03104671

St Andrew's Insurance plc

Annual Report and Accounts
2021

Member of Lloyds Banking Group

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COMPANY INFORMATION

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STRATEGIC REPORT

The Directors present their strategic report on St Andrew's Insurance plc (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 of Lloyds Banking Group, focusing on providing general insurance to meet our customers' needs.

Our strategy is to help our customers by:

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

As part of the Insurance strategy the Company is closed to new business but has continued to focus on servicing existing renewal customers for home and creditor insurance during the year. Accordingly, the Company is focused on ensuring policyholder obligations are met, while at the same time ensuring the Company is managed to maximise capital efficiency and returns for its shareholder and Insurance. To support this, the Company is focused on the following key performance indicators:

- Net insurance premiums
- Claims and loss adjustment expenses
- Combined ratio
- Solvency II Regulatory capital
- Liquidity position

Principal activities

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

Result for the Year

The result for the year ended 31 December 2021 is a profit after tax of £9 million (2020: £34 million).

The reduction in profit is driven by an increase in expenses for administration in respect of a fine imposed by the Financial Conduct Authority (FCA) and continued run off of the business. Run off of the home business was accelerated towards the end of the year following the sale of the legacy home products customer book of business to a sister company Lloyds Bank General Insurance Limited. Additionally, £25 million of income was generated by the sale of this book of business.

During the year the Company issued £30 million of share capital to its parent company Lloyds Bank General Insurance Holdings Limited, increasing the total issued share capital to £31 million.

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 FCA imposed a fine on companies which form part of the business unit with £44.8 million being attributed to St Andrew's Insurance plc. The penalty was settled in full on 16 July 2021.

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 25 provides further details of the impact on market risk (note 25 (a)), insurance underwriting risk (note 25 (b)), credit risk (note 25 (c)) and capital risk (note 25 (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 (SWG), has published a TCFD aligned report.

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

Governance

Given the strategic importance in managing the impacts of climate change, the Company's governance structure provides clear oversight and ownership of the sustainability strategy and management of climate-related risk.

Governance for climate-related risk has been embedded into the existing governance structure and is complementary to the governance of Lloyds Banking Group's sustainability strategy. Two new committees have been formed during 2021:- the Insurance Sustainability Committee (a committee of the Board of Directors) and the Responsible Business Executive Committee, responsible for identifying opportunities within the Company.

Risk Management

The Company has a well-established and robust risk management framework used to identify, measure, monitor, manage and report the risks faced by the business. Climate Risk will be managed using this framework, consistent with all other risks.

Climate Risk has been integrated into the Company's existing risk management framework following consideration of how the effects of Climate Change may impact both the risk profile and business model.

Strategy

In order to support our customers and Lloyds Banking Group's net-zero commitment, our strategy is split into three separate, yet interlinked strands. These are 1) propositions to improve flood resilience; 2) reducing carbon emissions; and 3) advocating change internally and externally.

Scenario Analysis

In-house expertise on physical risk is retained in the form of a dedicated weather modelling team that sits within the General Insurance business unit. The team comprises specialists in hydrology, meteorology and probabilistic modelling who develop a baseline view of physical risk for the UK and conduct forward looking climate stress testing onto this. This team has been in place since 2016 and has monitored and applied climate change science onto the view of risk used for capital, pricing, reinsurance and planning.

Since its inception, the team has monitored climate change science and applied this to the view of physical risk for the UK. Consequently, an adjustment is currently applied to coastal inundation losses on GI liabilities to account for sea-level rise at a rate of 2mm per year. The team also conducts forward-looking climate stress testing onto GI liabilities.

Metrics & Targets

There has been a focus on expanding climate-related metrics during 2021, not just for disclosures but also for internal risk management. This includes the construction of value adding risk appetite statements for regular reporting to the Board and internal metrics for monitoring progress of the net zero transition.

STRATEGIC REPORT (continued)

Key performance indicators

Net insurance premiums

Net insurance premiums reduced by 15 per cent to £100 million in 2021 (2020: £117 million). The decrease reflects the run-off of both the home and creditor books.

Claims and loss adjustment costs

Claims and loss adjustment costs decreased by 6 per cent to £43 million in 2021 (2020: £46 million). The decrease in current year claims and loss adjustment costs is due to less weather events during the year and run-off of both the home and creditor books.

Combined ratio

The Company's combined ratio has increased to 109 per cent (2020: 67 per cent). This reflects an increase in the claims ratio of 4pp to 43 per cent (2020: 39 per cent) and an increase in the expense ratio of 38pp to 66 per cent (2020: 28 per cent). This is driven by an increase in expenses which in 2021 includes £44.8 million in respect of a fine imposed by the FCA.

Solvency II

During the year, the Company has delivered Solvency II reporting including full annual quantitative reporting as at 31 December 2021, as well as the narrative reporting required by Solvency II. The Company has a waiver from the Prudential Regulation Authority (PRA) exempting it from preparing a solo Solvency and Financial Condition Report (SFCR). Instead, in April 2021, the Company reported publicly through a Group SFCR for Scottish Widows Group Limited. The next SFCR will be published in April 2022, in relation to the year ending 31 December 2021.

The Directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. On a Solvency II basis the regulatory surplus of the Company in excess of capital requirements is £50 million (2020: £51 million).

The Solvency II ratio for the Company is 178 per cent (2020: 146 per cent) reflecting the net profit for the period less dividends paid. Further information on the capital position of the Company is given in note 25.

As agreed with the PRA, the wider Insurance and Wealth Division submits a single Own Risk and Solvency Assessment (ORSA) each year which covers the Group headed by Scottish Widows Group Limited. The assessment of own risks and solvency needs of the Company is therefore covered by that assessment.

Liquidity

The Company regularly monitors its liquidity position to ensure that, even under stressed conditions, the Company has sufficient liquidity to meet its obligations and remain within the approved risk appetite. As at 31 December 2021, the Company had liquidity coverage of 147 per cent (2020: 160 per cent) over and above the liquidity required under stressed conditions.

Other Sources where KPIs are presented

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

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

Review of the business

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

Investment strategy

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

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

STRATEGIC REPORT (continued)

Review of the business (continued)

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 the sister company Lloyds Bank General Insurance Ltd (LBGI) and as a result all customers with a home product underwritten by the Company, as the underwriter of legacy Halifax and Bank of Scotland products, will be offered a new proposition product underwritten by LBGI upon renewal during 2021 and 2022.

During the year the Company received £25 million from LBGI as fair value consideration for this book of business.

Following the back book migration initiative the Company will continue to serve its existing creditor insurance renewal customers as well as manage existing home claims or home claims from business written prior to renewal.

Outlook

The Directors consider that the Company’s principal activities will continue to be unchanged in the foreseeable future, although activities related to the home book of business will rapidly decline following implementation of the back book migration initiative as outlined above.

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 25, as shown by the note reference.

Financial risks

Principal Risk	Note reference	Description
Market risk	25(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.
Insurance underwriting risk	25(b)	Insurance underwriting risk is defined as the risk of adverse developments in the timing, frequency and severity of claims for insured/underwritten events leading to reductions in earnings and/or value. In order to mitigate insurance underwriting risk, the Company uses underwriting, catastrophe reinsurance, flood reinsurance, pricing-to-risk, claims management, product design, policy wording, and demographics to accurately assess risk.
Credit risk	25(c)	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 invested assets, cash in liquidity funds, bank accounts and reinsurance. 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	25(d)	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 PRA and the FCA. The PRA rules, which incorporate all Solvency II requirements, specify the minimum amount of capital that must be held by the regulated Company in addition to their insurance liabilities. Capital risk is managed via the Capital Risk Policy, which includes tools and governance to monitor capital requirements and assign capital accordingly.
Liquidity risk	25(e)	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. The Company is exposed to liquidity risk from payments to policyholders and non- policyholder related activity. Liquidity risk is mitigated by applying the Liquidity Risk Policy, which includes controls to maintain liquidity at necessary levels.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

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.

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 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 as set out in note 19.

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

STRATEGIC REPORT (continued)

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

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors of the Board of the Company provide this Statement, which describes the ways in which they have had regard to the following matters set out in Section 172(1) of the Act when fulfilling their key duty to promote the success of the Company, under Section 172:

- The likely consequences of any decision in the long term;
- The need to foster business relationships with the Company's suppliers, customers and others
- The impact of the Company's operations on the community and the environment
- Maintaining a reputation for high standards of business conduct for the Company
- The need to act fairly as between the Company's shareholders

This Statement also provides examples of how the Directors have engaged with and had regard to the interests of key stakeholders 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). 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.

The Board is collectively responsible for the long-term success of the Company. Understanding the views and interests of our key stakeholders (this includes customers, shareholders, communities, the 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 activities across key stakeholder groups.

How the Board has discharged its Section 172 duties

The Directors, as part of their appointment and induction to the Board, are provided with a briefing on their statutory director duties and the standards required to be met by subsidiary boards within Lloyds Banking Group. The Board undertakes an annual review of its governance arrangements, in particular of the matters it has reserved for its own determination and those for which it has delegated authority to management. This arrangement is designed to enable the Board to provide effective, sound, and entrepreneurial leadership of the Company within Lloyds Banking Group's strategic aims and prudent and effective controls.

Stakeholder engagement is embedded in the Board's delegation to the Chief Executive Scottish Widows & Group Director Insurance (Chief Executive) for the delivery of the Company's strategy and overall management of the Company's business within its defined risk appetite. Examples of related actions taken during the year are included within this Report. The Chief Executive discharges his responsibility for the day-to-day management of the Company's business by delegating key areas of his authority to members of management and with the assistance of the Executive Committee (the Insurance & Wealth Executive Committee (IWEC)) which enables him to make informed decisions about the operations of the Company's business.

The Chief Executive and management both provide the Board with details of material stakeholder interaction and feedback, through a programme of business updates. Stakeholder interests are routinely identified by management in the wider proposals put to the Board. During 2021 (as in 2020) interaction with stakeholders evolved in response to the UK Governments' ongoing provisions on the COVID-19 global pandemic and the Company has made use of tools that enable virtual engagement.

Further details of how the Board considers each of the specific matters set out in Section 172, along with specific examples of how these considerations have influenced decisions taken by the Board, are set out in pages 9 to 12 which serves as the Company's Section 172(1) Statement.

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 are a key consideration in Board decision-making. The Company serves a wide variety of different customers and acts in a way designed to meet their diverse needs in a timely and efficient way through its range of products and the quality of customer service provided.

The Board reviews the performance of its customer propositions within a cycle of in-depth reviews and debates matters particular to each proposition. Such review in 2021 has covered product/investment performance, the quality of customer service and the effectiveness of product evolution to meet the changing needs of the Company's customer base. The Board, supported where appropriate by various committees challenges management from the perspective of the customer, such as in consideration of the design of written engagement materials and the channels made available to customers to transact with and obtain support from the Company.

STRATEGIC REPORT (continued)

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

Customer trust

Customer trust is always a priority. The Board has established a governance framework that aims to treat all customers fairly, and makes it easy for customers to find, understand and access products that are right for them. The Board receives a regular customer dashboard update that measures brand performance on a number of metrics to identify areas of particular strength or where extra management focus is needed. This dashboard includes verbatim feedback from customers that helps to provide richer insight into performance across various dimensions to inform business planning and priorities. The Board's Risk Oversight Committee reviews more detailed customer-related risk matters and scrutinises risk performance (including Complaints and Conduct Risk Appetite Metrics) to identify areas where improvements could be made.

COVID-19 response

The COVID-19 pandemic impacted customers, colleagues and the operation of business of the Company in a number of ways including heightened telephony demand from customers who were themselves managing immediate pandemic impacts, alongside a transition to remote working for colleagues and third-party partners and the emergence of a sustained, heightened expectation among customers for digital engagement channels. Some areas of customer service continued to experience COVID-19 related impacts into 2021 and the management of complaints and resolution of queries remains a consistent Board and management focus, working closely with the customer service partners to enable the delivery of a consistently high standard of service as customers should expect.

The management of customer investments is a core matter managed by the Board, supported by some of its Committees. The Board has continued in 2021 to take a long-term view in its approach to investment management in partnership with the Company's selected active fund manager, Schroder Investment Management Limited (Schroders). Schroders are invited to present to certain meetings of the Board as a means of oversighting management's engagement with them and to engage with them in respect of key investment matters.

Delivering value for customers

The Board routinely reviews the performance of its customer propositions during its annual cycle of meetings, focusing on matters particular to each proposition within its standing annual cycle of discussions. The Board also considers in the widest sense the digital landscape and the effectiveness of its various channels open to customers to do business with the Company.

Technology transformation

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

Helping Britain Recover and Prosper

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 impacts of the COVID-19 pandemic have been a focus of Lloyds Banking Group and its Helping Britain Recover and Prosper 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 and Prosper 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 ambitions 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

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 in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2021, available on the Lloyds Banking Group website.

The relationship between the Board of the Company and the Board of Lloyds Banking Group is supported by at least one senior leader from Lloyds Banking Group serving as a Non-executive Director on the Insurance Board throughout all of 2021. A number of Lloyds Banking Group Independent Non-executive Directors were also welcomed as observers at meetings of the Insurance Board during 2021. The Board of the Company also welcomed that the Lloyds Banking Group Chair and the Lloyds Banking Group Chief Executive Officer (who was appointed to that role in August 2021) both took part in some Board discussions during 2021 and debate included ways to optimise the relationship between the two Boards.

STRATEGIC REPORT (continued)

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

Communities and the environment

The Company is part of Lloyds Banking Group, one of the largest financial services providers in the UK and 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 oversight of the Group's performance as a Responsible Business and has given much focus to oversighting the development of Lloyds Banking Group's Helping Britain Recover and Prosper Plan. This plan continues its strategy of Helping Britain Prosper while also playing a part in the UK's recovery from the COVID-19 pandemic. The views of stakeholders have 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.

In September 2021, the Insurance Board established its own Insurance Sustainability Committee (ISCO), with membership drawn primarily from Independent Non-executive Directors in addition to the Chief Executive. The primary purpose of ISCO is to review the ESG Strategy of the Insurance business, and its alignment to Lloyds Banking Group's overarching purpose of Helping Britain Recover and Prosper in the future. Alongside ISCO, the Company's Insurance People Committee continues to consider, amongst other things, matters related to culture and in 2021 has debated and sponsored various Inclusion & Diversity matters and initiatives. The Chairs of the Insurance People Committee and ISCO work together to ensure that there is appropriate coverage of all social matters between them.

The Board as a whole is engaged on a regular basis on the Company's sustainability agenda, receiving regular briefings to build understanding and capability. Directors also attend relevant external briefings. In July 2021, the Board undertook climate risk training supported by the Cambridge Institute of Sustainability Leadership.

Climate risk

Approval of proposed external commitments in relation to climate risk that materially impact the Company or the Company's funds are matters reserved to the Board. ISCO on behalf of the Board considers the Company's management of climate risk and relevant public disclosures, providing oversight and challenge on those activities which impact on the Company's reputation as a responsible business.

Environmental ambitions

The Board has supported some ambitious Lloyds Banking Group targets in relation to ESG and climate change. Lloyds Banking Group's aim is to increase investment in companies adapting their businesses to be less carbon-intensive and to invest in climate awareness strategies (funds that have a materially lower carbon intensity than their benchmark) by 2025; achieve a 50 per cent reduction in the carbon emissions of the Insurance Division's overall funds under management by 2030; and get to net zero emissions by 2050. The Board intends to provide more detail of how it is going to hit these targets in future years.

The Board is regularly updated on the work undertaken by the Scottish Widows' Responsible Investment Team with key stakeholders including the UK government, regulators, and the pensions industry to unlock opportunities to invest in the infrastructure required to successfully transition to a lower carbon economy.

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

Board diversity

The Board considers its current size and composition to be appropriate to the Company's circumstances. The Board places great emphasis on ensuring its membership reflects the diversity of modern Britain and is inclusive for everyone. On gender diversity, the Board has a specific objective to maintain membership of at least 33 per cent female Board members. At 31 December 2021, the Board's membership consisted of 38 per cent female members. With effect from 18 March 2022 the Board has met the objectives of the Parker review for at least one Black, Asian and Minority Ethnic Board member. The Company also supports the Lloyds Banking Group high-level approach to diversity in senior management roles, which is governed in greater detail through Lloyds Banking Group policies.

Regulators

The Board maintains strong, open, and transparent relationships with regulators and relevant 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 November 2020 and July 2021 respectively the Board invited representatives from the Financial Conduct Authority and Prudential Regulation Authority respectively to join one of its meetings to discuss key priorities. 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.

STRATEGIC REPORT (Continued)

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

Suppliers

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

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

An advantage of being part of a larger group means there are robust processes in place to monitor and review costs with third parties who provide services to the Company. The outsource business model allows the Company to negotiate competitive fees and commercial terms with its service suppliers to control costs for all the Company's customers.

Supplier experience

Importance is placed on having the right supplier framework to operate responsibly. Lloyds Banking Group's Sourcing & Supply Chain Management Policy applies to all its businesses, divisions and subsidiaries, including the Company, with the Directors assuming ultimate responsibility for the application of that policy in a way that is appropriate for the Company. As a result, the most significant supplier contracts must be approved by the Board, including those which are key in progressing strategic priorities. Recognising the role of suppliers in the Company's day-to-day operations and its future ambitions, the Board undertakes regular reviews of its key suppliers and takes into consideration supplier feedback where applicable on the Company's processes for potential improvement.

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. The Insurance People Committee, on behalf of the Company, considers matters at a Company level.

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. This statement sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains. On an annual basis, the Insurance Sustainability Committee reviews these statements ahead of Board approval.

Maintaining a reputation for high standards of business conduct

The Board supports the Chief Executive to ensure a culture of customer focus (including treating customers fairly), risk awareness and ethical behaviours. As part of the Board's oversight of this, the Board where necessary will seek assurance that management corrective action has been taken to ensure that policy and behaviours are aligned to the purpose, value, and strategy of the wider Insurance business.

On behalf of the Board of Directors

J C S Hillman

Director

6 April 2022

DIRECTORS' REPORT

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

Principal activities

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

Results for the year

The result for the year ended 31 December 2021 is a profit after tax of £9 million (2020: £34 million).

During the year the Company issued £30 million of share capital to its parent company Lloyds Bank General Insurance Holdings Limited, increasing the total issued share capital to £31 million.

The reduction in profit is driven by an increase in expenses for administration in respect of a fine imposed by the Financial Conduct Authority (FCA) and continued run off of the business. Additionally, £25 million of income was generated by the sale of the home products customer book of business to a sister company Lloyds Bank General Insurance Limited.

During the year, an interim dividend of £25 million was paid on the ordinary shares in respect of 2021 (2020: nil).

Post balance sheet events

An interim dividend of £25 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 29.

Directors

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

J F Hylands	(resigned 31 March 2021)
J R A Bond	(resigned 14 May 2021)
K Cheetham	(resigned 9 September 2021)
N E T Prettejohn	(resigned 30 September 2021)
A J Reizenstein	(appointed 23 April 2021)
D L Davis	(appointed 18 March 2022)

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

Directors' indemnities

Lloyds Banking Group plc has granted deeds of indemnity by deed poll and by way of entering into individual deeds, which for the purposes of the Companies Act 2006 constitute 'qualifying third-party indemnity provisions', to the directors of its subsidiary companies, including those of the Company. Such deeds were in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the Directors who join the Board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service.

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

Disclosure of information to 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 28.

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 25. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

DIRECTORS’ REPORT (continued)

Financial risk management

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

Independent auditors

Following the resignation of PricewaterhouseCoopers LLP on 13 May 2021, Deloitte LLP were appointed as auditors of the Company by resolution of the members dated 21 June 2021.

A resolution will be proposed at the 2022 annual general meeting to re-appoint Deloitte LLP as auditor.

Information incorporated by reference

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

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

Statement of Directors’ responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with 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 Company Strategic Report on pages 4 to 12, and the Directors’ Report on pages 13 to 14 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

On behalf of the Board of Directors

J C S Hillman

Director

6 April 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of St Andrew's Insurance plc (the 'company'):

- 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 United Kingdom adopted international accounting standards; 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;
- Statement of cash flows;
- the statement of changes in equity;
- Notes to financial statements 1 to 29 except for Note 25 for regulatory capital held and regulatory capital required (unaudited)

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

2. 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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was valuation of insurance claims liabilities.
Materiality	The materiality that we used in the current year was £4.8 million which was determined on the basis of net assets.
Scoping	The audit scope is determined to provide sufficient coverage for all the material financial statement line items. As part of our audit, we determined materiality and assessed the risk of material misstatement in the financial statements.
Significant changes in our approach	In the prior year, the predecessor auditor identified following key audit matters • Impact of COVID-19 on going concern • Accounting for and disclosures of liabilities in relation to conduct matters. We did not consider the impact of COVID-19 on going concern as a key audit matter as at the date of signing of audit report as the uncertainty due to COVID-19 has reduced. Conduct risk matters are removed from key audit matters as the level of significant uncertainty reduced during the year. Any comparatives in this report are related to the prior year audit performed by predecessor auditor.

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

4. Conclusions relating to going concern

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.

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

- evaluating management's judgement paper, identifying the assumptions applied in the going concern assessment and testing the mechanical accuracy of the underlying forecast;
- inspecting the Scottish Widows Group ORSA ('Own Risk and Solvency Assessment') of which the company is subsidiary of, and its results are included in group ORSA, to support our understanding of the key risks faced by the company's ability to continue as a going concern, and the longer-term viability of the company;
- assessing the historical accuracy of forecasts prepared by management;
- assessing the consistency of the forecast assumptions applied in the going concern assessment across other forecasts used; and
- reviewing the disclosures and performing sensitivity analysis in relation to going concern to assess their consistency with our understanding of the forecast performance and position.

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.

5. Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

5.1 Valuation of the Insurance Liabilities

Key audit matter description	The general insurance reserves are the largest single area of judgement within the company's financial statements. We have specifically recognized our significant risk to the methodology and key assumptions employed when valuing the insurance reserves relating to liability and subsidence perils within the Household book. The total insurance liabilities is £58 million (2020: £57 million) net of reinsurance and excluding unearned premium. The liability and subsidence perils are quantitatively significant, driving a large proportion of the overall account balance, as well as being long-tailed risks relative to other components of the book. Refer to Note 2 critical accounting estimates and judgements in apply accounting policies in Note 1(o) of 'Accounting Policies' and Note 17 Insurance contracts.

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

How the scope of our audit responded to the key audit matter	Our audit work to challenge the actuarial methodologies and models used by management in estimating the insurance liabilities included the following procedures: • Gaining an understanding of relevant controls in the process of estimating the reserves. Together with our actuarial specialists, we have performed the following procedures: • Reviewed and challenged management judgement papers. • Calculating an independent projection of the liability and subsidence perils to challenge that the management's model is functioning as intended and is accurately implementing management's selected methodologies and to determine a reasonable range of estimates against which management's estimate can be benchmarked. • Assessing the reasonableness of any differences noted between our independent projection and management's results. • Testing the reconciliation of paid and incurred claims development data to the policy administration systems and general ledger. • Performing testing on paid, incurred and outstanding case reserves where this data was used in reserving by agreeing back to supporting documentation.
Key observations	Overall, we consider that the methodology applied, and significant assumptions used by management in the 2021 valuation of insurance liabilities for subsidence and liability perils are reasonable.

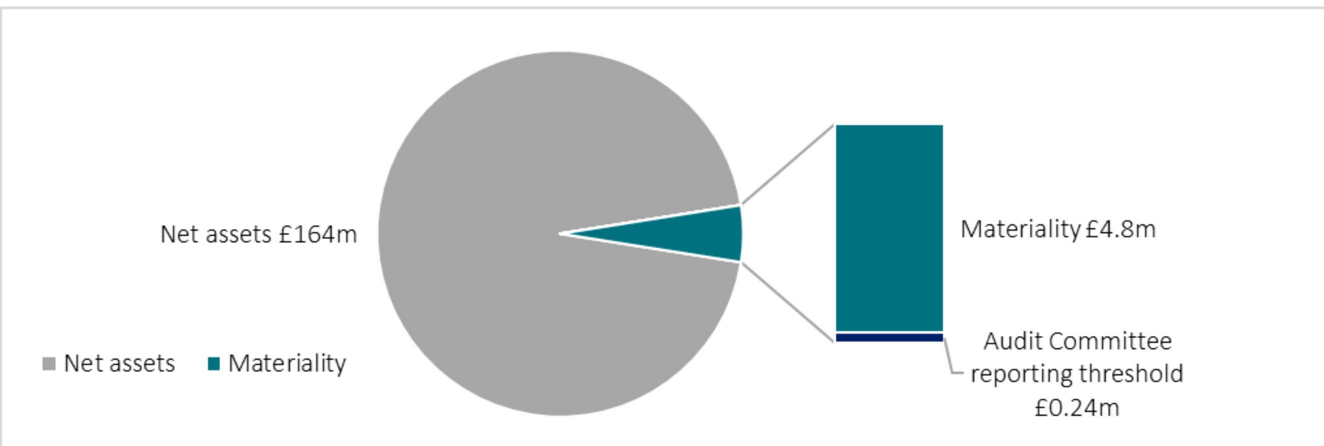
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Materiality	£4.8 million
Basis for determining materiality	Materiality is approximately 2.93% of net assets.
Rationale for the benchmark applied	Net assets has been determined as the most appropriate benchmark due to the fact that it is a key metric of interest to the users, demonstrating the company's financial stability and solvency.



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

6. Our application of materiality (continued)

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 60% of materiality.

In determining performance materiality, we considered the following factors:

a. the quality of the control environment and the fact that we were not able to rely on key controls for some business processes;

b. Our review of predecessor auditor’s work;

c. The stability of senior management and oversight structures; and

d. The fact that company operates in a highly regulated industry.

6.3 Error reporting threshold

We agreed with the Insurance Audit Committee that we would report to the all audit differences in excess of £0.24 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Insurance Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit scope has been based on the materiality of each element of the statement of comprehensive income and the statement of financial position, taking into account both qualitative and quantitative factors in our assessment. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2 The impact of climate change on our audit

In planning our audit, we have considered the impact of climate change on the company’s operations and subsequent impact on its financial statements. The company sets out its assessment of the potential impact on page 5 in the annual report and financial statements.

Our audit work has involved:

- Challenging the completeness of the physical and transition risks identified and considered in the Entity’s climate risk assessment and the conclusion that there is no material impact of climate change risk on the current year financial reporting;
- Assessing and reviewing the disclosures in the annual report and challenging the consistency between the financial statements and the remainder of the annual report.
- Evaluated completeness of critical accounting estimates and judgements disclosed in the financial statements.

8. 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 AUDITOR'S REPORT TO THE MEMBER OF ST ANDREW'S INSURANCE PLC (continued)

9. 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.

10. 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.

11. 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- Results of our enquiries of management, internal audit, compliance and the Insurance Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations including the review of conduct risk provisions by rectification committee;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, IT, actuarial specialist regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in valuation of insurance liabilities. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK companies act and relevant tax legislation.

In addition, we considered provisions of other laws and regulations that 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. These included laws and regulations issued by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'), including the Company's regulatory solvency capital requirement.

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

11.2 Audit response to risks identified

As a result of performing the above, we identified valuation of the insurance liabilities as key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the insurance audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence the FCA and the PRA;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments;
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and
- evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

<u>Report on other legal and regulatory requirements</u>

12. 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.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

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

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Insurance Audit Committee, we were appointed by shareholders at its annual general meeting on 21 June 2021 to audit the financial statements of St Andrew’s Insurance plc for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement of the firm is accordingly one year.

14.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the insurance audit committee we are required to provide in accordance with ISAs (UK).

15. 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.

Paul R. Stephenson

Paul Stephenson, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

6 April 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Revenue			
Gross earned premiums	3	103,805	121,094
Premiums ceded to reinsurers	3	(3,518)	(3,704)
Premiums net of reinsurance		100,287	117,390
Investment income	4	138	524
Net gain on assets and liabilities at fair value through profit or loss	5	117	592
Total revenue		100,542	118,506
Other income	6	25,000	4,436
Total other income		25,000	4,436
Net Insurance Claims			
Claims and loss adjustment costs	7	(42,374)	(48,734)
Claims and loss adjustment costs recoverable from reinsurers	7	(1,114)	2,701
Claims and loss adjustment costs		(43,488)	(46,033)
Expenses			
Expenses for acquisition of Insurance contracts	8	(4,194)	(5,261)
Expenses for administration	8	(61,913)	(27,127)
Other expenses	8	(276)	(1,603)
		(66,383)	(33,991)
Total expenses		(109,871)	(80,024)
Profit before tax		15,671	42,918
Taxation charge	10	(6,900)	(8,564)
Profit for the year and total comprehensive income		8,771	34,354

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 26 to 56 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Deferred costs	11	918	1,176
Reinsurance assets	12	1,910	4,550
Financial assets:			
Loans and receivables at amortised cost	13	53,821	69,587
Investments at fair value through profit or loss	14	97,372	104,336
Cash and cash equivalents	15	129,989	119,805
Total assets		284,010	299,454
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	16	31,000	1,000
Retained profits		133,569	149,798
Total equity		164,569	150,798
Liabilities			
Insurance contracts	17	94,058	110,448
Deferred tax liabilities	18	—	2,224
Current tax liabilities	18	9,036	10,810
Provisions for other liabilities and charges	19	2,099	10,077
Accruals	20	502	1,715
Financial liabilities:			
Other financial liabilities	21	13,746	13,382
Total liabilities		119,441	148,656
Total equity and liabilities		284,010	299,454

The notes set out on pages 26 to 56 are an integral part of these financial statements.

The financial statements on pages 22 to 56 were approved by the Board on 31 March 2022 and signed on behalf of the Board:

J C S Hillman

Director

6 April 2022

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit before tax		15,671	42,918
Adjusted for:			
Investment income and net fair value gains on assets held at fair value through profit or loss	4,5	(255)	(1,116)
Net increase in operating assets and liabilities	22	(6,553)	(10,847)
Sale of customer list	6	(25,000)	—
Taxation paid		(10,898)	(15,659)
Net cash flows (used in)/generated from operating activities		(27,035)	15,296
Cash flows from investing activities			
Proceeds from redemption of debt security investment		7,127	—
Net (increase)/decrease of investments at fair value through profit or loss		(46)	2,526
Dividends and other income received	4	138	524
Sale of customer list	6	25,000	—
Net cash flows generated from investing activities		32,219	3,050
Cash flows from financing activities			
Dividends paid	23	(25,000)	—
Issue of share capital	16	30,000	—
Net cash flows generated from financing activities		5,000	—
Net increase in cash and cash equivalents		10,184	18,346
Cash and cash equivalents at the beginning of the year		119,805	101,459
Net cash and cash equivalents at the end of the year	15	129,989	119,805

The notes set out on pages 26 to 56 are an integral part of these financial statements.

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		1,000	115,444	116,444
Profit and total comprehensive income for the year		—	34,354	34,354
Dividend paid	23	—	—	—
Balance as at 31 December 2020		1,000	149,798	150,798
Profit and total comprehensive income for the year		—	8,771	8,771
Dividend paid	23	—	(25,000)	(25,000)
Issue of share capital	16	30,000	—	30,000
Balance as at 31 December 2021		31,000	133,569	164,569

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 25.

The notes set out on pages 26 to 56 are an integral part of these financial statements.

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.

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

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.

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

(b) Financial assets and financial liabilities

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

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

The Company initially recognises financial assets and liabilities when the Company becomes a party to the contractual provisions of the instrument.

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

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

Transaction costs incidental to the acquisition of a financial asset classified as measured at fair value through profit or loss 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 in active markets for identical assets and liabilities to those being valued. An active market is one in which similar arm’s length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an on-going basis. Examples include listed equities, listed debt securities, Open Ended Investment Companies (OEICs) and unit trusts traded in active markets, and exchange traded derivatives such as futures.

(ii) Level 2

Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

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

Examples of these are securities measured using discounted cash flow models based on market observable swap yields such as Over the Counter interest rate swaps, listed debt and restricted equity securities.

(iii) Level 3

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

Further analysis of the Company’s instruments held at fair value is set out at note 25. The Company’s management, through a fair value pricing committee, review information on the fair value of the Company’s financial assets and the sensitivities to these values on a regular basis.

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

(d) Revenue recognition

Premiums

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

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

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

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

1. Accounting policies (continued)

(d) Revenue recognition (continued)

Investment income

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

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

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

Net gains and losses on assets and liabilities at fair value through profit or loss includes both realised and unrealised gains and losses. Movements are recognised in the statement of comprehensive income in the period in which they arise.

Other income

Other income comprises non-recurring income not considered part of the company's ordinary ongoing operating activities.

(e) Expense recognition

Claims and loss adjustment expenses

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

Operating expenses

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

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

(f) Deferred costs

Deferred acquisition costs (DAC)

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

(g) Assets arising from reinsurance contracts held

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

Reinsurance assets (classified as insurance contracts)

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

Changes in these assets are recognised in the statement of comprehensive income, through change in reinsurance assets.

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

(h) Loans and receivables at amortised cost

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

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

1. Accounting policies (continued)

(h) Loans and receivables at amortised cost (continued)

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

(i) Investments at fair value through profit or loss

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

Classification

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

Recognition

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

Measurement

The fair values of investments are based on current bid prices and therefore price in market expectations of the expected effects of potential changes to laws and regulations, risks associated with climate, credit and general market change and other factors. If the market for a financial asset is not active, and also for unlisted securities, the Company establishes fair value by using valuation techniques. These include the use of similar arm's length transactions and reference to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Refer to note 1(c) Fair value methodology and note 25 Risk management for details of valuation techniques and significant inputs to valuation models.

Structured entities

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

(j) Cash and cash equivalents

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

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

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

(k) Impairment

Financial assets

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

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

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

1. Accounting policies (continued)

(k) Impairment (continued)

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

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

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

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

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

Non-financial assets

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

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

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

(l) Taxes

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

Current tax

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

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

Deferred tax

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

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

1. Accounting policies (continued)

(l) Taxes (continued)

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

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

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

(m) Share capital

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

(n) Dividends payable

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

(o) Insurance contracts

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

Recognition and measurement

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

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

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

For all these contracts, the portion of premium received on in-force contracts that relates to unexpired risks at the Balance Sheet date is reported as the unearned premium reserve. The Company does not discount its liabilities for unpaid claims.

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

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

A liability adequacy test is performed and a provision is made for Unexpired Risk Reserve (URR) at the date the Balance Sheet where the related claims settlement expenses together with the anticipated reinsurance and other recoveries for the unexpired period is greater than the unearned premium reserve at the balance sheet date. The assessment is made on the basis of the best information currently available, having regard, in particular, to past and future expected claims experience. The estimates made are regularly reviewed in the light of subsequent information and any resulting adjustments are reflected in the provision during the year.

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

1. Accounting policies (continued)

(p) 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.

(q) 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.

a. Key sources of estimation uncertainty

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

Insurance contract liabilities

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

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

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

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

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

b. Critical judgements

In the course of preparing these financial statements, no critical judgements have been made in the process of applying the Company's accounting policies.

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

3. Premiums net of reinsurance

	2021 £'000	2020 £'000
Short-term insurance contracts		
- premiums receivable (note 17)	88,853	112,405
- change in unearned premium reserve (note 17)	14,952	8,689
Total gross earned premiums	103,805	121,094
Short-term reinsurance contracts		
- premiums payable (note 17)	(3,410)	(3,473)
- change in unearned premium reserve (note 17)	(108)	(231)
Total premiums ceded to reinsurers	(3,518)	(3,704)
Total premiums net of reinsurance	100,287	117,390

4. Investment income

	2021 £'000	2020 £'000
Income on investments at fair value through profit or loss	32	192
Other Interest Income	106	332
Total	138	524

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

	2021 £'000	2020 £'000
Net gains on assets held at fair value through profit or loss	117	592
Total	117	592

Net gains on assets held at fair value through profit or loss include net realised gains of £0.1 million (2020: gains of nil) and net unrealised gains of nil (2020: gains of £0.6 million).

6. Other income

	2021 £'000	2020 £'000
Other income	25,000	4,436
Total	25,000	4,436

Other income of £25.0 million in 2021 is in respect of the sale of the home book of business to Lloyds Bank General Insurance Limited.

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

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

7. Claims and loss adjustment costs

	2021			2020		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Current year claims and loss adjustment costs (note 17)	47,455	216	47,671	56,542	(1,836)	54,706
Movement in costs of prior year claims and loss adjustment costs (note 17)	(3,911)	898	(3,013)	(10,706)	(865)	(11,571)
Movement in the expected cost of claims for unexpired risks (note 17)	(1,170)	—	(1,170)	2,898	—	2,898
Total claims and loss adjustment costs	42,374	1,114	43,488	48,734	(2,701)	46,033

8. Expenses

	2021 £'000	2020 £'000
Fees and commissions payable	3,936	5,045
Change in deferred costs	258	216
Expenses for the acquisition of insurance contracts	4,194	5,261
Expenses for administration	61,913	27,127
Other expenses	276	1,603
Total	66,383	33,991

The administration of the Company is undertaken by another group company. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company, although there are some operating expenses which are incurred directly by the Company. In 2021 expenses recharged to the Company were £19.2 million (2020: £22.6 million) of which £3.3 million (2020: £4.5 million) of claims handling expenses were allocated to insurance claims costs.

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

In 2021, expenses for administration includes £44.8 million in respect of a fine imposed by the Financial Conduct Authority.

Other expenses in 2020 and 2021 relate to the impairment of premiums receivable from intermediaries where there is no likelihood of recoverability.

9. Auditor's remuneration

	2021 £'000	2020 £'000
Audit fees		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	254	242
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services	—	48
Total fees payable	254	290

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

In the current year, the full audit fee for the Solvency II SFCR has been included within the SWG audit fee disclosure. This is a change from the prior year where the SFCR fee was split between all Solvency II regulated entities (including the Company), and reflected within 'Audit-related assurance services'.

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

10. Taxation charge

(a) Current year tax charge

	2021 £'000	2020 £'000
Current tax:		
Current tax on taxable profit for the year	9,036	10,378
Adjustment in respect of prior years	88	—
Total current tax	9,124	10,378
Deferred tax:		
Deferred tax credit	(2,224)	(2,224)
Change in tax rate	—	410
Total deferred tax	(2,224)	(1,814)
Total income tax charge	6,900	8,564

(b) Reconciliation of tax charge

	2021 £'000	2020 £'000
Profit before tax	15,671	42,918
Tax at 19% (2020: 19.0%)	2,977	8,154
Effects of:		
Disallowable fine and expenses	8,585	—
Non-taxable income - sale of customer list	(4,750)	—
Adjustments in respect of prior years	88	—
Rate Change and related impacts	—	410
Total	6,900	8,564

The effective tax rate for the year is 44.0 per cent (2020: 19.9 per cent).

11. Deferred costs

	2021 £'000	2020 £'000
At 1 January	1,176	1,392
Additions	3,442	5,165
Amortisation through Statement of Comprehensive Income	(3,700)	(5,381)
At 31 December	918	1,176

All of the above deferred costs are expected to be released within one year after the reporting date.

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

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

12. Reinsurance assets

	2021 £'000	2020 £'000
Reinsurers’ unearned premium	1,575	1,683
Reinsurers’ share of claims reserves	335	2,867
Total	1,910	4,550

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

13. Loans and receivables at amortised cost

	2021 £'000	2020 £'000
Due from policyholders	37,205	50,260
Due from related parties	16,160	18,896
Other	456	431
Total	53,821	69,587

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

14. Investments at fair value through profit or loss

	2021 £'000	2020 £'000
Collective Investment Schemes - unlisted	97,372	97,168
Debt securities- unlisted	—	7,168
Total	97,372	104,336

During 2021, the company disposed of assets totaling £7.2 million relating to the sale of unlisted debt securities.

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss and cash and cash equivalents (note 15) are investments in unconsolidated structured entities of £203.4 million (2020: £201.4 million) arising from investments in collective investment schemes and liquidity funds.

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

15. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash at bank and in hand	23,942	15,534
Investments held through liquidity funds	106,047	104,271
Total	129,989	119,805

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

16. Share capital

	2021 £'000	2020 £'000
Issued and fully paid share capital:		
31,000,000 (2020: 1,000,000) ordinary shares of £1 each	31,000	1,000
Total	31,000	1,000

On 30 June 2021, the Company issued ordinary share capital of £30.0 million to its parent, Lloyds Bank General Insurance Holdings Limited. The issued capital of the Company has increased to £31.0 million.

17. Insurance contracts

	2021			2020		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Recoverable from reinsurers*	*Net*	*Gross*	*Recoverable from reinsurers*	*Net*
Short-term insurance contracts						
Claims reported & loss adjustment costs	39,367	(317)	39,050	35,118	(1,901)	33,217
Claims incurred but not reported	17,788	(18)	17,770	22,306	(966)	21,340
Unexpired risk reserve	1,729	—	1,729	2,898	—	2,898
Unearned premiums	35,174	(1,575)	33,599	50,126	(1,683)	48,443
Total insurance liabilities	94,058	(1,910)	92,148	110,448	(4,550)	105,898

Of the above total £15.7 million (2020: £17.1 million) is expected to be settled more than one year after the reporting date.

The unexpired risk reserve of £1.7 million (2020: £2.9 million) is in respect of the creditor insurance business.

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustment expenses

	2021			2020		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Reported claims	35,119	(1,901)	33,218	33,455	(661)	32,794
Incurred but not reported	22,307	(966)	21,341	28,240	—	28,240
Total at beginning of the year	57,426	(2,867)	54,559	61,695	(661)	61,034
Cash paid for claims settled in the year	(43,816)	1,418	(42,398)	(50,105)	495	(49,610)
Increase in liabilities:						
Arising from current year claims	47,455	216	47,671	56,542	(1,836)	54,706
Arising from prior year claims	(3,911)	898	(3,013)	(10,706)	(865)	(11,571)
Total at the end of the year	57,154	(335)	56,819	57,426	(2,867)	54,559
Reported claims	39,366	(317)	39,049	35,119	(1,901)	33,218
Incurred but not reported	17,788	(18)	17,770	22,307	(966)	21,341
Total at the end of the year	57,154	(335)	56,819	57,426	(2,867)	54,559

The accounting policy for insurance contracts is described in Note 1(o). During the year, the Company made a voluntary change to the detail of this accounting policy which has resulted in a change to the method of estimation of insurance contract liabilities. Presentation of the prior year comparatives is unaffected by this change. Further details are provided in note 24.

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

17. Insurance contracts (continued)

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

	2021			2020		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Unearned premiums						
At 1 January	50,126	(1,683)	48,443	58,815	(1,914)	56,901
Increase in the year	88,853	(3,410)	85,443	112,405	(3,473)	108,932
Release in the year	(103,805)	3,518	(100,287)	(121,094)	3,704	(117,390)
At 31 December	35,174	(1,575)	33,599	50,126	(1,683)	48,443

	2021			2020		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Recoverable from reinsurers*	*Net*	*Gross*	*Recoverable from reinsurers*	*Net*
Unexpired risk reserve						
At 1 January	2,898	—	2,898	—	—	—
(Release)/increase in the year	(1,170)	—	(1,170)	2,898	—	2,898
At 31 December	1,728	—	1,728	2,898	—	2,898

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end. The unexpired risk provision relates to creditor insurance policies for which the Company expects to pay claims in excess of the related unearned premium provision.

18. Tax liabilities

	2021	2020
	£'000	£'000
Current tax liabilities	9,036	10,810
Deferred tax liabilities	—	2,224
Total tax liabilities	9,036	13,034

Of the deferred tax liabilities included in the above table, £nil (2020: £2.2 million) is expected to be settled within one year of the reporting date.

Recognised deferred tax

Deferred tax assets and deferred liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

The movement on the deferred income tax account is as follows:

	2021	2020
	£'000	£'000
Deferred tax liabilities comprise:		
Claims equalisation reserve (CER) provision	—	2,224
Total deferred tax liabilities	—	2,224

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 19 per cent (2020: 19 per cent).

Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by 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.

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.

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

18. Tax liabilities (continued)

Recognised deferred tax (continued)

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

	2021	2020
	£'000	£'000
Claims equalisation reserve provision	(2,224)	(1,814)
Total deferred tax credit	(2,224)	(1,814)

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

19. Provisions for other liabilities and charges

2021

	Customer Discount Communications	Payment Protection Insurance (PPI)	Other	Total
	£'000	£'000	£'000	£'000
At 1 January	4,977	1,224	3,876	10,077
Increase/(release) in the year	(1,579)	—	2,146	567
Utilised during the year	(3,071)	(280)	(5,194)	(8,545)
At 31 December	327	944	828	2,099

2020

	Customer Discount Communications	Payment Protection Insurance (PPI)	Other	Total
	£'000	£'000	£'000	£'000
At 1 January	2,070	3,941	2,196	8,207
Increase in the year	5,859	—	2,156	8,015
Utilised during the year	(2,952)	(2,717)	(476)	(6,145)
At 31 December	4,977	1,224	3,876	10,077

(a) Customer Discount Communications

Following investigations relating to an anomaly with communication of discounts on certain home insurance contracts, provisions were established in the Company to reflect the best estimate of rectification payments to be made to customers whether directly incurred by the Company or indemnified for Halifax General Insurance Services Limited, under the Intragroup Agreement dated 21 December 2005 and varied on 19 December 2016 and 1 July 2019.

(b) Payment Protection Insurance (PPI)

The Company provided for redress costs pertaining to sales related complaints on PPI products following sales made up until 2010. The Company's estimate of the likely remaining redress costs from these sales at the end of 2021 is £0.9 million and has provided for this cost appropriately.

(c) Other

At 31 December 2021, £0.7 million is held in respect of product rectification costs and £0.1 million is held relating to a HMRC investigation in relation to VAT on Delegated Authority work for insurers.

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

20. Accruals

	2021 £'000	2020 £'000
Accrued expenses	502	1,715
Total	502	1,715

All accruals are current liabilities.

21. Other financial liabilities

	2021 £'000	2020 £'000
Insurance payables	1,226	1,302
Due to related parties	8,934	6,895
Other taxes payable	1,697	3,208
Other payables	1,889	1,977
Total	13,746	13,382

All insurance and other payables are current liabilities.

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

	2021 £'000	2020 £'000
Net decrease in operating assets		
Deferred costs	258	216
Loans and receivables	15,766	15,675
Net decrease in operating assets	16,024	15,891
Net (decrease)/increase in operating liabilities		
Insurance contract liabilities (net)	(13,750)	(12,037)
Provisions for other liabilities and charges	(7,978)	1,870
Other financial liabilities and accruals	(849)	(16,571)
Net (decrease) in operating liabilities	(22,577)	(26,738)
Net increase in operating assets and liabilities	(6,553)	(10,847)

23. Dividends paid

	2021 £'000	2020 £'000
Total dividends paid on equity shares	25,000	—

Dividends of £25 million (80.6 pence per share) were paid during the year in respect of 2021 (2020: £ nil, £ nil per share).

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

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

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

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

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

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

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

(2) Key assumptions

(a) Home

Significant perils and loss factors include storm, flood, escape of water, freeze, fire and subsidence. The reserving methodology and associated assumptions are set out below:

Outstanding claims reserve (OCR)

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

Claims incurred but not reported reserve (IBNR)

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

The IBNR covers both:

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

The IBNR is determined for each peril separately using various actuarial techniques, such as the application of a chain ladder statistical projection method to reported case estimates, paid amounts and volumes.

A reserve margin is held to provision for uncertainty. This is based on a percentile based approach using the reserve risk distribution from the PRA approved Internal Capital model. The Capital model is primarily used to set the Solvency Capital Requirement.

The level of uncertainty provision selected is based on a range of risk factors such as the economic environment and uncertainty in relation to actuarial assumptions and methodology. This is held in addition to the OCR and IBNR.

The reserve margin is also considered as a percentage of best estimate reserves when selecting the amount to hold.

The Company changed its accounting policy on how to estimate the reserve margin required for uncertainties during the year. Previously, uncertainty provisions were set by attempting to quantify uncertainty by each individual risk factor. They are now calculated using the approach described above. Management takes the view that this policy provides reliable and more relevant information because it provides a documented approach for considering reserving uncertainty as opposed to needing consideration of individual uncertainty provisions, that may be subjective and difficult to quantify. It allows consideration of a wider range of uncertainties, providing a more holistic view of uncertainty in a quantifiable way. As noted above, this approach is based on the reserve risk distribution from the Internal Capital model and is therefore consistent with the Internal Model used within the business. The new policy has been applied for the 2021 financial year. It was not practicable to restate comparatives since this would have required the use of hindsight by management. The change in approach was part of a review around how the best estimate reserve is set.

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

Unearned premium reserve (UPR)

The UPR is calculated using a daily allocation method.

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

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

(2) Key assumptions (continued)

(b) Creditor

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

Claims In Course of Payment reserve (ICOP Reserve)

ICOP reflects the total reserves set using standard actuarial techniques for claims which have been reported before the accounting date.

Claims Incurred but not Reported reserve (IBNR Reserve)

IBNR reflects the difference between the total reserves and ICOP and is the reserve for claims reported after the accounting date, that have occurred before the accounting date.

An uncertainty provision is also held for the Creditor book. In particular uncertainty arises as a result of the book being in run-off and therefore subject to volatility, as well as the current economic environment.

Unearned premium reserve (UPR)

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

(3) Claims development tables

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

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

Home - gross

Accident year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£'000**
Estimate of ultimate claims costs:											
- at end of accident year	161.4	137.2	118.3	104.3	77.7	54.8	55.0	34.7	32.6	27.1	
- one year later	168.4	131.0	121.3	95.0	77.7	49.8	49.4	30.2	30.5	—	
- two years later	170.0	131.1	120.4	97.6	71.0	48.8	47.4	28.5	—	—	
- three years later	168.9	128.7	122.6	93.5	70.6	46.7	47.6	—	—	—	
- four years later	167.1	129.3	120.5	93.9	70.3	46.6	—	—	—	—	
- five years later	167.2	127.9	118.9	94.8	70.1	—	—	—	—	—	
- six years later	156.6	127.9	118.6	95.5	—	—	—	—	—	—	
- seven years later	156.6	128.0	118.7	—	—	—	—	—	—	—	
- eight years later	156.0	128.4	—	—	—	—	—	—	—	—	
- nine years later	156.8	—	—	—	—	—	—	—	—	—	
Current estimate of cumulative claims	156.8	128.4	118.7	95.5	70.1	46.6	47.6	28.5	30.5	27.1	749.8
Cumulative payments to date	(156.2)	(126.9)	(117.7)	(92.3)	(69.1)	(45.8)	(44.4)	(26.3)	(23.0)	(10.1)	(711.8)
Liability recognised in the Balance Sheet	0.6	1.5	1.0	3.2	1.0	0.8	3.2	2.2	7.5	17.0	38.0
Liability in respect of prior years											**1.9**
Total gross liability included in the Balance Sheet											**39.9**

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

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

(3) Claims development tables (continued)

Home - net

Accident year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Estimate of ultimate claims costs:											
- at end of accident year	161.4	137.2	118.3	104.3	77.7	54.8	54.7	34.0	30.6	27.3	
- one year later	168.4	131.0	121.3	95.0	77.7	49.8	49.1	28.9	29.3	—	
- two years later	170.0	131.1	120.4	97.6	71.0	48.8	47.4	27.8	—	—	
- three years later	168.9	128.7	122.6	93.5	70.6	46.7	47.6	—	—	—	
- four years later	167.1	129.3	120.5	93.9	70.3	46.6	—	—	—	—	
- five years later	167.2	127.9	118.9	94.8	70.1	—	—	—	—	—	
- six years later	156.6	127.9	118.6	95.5	—	—	—	—	—	—	
- seven years later	156.6	128.0	118.7	—	—	—	—	—	—	—	
- eight years later	156.0	128.4	—	—	—	—	—	—	—	—	
- nine years later	156.8	—	—	—	—	—	—	—	—	—	
Current estimate of cumulative claims	156.8	128.4	118.7	95.5	70.1	46.6	47.6	27.8	29.2	27.3	748.0
Cumulative payments to date	(156.2)	(126.9)	(117.7)	(92.3)	(69.1)	(45.8)	(44.4)	(25.6)	(22.3)	(10.1)	(710.4)
Liability recognised in the Balance Sheet	0.6	1.5	1.0	3.2	1.0	0.8	3.2	2.2	6.9	17.2	37.6
Liability in respect of prior years											**1.9**
Total gross liability included in the Balance Sheet											**39.5**

As at the year ended 31 December 2021 the Company limited its exposure to loss within insurance operations through participation in reinsurance arrangements. The home portfolio is protected through a catastrophe excess of loss arrangement which operates across both the Company and Lloyds Bank General Insurance Limited. The reinsurance programme was renewed on 1 July 2021. Amounts recoverable from reinsurers were estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits. The purpose of a home excess of loss catastrophe reinsurance programme is to protect against the adverse effects of large weather related events. In addition to catastrophe cover the Company purchases reinsurance for individual flood risks from Flood Re.

The gross home liability of £39.9 million and net liability of £39.5 million shown in the above tables excludes £1.8 million (2020: £1.9 million) of unallocated claims handling expenses.

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

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

(3) Claims development tables (continued)

Creditor - gross and net

Accident year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate claims costs:											
- at end of accident year	32.3	26.9	18.5	15.8	14.1	17.4	14.4	11.4	14.6	12.8	
- one year later	33.9	21.5	17.4	16.7	15.9	13.5	13.0	10.4	15.7	—	
- two years later	32.9	22.7	16.9	16.4	15.7	12.3	11.0	9.0	—	—	
- three years later	33.1	22.0	16.8	16.6	15.6	12.2	10.9	—	—	—	
- four years later	33.0	21.7	17.3	16.5	15.6	12.1	—	—	—	—	
- five years later	32.9	22.2	16.8	16.5	15.6	—	—	—	—	—	
- six years later	33.0	21.8	16.8	16.5	—	—	—	—	—	—	
- seven years later	32.9	21.8	16.8	—	—	—	—	—	—	—	
- eight years later	32.9	21.8	—	—	—	—	—	—	—	—	
- nine years later	32.9	—	—	—	—	—	—	—	—	—	
Current estimate of cumulative claims	32.9	21.8	16.8	16.5	15.6	12.1	10.9	9.0	15.7	12.8	164.1
Cumulative payments to date	(32.9)	(21.8)	(16.8)	(16.5)	(15.6)	(12.1)	(10.9)	(8.9)	(10.9)	(3.0)	(149.4)
Liability recognised in the Balance Sheet	—	—	—	—	—	—	—	0.1	4.8	9.8	14.7
Liability in respect of prior years											**—**
Total gross liability included in the Balance Sheet											**14.7**

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

The creditor liability of £14.7 million shown in the above tables excludes £0.9 million (2020: £0.9 million) of unallocated claims handling expenses and £1.7 million of Additional Unexpired Risk Reserve (AURR) (2020: £2.9 million).

While management believes that the total insurance liability for all products in the portfolio carried at year end is adequate, the application of statistical techniques requires significant judgment. An increase of 10 per cent in the cost of total claims outstanding would result in the recognition of an additional cost of £5.2 million net of reinsurance (2020: £5.1 million). Similarly, an increase of 10 per cent in the number of all claims would result in the recognition of an additional cost of £5.5 million net of reinsurance (2020: £5.4 million). A 5 per cent increase in the inflation rate of claims would result in the recognition of an additional cost of £2.6 million net of reinsurance (2020: £2.6 million). The 2021 sensitivities reflect the change to the accounting policy for margin however it was not practicable to restate the comparatives since this would have required the use of hindsight by management.

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

25. Risk management

The Company is a part of Lloyds Banking Group. The principal activity of the Company is the undertaking of general insurance business in the UK. The Company underwrites a range of general insurance products such as home insurance and creditor insurance. Products are marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through the Lloyds Banking Group network and corporate partnerships. The Company also reinsures business with insurance entities external to the Company.

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

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

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

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

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

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

(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 ongoing basis.

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

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

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

As at 31 December 2021

	Fair value hierarchy			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Collective Investment Schemes - unlisted	97,372	—	—	97,372
Schroder Sterling Liquidity Fund	106,047	—	—	106,047
Debt securities - unlisted	—	—	—	—
Total assets	203,419	—	—	203,419

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

25. Risk management (continued)

(a) Market risk (continued)

As at 31 December 2020

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

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

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

	2021 £'000	**2020 £'000**
Balance at 1 January	7,168	9,819
Disposals	(7,127)	(2,557)
Net (losses)/gains recognised within net gains on assets and liabilities at fair value through profit or loss in the statement of comprehensive income	(41)	(94)
Balance at 31 December	—	7,168
Total unrealised (losses)/gains for the period included in the statement of comprehensive income for assets and liabilities held at 31 December	46	(94)

An additional source of market risk is the mismatch between payout patterns of liabilities and the assets backing those liabilities. However, this component is a minor source of risk for the Company because the majority of assets as well as liabilities are of a short term nature.

(i) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk in respect of the Company's insurance and investment contracts arises when there is a mismatch in duration or yield between liabilities and the assets backing those liabilities.

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

Impact on profit after tax and equity at reporting date	**2021 £'000**	**2020 £'000**
100 basis points increase in yield curves	(1,060)	(1,043)
100 basis points decrease in yield curves	1,060	1,043

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

25. Risk management (continued)

(b) Insurance underwriting risk

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

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

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

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

(i) Home

Frequency and severity of claims

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

The Company has the right to re-price the risk on renewal and also has the ability to impose excesses. These contracts are underwritten by reference to the replacement value of the properties and contents insured. Claim payment limits are always included for contents insurance to cap the amount payable on occurrence of the insured event. Costs of rebuilding properties or replacement of, or indemnity for, contents, are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, flood, escape of water, freeze, fire and subsidence. The Company has reinsurance cover for natural and man-made catastrophes to limit losses in any one year from both large single events and a number of events occurring over the year. For the Company standalone, the maximum loss for a single event up to £65.0 million is £8.5 million (2020: £71.7 million, £9.4 million) and £11.1 million of aggregate protection is provided in excess of £13.3 million (2020: £12.6 million, £15.2 million). In addition to catastrophe cover the Company purchases reinsurance for individual flood risks from Flood Re.

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

Sources of uncertainty in the estimation of future claim payments

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

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

25. Risk management (continued)

(b) Insurance underwriting risk (continued)

(ii) Creditor

Frequency and severity of claims

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

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

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

Sources of uncertainty in the estimation of future claim payments

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

The Company ceased writing new creditor business in 2010, consequently the book is now in run-off which in itself establishes an additional source of uncertainty in analysing the behaviours of a diminishing book against a historically stable portfolio. Future claims payments are driven by economic factors such as unemployment rate and interest rates and as such there is significant uncertainty given the current economic climate.

(c) Credit risk

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

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

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

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

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

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

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

25. Risk management (continued)

(c) Credit risk (continued)

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

As at 31 December 2021

	Total £'000	AAA £'000	AA/A £'000	BBB £'000	Not rated £'000
Stage 1 assets					
Cash and cash equivalents	129,989	106,047	23,942	—	—
Loans and receivables at amortised cost	16,616	—	—	—	16,616
Exposure to credit risk	146,605	106,047	23,942	—	16,616
Simplified approach assets					
Loans and receivables at amortised cost	37,205	—	—	—	37,205
Exposure to credit risk	37,205	—	—	—	37,205
Assets at FVTPL					
Debt Securities - unlisted	—	—	—	—	—
Collective investment schemes - unlisted	97,372	97,372	—	—	—
Other					
Reinsurance contracts	1,910	—	1,910	—	—
Total	283,092	203,419	25,852	—	53,821

As at 31 December 2020

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

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

25. Risk management (continued)

(d) Capital risk

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

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

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

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

The Company's objectives when managing capital are:

- to have sufficient capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders
- to comply with the insurance capital requirements set out by the PRA in the UK
- when capital is needed, to require an adequate return to the shareholder by pricing insurance contracts according to the level of risk associated with the business written

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

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

The table below sets out the regulatory capital held at 31 December in each year for the Company on a Solvency II basis.

	2021 £'000	2020 £'000
Regulatory Capital held (unaudited)	147,421	162,309
Regulatory Capital required (unaudited)	97,086	110,935

All minimum regulatory requirements were met during the year.

(e) Liquidity risk

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

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

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

25. Risk management (continued)

(e) Liquidity risk (continued)

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

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

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

As at 31 December 2021	Carrying amount	Up to 3 months	3-12 months	1-2 years	More than 2 years
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Short-term insurance contracts	51,984	17,848	18,461	8,649	7,026
Other financial liabilities	14,248	14,248	—	—	—
Total	66,232	32,096	18,461	8,649	7,026

As at 31 December 2020	Carrying amount	Up to 3 months	3-12 months	1-2 years	More than 2 years
	£'000	£'000	£'000	£'000	£'000
Short-term insurance contracts	54,111	17,505	19,518	8,931	8,157
Other financial liabilities	15,097	15,097	—	—	—
Total	69,208	32,602	19,518	8,931	8,157

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

(f) Concentration risk

Credit concentration risk

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

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

At 31 December 2021 and 31 December 2020, the Company did not have any significant concentration of credit risk with a single counterparty or Group of counterparties where limits applied.

Liquidity concentration risk

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

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

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

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

26. Related party transactions

(a) Ultimate parent and shareholding

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

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

(b) Transactions 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	**Expenses during period**	**Payable at period end**	**Receivable at period end**
	£'000	**£'000**	**£'000**	**£'000**
Relationship				
Parent	—	25,000	—	—
Other related parties	30,352	24,872	9,251	20,052

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

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

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

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

Transactions with key management

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

Key management compensation:

	2021	**2020**
	£'000	**£'000**
Short-term employee benefits	300	347
Post-employment benefits	2	1
Share-based payments	68	46
Total	370	394

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

26. Related party transactions (continued)

(b) Transactions with other Lloyds Banking Group companies (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 £144,177 (2020: £162,160).

There were no retirement benefits accruing to Directors (2020: nil) under defined benefit pension schemes. Two Directors (2020: two Directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2020: nil).

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

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £38,754 (2020: £32,442). During the year, one Director exercised share options (2020: two Directors) and one Director received qualifying service shares under long term incentive schemes (2020: two Directors).

Movements in share options are as follows:

	2021 Options	**2020 Options**
Outstanding at 1 January	1,030,019	912,555
Granted	214,005	749,032
Exercised	(130,885)	(239,332)
Forfeited	(231,332)	(405,865)
Dividends awarded	3,107	13,629
Outstanding at 31 December	884,914	1,030,019

Detail regarding the highest paid Director is as follows:

	2021 £'000	**2020 £'000**
Apportioned aggregate emoluments	82	89
Apportioned share-based payments	33	27
Total	115	116

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

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

27. Contingencies and commitments

Tax authorities

Lloyds Banking Group plc 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 plc 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 plc'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 £55.8 million (including interest). Lloyds Banking Group plc, 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

28. Future accounting developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2021 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 17 'Insurance Contracts'[1]	IFRS 17 replaces IFRS 4 Insurance Contracts and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 requires insurance contracts to be measured on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows consist of the present value of future cash flows, together with an explicit risk adjustment, and are required to be remeasured at each reporting date. The contractual service margin is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts and represents the unearned profit of the insurance contracts. Changes to estimates of future cash flows from one reporting date to another are recognised either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it. The effects of some changes in discount rates can either be recognised in profit or loss or in other comprehensive income as an accounting policy choice. The risk adjustment is released to profit and loss as an insurer's risk reduces. IFRS 17 contains an optional simplification known as the Premium Allocation Approach (PAA) which is permitted if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. It is expected that the Company will utilise this simplification for its business where the conditions are met. With the PAA, the liability for remaining coverage corresponds to premiums received at initial recognition less acquisition costs and amounts already recognised as insurance revenue at the balance sheet date. However, the general model remains applicable for the measurement of incurred claims as well as any onerous groups of contracts. The standard is not expected to be effective until 1 January 2023, with a transition date of 1 January 2022 (reflecting the starting point for comparative results), and management is currently unable to quantify with reasonable assurance the estimated impact on transition to IFRS 17. This is because, the impact on transition will need to incorporate economic conditions and risks at the time of the transition date, and calculation of the transition impacts is planned to be undertaken across the first half of 2022. There is also still uncertainty over a number of areas of the new standard, which are being discussed across the insurance industry and with their respective audit firms. The Company's IFRS 17 project is progressing to plan. Work has focused on interpreting the requirements of the standard, developing methodologies, disclosures and accounting policies, and implementing the changes required to reporting and other systems. The development of the Company's data warehousing and actuarial liability calculation processes required for IFRS 17 reporting continues to progress, with testing underway and business readiness activity due to take place in 2022, ahead of full implementation from 1 January 2023. The standard will have impacts on the accounting for insurance contracts issued by the Company. Presentation for these contracts will be different and disclosure more extensive than under IFRS 4.	Annual periods beginning on or after 1 January 2023
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Group.	Annual periods beginning on or after 1 January 2022 and later years

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

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

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

29. Post balance sheet events

Dividend

An interim dividend of £25 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.

Director appointment

Deborah Davis was appointed to the Board as a Director on 18 March 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.