects of:		
Income from shares in subsidiary undertakings	106,400	96,900
Dividends on undated subordinated debt	9,445	10,152
Impairment of holding in subsidiary company	(11,128)	(11,736)
Tax credit on profit on ordinary activities	16,476	17,953

7. Tax assets and liabilities

	2020 £'000	2019 £'000
Current tax assets	16,476	17,953
Total tax assets	16,476	17,953

The current tax receivable relates to group relief for corporation tax which is receivable from other companies within Lloyds Banking Group.

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

8. Investment in subsidiaries

	2020 £'000	2019 £'000
At 1 January	10,362,138	10,423,910
Impairment of investment in subsidiaries	(58,571)	(61,772)
At 31 December	10,303,567	10,362,138

An impairment of £58.6 million (2019: £61.8 million) has been recognised during 2020 in respect of the investment in Scottish Widows Financial Services Holdings, leaving a carrying value of £300.8 million (2019: £359.4 million).

In consideration of the carrying value of Scottish Widows Limited, the Directors have considered the available free surplus and expected value from future business to satisfy themselves that the carrying value is appropriate and does not require impairment.

The key components of this evaluation comprise future business levels and discount rate, which are based on a best estimate from future business plans. The analysis is therefore sensitive to these assumptions and actual future performance could differ from these assumptions both positively and negatively. The Directors will continue to assess the value of the subsidiary companies and impair these if deemed necessary.

Subsidiaries of Lloyds Bank General Insurance Holdings Limited (Lloyds Bank General Insurance Limited, St Andrew's Insurance plc, Lloyds Bank Insurance Services Limited and Halifax General Insurance Services Limited) are subject to an FCA investigation. Given the matter is ongoing and the extent of discretion available to the FCA in its penalty framework, it is not currently possible to make a reliable assessment of any liability resulting from the investigation including the size of a financial penalty, if any. Therefore no provision has been made in the financial statements of these companies.

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

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

A review of the carrying value of the subsidiary investments to assess indications of impairment is performed on an annual basis. The recoverable amount for 2019 and 2020 have both been calculated on a value in use basis, using the dividend discount method of valuation. The applicable discount factor used for 2020 is 7.08 per cent (2019: 8.64 per cent). This has been applied to distributable profits and forecast dividends in line with the approved business plan. Future capacity of HBOS Investment Fund Managers Limited to pay dividends has been determined based on its anticipated profitability as assets under management run off.

Significant Estimate: Impairment Charge

The impairment in Scottish Widows Financial Services Holdings arose following an impairment of the carrying value in Halifax Financial Services (Holdings) Limited of the investment in its subsidiary, HBOS Investment Fund Managers Limited (HIFML). This occurred primarily as a result of changes in the underlying forecast assumptions in its value in use, principally reductions in anticipated profitability in the plan and subsequent periods partially offset by a reduction in the cost of capital. Scottish Widows Financial Services Holdings is the parent of HBOS Financial Services (Holdings) Limited which is the parent of HBOS Investment Fund Managers Limited.

Significant Estimate: Impact of possible changes in key assumptions

If the discount rate applied to the cash flow projections had been 1 per cent higher (8.08 per cent instead of 7.08 per cent), the impairment charge would have been £75.8 million, an increase of £17.2 million. If the discount rate had been 1 per cent lower (6.08 per cent instead of 7.08 per cent), the impairment charge would have been £38.9 million, a decrease of £19.7 million.

Subsidiaries and Associates

All entities detailed on the following page are wholly-owned, directly or indirectly, and transact insurance or reinsurance business, investment management activities or services in connection therewith, unless otherwise stated. Following are particulars of the Company’s subsidiaries and associates:

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

8. Investment in subsidiaries (continued)

Celsius European Lux 2 SARL	(3)
Clerical Medical Finance plc	(2)
Clerical Medical Financial Services Limited	(2)
Clerical Medical International Holdings B.V.	(18)
Clerical Medical Investment Fund Managers Limited	(12)
Clerical Medical Non Sterling Property Company SARL	(3)
Clerical Medical Non Sterling Guadalix Holdco BV	(5)
Clerical Medical Non Sterling Guadalix Spanish Propco SL	(6)
Clerical Medical Non Sterling Megapark Holdco BV	(5)
Clerical Medical Non Sterling Megapark Propco SA	(6)
CM Venture Investments Limited	(7)
Dalkeith Corporation LLC	(8)
Delancey Arnold UK Limited (50%)*	(9)
Delancey Rolls UK Limited (50%)*	(9)
France Industrial Premises Holding	(10)
General Reversionary and Investment Company (80%)	(2)
The Great Wigmore Partnership (G.P.) Limited (50%)	(11)
Great Wigmore Property Limited (50%)	(11)
Halifax Financial Brokers Limited	(12)
Halifax Financial Services (Holdings) Limited	(12)
Halifax Financial Services Limited	(12)
Halifax General Insurance Services Limited	(12)
Halifax Investment Services Limited*	(19)
Halifax Life Limited	(12)
HBOS Financial Services Limited	(2)
HBOS International Financial Services Holdings Limited	(2)
HBOS Investment Fund Managers Limited	(12)
Legacy Renewal Company Limited	(20)
Lloyds Bank General Insurance Holdings Limited^	(17)
Lloyds Bank General Insurance Limited	(14)
Lloyds Bank Insurance Services Limited	(14)
Pensions Management (S.W.F.) Limited	(15)
Rolls Development UK Limited (50%)*	(9)
SARL Coliseum	(13)
SARL HIRAM	(13)
SAS Compagnie Fonciere de France	(13)
SCI Astoria Invest	(13)
SCI de l'Horloge	(13)
SCI Equinoxe	(13)
SCI Rambeateau CFF	(13)
Scottish Widows Administration Services Limited	(14)
Scottish Widows Administration Services (Nominees) Limited	(15)
Scottish Widows Auto Enrolment Services Limited	(14)
Scottish Widows Europe SA	(4)
Scottish Widows Financial Services Holdings^	(1)
Scottish Widows Fund and Life Assurance Society	(15)
Scottish Widows Industrial Properties Europe BV	(16)
Scottish Widows Limited^	(14)
Scottish Widows Property Management Limited	(15)
Scottish Widows Trustees Limited	(15)
Scottish Widows Unit Funds Limited	(1)
Scottish Widows Unit Trust Managers Limited	(17)
St Andrew's Group Limited	(2)
St Andrew's Insurance plc	(2)
St Andrew's Life Assurance plc	(2)
Saint Michel Holding Company No 1	(10)
Saint Michel Investment Property	(10)
Saint Witz II Holding Company No 1	(10)
Saint Witz II Investment Property	(10)
SW Funding plc	(1)
SW No 1 Limited	(1)
SWAMF (GP) Limited**	(19)
SWAMF Nominee (1) Limited**	(19)
Thistle Investments (AMC) Limited	(21)
Thistle Investments (ERM) Limited	(21)
Waverley Fund II Investor LLC	(8)
Waverley Fund III Investor LLC	(8)

*** In liquidation**

**** In liquidation as at 31 December 2020, dissolved in January 2021**

^ Shares held directly by the company

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

8. Investment in subsidiaries (continued)

The investments in subsidiaries included above are generally recoverable more than one year after the reporting date.

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

Registered office addresses

(1) 69 Morrison Street, Edinburgh, Midlothian, EH3 8YF
(2) 33 Old Broad Street, London, EC2N 1HZ
(3) 20 Rue de Poste, L-2346, Luxembourg
(4) 1, Avenue du Bois, L-1251, Luxembourg
(5) Naritaweg 165, 1043 BW, Amsterdam, Netherlands
(6) Calle Pinar 7, 50Izquierda, 28006, Madrid, Spain
(7) RL360 House, Cooil Road, Douglas, Isle of Man, IM2 2SP
(8) Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, United States
(9) 4th Floor 4 Victoria Street, St. Albans, Hertfordshire, AL1 3TF
(10) SAB Formalities, 23 Rue de Roule, Paris, 75001, France
(11) 33 Cavendish Square, London, WIG 0PW
(12) Trinity Road, Halifax, West Yorkshire, HX1 2RG
(13) 8 Avenue Hoche, 75008, Paris, France
(14) 25 Gresham Street, London, EC2V 7HN
(15) Port Hamilton, 69 Morrison Street, Edinburgh, EH3 8BW
(16) Hoogoorddreef, 151101BA, Amsterdam, Netherlands
(17) Charlton Place, Andover, Hampshire, SP10 1RE
(18) Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands
(19) 1 More London Place, London, SE1 2AF
(20) Bank Of Scotland, The Mound, Edinburgh, EH1 1YZ
(21) 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX

Collective investment vehicles and limited partnerships (“investment vehicles”) where the Group has control, in part through its long term funds, are treated as per the policy in note 1 (b).

The table overleaf lists collective investment vehicles and limited partnerships which are considered to be related undertakings due to the Group holding of 20 per cent or more.

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

8. Investment in subsidiaries (continued)

Name Of Umbrella And Undertaking	% Held
HBOS International Investment Funds ICVC (i)	
North American Fund	95.26%
Far Eastern Fund	80.45%
European Fund	93.42%
International Growth Fund	52.44%
Japanese Fund	94.72%
HBOS Specialised Investment Funds ICVC (i)	
Cautious Managed Fund	51.68%
Ethical Fund	81.73%
Fund Of Investment Trusts	40.08%
Smaller Companies Fund	65.10%
Special Situations Fund	50.41%
HBOS UK Investment Funds ICVC (i)	
UK Equity Income Fund	61.53%
UK Growth Fund	62.92%
UK FTSE All-Share Index Tracking Fund	56.88%
HBOS Actively Managed Portfolio Funds ICVC (i)	
Diversified Return Fund	94.22%
Absolute Return Fund	94.59%
Dynamic Return Fund	96.62%
HBOS Property Investment Funds ICVC (i)	
UK Property Fund	50.07%
Scottish Widows Tracker And Specialist Investment Funds ICVC (ii)	
UK Tracker Fund	45.74%
UK Fixed Interest Tracker Fund	96.49%
Emerging Markets Fund	87.89%
UK Index-Linked Tracker Fund	39.08%
UK Smaller Companies Fund	20.27%
Scottish Widows UK And Income Investment Funds ICVC (ii)	
UK Growth Fund	62.36%
Environmental Investor Fund	73.54%
Ethical Fund	80.07%
Scottish Widows Overseas Growth Investment Funds ICVC (ii)	
Global Growth Fund	55.13%
European Growth Fund	89.00%
American Growth Fund	83.51%
Pacific Growth Fund	75.29%
Japan Growth Fund	93.23%
Scottish Widows Managed Investment Funds ICVC (ii)	
International Equity Tracker Fund	80.95%
Balanced Portfolio Fund	82.72%
Progressive Portfolio Fund	72.11%
Cautious Portfolio Fund	61.79%

Name Of Umbrella And Undertaking	% Held
Opportunities Portfolio Fund	91.60%
Multi-Manager ICVC (xiii)	
Multi Manager UK Equity Income Fund	39.42%
Multi Manager UK Equity Growth Fund	83.73%
Scottish Widows Investment Solutions Funds ICVC (ii)	
European (Ex UK) Equity Fund	95.99%
Asia Pacific (Ex Japan) Equity Fund	98.63%
Japan Equities Fund	88.67%
US Equities Fund	100.00%
Fundamental Index UK Equity Fund	86.44%
Fundamental Index Global Equity Fund	95.61%
Fundamental Index Emerging Markets Equity Fund	95.11%
Fundamental Low Volatility Index Global Equity Fund	98.13%
Fundamental Low Volatility Index Emerging Markets Equity Fund	95.24%
Fundamental Low Volatility Index UK Equity Fund	91.30%
Scottish Widows High Income Bond Fund	28.92%
Scottish Widows International Bond Fund	69.82%
Scottish Widows Corporate Bond Fund	67.34%
Scottish Widows Gilt Fund	96.14%
Scottish Widows Strategic Income Fund	64.53%
Scottish Widows Income And Growth Funds ICVC (ii)	
Balanced Growth Fund	30.95%
Progressive Growth Fund	46.94%
UK Index Linked Gilt Fund	100.00%
Corporate Bond PPF Fund	100.00%
SW Corporate Bond Tracker	100.00%
Scottish Widows GTAA 1	83.54%
Corporate Bond 1 Fund	96.10%
Adventurous Growth Fund	44.62%
ACS Pooled Property (ii)	
Scottish Widows Pooled Property ACS Fund	100.00%
Scottish Widows Pooled Property ACS Fund 2	100.00%
Investment Portfolio ICVC (xiii)	
IPS Income Portfolio	24.99%
IPS Growth Portfolio	28.33%
Aberdeen Liquidity Fund (Lux) (iv)	
Aberdeen Liquidity Fund (Lux) – Ultra Short Duration Sterling Fund	70.67%
SSGA Europe (Ex UK) (xv)	
SSGA Europe (ex UK)	95.98%
SSGA Asia Pacific Tracker Fund (xv)	
SSGA Asia Pacific Tracker Fund	93.66%

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

8. Investment in subsidiaries (continued)

Name Of Umbrella And Undertaking	% Held
Universe, The CMI Global Network (iii)	
CMIG GA 70 Flexible	100.00%
CMIG GA 80 Flexible	100.00%
CMIG GA 90 Flexible	100.00%
European Enhanced Equity	100.00%
CMIG Access 80%	100.00%
Continental Euro Equity	97.39%
UK Equity	77.55%
US Enhanced Equity	86.92%
Japan Enhanced Equity	93.17%
Pacific Enhanced Basin	79.33%
Euro Bond	59.66%
US Bond	94.14%
US Currency Reserve	75.98%
Euro Currency Reserve	98.63%
US Tracker	28.92%
CMIG Focus Euro Bond	99.93%
Euro Cautious	89.14%
BNY Mellon Managed Funds II (vi)	
Insight Absolute Fund of Funds	84.02%
Schroder Funds ICAV (xxv)	
Schroder Sterling Liquidity Fund	85.92%
Schroder Sterling Short Duration Bond Fund	91.37%
Artemis Institutional Funds (xxiii)	
Artemis Institutional Global Capital Fund	43.67%
Baillie Gifford Investment Funds ICVC (xxi)	
Baillie Gifford Multi Asset Growth Fund	23.10%
BNY Mellon Investment Funds (vi)	
BNY Mellon US Opportunities Fund	38.85%
Insight Global Multi-Strategy Fund	42.37%
Newton Uk Opportunities Fund	52.95%
Insight Global Absolute Return Fund	77.48%
BNY Mellon Global Balanced Fund	20.64%
Newton UK Income Fund	27.65%
BNY Mellon Global Equity Fund	25.41%
Newton Multi-Asset Growth Fund	25.43%
Retail Authorised Unit Trusts (xvi)	
Blackrock Balanced Growth Portfolio Fund	36.73%
BlackRock Fixed Income Dublin Funds (xvii)	
iShares Emerging Markets Local Government Bond Index Fund (IE)	70.52%
iShares Emerging Markets Government Bond Index Fund (IE)	44.04%

Name Of Umbrella And Undertaking	% Held
BlackRock Authorised Contractual Scheme I (xi)	
BlackRock ACS Japan Equity Tracker Fund	76.85%
BlackRock ACS UK Equity Tracker Fund	91.87%
BlackRock ACS US Equity Tracker Fund	77.18%
ACS World Multifactor Equity Tracker Fund	45.12%
ACS Climate Transition World Equity Fund	68.79%
BlackRock Collective Investment Funds (xvi)	
iShares Global Property Securities Equity Index Fund	39.47%
Fidelity Active Strategy (xx)	
FAST - UK Fund	29.52%
HLE Active Managed Portfolio Konservativ (xviii)	36.25%
HLE Active Managed Portfolio Dynamisch (xviii)	37.37%
HLE Active Managed Portfolio Ausgewogen (xviii)	48.09%
Invesco Perpetual Asian Equity Income Fund (viii)	26.50%
Lazard Developing Markets Fund (xxii)	90.17%
MGI Funds plc (vii)	
Mercer Multi Asset Defensive Fund	58.01%
Mercer Multi Asset Moderate Growth Fund	82.02%
Mercer Multi Asset High Growth Fund	80.19%
Mercer Diversified Retirement Fund	69.42%
Mercer Multi Asset Growth Fund	64.05%
The TM Levitas Funds (xii)	
TM Levitas A Fund	52.60%
TM Levitas B Fund	47.11%
Russell Investment Company plc (ix)	
Russell Asia Pacific Fund	33.08%
Russell Sterling Bond Fund	44.26%
Russell Investments US Bond Fund	51.67%
Russell Euro Fixed Income Fund	32.46%
Schroder Matching Plus Bespoke Investment Fund 10 (xxiv)	100.00%
Schroder International Selection Fund (xxiv)	
Multi Asset Total Return	20.71%
Emerging Market Bond Fund	65.36%
ASI UK Equity Index Managed Fund (v)	82.67%
Aberdeen Global Emerging Markets Quantitative Equity Fund (v)	62.10%
Aberdeen European Property Share Fund (v)	32.06%
Aberdeen Sterling Bond Fund (v)	78.65%
Aberdeen Global Corporate Bond Tracker Fund (v)	98.30%
UBS Global Optimal Fund (x)	30.94%
Pan European Urban Retail Fund (xiv)	22.00%
Pemberton European Mid-Market Debt Fund II (xxvi)	100.00%
AgFe UK Real Estate Senior Debt Fund LP (xix)	78.00%

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

8. Investment in subsidiaries (continued)

Principal Place of Business:

(i) Trinity Road, Halifax, West Yorkshire, HX1 2RG
(ii) 69 Morrison Street, Edinburgh EH3 8BW
(iii) 106, Route D’arlon, L-8210 Mamer, Grand Duchy Of Luxembourg
(iv) 35a, Avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy Of Luxembourg
(v) 1 Bread Street, Bow Bells House, London EC4M 9HH
(vi) 160 Queen Victoria Street, London EC4V 4LA
(vii) 70 Sir John Rogerson's Quay, Dublin 2, Ireland
(viii) Perpetual Park, Perpetual Park Drive, Henley-On-Thames, Oxfordshire RG9 1HH
(ix) 78 Sir John Rogerson's Quay, Dublin 2, Ireland
(x) 21 Lombard Street, London, EC3V 9AH
(xi) 11-15 Seaton Place, St Helier, Jersey, Channel Islands, JE4 0QH
(xii) Exchange Building, St. John’s Street, Chichester, West Sussex PO19 1UP
(xiii) 25 Gresham Street, London, EC2V 7HN
(xiv) Jackson House, 18 Saville Row, London, W1S 3PW
(xv) 20 Churchill Place, Canary Wharf, London E14 5HJ
(xvi) 12 Throgmorton Avenue, London EC2N 2DL
(xvii) 79 Sir John Rogerson's Quay, Dublin 2, Ireland
(xviii) 2, Boulevard Konrad Adenauer, L-1115 Luxembourg
(xix) 3rd Floor South, 55 Baker Street, London, W1U 8EW
(xx) 2a, Rue Albert Borschette, BP 2174, L-1021 Luxembourg
(xxi) 1 Greenside Row, Edinburgh EH1 3AN
(xxii) 50 Stratton Street, London W1J 8LL
(xxiii) 57 St James’s Street, London SW1A 1LD
(xxiv) 5, Rue Höhenhof, L-1736, Senningerberg, Luxembourg
(xxv) Georges Court, 54-62 Townsend Street, Dublin 2, D02 R156
(xxvi) 2 - 4, Rue Eugène Ruppert L-2453 Luxembourg

9. Cash and cash equivalents

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

	2020 £'000	2019 £'000
Investment in a liquidity fund	65,909	80,292
Total	65,909	80,292

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

10. Share capital and share premium

	2020 £'000	2019 £'000
Allotted, called up and fully paid share capital:		
100,000,000,000 (2019: 100,000,000,000) ordinary shares of 1p each	1,000,000	1,000,000
595,393,273 (2019: 595,393,273) class A preference shares of 1p each	5,954	5,954
7,939,393,959 (2019: 7,939,393,959) class B ordinary shares of 0.00001p each	1	1
Total	1,005,955	1,005,955
Share Premium		
Class A preference shares	589,439	589,439
Total	589,439	589,439

On 1 July 2011, as part of the legal entity restructuring project, the Company issued 54,168,285,771 Class B ordinary shares and 595,393,273 Class A preference shares. In May 2013 there was a reduction of class B Ordinary Shares held by HBOS plc to 7,939,393,959 shares.

The Class B ordinary shares are subject to a conversion feature such that in the event of breaching a specified regulatory capital solvency level, the holder of the shares is required to make a fixed cash payment to fully pay up the premium on the shares as noted above, and the shares will convert to a fixed number of Class A ordinary shares. The Class B ordinary shares, including their conversion feature, are classified as equity under IAS 32. If the original holder of the Class B ordinary shares fails to settle the amount due to fully pay up the share premium, another related party, LBG Capital Holdings Limited, will settle the obligation.

The Class A preference shares were issued at an issue price of £1.00 per share, at a premium of £0.99 on their nominal value of £0.01 per share, giving rise to a share premium of £589,439,000. The shares carry floating rate, non-cumulative dividends which accrue at a rate of 7.75 per cent plus 3 month LIBOR for every 12 month period from the date of issue, and which are payable at the discretion of the Company. The Class A preference shares are redeemable at the option of the Company for par plus any accrued dividends at scheduled dates.

For periods where no dividend is paid on the Class A preference shares, the Company is not permitted to pay dividends on ordinary shares. In the event of a sustained breach of a specified regulatory capital solvency level, the Class A preference shares will convert to a fixed number of Class A ordinary shares. The Class A preference shares, including their conversion feature, are classified as equity under IAS 32 and recognised at the value of proceeds received

11. Equity Instruments

	2020 £'000	2019 £'000
Subordinated perpetual debt	305,000	305,000
Total	305,000	305,000

The subordinated perpetual debt instruments are perpetual and pay periodic interest payments at the discretion of the Company. Where an interest payment is not made it will accumulate and be payable if the Company chooses to redeem the securities or chooses to make the interest payment. No interest will accrue on a deferred interest amount.

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

12. Subordinated debt

The carrying value shown in the balance sheet is as follows:

	2020 £'000	2019 £'000
Dated subordinated debt	635,000	635,000
Undated subordinated debt - liability component	524,000	524,000
Total	1,159,000	1,159,000

Of the above total, £560 million (2019: £1,159 million) is expected to be settled more than one-year after the reporting date.

The Company issued £560 million of 10 year dated subordinated debt to Lloyds Bank plc on 15 June 2015, with a callable option at 16 September 2020 which was not exercised. The loan carries interest at the rate of 3 month LIBOR plus 3.15 per cent, payable quarterly.

As part of the legal entity restructuring project on 1 July 2011, the Company issued £475 million of dated subordinated debt comprising floating rate subordinated notes due 2041, with a maturity date of 30 years from the date of issue. The coupons are cumulative, at floating rate of 3 month LIBOR plus 5 per cent and are deferrable at the option of the Company until maturity. In May 2013 £400 million of dated subordinated debt with a maturity date of 2041 was repurchased by the Company. At the reporting date £75 million was outstanding.

The dated subordinated debt is redeemable at par value plus accrued coupons at the option of the Company, subject to certain conditions, after 10 years from the date of issue at scheduled dates, and at other non-scheduled dates in the event of a change in law the effect of which is that the dated subordinated debt no longer qualifies for inclusion in the Group's regulatory capital on the same basis as it did prior to such change in the law.

If when the debt is to be redeemed the Group regulatory capital is in breach of a specified regulatory capital solvency level, the Company will be required to defer repayment of the principal amount of the dated subordinated debt until the Prudential Regulatory Authority (or any successor regulatory authority) approves payment. This extension feature is not closely related to the dated subordinated debt; however, the value of the feature is deemed to be negligible. The undated subordinated debt - liability component is the liability of a compound financial instrument.

As part of the legal entity restructuring on 1 July 2011, the Company issued undated subordinated debt of £1,014 million. On 17 December 2018, following approval from the PRA, the Company redeemed £490 million of floating rate subordinated perpetual notes issued to Lloyds Bank plc. The remaining £524 million of the subordinated securities are subject to repurchase by the Company in the event of the Solvency II Group headed by the Company breaching a specified regulatory capital solvency level. This repurchase feature meets the definition of a financial liability and as a result the subordinated debt that is subject to the repurchase feature is a compound instrument. The repurchase feature is recognised as a liability component and is shown in liabilities as subordinated debt. The subordinated liability component is measured at the value of the repurchase amount.

The fair values of the subordinated debt are as follows:

	2020		2019	
	£'000	£'000	£'000	£'000
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
Dated subordinated debt	635,000	632,490	635,000	634,610
Undated subordinated debt - liability component	524,000	528,130	524,000	527,100
Total	1,159,000	1,160,620	1,159,000	1,161,710

The fair value of undated subordinated debt has been calculated using published bid prices at the reporting date. The fair value of dated subordinated debt has been assessed by management with reference to published prices.

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

13. Amounts due to Group undertakings

	2020 £'000	2019 £'000
Loans from Subsidiary undertakings	347,471	351,346
Accrued dividends	22,944	24,969
Accrued interest payable	1,781	2,296
Total	372,196	378,611

Of the above total, £333.7 million (2019: £334.7 million) is expected to be settled more than one-year after the reporting date.

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

	2020 £'000	2019 £'000
Net (decrease) in operating liabilities		
Amounts due to Group undertakings	(6,415)	3,679
Other financial liabilities	5	—
Net (decrease) in operating liabilities	(6,410)	3,679
Net (decrease) in operating assets and liabilities	(6,410)	3,679

15. Dividends paid

	2020 £'000	2019 £'000
Dividends on class A ordinary shares	435,000	450,000
Dividends on class B ordinary shares	15,720	15,720
Dividends on class A preference shares	48,489	51,037
Dividends on undated subordinated debt	49,712	53,434
Total dividends paid	548,921	570,191

The dividends paid in 2020 amounted to a total of 0.435 pence per class A ordinary share, 0.1980 pence per class B ordinary share and 8.144 pence per class A preference share (2019: 0.45 pence per class A ordinary share, 0.1980 pence per class B ordinary share and 8.582 pence per class A preference).

Dividends on undated subordinated debt are in relation to the undated subordinated debt as detailed in notes 11 and 12.

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

16. Risk management

The principal activity of the Company is that of holding company.

This note summarises these risks and the way in which the Company manages them.

(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 Group.

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

This enterprise-wide risk management framework for the identification, assessment, measurement and management of risk covers the full spectrum of risks that the Company are exposed to, with risks categorised according to an approved Lloyds Banking Group risk language. This covers the principal risks faced by the Company, including the exposures to market, insurance underwriting, model risk, credit, capital, liquidity, regulatory and legal, conduct, people, governance and operational risks. The Company assesses the relative costs and concentrations of each type of risk and material issues are escalated to the appropriate Insurance executive committees and onto the Board if required. The performance of the Company, its continuing ability to write business and the strategic management of the business depend on its ability to manage these risks.

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

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

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

(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.

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

16. Risk management (continued)

(c) Financial risks

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

The Company manages these risks in a numbers of ways, including risk appetite assessment and monitoring of capital resource requirements.

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

(1) Market risk

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

The main investments of the Company are the holding of subsidiary companies, which are set out in Note 8 and the risks associated with investments in subsidiaries are covered further in paragraph (c)(6) below. Holdings of individual assets are essentially interest bearing, and are covered further in paragraph (c)(5) below.

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

(2) 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.

Interest rate risk arises in respect of investments in a liquidity fund, dividends on undated preference shares, interest on the intercompany loans and coupons on dated subordinated debt which are described in note 12. None of the other financial assets or financial liabilities of the Company are interest-bearing.

The sensitivity analysis below illustrates how the fair value of future cash flows in respect of interest-bearing financial assets, will fluctuate because of changes in market interest rates at the reporting date.

	Impact on profit after tax and equity for the year	
	2020	**2019**
	£'000	**£'000**
100 basis points (2019: 100 basis points) increase in yield curves	9,825	9,863
100 basis points (2019: 100 basis points) decrease in yield curves	(9,825)	(9,863)

(3) Credit risk

The risk that parties with whom we have contracted, fail to meet their financial obligations (both on and off balance sheet).

At the year end, the Company held financial assets of £65,909,000 (2019: £80,292,000) which were in investments in a liquidity fund with a credit risk rating of AAA (2019: AAA) using Standard & Poor's rating or equivalent. These assets are classified as Level 1 within the fair value hierarchy (2019: Level 1).

Credit risk in respect of above balances is not considered to be significant. There were no past due or impaired assets at 31 December 2020 or 31 December 2019. No terms in respect of financial assets had been renegotiated at 31 December 2020 or 31 December 2019.

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

16. Risk management (continued)

(c) Financial risks (continued)

(4) Capital Risk

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

- one of its separately regulated subsidiaries, 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; and/or
- the capital structure is inefficient.

The business of several of the Company's subsidiaries is regulated by the PRA and the FCA. The PRA rules, which incorporate all Solvency II requirements, specify the minimum amount of capital that must be held by the regulated companies within the Group in addition to their insurance liabilities. Under the Solvency II rules, each insurance 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.

The capital management strategy is such that the integrated insurance business (comprising Lloyds Banking Group plc 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 Lloyds Banking Group 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 and includes subordinated debt (note 12).

(5) Liquidity risk

Liquidity risk is defined as the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost.

Liquidity risk has been analysed as arising from the settlement of intercompany balances.

In order to measure liquidity risk exposure the Company’s liquidity is assessed in a stress scenario. Liquidity risk is actively managed and monitored to ensure that, even under stress conditions, the Company has sufficient liquidity to meet its obligations and remains within approved risk appetite. Liquidity risk appetite considers two time periods; three month stressed outflows are required to be covered by primary liquid assets; and one year stressed outflows are required to be covered by primary and secondary liquid assets. The Company holds primary liquid assets in the form of cash.

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

The following tables indicate the timing of the contractual cash flows arising from the Company’s financial liabilities, as required by IFRS 7. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company is obliged to pay, The table includes both interest and principal cash flows.

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

16. Risk management (continued)

(c) Financial risks (continued)

(5) Liquidity risk (continued)

As at 31 December 2020			Contractual cash flows				
Liabilities	**Carrying amount**	**No stated maturity**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Dated subordinated debt	635,000	—	—	4,448	16,172	86,249	635,000
Undated subordinated debt - liability component	524,000	524,000	—	—	—	—	—
Other financial liabilities	5	5	—	—	—	—	—
Amounts owed to Group undertakings	372,196	—	24,725	3,455	10,364	369,352	—
Total	1,531,201	524,005	24,725	7,903	26,536	455,601	635,000

As at 31 December 2019			Contractual cash flows				
Liabilities	**Carrying amount**	**No stated maturity**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Dated subordinated debt	635,000	—	—	5,525	19,835	105,785	635,000
Undated subordinated debt - liability component	524,000	524,000	—	—	—	—	—
Other financial liabilities	—	—	—	—	—	—	—
Amounts owed to Group undertakings	378,611	—	27,265	4,169	12,506	394,425	—
Total	1,537,611	524,000	27,265	9,694	32,341	500,210	635,000

Interest of £34,439,000 (2019: £42,035,000) per annum which is payable in respect of dated subordinated debt and non-current amounts owed to group undertakings for as long as they remain in issue is not included beyond five years.

(6) Risk associated with investment in subsidiaries

The Company owns various subsidiary undertakings and as mentioned in accounting policy note 1 (f), the carrying values of these are assessed for reasonableness at least once in each financial year. Any impairment in the value of these investments could result in a significant financial exposure of the Company, although the impairment would have to be significant itself for this risk to crystallise. The underlying activity in the subsidiary undertakings is regularly monitored and any implications on the financial position of the Company assessed. All subsidiaries of the Company are managed in accordance with Lloyds Banking Group risk policies to mitigate against any unforeseen circumstances.

(d) Non-financial risks

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

Identification

- Emerging risks
- Evaluate risk exposure vs appetite
- Scenario analysis
- Reverse stress testing

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

16. Risk management (continued)

(d) Non-financial risks (continued)

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

Monitoring

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

Reporting

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

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

Governance risk

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

Operational risk

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

– **Cyber and information security**

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

– **Financial crime**

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

– **Financial reporting risk**

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

– **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.

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

16. Risk management (continued)

(d) Non-financial risks (continued)

– **IT systems**

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

– **Operational resilience risk**

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

Regulatory and legal risk

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

(e) UK political uncertainties including EU exit

The UK / EU Trade and Cooperation Agreement means a disorderly Brexit has been avoided. While the TCA contains limited, high-level provisions on financial services, further detail is expected to emerge during this year, and Lloyds Banking Group will continue to monitor developments closely. In advance of the UK leaving the EU, a European subsidiary (SWE) was created to ensure continuity of certain insurance business for EEA customers. 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 other Group products and services, including savings, investments and insurance cover. Measures have been put in place to support affected customers, although to date customer responses remain low. Lloyds Banking Group 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.The impact on the Company would appear in the form of reduced Dividends receivable from subsidiary companies and charges to profit related to any impairment of the holdings in these companies.

(f) Economic Risk

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

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

There is expected to be minimal impact on the Company.

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

17. Related party transactions

(a) Ultimate parent and shareholding

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

(b) Transactions and balances with related parties

Transactions with other Lloyds Banking Group companies

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

	2020			
	Income during year £'000	Expenses during year £'000	Payable at year end £'000	Receivable at year end £'000
Relationship				
Parent	—	541,541	652,401	—
Subsidiary	560,000	13,628	347,471	—
Other related parties	—	30,884	531,324	—

	2019			
	Income during year £'000	Expenses during year £'000	Payable at year end £'000	Receivable at year end £'000
Relationship				
Parent	—	563,691	653,997	—
Subsidiary	510,000	15,174	351,346	—
Other related parties	—	33,127	532,353	—

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

Parent undertaking transactions relate to dividends paid to the Company's immediate parent. Transactions with other related parties (which including Subsidiary, Associates, Joint Ventures and Other categories above) are primarily in relation to financing (through capital and subordinated debt), loan funding and receipt of dividends.

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

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are all Directors and Insurance and Wealth Executive Committee (IWEC) members. Key management personnel, as defined by IAS 24, are employed by a management entity, transactions with this entity are as follows:

Key management compensation:

	2020 £'000	2019 £'000
Short-term employee benefits	6,939	8,768
Post-employment benefits	28	19
Share-based payments	923	1,906
Total	7,890	10,693

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £3,243,000 (2019: £4,020,000).

There were no retirement benefits accruing to Directors (2019: nil) under defined benefit pension schemes. Two Directors (2019: three Directors) are paying into a defined contribution scheme. There were £100 (2019: £100) of contributions paid to a pension scheme for qualifying services.

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.

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

17. Related party transactions (continued)

(c) Transactions between the Group and entity employing key management (continued)

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 £649,000 (2019: £916,000). 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 £'000 Options	2019 £'000 Options
Outstanding at 1 January	**18,211**	**18,661**
Granted	14,981	10,243
Exercised	(4,787)	(5,733)
Forfeited	(8,117)	(5,241)
Dividends awarded	273	281
Outstanding at 31 December	**20,561**	**18,211**

Detail regarding the highest paid Director is as follows:

	2020 £'000	2019 £'000
Apportioned aggregate emoluments	1,786	2,190
Apportioned share-based payments	547	674

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

18. Contingent Liability

The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax.The Company 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 £6,038,000 (including interest) (2019: £5,909,000). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

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

19. 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”	IFRS 17 replaces IFRS 4 ‘Insurance Contracts’ and is currently effective for annual periods beginning on or after 1 January 2023, although, following the Exposure Draft published on 26 June 2019, and the recent International Accounting Standards Board ("IASB") Board meeting on 17 March 2020, the IASB has proposed delaying implementation until 1 January 2023. IFRS 17 requires insurance contracts and participating investment 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 and participating investment contracts issued by the Group. The Group’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 Group’s data warehousing and actuarial liability calculation processes required for IFRS 17 reporting is progressing in line with the Group’s plans. The standard will have a significant impact on the accounting for the insurance and participating investment contracts issued by the Group. Presentation and disclosure for these contracts will be considerably different and more extensive than under IFRS 4. These amendments are not expected to have a significant impact on the Company, but it is expected that there will be a significant effect on profit recognition in subsidiary companies.	Annual periods beginning on or after 1 January 2023
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)	The IASB’s Phase 2 amendments are in response to issues arising from the planned replacement of interest rate benchmarks in a number of jurisdictions. Under these amendments, an immediate gain or loss is not recognised in the income statement where the contractual cash flows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms. In addition, hedge accounting is continued for relationships that are directly affected by the reform. These amendments are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2021

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

20. Post balance sheet events

Interim Dividend

On 4 February 2021, Lloyds Bank General Insurance Holdings Limited declared an interim dividend payment in respect of the year ending 31 December 2021 of £60.0 million. This was paid to the Company on 17 February 2021.

Sub Debt Restructure

On 18 March 2021, the Board of the Company provided delegated authority for approval of the issuance of the following instruments, to be held by Lloyds Banking Group plc:

a. Two Floating Rate Perpetual Notes of £300m each, to be classified as equity

b. Two Floating Rate Perpetual Notes of £250m each, to be classified as equity

c. One 10 year debt instrument of £100m, to be classified as a liability

The Company, on the same date, subject to the new issuances being effected:

a. Provided delegated authority for the redemption of £524m and £75m of subordinated debt

b. Provided approval for the repurchase of £595m preference shares

These instruments have call dates in 2021 and are currently held by companies within Lloyds Banking Group