Lloyds Bank Insurance Services Limited

Annual Report and Accounts
2019

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

S C Quinn (Chairman)
C J Thornton*
M K Staples*

* denotes Executive Director

Company Secretary

N C Gracey

Independent Auditors

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

Registered Office

25 Gresham Street
London
EC2V 7HN

Company Registration Number

00968406

STRATEGIC REPORT

The Directors present their Strategic Report on Lloyds Bank Insurance Services Limited (the "Company") for the year ended 31 December 2019.

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

Our strategy to help our customers is by:

- Delivering a leading customer experience;
- Digitising LBG and it's subsidiaries ("Group");
- Maximising the Group's capabilities; and
- Transforming ways of working.

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

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

The Company aspires to conduct business in a way that values and respects the human rights of all the stakeholders we work with. The Company complies with all relevant legislation, including the United Kingdom ("UK") Modern Slavery Act.

Principal activities

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

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

Result for the year

The result of the Company for the year ended 31 December 2019 is a profit before tax of £5.3m (2018: profit before tax £23.7m restated*). Underlying profit for the year of £24.2m was offset by the impact of a one off charge of £18.9m for the amount paid to Lloyds Bank General Insurance Ltd ("LBGI") in respect of an intra-group Indemnity agreement entered into with LBGI. Further information on this is set out in note 6.

Underlying profit before tax increased from £23.7m to £24.2m due to a decrease in total expenses, which was partially offset by a decrease in net commission income due to products in run off. The total net assets of the Company at 31 December 2019 are £88.0m (2018: £83.7m).

No dividends were paid during the year in respect of 2019 (2018: £25.0m).

*See note 3 for details regarding the restatement.

Emerging Risks

The United Kingdom leaving the European Union ("EU")

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including the financial services sector. The continued lack of clarity over the UK's eventual relationship with the EU and other foreign countries, and ongoing challenges in the Eurozone, including weak growth raises additional uncertainty for the UK economic outlook.

The Company's response to these risks and uncertainty includes contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts. Also a no deal EU exit outcome has been analysed to identify impacts and assess robustness of contingency plans.

STRATEGIC REPORT (continued)

Coronavirus

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK.

As a result of the global health issues, the potential for operational risks materialising increases, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the business will need to change its ways of working whilst managing any site contamination to ensure continuity and support to colleagues and customers.

The Company's resilience to such events is regularly reviewed through stress and scenario testing; plans to continue to operate critical business processes are in place and are being reviewed in light of the Covid-19 outbreak.

Climate Change

The UK is committed to the vision of a sustainable, low carbon economy, and the successful transition is of strategic importance to LBG. When reporting on our strategic progress, we support the Taskforce on Climate-Related Financial Disclosure (TCFD) framework, and currently plan to achieve full disclosure by 2022.

LBG has set seven leadership ambitions to support the UK's transition to a sustainable future. Those that are relevant to the Company are:

- Insurance: be a leading UK insurer in improving the resilience of customers' lives against extreme weather caused by climate change.
- Our Own Footprint: be part of a leading UK bank in reducing our own carbon footprint and challenging our suppliers to ensure our own consumption of resources, goods and services is sustainable.

Further details of the LBG approach of transitioning to a low carbon economy can be found in the Lloyds Banking Group Annual Report and Accounts, which can be downloaded via www.lloydsbankinggroup.com.

Key performance indicators

Net commission income

Net commission income has decreased by £1.9m to £31.8m in 2019 (2018: £33.7m restated*). The Company's net commission income only reflects commission in respect of third parties.

*See note 3 for details regarding the restatement.

Capital resources

The Directors assess that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. The Company's surplus in excess of regulatory capital requirements (on "MIPRU" - Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries) is £87.1m (2018: £82.5m restated*). MIPRU represents the excess of equity over and above a proportion of the Company's annual commission income and further detail around this measure can be seen in note 21. The increase in the Company's capital surplus is primarily due to £4.3m post tax profit for the year.

Liquidity

The Company regularly monitors its liquidity position to ensure that, even under stressed conditions, the Company has sufficient liquidity to meet its obligations and remains within approved risk appetite as set out in note 21.

Other sources where KPIs are presented

The Company also forms part of LBG's Insurance and Wealth Division. The development, performance and position of the Insurance and Wealth Division are presented within LBG's annual report, which does not form part of this report.

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

STRATEGIC REPORT (continued)

Key performance indicators (continued)

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

Outlook

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

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy is subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to market, credit, conduct and operational risks are set out in note 21.

FCA Market Pricing Study

The Company is participating in the FCA's market pricing study covering pricing practices in the UK home and motor insurance markets. This started at the end of 2018 and is expected to deliver conclusions in 2020, and may lead to market-wide changes in pricing practices as well as changes to relevant regulations.

Legacy Customer Communications

In addition, as described in note 17, the Company is undertaking a review in relation to legacy customer communications processes and governance. There is a significant amount of uncertainty as to the probability and magnitude of any possible cash outflow arising from the conclusion of this review and consequently it is not practicable to quantify a reliable estimate of such amounts. Any cash outflows arising from this review will be fully covered by the Intragroup Agreement between the Company and LBGI, its sister company.

Other legal actions and regulatory matters

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

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

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

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

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), for the year ended 31 December 2019, the Directors provide the following statement describing how they have had regard to the matters set out in section172 (1) of the Act, when performing their duty under section 172.

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 following statement also provides details of how the Directors have engaged with and had regard to the interests of key stakeholders. The Company is a subsidiary of LBG, and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant.

The Directors' acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of LBG, achieves long-term success and generates sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct. This approach has during the course of the year been central to the activities of the Directors, as discussed below.

STRATEGIC REPORT (continued)

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

Customers

The Directors ensure the Company as part of LBG works toward achieving LBG's customer ambitions, to treat all customers fairly, and make it easy for customers to find, understand and access products that are right for them. To ensure Directors truly understand the needs of customers, every opportunity is taken to consider direct customer feedback and related management information, including as part of the Directors' strategic decision making process. The Directors have also worked to ensure the business of the Company is undertaken in line with the objectives of LBG's annually agreed customer plans. LBG regularly benchmarks amongst its customers the performance of itself and its subsidiaries, including the Company, and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience. The Directors ensure the Company plays an active part in LBG's wider customer ambitions, as acknowledged in the Company's strategy, which during the course of the year has included the ongoing development of market leading digital propositions, more personalised customer propositions and better experience for customers across all channels.

Shareholders

The Company is a wholly owned subsidiary of LBG, forming part of LBG's Insurance and Wealth Division. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where appropriate to those of LBG, ensuring that the interests of LBG as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic Report within the LBG Annual Report and Accounts for 2019, available on the LBG website.

Communities and the Environment

The Directors acknowledge that the Company, as part of one of the largest retail and commercial banks in the UK, has responsibilities to invest in the communities in which it operates, to help them prosper economically, build social cohesion and tackle disadvantage. The Company therefore participates in all related LBG initiatives, with the Directors' ensuring the Company plays an appropriate role in LBG's related Helping Britain Prosper Plan. Further information in respect of the LBG approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the LBG Annual Report and Accounts for 2019. Additional information on LBG's Helping Britain Prosper Plan is available on the LBG website.

The Responsible Business Committee of the Board of LBG is responsible for overseeing LBG's approach, including that of the Company, as a Responsible Business, by providing oversight of and support for LBG's strategy and plans for embedding responsible business as part

Communities and the Environment (continued)

of both LBG's and the Company's purpose to Help Britain Prosper. Priorities during the year have included ongoing focus on three key areas aligned to LBG's Bank of the Future strategy. These included consideration of the progress of the Lloyds Bank Academy and the external initiative 'future.now', both designed to boost digital skills in the UK. Progress against agreed sustainability strategy was considered, where consistent progress was made in achieving targets such as providing support for the EV1000 electric vehicles initiative. Consideration was also given to the relationship between LBG and its charitable foundations, in particular the work they do in the communities in which LBG and the Company operate. Further information in respect of LBG's and the Company's Responsible Business activities is included on pages 26 to 35 of the LBG Annual Report and Accounts for 2019, available on the LBG website, along with further discussion of the work of LBG's Responsible Business Committee.

Suppliers

The Company's approach to supplier management is part of that of LBG, which works with around 3,100 active suppliers of varying sizes, most in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communication. The Company and LBG seek to improve the experience of suppliers, with feedback regularly sought on related assurance processes to ensure continual improvement in the process. Suppliers are also encouraged to express their satisfaction or otherwise, and have access to LBG and the Company's whistleblowing service.

STRATEGIC REPORT (continued)

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

In 2019 LBG's supplier expenditure was £5.9 billion, with 95.5 per cent of third party supplier spend being incorporated in the UK. Great importance is placed on having the right supplier framework to operate responsibly. LBG's Sourcing & Supply Chain Management Policy applies to all businesses, divisions, and subsidiaries of LBG, including the Company, with the Directors assuming ultimate responsibility for its application as relevant to the Company. This Policy has been designed to assist in managing the risk that may occur as a result of outsourcing services, as well as the risks inherent in dealing with third party suppliers. Suppliers are required to adhere to relevant LBG policies and comply with LBG's Code of Supplier Responsibility. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and LBG to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

Regulators

The Company and its Directors have a strong, open and transparent relationship with relevant regulators and other authorities, and liaise regularly both directly and as part of LBG to ensure the business is aligned to the evolving regulatory framework. Key areas of focus have included ensuring robust prudential standards and supervision arrangements in place, ensuring the fair treatment of customers, adapting to changes in regulatory requirements, recovery and resolution, and preparations for the UK's withdrawal from the EU.

The Board has received regular updates on regulatory interaction, providing a view of key areas of focus, alongside progress made addressing regulatory actions. During 2019 LBG colleagues had regular meetings with the regulators, representing the interests of the Company as required. Engagement continues with the regulators through proactive meetings to discuss various key themes such as achieving a customer centric culture, transformation and change, operational and financial resilience and credit risk. The status of regulatory relationships continue to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of LBG, including that of the Company, to managing regulatory change is discussed further on page 11 of the LBG Annual Report and Accounts for 2019, available on the LBG website.

On behalf of the Board of Directors

Martin Staples

M K Staples
Director
20 April 2020

DIRECTORS' REPORT

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

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

Results and dividend

The result of the Company for the year ended 31 December 2019 is a profit before tax of £5.3m (2018: profit before tax £23.7m restated*). Underlying profit for the year of £24.2m was offset by the impact of a one off charge of £18.9m for the amount paid to LBGI in respect of an intra-group Indemnity agreement entered into with LBGI. Further information on this is set out in note 6.

Underlying profit before tax increased from £23.7m to £24.2m due to a decrease in total expenses, which was partially offset by a decrease in net commission income due to products in run off. The total net assets of the Company at 31 December 2019 are £88.0m (2018: £83.7m).

*See note 3 for details regarding the restatement.

Post balance sheet events

Further information on post balance sheet events is set out in note 25.

Directors

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

M K Staples	(appointed 14 March 2019)
J Leiper	(resigned 14 March 2019)
J C S Hillman	(resigned 3 December 2019)
S C Quinn	(appointed 9 December 2019)

Particulars of the Directors' emoluments are set out in note 23.

Directors' indemnities

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

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

Disclosure of information to auditors

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

Future developments

Future developments are detailed within the Strategic Report and future accounting developments are detailed within note 24.

Engagement with suppliers, customers and others

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

Political contributions

During the year, the Company made no political contributions (2018: £nil).

DIRECTORS' REPORT (continued)

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 the risk management section (note 21). Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Financial risk management

Disclosures relating to financial risk management are included in note 21 to the financial statements and are therefore incorporated into this report by reference.

Independent auditors

PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU. 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company; and
- the Strategic Report on pages 4 to 8, and the Directors' Report on pages 9 and 10, include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board of Directors

Martin Staples

M K Staples
Director
20 April 2020

Independent auditors' report to the members of Lloyds Bank Insurance Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, Lloyds Bank Insurance Services Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

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

Reporting on other information

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

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

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

Independent auditors' report to the members of Lloyds Bank Insurance Services Limited (continued)

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Neil Riches

Neil Riches (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
20 April 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	Restated* 2018 £000
Revenue			
Commission income*		35,235	45,042
Commission expense*		(3,437)	(11,330)
Net commission income	3	31,798	33,712
Investment income	4	1,597	1,624
Net gains/(losses) on assets at fair value through profit or loss	5	59	(23)
Total revenue		33,454	35,313
Expenses			
Expenses for the acquisition of insurance contracts		(6,809)	(4,170)
Expenses for administration		(21,304)	(7,406)
Total expenses	6	(28,113)	(11,576)
Profit before tax		5,341	23,737
Taxation*	8	(1,013)	(4,501)
Profit after tax		4,328	19,236

*See note 3 for details regarding the restatement.

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

The notes set out on pages 17 to 38 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £000	Restated* 2018 £000
ASSETS			
Intangible assets	9	-	-
Deferred tax assets	10	148	176
Financial assets:			
Loans and receivables at amortised cost*	11	114,714	124,825
Investments at fair value through profit or loss	12	5,356	5,297
Prepayments	13	3	28
Cash and cash equivalents	14	58,104	50,478
Total assets		178,325	180,804
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's equity shareholder			
Share capital	15	100	100
Retained profits*		87,944	83,616
Total equity		88,044	83,716
Liabilities			
Current tax liabilities*	16	1,229	4,462
Provisions for other liabilities and charges	17	17,908	3,918
Financial liabilities:			
Other financial liabilities*	18	71,144	88,708
Total liabilities		90,281	97,088
Total equity and liabilities		178,325	180,804

*See note 11 for details regarding the restatement.

The notes set out on pages 17 to 38 are an integral part of these financial statements.

The financial statements on pages 13 to 38 were approved by the Board on 20 April 2020 and signed on its behalf by:

Martin Staples

M K Staples
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	Restated* 2018 £000
Cash flows from operating activities			
Profit before tax*		5,341	23,737
Adjusted for:			
Amortisation of intangible assets	9	-	202
Investment income and net fair value gains on assets held at fair value	4,5	(1,656)	(1,601)
Net increase/(decrease) in operating assets and liabilities*	19	6,563	(21,409)
Taxation (paid)/received		(4,219)	(2,146)
Net cash flows generated from/(used in) operating activities		6,029	(1,217)
Cash flows from investing activities			
Investment income	4	1,597	1,624
Net movement in investments at fair value through profit or loss	5	-	(59)
Net cash flows generated from investing activities		1,597	1,565
Cash flows from financing activities			
Dividends paid	20	-	(25,000)
Net cash flows used in financing activities		-	(25,000)
Net increase/(decrease) in cash and cash equivalents		7,626	(24,652)
Cash and cash equivalents at the beginning of the year	14	50,478	75,130
Cash and cash equivalents at the end of the year	14	58,104	50,478

*See notes 3 and 11 for details regarding the restatement.

The notes set out on pages 17 to 38 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital £000	Retained profits £000	Total Equity £000
Balance as at 1 January 2018		100	89,745	89,845
Adjustments on adoption of IFRS 9, net of tax			(365)	(365)
Profit for the year (restated*)			19,236	19,236
Dividends Paid			(25,000)	(25,000)
Balance as at 31 December 2018 (restated*)		100	83,616	83,716
Profit for the year			4,328	4,328
Dividends Paid	20		-	-
Balance as at 31 December 2019		100	87,944	88,044

*See note 3 for details regarding the restatement.

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 21.

The notes set out on pages 17 to 38 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

(1) in accordance with the International Accounting Standards ("IASs") and IFRSs issued by the International Accounting Standards Board and the Standards and Interpretations ("SICs") and International Financial Reporting Interpretations issued by its IFRS Interpretations Committee ("IFRS IC"), as endorsed by the European Union;

(2) in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS;

(3) 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 LBG, which prepares a group set of consolidated financial statements under IFRS.

Standards and interpretations effective in 2019

The Company has adopted IFRIC 23 'Uncertainty over income tax' as at 1 January 2019. Adoption has had no significant impact on the financial position of the Company.

(b) Financial assets and financial liabilities

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

(c) Fair value methodology

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

(i) Level 1

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

(ii) Level 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); and
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

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

(iii) Level 3

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

Further analysis of the Company's instruments held at fair value is set out in note 12. The Company's management, through a fair value pricing committee, review information on the fair value of the Company's financial assets and financial liabilities and the sensitivities to these values on a regular basis.

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

(d) Revenue recognition

Net commission income

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

Investment income

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

(d) Revenue recognition (continued)

Net gains on assets at fair value through profit or loss

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

(e) Expense recognition

Expenses for the acquisition of insurance contracts

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

Administrative expenses

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

(f) Intangible assets

Customer lists are shown at historical cost. They have a finite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated on a straight line basis to allocate the cost of customer lists over their estimated useful lives, currently 10 years.

(g) Loans and receivables at amortised cost

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

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

(h) Investments at fair value through profit or loss

Classification

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

Recognition

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

Measurement

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

Structured entities

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents include cash at bank and investments in liquidity funds, which are short-term highly liquid investments (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments).

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 (h).

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

(j) Impairment

Financial assets

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

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

(j) Impairment (continued)

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.

(k) Taxes

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

Current tax

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

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

Deferred tax

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

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

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

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

(l) 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.

(m) Dividends payable

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

(n) 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.

(o) Other financial liabilities

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

2. Critical accounting estimates and judgements in applying accounting policies

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

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

Additional commission

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. Net commission income

Net commission income comprises commission and profit share income from third parties net of commission and profit share expense to third parties.

Correction of error in accounting for net commission income

2018 commission income and commission expense have been restated to reflect commission income for that year and the related commission expense which had not been recognised in the statement of comprehensive income.

Commission income has increased £2.9m from £42.1m to £45.0m, and Commission expense has increased £1.7m from £9.6m to £11.3m resulting in a net commission increase of £1.3m and tax charge of £0.2m.

4. Investment income

	2019 £000	2018 £000
Cash and cash equivalents interest income	509	513
Interest on loan to Insurance Intermediary	1,088	1,041
Dividend Income	-	70
Total	1,597	1,624

5. Net gains/(losses) on assets at fair value through profit or loss

	2019 £000	2018 £000
Fair value gains/(losses) on Aberdeen Ultra Short Duration Sterling Fund	59	(23)
Total	59	(23)

6. Total expenses

	2019 £000	2018 £000
Other Expenses*	18,900	-
Expenses for the acquisition of insurance contracts	6,809	4,170
Expenses for administration	2,404	7,406
Total	28,113	11,576

The administration of the Company is undertaken by another LBG company. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company. A minority of operating expenses, primarily amortisation of intangible assets, are incurred directly by the Company. In 2019, net costs recharged to the Company were £9.8m (2018: £8.9m).

The Company had no direct employees during the year (2018: nil). The employee costs, including pension costs and share-based payment costs, are included in the recharge noted above.

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

7. Auditors' remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	91	91
Total	91	91

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

8. Taxation charge

(a) Current year tax charge

	2019 £000	2018 £000
Current tax		
UK corporation tax	985	4,462
Total current tax charge	985	4,462
Deferred tax		
Origination and reversal of timing differences	30	34
Impact of deferred tax rate change	(2)	5
Total deferred tax charge	28	39
Total income tax charge	1,013	4,501

Corporation tax is calculated at a rate of 19% (2018: 19%) of the taxable profit for the year.

(b) Reconciliation of tax charge

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

	2019 £000	Restated 2018 £000
Profit before tax*	5,341	23,727
Tax charge at effective UK corporation tax rate of 19%* (2018: 19 %)	1,015	4,509
Effects of:		
-Non-taxable items	-	(13)
-Corporation tax rate change and related impacts	(2)	5
-Other	-	-
Total	1,013	4,501

The effective tax rate for the year is 18.97% (2018: 18.97%).

*See note 3 for details regarding the restatement.

9. Intangible assets

Customer lists	2019 £000	2018 £000
Cost		
At 1 January and 31 December	64,076	64,076
Accumulated amortisation		
At 1 January	(64,076)	(63,874)
Amortisation charge	-	(202)
At 31 December	(64,076)	(64,076)
Carrying amount		
At 31 December	-	-

The maximum estimated useful life used in calculating the amortisation charge in line with LBG policy is 10 years (2018: 10 years). Amortisation is charged to the ‘Expenses for the acquisition of insurance contracts’ line of the Statement of Comprehensive Income. The cost of acquired customer lists was fully amortised in 2018.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10. Deferred tax assets

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2018: 17%). The movement in the Deferred Tax Asset is as follows:

Deferred tax assets

	Accelerated capital allowances £000	Other short term differences and provisions £000	Total £000
At 1 January 2018	137		137
Adjustment for IFRS 9	-	78	78
Statement of Comprehensive Income charge during 2018	(31)	(8)	(39)
At 31 December 2018	106	70	176
Statement of Comprehensive Income charge during 2019	(19)	(9)	(28)
At 31 December 2019	87	61	148

Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent on 1 April 2020. The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

11. Loans and receivables at amortised cost

	2019 £000	Restated 2018 £000
Loans and receivables:		
- commission receivable and accrued income*	3,923	6,859
- due from related parties* (note 23)	55,359	62,415
- due from Insurance intermediary	55,432	55,551
Total	114,714	124,825

Amounts due from Insurance intermediary of £55.4m (2018: £55.6m) represent a revolving debtor agreement balance of £40.0m (2018: £40.0m) and £15.4m (2018: £15.6m) of commission and profit share due. The revolving debtor balance of £40.0m bears interest at LIBOR +2%, this agreement is subject to a maximum drawdown of £40.0m.

All loans and receivables at amortised cost are expected to be recovered less than one year after the reporting date.

***Correction of error in accounting for Loans and receivables at amortised cost**

2018 commission income and commission expense have been restated to reflect commission income for that year and the related commission expense which had not been recognised in the statement of comprehensive income.

Commission receivable and accrued income has increased £0.6m from £6.3m to £6.9m, and amounts due from related parties has increased £0.5m from £61.9m to £62.4m. See note 3 for impacts to profit of the restatement.

12. Investments at fair value through profit or loss

	2019 £000	2018 £000
Collective Investment Scheme - Aberdeen Ultra Short Duration Sterling Fund	5,356	5,297
Total	5,356	5,297

The Aberdeen Ultra Short Duration Fund is an unlisted asset managed by Aberdeen Asset Management plc.

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss (note 12) and cash and cash equivalents (note 14) are investments in unconsolidated structured entities of £63.3m (2018: £55.1m) arising from investments in Collective Investment Schemes.
The Collective Investment Schemes are primarily financed by investments from investors in the schemes. The investments are carried at fair value and the Company's maximum exposure to loss is equal to the carrying value of the investment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13. Prepayments

	2019 £000	2018 £000
Amounts relating to trading balances	3	28
Total	3	28

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

14. Cash and cash equivalents

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

	2019 £000	2018 £000
Cash at bank and in hand	157	646
Aberdeen Liquidity Fund	57,947	49,832
Total cash and cash equivalents	58,104	50,478

15. Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid ordinary share capital		
At 1 January and 31 December		
Issued and fully paid – 100,000 shares of £1 each	100	100
Total	100	100

Allotted, called up and fully paid ordinary shares of £1 each totalled 100,000 (2018: 100,000).

The ordinary shares of £1 each carry the right to receive dividends proposed by the Directors and the right to vote at general meetings. Upon winding up, the ordinary shares carry the right to a return of capital together with any surplus in retained profits or less any accumulated deficits.

16. Current tax liabilities

	2019 £000	Restated* 2018 £000
Current tax liabilities	1,229	4,462
Total	1,229	4,462

*See note 3 for details regarding the restatement.

17. Provision for other liabilities and charges

	Commission clawbacks £000	Premium rebates £000	Customer Discount Communications £000	Other provisions £000	Total £000
At 1 January 2018	856	-	-	220	1,076
Utilised during the year	(856)	-	-	(10)	(866)
Additional provisions	3,708	-	-	-	3,708
At 31 December 2018	3,708	-	-	210	3,918
Utilised during the year	(297)	-	-	9	(288)
Additional provisions	2,554	724	11,000	-	14,278
At 31 December 2019	5,965	724	11,000	219	17,908

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

17. Provision for other liabilities and charges (continued)

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

(a) Commission clawbacks

This relates to commission received on an indemnity basis, which results in a proportion of commission being repayable to the third party underwriter in the event of the policy being cancelled by the policyholder. The provision is calculated with respect to past experience of the impact of refunded commission, and of predicted future cancellation of policies, which are subject to indemnity commission. Additional provisions in 2019 also include an element of commission repayable as a result of an unexpected expense incurred by the third party.

(b) Premium rebates

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

(c) Customer Discount Communications

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

(d) Other provisions

Other provisions comprise a number of individually small liabilities.

18. Other financial liabilities

	2019 £000	Restated 2018 £000
Payables arising from insurance related contracts:		
- Premiums payable	-	3,593
Trade payables and accrued expenses*	5,671	5,614
Amounts due to related parties* (note 23)	65,473	79,501
Total	71,144	88,708

All other financial liabilities except as stated below are expected to be settled less than one year after the reporting date. In 2019 £0.7m (2018: £0.9m) are non-current liabilities. Non-current liabilities comprise of trade payables and deferred commissions of £0.7m (2018: £0.9m).

Correction of error in accounting for Other Financial Liabilities

2018 commission income and commission expense have been restated to reflect commission income for that year and the related commission expense which had not been recognised in the statement of comprehensive income.

Trade payables and accrued expenses has decreased £1.8m from £7.4m to £5.6m, and amounts due from related parties has increased £1.7m from £77.9m to £79.6m. See note 3 for impacts to profit of the restatement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019 £000	Restated 2018 £000
Decrease/(increase) in operating assets:		
Loans and receivables at amortised cost*	10,111	(36,056)
Prepayments	25	133
Decrease/(increase) in operating assets	10,136	(35,923)
(Decrease)/ increase in operating liabilities:		
Provisions for other liabilities and charges	13,990	2,842
Other financial liabilities*	(17,563)	11,672
(Decrease)/increase in operating liabilities	(3,573)	14,514
Net increase/(decrease) in operating assets and liabilities	6,563	(21,409)

*See note 11 and note 18 for details regarding the restatement.

20. Dividends paid

	2019 £000	2018 £000
Total dividends paid on equity shares	-	25,000
Total	-	25,000

No Dividends were paid on the ordinary shares during the year in respect of 2019 (2018: £25.0m).

21. Risk management

The principal activity of the Company is to act as an insurance intermediary for LBGI and other third party underwriters. The Company brokers a range of general insurance products such as home and domestic all risks insurance, creditor insurance and accident and health insurance.

Products are marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through the LBG network and corporate partnerships. The Company also brokers business with insurance entities external to the Company.

The Insurance businesses are managed together as part of Insurance and wealth; as such risk is managed across all of the Insurance companies. The Company's activities expose it to a variety of risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(a) Governance framework

The Company is part of LBG, which has established a risk management function with responsibility for implementing the LBG risk management framework (with appropriate Insurance focus) within the Company.

This enterprise-wide risk management framework for the identification, assessment, measurement and management of risk covers the full spectrum of risks that the Company are exposed to, with risks categorised according to an approved LBG risk language. This covers the principal risks faced by the Company, including the exposures to market, model risk, credit, capital, liquidity, regulatory & legal, conduct, people, governance and operational risks. The performance of the Company and the strategic management of the business depend on its ability to manage these risks.

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

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

Policy owners, identified from appropriate areas of the LBG and Insurance business, are responsible for drafting risk policies, for ensuring that they remain up-to-date and for facilitating any changes. Policies are subject to at least an annual review. Limits are prescribed within which those responsible for the day to day management of each company can take decisions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk management (continued)

(a) Governance framework (continued)

Line management are required to follow prescribed reporting procedures to the bodies responsible for monitoring compliance with policy and controlling the risks.

(b) Risk appetite

Risk appetite is the amount and type of risk that Board prefers, accepts or wishes to avoid and is aligned to group and LBG strategy. The Board has defined a framework for the management of risk and approved a set of risk appetite statements that cover financial risks (capital, insurance underwriting, credit, market and liquidity), operational risks, people, conduct risks, regulatory & legal risks, model risk and governance risks. The risk appetite statements set limits for exposures to the key risks faced by the business. Risk appetite is reviewed at least annually by the Board. Executive owned Tier 2 and Tier 3 limits sit beneath Board owned risk appetite (Tier 1) and are managed and governed within the Insurance business.

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

(c) Financial risks

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

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

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

1) Market risk

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

If interest rates were to increase or decrease by 25 basis points, the impact on profit and loss would be an increase or decrease respectively of £0.1m (2018: increase or decrease respectively of £0.1m) in respect of financial assets and financial liabilities bearing floating rates of interest.

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

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

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

As at 31 December 2019

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Collective Investment Schemes - unlisted	5,356	-	-	5,356
Aberdeen Liquidity Fund	57,947	-	-	57,947
Total assets	63,303	-	-	63,303

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22. Risk management (continued)

(c) Financial risks (continued)

As at 31 December 2018

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Collective Investment Schemes - unlisted	5,297	-	-	5,297
Aberdeen Liquidity Fund	49,822	-	-	49,822
Total assets	55,119	-	-	55,119

(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..

Investments in unconsolidated structured entities of £63.3m (2018: £55.1m) arising from investments in Collective Investment Schemes is categorised as level 1 in the fair value hierarchy. There were no investments categorised as level 2 or level 3.

2) Credit risk

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

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

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

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

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

As at 31 December 2019

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Loans and receivables at amortised cost	95,359	-	-	55,359	-	40,000
Cash and cash equivalents	157	-	-	157	-	-
Loss allowance	(11)	-	-	-	-	(11)
Exposure to credit risk	**95,505**	**-**	**-**	**55,516**	**-**	**39,989**
Simplified approach assets						-
Loans and receivables at amortised cost	19,555	28	1,039	1,955	583	15,950
Loss allowance	(189)	-	-	-	-	(189)
Exposure to credit risk	**114,871**	**28**	**1,039**	**57,471**	**583**	**55,750**
Assets at fair value through profit and loss						
Collective Investment Scheme - Aberdeen Ultra Short Duration Sterling Fund	5,356	5,356	-	-	-	-
Cash and cash equivalents	57,947	57,947	-	-	-	-
Total	**178,174**	**63,331**	**1,039**	**57,471**	**583**	**55,750**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk management (continued)

(c) Financial risks (continued)

2) Credit risk (continued)

As at 31 December 2018

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Restated Not rated £000
Stage 1 assets						
Loans and receivables at amortised cost*	102,415	-	-	62,415	-	40,000
Cash and cash equivalents	646	-	-	646	-	-
Loss allowance	(27)	-	-	-	-	(27)
Exposure to credit risk	**103,034**	**-**	**-**	**63,061**	**-**	**39,973**
Simplified approach assets						-
Loans and receivables at amortised cost*	22,920	-	-	768	200	21,952
Loss allowance	(483)	-	-	-	-	(483)
Exposure to credit risk	**125,471**	**-**	**-**	**63,829**	**200**	**61,442**
Assets at fair value through profit and loss						
Collective Investment Scheme - Aberdeen Ultra Short Duration Sterling Fund	5,297	5,297	-	-	-	-
Cash and cash equivalents	49,832	49,832	-	-	-	-
Total	**180,600**	**55,129**	**-**	**63,829**	**200**	**61,442**

* See note 11 for details regarding the restatement.

Loans and receivables at amortised cost and items shown as not rated within Loans and receivables at amortised cost have been restated due to the incorrect classification of an item. Loans and receivables at amortised cost has been increased by £0.9m.

(i) Concentration risk

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

Credit concentration risk

Credit risk is managed through the setting and regular review of counterparty credit and concentration limits on asset types which are considered more likely to lead to a concentration of credit risk. For other asset types, such as UK government securities or investments in funds falling under the Undertakings for Collective Investment in Transferable Securities "UCITS" Directive, no limits are prescribed as the risk of credit concentration is deemed to be immaterial. This policy supports the approach mandated by the PRA for regulatory reporting.

Exposure to credit risk is concentrated across counterparties as follows:

	2019 £000	Restated 2018 £000
Trade and other receivables:		
Amounts due from group undertakings*	55,359	62,415
Amounts due from Insurance intermediary	55,432	55,551
Other receivables	3,923	6,859
Cash and cash equivalents (amounts due from financial institutions)	58,104	50,478
Collective Investment Scheme - Aberdeen Ultra Short Duration Sterling Fund	5,356	5,297
Total	**178,174**	**180,600**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk management (continued)

(c) Financial risks (continued)

Liquidity concentration risk

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

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

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

3) Capital risk

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

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

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

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

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

The retained profits balance of £87.9m (2018: £83.6m restated*) represents the amount available for dividend distribution to the equity shareholders of the Company (excluding any regulatory restrictions).

	2019 £000	Restated 2018 £000
Regulatory capital held*	87,944	83,616
Regulatory capital required*	(881)	(1,126)
Regulatory Surplus	87,063	82,490

All minimum regulatory requirements were met during the year.

*See note 3 for details regarding the restatement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk management (continued)

4) Liquidity risk

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

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

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

	Up to 3 months £000	Between 3 and 12 months £000	Between 1 and 2 years £000	Over 2 years £000	Carrying value £000
At 31 December 2019					
Other financial liabilities (note 18)	54,918	15,497	729	-	71,144
Carrying value	54,918	15,497	729	-	71,144
At 31 December 2018 restated					
Other financial liabilities (note 18)	80,237	7,575	896	-	88,708
Carrying value	80,237	7,575	896	-	88,708

* See note 18 for details regarding the restatement.

(d) Non-financial risks

The Company faces a variety of non-financial risks through its operations and service provision. The Company manages these risks by following the embedded Risk Management Framework, which uses methodologies and systems consistent with those implemented across the Company. The risk landscape is monitored and adjustments, including those needed as a result of the Coronavirus outbreak, are made as identified through the continuous application of this framework.

The various stages of the framework are:

Identification

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

Measurement

- Evaluate risk exposure vs appetite
- Scenario analysis

Management

- Identify and operate controls
- Perform day-to-day control activities
- Ensure appropriate segregation of duties
- Control assessment and estimation of residual risk
- Controls testing activities including Sarbanes-Oxley
- Effectiveness reviews

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk management (continued)

(d) Non-financial risks (continued)

Monitoring

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

Reporting

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

The primary non-financial risk categories are:

Conduct risk

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

Governance risk

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

Model risk

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

Operational risk

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk management (continued)

(d) Non-financial risks (continued)

Operational risk (continued)

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

Fraud
The risk of acts of deception or omission intended for personal gain or to cause loss to another party, by customers/clients, third parties or colleagues.

Internal service provision
The risk associated with the management of internal service arrangements.

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

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

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

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

People risk

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

Regulatory and legal risk

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

(e) UK political uncertainties including EU exit

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including the financial services sector. The continued lack of clarity over the UK's eventual relationship with the EU and other foreign countries, and ongoing challenges in the Eurozone, including weak growth raises additional uncertainty for the UK economic outlook. The Company's response to these risks and uncertainty is as follows:

- Internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts.
- As part of LBG, engagement with politicians, officials, media, trade and other bodies to reassure our commitment to Helping Britain Prosper.
- No deal EU exit outcome analysed to identify impacts and assess robustness of contingency plans.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22. Risk management (continued)

(f) Economic Risk

UK economic growth remains muted and the lack of clarity around an EU trade deal is likely to keep investment subdued. High levels of credit market liquidity have reduced spreads and weakened terms in some sectors, creating a potential under-pricing of risk and heightened risk of a market correction. The Company's response to these risks is as follows:

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

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Whilst the ultimate impact is currently unknown, we are exploring the credit risk impact.

22. Contingencies and commitments

Tax authorities

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the Company of approximately £6.8m (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Legacy customer communications

The Company is undertaking a review in relation to legacy customer communications processes and governance. There is a significant amount of uncertainty as to the probability/likelihood and magnitude of any possible cash outflow arising from the conclusion of this review and consequently it is not practicable to quantify a reliable estimate of such amounts. Any cash outflows arising from this review will be fully covered by the Intragroup Agreement between the Company and LBGI, its sister company.

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 2019

23. Related party transactions

(a) Ultimate parent and shareholding

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

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

(b) Transactions and balances with related parties

Transactions with other LBG companies

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

	2019			
	Income during period £000	Expenses during period £000	Payable at period end £000	Receivable at period end £000
Relationship				
Parent	-	-	-	-
Other related parties	16,456	32,320	66,257	56,279

	2018 restated*			
	Income during period £000	Expenses during period £000	Payable at period end £000	Receivable at period end £000
Relationship				
Parent	-	25,000	-	-
Other related parties *	7,454	14,469	79,501	62,527

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

*See notes 3, 11 and 18 for details regarding the restatement.

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

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

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

Transactions between the Company and entity employing key management

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

23. Related party transactions (continued)

Key management compensation:

	2019 £000	2018 £000
Salaries and other short-term employee benefits	960	708
Post-employment benefits	2	-
Share-based payments	154	150
	1,116	858

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £960k (2018: £708k).

There were retirement benefits accrued to one director (2018: no directors) under defined benefit pension schemes. Four directors (2018: two directors) are paying into a defined contribution scheme. The aggregate value of contributions paid to a pension scheme for qualifying services was £2k (2018: Nil).

Certain members of key management in the Group, including the highest paid director, provide services to other companies within LBG. 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 £154k (2018: £150k). During the year, five directors exercised share options (2018: three directors) and five directors' received qualifying services shares under long term incentive schemes (2018: three directors). Movements in share options are as follows:

	2019 Thousands options	2018 Thousands options
Outstanding at 1 January	1,455	888
Granted	1,581	1,189
Vested	(1,069)	(551)
Forfeited	(979)	(91)
Dividend awarded	50	20
Outstanding at 31 December	1,038	1,455

Detail regarding the highest paid Director is as follows:

	2019 £000	2018 £000
Apportioned aggregate emoluments	485	411
Apportioned post-employment benefits	-	-
Apportioned share-based payments	78	102
	563	513

(c) Transactions and balances with related parties

The highest paid Director did exercise share options during the year. (2018: The highest paid director did exercise share options during the year).

24. Future accounting developments

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

25. Post balance sheet events

Since the balance sheet date there has been a global pandemic from the outbreak of Coronavirus, which is causing widespread disruption to financial markets and normal patterns of business activity across the world including the UK. The Directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the Directors are unable to estimate its financial effect.