Classification: Confidential

02792006

CLERICAL MEDICAL INVESTMENT FUND MANAGERS LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2021

Member of Lloyds Banking Group

CONTENTS Page(s)

COMPANY INFORMATION

Board of Directors

S W Lowther
L R D Roberts

Company Secretary

K J McKay

Independent Auditors

Deloitte LLP
Statutory Auditors
1 Union Wynd
Aberdeen
AB10 1SL

Registered Office

Trinity Road
Halifax
West Yorkshire
HX1 2RG

Company Registration Number

02792006

DIRECTORS' REPORT

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

The Company is a wholly owned subsidiary of Halifax Financial Services (Holdings) Limited. The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc ("Group").

The intention is to liquidate the Company as part of a project to reduce the number of companies within the Insurance, Pensions and Investments Division of Lloyds Banking Group.

Results and dividend

The result of the Company for the year ended 31 December 2021 is a loss after tax of £1k (2020: loss of £1k).

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

The total net assets of the Company as at 31 December 2021 are £4.8m (2020: £4.8m).

No dividend is proposed in respect of the year ended 31 December 2021 (2020: £nil).

Directors

The names of the current Directors are listed on page 2. There were no changes in Directorships during the year and since the end of the year.

Particulars of the Directors' emoluments are set out in note 14.

Directors' indemnities

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

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

Disclosure of information to auditors

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given, and should be interpreted in accordance with, the provisions of section 418 of the Companies Act 2006.

Independent auditors

Following the resignation of PricewaterhouseCoopers LLP on 13 May 2021, Deloitte LLP were appointed as auditors of the Company by resolution of the members dated 20 May 2021.

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

Going concern

The Directors have an intention to continue the liquidation of the Company during 2022. Consequently, the accounts are not prepared on a going concern basis but instead on a basis other than going concern. Since all the assets and liabilities are measured at their recoverable value, no adjustments were necessary to the valuation of net assets which are included in these financial statements. The comparative financial information is prepared on the same basis as the current year financial information. Sufficient funds are available to support the business activities until liquidation occurs, including liquidation costs. During 2020, the Company transferred the majority of the balance on its investments held through liquidity funds (£4,805k) to its parent entity, Halifax Financial Services (Holdings) Limited. A further £27k was transferred during the year. This was in readiness for the closure of the liquidity funds and corporate bank account as part of the preparation of the Company for liquidation. As at the end of the year this balance is reported as a debtor under 'Loans and Receivables'

DIRECTORS' REPORT (CONTINUED)
Going Concern (continued)

with a view to it being paid as an 'in specie' dividend to the parent company prior to liquidation. The Group still has an open HMRC issue which is preventing liquidation progress, with an expected court date due in 2022 to be scheduled.

Financial risk management

Disclosures relating to financial risk management are included in note 13 to the financial statements and are therefore incorporated into this report by reference.

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

Uncertainties in respect of the medium to long-term implications of the UK's exit from the EU on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. The Directors believe that there will be limited impact on the Company.

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This is having significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks. There is no impact expected for the Company, but the Company's Directors will continue to monitor the situation.

Covid-19

The Company's resilience to such events is regularly reviewed through stress and scenario testing. Plans to continue to operate Important Business Services are in place and continue to be reviewed in light of the Covid-19 outbreak. The Covid response framework will be triggered if there are any strains in the operational environment. The Directors believe that there will be limited impact on the Company.

Climate Change

As a sub-entity of Scottish Widows Group (SWG), the Company is aligned with SWG's approach to supporting the successful transition to a more sustainable, low carbon economy. Further details of this can be found in the Scottish Widows 'Task Force on Climate-relate Financial Disclosures (TCFD)' Report via www.scottishwidows.co.uk.

Post balance sheet events

There are no post balance sheet events, which require adjustment or disclosure in the financial statements.

DIRECTORS' REPORT (CONTINUED)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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. They 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.

Each of the Directors whose names are listed on page 2 confirms that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company

- the Directors' Report on pages 3 to 5 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

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Approved by the Board and signed on its behalf

S W Lowther
Director
15th September 2022

Independent auditor's report to the members of Clerical Medical Investment Fund Managers Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Clerical Medical Investment Fund Managers Limited (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year end then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Emphasis of matter- Financial statement prepared other than on a going concern basis

We draw attention to note 1 (a) in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of going concern. Our opinion is not modified in respect of this matter.

Independent auditor's report to the members of Clerical Medical Investment Fund Managers Limited (continued)

Other information

The other information comprises 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, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report to the members of Clerical Medical Investment Fund Managers Limited (continued)

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

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

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

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

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

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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

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

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

Independent auditor's report to the members of Clerical Medical Investment Fund Managers Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

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

L Cowie

Lyn Cowie CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen, United Kingdom
16th September 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £000	2020 £000
Investment income	3	0	14
Other income	4	2	0
Administrative expenses	5	(3)	(15)
Loss before tax		(1)	(1)
Taxation credit	7	-	-
Loss for the financial year		(1)	(1)

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

The notes set out on pages 14 to 22 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2021

	Note	2021 £000	2020 £000
ASSETS			
Financial assets:			
Loans and receivables	8	4,833	4,805
Cash and cash equivalents	9	-	27
Total assets		4,833	4,832
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's equity shareholders			
Share capital	10	500	500
Retained earnings		4,331	4,332
Total equity		4,831	4,832
Financial liabilities:			
Other financial liabilities	11	1	-
Cash and cash equivalents	9	1	-
Total liabilities		2	-
Total liabilities and equity		4,833	4,832

The notes set out on pages 14 to 22 are an integral part of these financial statements.

The financial statements on pages 10 to 11 were approved by the Board of Directors on 15th September 2022 and signed on its behalf by:

S W Lowther
Director
15th September 2022

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £000	2020 £000
Cash flows from operating activities			
Loss before tax		(1)	(1)
Adjusted for:			
Investment income	3	-	(14)
Other income	4	(2)	-
Net movement in operating assets and liabilities	12	(27)	(4,832)
Taxation credit received		-	27
Net cash flows used in operating activities		(30)	(4,820)
Cash flows from investing activities			
Investment income	3	-	14
Other income	4	2	-
Net cash flows generated from investing activities		2	14
Net decrease in cash and cash equivalents		(28)	(4,806)
Cash and cash equivalents at the beginning of the year		27	4,833
Net cash and cash equivalents at the end of the year	9	(1)	27

The notes set out on pages 14 to 22 are an integral part of these financial statements.

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

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Balance as at 1 January 2020	500	4,333	4,833
Loss for the year and total comprehensive loss	-	(1)	(1)
Balance as at 31 December 2020	500	4,332	4,832
Loss for the year and total comprehensive loss	-	(1)	(1)
Balance as at 31 December 2021	500	4,331	4,831

The notes set out on pages 14 to 22 are an integral part of these financial statements.

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

1. Accounting policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

1) in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'). IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ('IASB') and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ('IFRIC') and its predecessor body; and

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

The Directors have an intention to continue the liquidation of the Company during 2022. Consequently, the accounts are not prepared on a going concern basis but instead on a basis other than going concern. Since all the assets and liabilities are measured at their recoverable value, no adjustments were necessary to the valuation of net assets which are included in these financial statements. The comparative financial information is prepared on the same basis as the current year financial information. Sufficient funds are available to support the business activities until liquidation occurs, including liquidation costs.

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

Standards and interpretations effective in 2021

The Company has not adopted any new standards, amendments to standards or interpretations of published standards which became effective for financial years beginning on or after 1 January 2021, which have had a material impact on the Company.

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

(b) Revenue recognition

Investment income

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

Other income

Other income received which is recognised in the period in which it accrues.

(c) Expense recognition

Administrative expenses

Administrative expenses are recognised in the statement of comprehensive income as accrued, within administrative expenses.

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

1. Accounting policies (continued)

(d) Financial assets and financial liabilities

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 reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

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

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

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

(1) Financial instruments measured at amortised cost

Financial assets 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. 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. Financial assets measured at amortised cost are predominantly trade and other receivables together with certain cash and cash equivalents.

Financial liabilities are measured at amortised cost, except for financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

(2) Financial instruments measured at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost.

Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value, with fair value gains and losses recognised through net gains and losses on assets and liabilities at fair value through profit or loss in the statement of comprehensive income.

Financial liabilities are measured at fair value through profit or loss where the liabilities are part of a group of liabilities (or assets and liabilities) which is managed, and its performance evaluated, on a fair value basis; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for. Financial liabilities measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses are recognised in the statement of comprehensive income within net gains and losses on assets and liabilities at fair value through profit or loss in the period in which they occur.

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

1. Accounting policies (continued)

(e) Fair value methodology

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

(i) Level 1

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

(ii) Level 2

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

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

(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.

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.

Further analysis of the Company's instruments held at fair value is set out at note 13.

(f) Loans and receivables

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 are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment. In practice the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within loans and receivables. Further information on the Company's impairment policy is set out at policy (h).

(g) Cash and cash equivalents

Cash and cash equivalents include 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).

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

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

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

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

1. Accounting policies (continued)

(h) Impairment

Financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses for financial assets held at amortised 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. 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, such as external bank accounts.

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.

(i) Taxation

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

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

(j) Share capital

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

(k) Dividends payable

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

(l) 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.

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

2. Critical accounting estimates and judgements in applying accounting policies

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

There are no significant accounting estimates or judgements that have been used in the preparation of these financial statements for the year ended 2021.

3. Investment income

	2021 £000	2020 £000
Interest income	-	14
Total	**-**	**14**

4. Other income

	2021 £000	2020 £000
Other income	2	-
Total	**2**	**-**

5. Administrative expenses

	2021 £000	2020 £000
Investment expenses	0	13
Other	3	2
Total	3	15

No staff are employed directly by the Company (2020: nil). All staff providing services to the Company are employed by other subsidiaries of Lloyds Banking Group; employee costs are not recharged to the Company.

6. Auditors' remuneration

	2021 £000	2020 £000
Fees payable to the company's auditors for the audit of the company's annual financial statements	5	5
Total	5	5

Audit fees for 2021 and 2020 were borne by another Lloyds Banking Group entity and were not recharged to the Company.

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

7. Taxation Credit

(a) Analysis of credit for the year

	2021 £000	2020 £000
UK Corporation Tax:		
Current tax on taxable loss for the year	-	-
Tax credit	-	-

Corporation tax is calculated at a rate of 19.00% (2020: 19.00%) of the taxable loss for the year.

(b) Factors affecting the tax credit for the year

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

	2021 £000	2020 £000
(Loss) before tax	(1)	(1)
Tax credit thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	-	-
Tax credit on loss on ordinary activities	-	-

8. Loans and receivables

	2021 £000	2020 £000
Amounts due from parent company	4,833	4,805
Total	**4,833**	**4,805**

None of the above balances are interest-bearing (2020: none).

Further information in respect of credit risk is given in note 13. Of the above total, £nil (2020: £nil) is expected to be settled in more than one year after the reporting date.

9. Cash and cash equivalents

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

	2021 £000	2020 £000
Investments held through liquidity funds	(1)	27
Total	**(1)**	**27**

Investments held through liquidity funds are used to optimise returns on excess funds held by the Company. Further information in respect of credit risk in relation to cash and cash equivalents is given in note 13.

10. Share capital

	2021 £000	2020 £000
Authorised, allotted, called up and fully paid share capital:		
500,000 (2020: 500,000) ordinary shares of £1 each	500	500

There were no changes in share capital during the year. All shares rank equally with regard to the Company's residual assets.

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

11. Other financial liabilities

	2021 £000	2020 £000
Trade payables	1	-
Total	**1**	**-**

None of these balances are interest-bearing (2020: none).

12. Net movement in operating assets and liabilities

	2021 £000	2020 £000
(Increase) in operating assets:		
Financial assets:		
Loans and receivables	(28)	(4,804)
Net (increase) in operating assets	**(28)**	**(4,804)**
Increase/(decrease) in operating liabilities:		
Financial liabilities:		
Trade and other payables	1	(28)
Net increase/(decrease) in operating liabilities	**1**	**(28)**
Net movement in operating assets and liabilities	**(27)**	**(4,832)**

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

13. Risk Management

This note summarises the financial risks associated with the activities of the Company and the way in which the Company managed them during the year.

(a) Financial risks

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

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

(1) Market risk

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

All of the financial assets of the Company relate to investments in liquidity funds. The fair value of these is £(1)k (2020: £27k) and they are classified in level 1 of the IFRS 7 fair value hierarchy.

(2) Credit risk

Credit risk is defined as the risk that parties with whom we have contracted fail to meet their financial obligations.

Credit risk is managed in line with the Insurance, Pensions and Investments Credit Risk Policy and the wider Lloyds Banking Group Credit Risk Policy which set out the principles of the credit control framework.

The following table sets out details of the credit quality of financial assets:

	2021 £000	2020 £000
Loans and receivables	4,833	4,805
Cash and cash equivalents	(1)	27
Total assets bearing credit risk	**4,832**	**4,832**

The tables below analyse financial assets subject to credit risk using Standard & Poor's rating or equivalent. The intercompany receivable balance held with the immediate parent is not rated by Standard & Poor's rating or equivalent. The parent company has sufficient liquidity to meet its obligations.

As at 31 December 2021	Total £000	AAA £000	A £000	A- £000	Not rated £000
Loans and receivables	4,833	-	-	-	4,833
Cash and cash equivalents	(1)	-	(1)	-	-
Total	**4,832**	-	(1)	-	**4,833**

As at 31 December 2020	Total £000	AAA £000	A £000	A- £000	Not rated £000
Loans and receivables	4,805	-	-	-	4,805
Cash and cash equivalents	27	27	-	-	-
Total	**4,832**	27	-	-	**4,805**

(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.

Within the Insurance, Pensions and Investments Division, capital risk is actively monitored by the Insurance, Pensions and Investments Asset and Liability Committee ("IP&IALCO").

The Company manages the capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets.

The Company's capital comprises all components of equity, movements in which are set out in the statement of changes in equity.

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

14. Related party transactions

Ultimate parent and shareholding

The Company's immediate parent undertaking is Halifax Financial Services (Holdings) Limited, a company registered in the United Kingdom. Halifax Financial Services (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. 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.

Transactions between the Company and other Lloyds Banking Group companies

During 2020, the Company transferred the majority of the balance on its investments held through liquidity funds (£4,805k) to its parent entity, Halifax Financial Services (Holdings) Limited. During the year, a further £27k was transferred to Halifax Financial Services (Holdings) Limited. This was in readiness for the closure of the liquidity funds and corporate bank account as part of the preparation of the Company for liquidation. As at the end of the year this balance is reported as a debtor under 'Loans and Receivables' with a view to it being paid as an 'in specie' dividend to the parent company prior to liquidation.

Transactions between the Company and 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 the Executive Directors.

The Directors consider that they receive no remuneration for their services to the Company (2020: £nil).

15. Contingent liabilities and capital commitments

There were no contracted capital commitments at the balance sheet date (2020: £nil).

The Group has an open matter in relation to a claim for group relief losses incurred in its former Irish banking subsidiary, which ceased trading on 31st December 2010. In 2013 HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the Company of approximately £372k (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

16. Post balance sheet events

There are no post balance sheet events, which require adjustment or disclosure in the financial statements.