00968406

Lloyds Bank Insurance Services Limited

Annual Report and Accounts
2021

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

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

* denotes Executive Director

Company Secretary

K J McKay

Independent Auditors

Deloitte LLP
Temple Quay
3 Rivergate
Bristol
BS1 6GD

Registered Office

25 Gresham Street
London
EC2V 7HN

Company Registration Number

00968406

STRATEGIC REPORT

The Directors present their Strategic Report on Lloyds Bank Insurance Services Limited ('the Company') for the year ended 31 December 2021.

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

Our strategy is to help our customers by:

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

As part of the Insurance strategy to become the 'Go to Provider' for home insurance, the Company acts as an intermediary for General Insurance, including home insurance, creditor insurance, business insurance and accident and health insurance marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through direct channels, Lloyds Banking Group distributors and corporate partnerships. The Company is focused on investing in the growth of its customer base and ensuring policyholder obligations are met, while at the same time ensuring the Company is managed to maximise capital efficiency and returns for its shareholder and Insurance. To support this, the Company is focused on the following key performance indicators:

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

Principal activities

The principal activity of the Company is to act as an intermediary for Lloyds Bank General Insurance Limited (LBGI) and third party underwriters. General Insurance includes home insurance, creditor insurance, business insurance and accident and health insurance, marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through direct channels, Lloyds Banking Group distributors and corporate partnerships. All contracts of insurance are written in the United Kingdom (UK).

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

Result for the Year

The result for the year ended 31 December 2021 is a profit after tax of £18.4 million (2020 profit: £18.1 million restated*). The total net assets of the Company at 31 December 2021 are £70.5 million (2020: £107.1 million restated*).

Profit after tax increased from £18.1 million to £18.4 million due to the increase in net commission income, partially offset by an increase in total expenses and a decrease in investment income.

Interim dividends of £55.0 million were paid on the ordinary shares during the year in respect of 2021 (2020: £nil).

*See note 25 for details regarding restatement.

FCA fine for legacy customer communications

Following the published findings of an investigation into the way the General Insurance business unit had communicated with home insurance customers about renewal of their policies between 2009 and 2017, the Financial Conduct Authority (FCA) imposed a fine on companies which form part of the business unit. Further details relating to this matter and indemnification by its sister company, LBGI, are disclosed in Note 6.

FCA GI Pricing Practices Directive

In September 2020 the FCA released its General Insurance Pricing Practices Final Report which included proposals aimed at tackling the industry pricing approach which it determined does not work well for some customers. The key proposals were that firms should offer renewal prices no higher than the equivalent new business price and a focus on ensuring fair value for consumers. The Company participated in the consultation period which ended on 25 January 2021 and is supportive of the FCA aims. Implementation of the FCA Pricing Practices Directive is effective from 1 January 2022.

Long term impact of the UK's exit from the EU

Uncertainties in respect of the medium to long-term implications of the UK's exit from the European Union (EU) on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. 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.

STRATEGIC REPORT (continued)

COVID-19

The outbreak of COVID-19 continues to significantly impact the principal risks faced by the Company. Note 20 provides further details of the impact on market risk (note 20 (a)), credit risk (note 20 (b)), capital risk (note 20 (c)) and liquidity risk (note 20 (d)).

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Company's results of operations, financial condition or prospects. The Company will continue to monitor the situation and risks to the business.

Climate Change

Lloyds Banking Group is committed to supporting the aims of the 2015 Paris Agreement, the UK Government's Net Zero target and Ten Point Plan for a Green Industrial Revolution, in transitioning to a more sustainable, low carbon economy and recognises the importance of embedding climate-related risks and opportunities into business operations and strategy.

The Company is supportive of the Task Force on Climate-Related Financial Disclosures (TCFD) framework and related regulatory expectations, and aligned to best practice outlined by the Climate Financial Risk Forum (CFRF). An intermediate parent of the company, Scottish Widows Group Limited, has published a TCFD aligned report.

Please refer to the Scottish Widows website for the full TCFD report.

Key performance indicators

Net commission income

Net commission income has increased by £2.3 million to £31.6 million in 2021 (2020: £29.3 million restated). The Company's net commission income only reflects commission in respect of Insurance entities external to the Lloyds Banking Group.

Capital resources

The Directors assess that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. The Company's surplus in excess of regulatory capital requirements (on 'MIPRU' - Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries) is £69.6 million (2020: £106.2 million restated). MIPRU represents the excess of equity over and above a proportion of the Company's annual commission income and further detail around this measure can be seen in note 20. The decrease in the Company's capital surplus is primarily due to a dividend payment of £55.0 million.

Liquidity

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

Other Sources where KPIs are presented

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

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

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

Review of the business

Back book migration initiative

As part of the General Insurance business unit, the Company supports the strategy of delivering a leading customer experience. The General Insurance business unit has invested in a new proposition that will offer a quick and intuitive sales journey for customers purchasing home insurance across certain channels. The new proposition also offers a simplified sales journey enabling customers to gain a better understanding of the cover and limits available to ensure the product they purchase truly meets their needs.

The new proposition is only being offered by LBGI and as a result all customers with a home product underwritten by the sister company St Andrew's Insurance plc (STAI), as the underwriter of legacy Halifax and Bank of Scotland products, and brokered by Halifax General Insurance Services Ltd (HGISL), will be offered a new proposition product underwritten by LBGI and brokered by the Company upon renewal during 2021 and 2022.

STRATEGIC REPORT (continued)

Outlook

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

Principal risks and uncertainties

Risks and uncertainties to our strategic plan, both positive and negative, are considered by product through the planning process. The following table describes the principal risks faced by the Company. Further details on financial risks and how the Company mitigates them can be found in note 20, as shown by the note reference.

Financial risks

Principal Risk	Note reference	Description
Market Risk	20(a)	Market risk is defined as the risk that the Company's capital or earnings profile is affected by adverse market rates, in particular equity, credit default spreads, interest rates and inflation in Insurance business. External rates are outwith the Company's control therefore mitigation is via having sufficient financial reserves to cover reduced earnings.
Credit Risk	20(b)	Credit risk is the risk that parties with whom we have contracted, fail to meet their financial obligations. The Company is subject to credit risk through a variety of counterparties through cash in liquidity funds and bank accounts. Credit risk is mitigated via the risk transfer policy and the investment policy which ensure exposures are appropriately monitored and action taken where necessary.
Capital risk	20(c)	Capital risk is defined as the risk that the Company has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Company. The Company is regulated by the FCA. The FCA imposes a Minimum Capital Requirement on the Company as defined in FCA regulations. Capital risk is managed via the Capital Risk Policy, which includes tools and governance to monitor capital requirements and assign capital accordingly.
Liquidity risk	20(d)	Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or from the inability to generate cash inflows as anticipated. Liquidity risk is mitigated by applying the Liquidity Risk Policy, which includes controls to maintain liquidity at necessary levels.

Non-financial risks

Principal Risk	Description
Operational risk	Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. This includes risks around cyber and information security, provision of external and internal services, financial crimes, financial reporting risk, fraud, IT systems, security and sourcing. Operational risk is managed through an operational risk framework, including a Risk and Control Self-Assessment (RCSA) process, and operational risk policies. The Company maintains a formal approach to operational risk event escalation, whereby material events are identified, captured and escalated. Root causes of events are determined, and action plans put in place to ensure an optimum level of control to keep customers and the business safe, reduce costs, and improve efficiency.
Data risk	Data risk is defined as the risk of failing to effectively govern, manage and control data (including data processed by third party suppliers), leading to unethical decisions, poor customer outcomes, loss of value and mistrust. It is present in all aspects of the business where data is processed, both within the company and by third parties. This risk is measured through a series of quantitative and qualitative indicators, covering data governance, data management, records management, data privacy and ethics. Data risks and controls are monitored and governed in line with an embedded risk management framework, which involves identification, measurement, management, monitoring and reporting.
Long term impact of the UK's exit from the EU	Uncertainties in respect of the medium to long-term implications of the UK's exit from the EU on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity The Company continues to monitor the wider environment post EU exit, including for market volatility. Scenario planning exercises are performed as part of business as usual, while contingency plans are regularly reviewed for potential strategic, operational and reputational impacts.
Climate risk	The Company is exposed to climate risk through transition and physical risks. The Company considers the impact of climate risk as a risk driver on other risks types, such as credit risk, market risk, and operational risk. Climate risk is mitigated via the application of the Climate Risk Policy, and actions taken to address other risk types.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

During the ordinary course of business the Company is also subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas.

All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant Balance Sheet date.

In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters. However, the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

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

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

Stakeholder engagement is embedded in all aspects of the Board's decision-making and can be seen in the range of tailored activities across key stakeholder groups. It is also embedded in the Board's delegation of the management of the Company's business to management.

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 2021 (as in 2020), interaction with stakeholders evolved in response to the Government's on-going provisions on global Covid-19 and the Company has made use of tools that enable virtual engagement.

This section (pages 7 to 9) acts as our Section 172(1) Statement, however given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this Statement describing the ways in which they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172. Further details on key actions in this regard are also contained within the Directors' Report on pages 10 to 11.

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

Customers

The Board's understanding of customers' 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.

Customer Trust

Customer trust is always a priority for the Board. The Insurance business of Lloyds Banking Group, of which the Company is part, aims to treat all customers fairly and make 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 Insurance business reviews, where appropriate, customer-related risk matters and scrutinises risk performance data (including Complaints and Conduct Risk Appetite Metrics) to identify areas where improvements can be made. The Lloyds Banking Group Insurance business, of which the Company is part, also considers customer feedback and related management information, including as part of its strategic decision-making process.

Delivering Value for Customers

The Insurance business, of which the Company is part, routinely reviews the performance of its customer propositions. This includes reviewing the effectiveness of the various channels open to customers to do business with Lloyds Banking Group's Insurance business, alongside the impacts of the Covid-19 pandemic on the UK economy and how the Insurance business's propositions might adapt to support customers as a result.

The Insurance business, of which the Company is part, has continued to engage proactively with its regulator to drive forward good business conduct in its core markets including in response to the FCA's General Insurance Market Study.

STRATEGIC REPORT (continued)

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

Technology Transformation

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

Helping Britain Recover

The Board continues to participate appropriately in all Lloyds Banking Group related initiatives. The lasting social and economic effects on the UK as it emerges from the early impacts of the Covid-19 pandemic has been a focus of Lloyds Banking Group and its Helping Britain Recover Plan, building on its Helping Britain Prosper ambitions. The focus of Lloyds Banking Group's purpose will evolve in response to the current environment and changing customer needs and expectations. Helping rebuild UK households' financial health and wellbeing and accelerating the transition to a low-carbon economy are key commitments within the Helping Britain Recover Plan.

Lloyds Banking Group continues to invest significantly in the development of its Insurance business, which the Company forms part of, with a focus on supporting customers' long-term financial resilience and ambition to deliver good outcomes for customers in a sustainable way. Further information on Lloyds Banking Group's initiatives can be found in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2021, available on the Lloyds Banking Group website.

Shareholders

During 2021 the Board approved interim dividends of £55.0 million. 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 2021, available on the Lloyds Banking Group website.

Communities and the Environment

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

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

Sustainability is an important issue for the Insurance business and for Lloyds Banking Group as a whole. During 2021 the Insurance business scrutinised sustainability initiative pilots both underway and planned within the General Insurance business which aim to reduce carbon emissions and drive societal change.

Environmental Ambitions

The Company's strategy in relation to Environmental Ambitions is covered in the Climate Change section commencing on page 5 of this report.

Regulators

The Board and the Group continue to maintain strong, open and transparent relationships with relevant regulators and government authorities. Liaison with regulators and the Government, both directly and as part of Lloyds Banking Group, is an ongoing priority at all levels of the organisation, ensuring Lloyds Banking Group, and the Company's strategic aims align with the requirement of these important stakeholders. In addition, individual Directors have in the ordinary course of business continuing discussions with regulators on various matters within the regulatory agenda. Regulatory engagement provides a view of the key areas of regulatory focus to management and the Board with monitoring of regulatory actions in place.

Suppliers

The Insurance business of Lloyds Banking Group has entered into a number of strategic partnerships for important aspects of its operations and customer service provision. As well as external partners, the Insurance business relies on internal supplier arrangements within Lloyds Banking Group for certain services. The Board recognises the importance of these relationships.

STRATEGIC REPORT (continued)

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

Supplier Experience

Recognising the role of suppliers in day to day operations, and future ambitions, the Insurance business of Lloyds Banking Group, of which the Company is part, undertakes regular reviews of its key suppliers and takes into consideration supplier feedback on the Company's processes for potential improvement.

Supplier Framework

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

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

Modern Slavery

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

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

Lloyds Banking Group, and the Company, have a zero-tolerance attitude towards modern slavery in its supply chains. Lloyds Banking Group's Modern Slavery and Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies, including the Company which is required to publish an annual statement, and sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains.

On behalf of the Board of Directors

M K Staples

Director

30 June 2022

DIRECTORS' REPORT

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

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

Results and dividend

The result for the year ended 31 December 2021 is a profit after tax of £18.4 million (2020 profit: £18.1 million restated*). The total net assets of the Company at 31 December 2021 are £70.5 million (2020: £107.1 million restated*).

Profit after tax increased from £18.1 million to £18.4 million due to the increase in net commission income, partially offset by an increase in total expenses and a decrease in investment income.

Interim dividends of £55.0 million were paid on the ordinary shares during the year in respect of 2021 (2020: nil).

*See note 25 for details regarding restatement

Post balance sheet events

An interim dividend of £50.0 million in respect of the year ending 31 December 2022 was declared on 31 March 2022 and was paid to Lloyds Bank General Insurance Holdings Limited on 1 April 2022.

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

Directors

The names of the current Directors are listed on page 3. There were no changes in Directorship during the year and since the end of the year.

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

Directors' indemnities

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

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

Disclosure of information to auditor

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

Future developments

Future developments are detailed within the Strategic Report and also in note 23.

Engagement with suppliers, customers and others

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

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. 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 note 20. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Financial risk management

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

DIRECTORS' REPORT (continued)

Independent auditors

Following the resignation of PricewaterhouseCoopers LLP on 18 May 2021, Deloitte LLP were appointed as auditors of the Company by resolution of the members dated 21 May 2021.

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and Deloitte LLP will therefore continue in office.

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 UK-adopted 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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- 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.

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

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

- the Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company
- the Strategic Report on pages 4 to 9, and the Directors' Report on pages 10 to 11 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

On behalf of the Board of Directors

M K Staples

Director

30 June 2022

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Lloyds Bank Insurance Services Limited

- give a true and fair view of the state of the company's affairs as at 31st December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards in conformity with the requirements of Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the related notes 1 to 25 (except note 20(c) for regulatory capital held and regulatory capital required).

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the United Kingdom.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined 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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of the above procedures, we have identified the completeness and cut-off of one-off revenue transactions. A key source of estimation uncertainty exists over the quantum of profit commission which will be received from external insurers, to the degree that management can make a reliable accrual estimate at year-end. This results in profit commission being recognised on a cash receipt basis. We have tested all the profit commission receipts amounts in the period, and performed specific post-year-end testing to ensure that post-year-end receipts, to the date of signing, are appropriately recorded within the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

T. Noble

Tom Noble, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, UK

30 June 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	Restated* 2020 £'000
Revenue - commission income*		32,267	29,762
Commission expense		(641)	(427)
Net commission income	3	31,626	29,335
Investment income	4	353	1,154
Net gains on assets at fair value through profit or loss	5	10	40
Other income		363	1,194
Expenses			
Expenses for administration	6	(5,171)	(4,791)
Expenses for acquisition of insurance contracts	6	(4,141)	(3,460)
Total expenses		(9,312)	(8,251)
Profit before tax		22,677	22,278
Taxation charge*	8	(4,280)	(4,216)
Profit for the year		18,397	18,062

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

The notes set out on pages 19 to 36 are an integral part of these financial statements.

*See note 25 for details regarding restatement.

BALANCE SHEET AS AT 31 DECEMBER 2021

	Note	2021 £'000	Restated* 2020 £'000
ASSETS			
Deferred tax assets	9	145	139
Financial assets:			
Loans and receivables at amortised cost*	10	55,998	101,533
Investments at fair value through profit or loss	11	—	5,396
Prepayments	12	18	—
Cash and cash equivalents	13	96,859	81,935
Total assets		153,020	189,003
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	14	100	100
Retained profits*		70,366	106,969
Total equity		70,466	107,069
Liabilities			
Current tax liabilities*	15	4,413	4,434
Provisions for other liabilities and charges	16	1,108	10,969
Financial liabilities:			
Other financial liabilities	17	77,033	66,531
Total liabilities		82,554	81,934
Total equity and liabilities		153,020	189,003

The notes set out on pages 19 to 36 are an integral part of these financial statements.

The financial statements on pages 15 to 36 were approved by the Board on 20 May 2022 and signed on behalf of the Board:

*See note 25 for details regarding restatement.

M K Staples

Director

30 June 2022

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	Restated* 2020 £'000
Cash flows generated from/(used in) operating activities			
Profit before tax*		22,677	22,278
Adjusted for:			
Investment income	4,5	(363)	(1,194)
Net decrease in operating assets and liabilities*	18	46,158	2,822
Taxation paid		(4,307)	(1,229)
Net cash flows generated from operating activities		64,165	22,677
Cash flows generated from investing activities			
Investment income	4	353	1,154
Net movement in investments at fair value through profit or loss		5,406	—
Net cash flows generated from investing activities		5,759	1,154
Cash flows used in financing activities			
Dividends paid	19	(55,000)	—
Net cash flows used in financing activities		(55,000)	—
Net increase in cash and cash equivalents		14,924	23,831
Cash and cash equivalents at the beginning of the year	13	81,935	58,104
Net cash and cash equivalents at the end of the year		96,859	81,935

The notes set out on pages 19 to 36 are an integral part of these financial statements.

*See note 25 for details regarding restatement.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Share capital £'000	Retained profits £'000	Total equity £'000
Balance as at 1 January 2020		100	88,907	89,007
Profit for the year and total comprehensive income (before restatement)			17,522	17,522
Restated profit due to accounting error*			540	540
Profit for the year and total comprehensive income (after restatement)		—	18,062	18,062
Balance as at 31 December 2020 (restated*)		100	106,969	107,069
Profit for the year and total comprehensive income		—	18,397	18,397
Dividend paid	19	—	(55,000)	(55,000)
Balance as at 31 December 2021		100	70,366	70,466

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

The notes set out on pages 19 to 36 are an integral part of these financial statements.

*See note 25 for details regarding restatement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006

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

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

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

Standards and interpretations effective in 2021

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 2021 which have had a material impact on the Company.

(b) Financial assets and financial liabilities

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 (unadjusted) in active markets for identical assets and liabilities to those being valued. An active market is one in which arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an 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, and listed debt or equity securities in a market that is inactive.

(iii) Level 3

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

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

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

(d) Revenue recognition

Commission income

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

Investment income

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

(d) Revenue recognition (continued)

Net gains on assets at fair value through profit or loss

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

(e) Expense recognition

Commission expense

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

Expenses for the acquisition of insurance contracts

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

Administrative expenses

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

(f) Loans and receivables at amortised cost

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

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

(g) Investments at fair value through profit or loss

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

Classification

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

Recognition

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

Measurement

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

Structured entities

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, short-term highly liquid investments (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments) and bank overdrafts where a legal right of set off exists.

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

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

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

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

(i) Impairment

Financial assets

The impairment charge in the Statement of Comprehensive Income includes the change in expected credit losses for financial assets held at amortised cost. Expected credit losses are calculated by using the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

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

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

For financial instruments that are considered to have low credit risk, the credit risk is assumed to not have increased significantly since initial recognition. Financial instruments are considered to have low credit risk when the borrower is considered to have a low risk of default from a market perspective. Typically financial instruments with an external credit rating of investment grade are considered to have low credit risk.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

(j) Taxes

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

Current tax

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

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

Deferred tax

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

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

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

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

(k) 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.

(l) Dividends payable

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

(m) Provisions for other liabilities and charges

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

(n) Other financial liabilities

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

In the course of preparing these financial statements, there are no critical judgements nor have any critical accounting estimates been made in the process of applying the Company's accounting policies.

3. Net commission income

	2021 £'000	Restated* 2020 £'000
Commission income*	16,765	19,639
Profit share income	15,502	10,123
Total revenue - commission income	32,267	29,762
Commission expense	(641)	(427)
Net commission income	31,626	29,335

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

In order to improve presentation in the current and prior year, net commission income has been separated into commission income and profit share income. The change has not been presented on the face of the statement of comprehensive income.

*See note 25 for details regarding restatement.

4. Investment income

	2021 £'000	2020 £'000
Cash and cash equivalents interest income	22	223
Interest on loan to insurance intermediary	331	931
Total	353	1,154

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

	2021 £'000	2020 £'000
Investments at fair value through profit or loss	10	40
Total	10	40

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

6. Expenses

	2021 £'000	2020 £'000
Expenses for the acquisition of insurance contracts	4,141	3,460
Expenses for administration	5,171	4,791
Total	9,312	8,251

The administration of the Company is undertaken by another Lloyds Banking Group company. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company, in addition there are some operating expenses which are incurred directly by the Company. In 2021, net costs recharged to the Company were £8.7 million (2020: £8.4 million).

In 2021, expenses for administration includes a fine imposed by the FCA and its full indemnification by LBGI under the Intragroup Agreement signed on 10 March 2015 and varied on 19 December 2016 and 1 July 2019.

The Company had no direct employees during the year (2020: nil). The employee costs, including pension costs and share-based payment costs, are included in the recharge noted above.

7. Auditors' remuneration

	2021 £'000	2020 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	95	91
Total	95	91

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

8. Taxation charge

(a) Current year tax charge

	2021 £'000	Restated* 2020 £'000
Current tax		
UK corporation tax*	4,286	4,207
Total current tax charge	4,286	4,207
Deferred tax:		
Origination and reversal of timing differences	23	26
Impact of deferred tax rate change	(29)	(17)
Total deferred tax (credit)/charge)	(6)	9
Total income tax charge	4,280	4,216

(b) Reconciliation of tax charge

	2021 £'000	Restated* 2020 £'000
Profit before tax*	22,677	22,278
Tax charge at effective UK corporation tax rate of 19.00% (2020: 19.00%)*	4,309	4,233
Effects of:		
Corporation tax rate change and related impacts	(29)	(17)
Total	4,280	4,216

The effective tax rate for the year is 18.9 per cent (2020: 18.9 per cent).

*See note 25 for details regarding restatement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Deferred tax assets

	Accelerated capital allowances	Other short term differences and provisions	Total
	£000	£000	£000
At 1 January 2020	87	61	148
Statement of Comprehensive Income charge during 2020	(7)	(2)	(9)
At 31 December 2020	80	59	139
Statement of Comprehensive Income charge during 2021	2	4	6
At 31 December 2021	82	63	145

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

The Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

10. Loans and receivables at amortised cost

	2021	Restated* 2020
	£'000	£'000
Loans and receivables:		
- commission receivable and accrued income*	9,953	9,818
- due from related parties	36,625	44,731
- due from insurance intermediary	9,420	46,983
Total	55,998	101,532

Amounts due from related parties includes an indemnification asset of £0.4 million (2020: £10.2 million) in relation to provisions (further details of which are disclosed in note 16) which are indemnified by LBGI under the Intragroup Agreement signed on 10 March 2015 and varied on 19 December 2016 and 1 July 2019.

Amounts due from Insurance intermediary of £9.4 million (2020: £47.0 million) represent a premium financing debtor agreement balance of £nil million (2020: £36.2 million) and £9.4 million (2020: £10.8 million) of commission and profit share due.

All of the above loans and receivables at amortised cost are expected to be received within one year of the reporting date.

*See note 25 for details regarding restatement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

11. Investments at fair value through profit or loss

	2021 £'000	2020 £'000
Collective Investment Schemes - Unlisted	—	5,396
Total	—	5,396

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss and cash and cash equivalents (note 13) are investments in unconsolidated structured entities of £95.1 million (2020: £85.6 million) arising from investments in collective investment schemes and liquidity funds.

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

During 2021, the company divested assets totalling £5.4 million relating to collective investment schemes.

12. Prepayments

	2021 £'000	2020 £'000
Amounts relating to trading balances	18	—
Total	18	—

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

13. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash at bank and in hand	1,765	1,704
Investments held through liquidity funds	95,094	80,231
Total	96,859	81,935

14. Share capital

	2021 £'000	2020 £'000
Issued and fully paid share capital:		
100,000 (2020: 100,000) ordinary shares of £1 each	100	100
Total	100	100

15. Current tax liabilities

	2021 £'000	Restated* 2020 £'000
Current tax liabilities	4,413	4,432
Total	4,413	4,432

*See note 25 for details regarding restatement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

16. Provisions for other liabilities and charges

	Commission clawbacks	Other	Customer discount communications	Total
	£000	£000	£000	£000
At 1 January 2020	5,965	943	11,000	17,908
Utilised during the year	(5,249)	(2,530)	(1,922)	(9,701)
Increase in the year	91	2,262	409	2,762
At 31 December 2020	807	675	9,487	10,969
Utilised during the year	(807)	(552)	(7,735)	(9,094)
Increase/(release) in the year	697	7	(1,471)	(767)
At 31 December 2021	697	130	281	1,108

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

a. Commission clawbacks

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

b. Other provisions

Other provisions relate to amounts held in respect of product rectification costs. An Indemnification Asset of £0.1 million (2020: £0.7 million) has been recognised in amounts due from related parties as disclosed in note 10.

c. Customer Discount Communications

Following investigations relating to an anomaly with communication of discounts on certain home insurance contracts, provisions have been established in the Company to reflect the best estimate of rectification payments to be made to customers by the Company, which are indemnified by LBGI under the Intragroup Agreement signed on 10 March 2015 and varied on 19 December 2016 and 1 July 2019. An Indemnification Asset of £0.3 million (2020: £9.5 million) has been recognised in amounts due from related parties as disclosed in note 10.

17. Other financial liabilities

	2021	2020
	£'000	£'000
Trade payables and accrued expenses	4,043	4,442
Amounts due to related parties	72,990	62,089
Total	77,033	66,531

All other financial liabilities except as stated below are expected to be settled less than one year after the reporting date. In 2021 there are no non-current liabilities (2020: £Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

18. Net decrease in operating assets and liabilities

	2021 £'000	Restated* 2020 £'000
Net decrease in operating assets:		
Loans and receivables at amortised cost*	45,535	20,092
Prepayments	(18)	3
Net decrease in operating assets	45,517	20,095
Net increase/(decrease) in operating liabilities:		
Provisions for other liabilities and charges	(9,861)	(6,939)
Other financial liabilities	10,502	(10,334)
Net increase/(decrease) in operating liabilities	641	(17,273)
Net decrease in operating assets and liabilities	46,158	2,822

*See note 25 for details regarding restatement.

19. Dividends paid

	2021 £'000	2020 £'000
Total dividends paid on equity shares	55,000	—
Total	55,000	—

Dividends of £55.0 million were paid during the year in respect of 2021 (2020: £nil).

20. Risk management

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

This note summarises the financial risks and the way in which they are managed.

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

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

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

(a) Market risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

20. Risk management (continued)

(a) Market risk (continued)

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

As at 31 December 2021

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Collective Investment Schemes - unlisted	—	—	—	—
Investments held through liquidity funds	95,094	—	—	95,094
Total Assets	95,094	—	—	95,094

As at 31 December 2020

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

Investments in unconsolidated structured entities of £95.1 million (2020: £85.6 million) arising from investments in Collective Investment Schemes is categorised as level 1 in the fair value hierarchy. There were no investments categorised as level 2 or level 3.

(i) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve.

If interest rates were to increase or decrease by 25 basis points, the impact on profit and loss would be an increase or decrease respectively of £0.2 million (2020: increase or decrease respectively of £0.2 million) in respect of financial assets and financial liabilities bearing floating rates of interest.

(b) Credit risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

20. Risk management (continued)

(b) Credit risk (continued)

As at 31 December 2021

	Total	AAA	AA	A	BBB or lower	Not rated
	£000	£000	£000	£000	£000	£000
Stage 1 assets						
Loans and receivables at amortised cost	36,625	—	—	36,625	—	—
Cash and cash equivalents	1,765	—	—	1,765	—	—
Loss allowance	—	—	—	—	—	—
Exposure to credit risk	**38,390**	**—**	**—**	**38,390**	**—**	**—**
Simplified approach assets						
Loans and receivables at amortised cost	19,395	—	6,415	2,959	530	9,491
Loss allowance	(22)	—	—	—	—	(22)
Exposure to credit risk	**19,373**	—	**6,415**	**2,959**	530	9,469
Assets at fair value through profit or loss						
Collective Investment Scheme - unlisted	—	—	—	—	—	—
Cash and cash equivalents	95,094	95,094	—	—	—	—
Total	**152,857**	**95,094**	**6,415**	**41,349**	**530**	**9,469**

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

As at 31 December 2020

	Total	AAA	AA	A	BBB or lower	Not rated
	£000	£000	£000	£000	£000	£000
Stage 1 assets						
Loans and receivables at amortised cost	80,982	—	—	44,732	—	36,250
Cash and cash equivalents	1,705	—	—	1,705	—	—
Loss allowance	(30)	—	—	—	—	(30)
Exposure to credit risk	**82,657**	**—**	**—**	**46,437**	**—**	**36,220**
Simplified approach assets						
Loans and receivables at amortised cost*	20,599	—	2,755	6,668	307	10,869
Loss allowance	(19)	—	—	—	—	(19)
Exposure to credit risk	**20,580**	**—**	**2,755**	**6,668**	**307**	**10,850**
Assets at fair value through profit or loss						
Collective Investment Scheme - unlisted	5,396	5,396	—	—	—	—
Cash and cash equivalents	80,230	80,230	—	—	—	—
Total	**188,863**	**85,626**	**2,755**	**53,105**	**307**	**47,070**

*See note 25 for details regarding restatement.

(c) Capital risk

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

The Company’s objectives when managing capital are to have sufficient capital to safeguard the Company’s ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders and to comply with the capital requirements set out by the Financial Conduct Authority (FCA) in the UK.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

20. Risk management (continued)

(c) Capital risk (continued)

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

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

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

The retained profits balance of £70.4 million (2020: £107.0 million) represents the amount available for dividend distribution to the equity shareholders of the Company (excluding any regulatory restrictions).

	2021 £'000	Restated* 2020 £'000
Regulatory capital held (unaudited)	70,366	106,970
Regulatory capital required (unaudited)	(807)	(744)
Regulatory Surplus	69,559	106,226

*See note 25 for details regarding restatement.

All minimum regulatory requirements were met during the year.

(d) Liquidity risk

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

Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or from the inability to generate cash inflows as anticipated.

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

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

	Carrying value £'000	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Over 2 years £'000
As at December 2021					
Other financial liabilities (note 17)	77,033	77,033	—	—	
Carrying value	77,033	77,033	—	—	

	Carrying value £'000	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Over 2 years £'000
As at December 2020					
Other financial liabilities (note 17)	66,531	66,531	—	—	
Carrying value	66,531	66,531	—	—	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

20. Risk management (continued)

(e) Concentration risk

Credit concentration risk

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

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

Exposure to credit risk is concentrated across counterparties as follows:

	2021	Restated* 2020
	£'000	£'000
Trade and other receivables:		
Amounts due from group undertakings	36,625	44,731
Amounts due from Insurance intermediary	9,420	46,983
Other receivables*	9,953	9,818
Cash and cash equivalents (amounts due from financial institutions)	96,859	81,935
Collective Investment Scheme - unlisted	—	5,396
Total	152,857	188,863

*See note 25 for details regarding restatement.

Liquidity concentration risk

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

As most of the Company's invested assets are cash and cash equivalents it is unlikely that a material concentration of liquidity concentration could arise.

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

21. Contingencies and commitments

Tax authorities

Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed Lloyds Banking 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. Lloyds Banking 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 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the Company of approximately £7.1 million (including interest). Lloyds Banking Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Other legal actions and regulatory matters

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

22. Related party transactions

(a) Ultimate parent and shareholding

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

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

(b) Transactions and balances with related parties

Transactions with other Lloyds Banking Group companies

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

	2021			
	Income during period £'000	Expenses during period £'000	Payable at period end £'000	Receivable at period end £'000
Relationship				
Parent	—	55,000	—	—
Other related parties	1	9,255	72,990	38,391

	2020			
	Income during period £'000	Expenses during period £'000	Payable at period end £'000	Receivable at period end £'000
Relationship				
Parent	—	—	—	—
Other related parties	2,670	14,768	62,415	46,750

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

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

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

Related party income is in respect of the recognition of Indemnification Assets for provisions covered by the Intragroup Agreement between the Company and LBGI, its sister company, signed on 10 March 2015 and varied on 19 December 2016 and 1 July 2019.

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:

	2021 £'000	2020 £'000
Short-term employee benefits	513	767
Post-employment benefits	14	3
Share-based payments	71	117
Total	598	887

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

22. Related party transactions (continued)

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

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

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £513,473 (2020: £767,452).

There were no retirement benefits accrued to Directors (2020: nil) under defined benefit pension schemes. One Director (2020: three Directors) is paying into a defined contribution scheme. The aggregate value of contributions paid to a pension scheme for qualifying services was £14,231 (2020: £3,241).

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

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £70,990 (2020: £116,757). During the year, one Director exercised share options (2020: three Directors) and no Directors received qualifying service shares under long term incentive schemes (2020: three Directors).

Movements in share options are as follows:

	2021 Options	2020 Options
Outstanding at 1 January	1,884,924	1,039,338
Granted	238,883	1,563,614
Exercised	(187,381)	(533,212)
Forfeited	(213,967)	(217,375)
Dividends awarded	384	32,559
Outstanding at 31 December	1,722,843	1,884,924

Detail regarding the highest paid Director is as follows:

	2021 £'000	2020 £'000
Apportioned aggregate emoluments	110	399
Apportioned share-based payments	18	74

In both 2021 and 2020 the highest paid Director exercised share options.

23. Future accounting developments

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

24. Post balance sheet events

Dividend

An interim dividend of £50 million in respect of the year ending 31 December 2022 was declared on 31 March 2022 and was paid to Lloyds Bank General Insurance Holdings Limited on 1 April 2022.

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Company’s results of operations, financial condition or prospects. The Company will continue to monitor the situation and risks to the business.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

25. Restatement of comparatives

The comparative information reported has been restated as explained below:

	Restated £'000	Adjustment £'000	Previously Reported £'000
Balance sheet as at 31 December 2020			
Equity			
Retained profits	106,970	540	106,430
Assets			
Loans and receivables	101,533	667	100,866
Liabilities			
Current tax liabilities	4,432	127	4,305

Correction of error in accounting for net commission income

Profit share in respect of prior periods has not been accrued in the correct accounting period.

The retained profits at the 31 December 2020 have been restated to reflect commission income in respect of 2020 which had not been recognised in the statement of comprehensive income.

Commission income for 2020 has increased £0.7 million with a tax charge of £0.1million

The impact of this on the statement of financial position at 31 December 2020 has been shown in the table above. Net assets have increased by £0.5 million at 31 December 2020.