

CLERICAL MEDICAL FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2021



Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

S W Lowther
J C S Hillman

Secretary

K J McKay

Independent Auditor

Deloitte LLP
Statutory Auditor
1 Union Wynd
Aberdeen
AB10 1SL

Registered Office

33 Old Broad Street
London
EC2N 1HZ

Company Number

03850542

DIRECTORS' REPORT**Principal activities and review of the business**

The Directors present the audited financial statements of Clerical Medical Finance plc (the Company) for the year ended 31 December 2021. The Company is registered in England and is a public company limited by share capital.

The Company is a subsidiary of HBOS Financial Services Limited (HBOS FS). The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc (Lloyds Banking Group).

The Company's principal activity was to act as a finance company for Scottish Widows Limited (SWL), a fellow subsidiary of Lloyds Banking Group. Listed subordinated debt raised by the Company was loaned to SWL on similar interest and repayment terms as those applied to the listed subordinated debt raised by the Company. The loan to SWL and listed subordinated debt raised were fully repaid in November 2019, therefore the Company's Directors intend to liquidate the Company once the open matters with Her Majesty's Revenue and Customs (HMRC), as disclosed in note 14, are resolved.

Results and dividend

The result of the Company for the year ended 31 December 2021 is a profit for the financial year of £7k (2020: profit of £7k). An interim dividend was paid during the year of £5.3 million (2020: £nil). The Directors do not recommend the payment of a final dividend (2020: £nil).

Russian invasion of Ukraine

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

Impact of the UK's exit from the EU

The Company's Directors anticipate no impact from the uncertainties in respect of the implications of the UK's exit from the European Union (EU).

COVID-19

The Company's Directors anticipate no impact for the Company from the effects of COVID-19.

Climate Change

As a sub-entirety 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-related Financial Disclosures (TCFD)' Report via www.scottishwidows.co.uk.

Post balance sheet events

No significant post balance sheet events have been identified affecting the Company's financial statements.

Directors

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

Particulars of the Directors' emoluments are set out in note 13.

Company Secretary

K J McKay acted as Company Secretary during the year and up to the date of approving the financial statements.

DIRECTORS' REPORT (continued)**Directors' indemnities**

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

The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group. In addition, 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 auditor

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

Going concern

The Directors have an intention to liquidate the Company. Consequently the financial statements are not prepared on a going concern basis but instead on a basis other than going concern. No adjustments were necessary to the valuation of net assets which are included in these financial statements. Sufficient funds are available to support the business activities until liquidation occurs.

Strategic Report

The Company has taken advantage of the small companies exemption to prepare a Strategic Report under the Companies Act 2006.

Financial risk management

Disclosures relating to financial risk management are included in note 12 to the financial statements and are therefore incorporated into this report by reference.

Statement of Directors' responsibilities in respect of the financial statements

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

DIRECTORS' REPORT (continued)

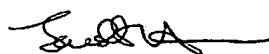
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to

- 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 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.

On behalf of the Board of Directors



J C S Hillman
Director
8 June 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLERICAL MEDICAL FINANCE PLC**Report on the audit of the financial statements****Opinion**

In our opinion, the financial statements of Clerical Medical Finance plc (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year 31 December 2021 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 15

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 statements prepared other than on a going concern basis

We draw attention to note 1 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLERICAL MEDICAL FINANCE PLC (continued)**Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

We considered the nature of the Company's industry and its control environment and reviewed the Company's documentation of 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

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLERICAL MEDICAL FINANCE PLC (continued)**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.



Lyn Cowie CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen, United Kingdom
8 June 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £ 000	2020 £ 000
Income			
Interest income	3	-	16
Movement in impairment loss allowance	4	8	(7)
Total income		8	9
Profit before tax		8	9
Taxation charge	6	(1)	(2)
Profit and total comprehensive income for the year		7	7

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

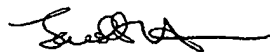
The notes set out on pages 14 to 22 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2021

	Note	2021 £ 000	2020 £ 000
ASSETS			
Financial assets:			
Other receivables	8	235	5,536
Deferred tax asset	7	-	1
Total assets		235	5,537
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's equity shareholder			
Share capital	10	225	225
Retained earnings		7	5,309
Total equity		232	5,534
Liabilities			
Current tax liabilities	11	3	3
Total liabilities		3	3
Total equity and liabilities		235	5,537

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 8 June 2022 and signed on its behalf by:



J C S Hillman
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £ 000	2020 £ 000
Cash flow from operating activities			
Profit before tax		8	9
Adjusted for:			
Current year movement in impairment loss allowance	4	(8)	7
Movement in other receivables	8	5,309	(5,540)
Taxation paid		-	(21)
Net cash (outflow) / inflow from operating activities		5,309	(5,545)
Cash flow from financing activities			
Dividends paid	9	(5,309)	-
Net cash (outflow) from financing activities		(5,309)	-
Net (decrease) / increase in cash and cash equivalents		-	(5,545)
Cash and cash equivalents at the beginning of the year		-	5,545
Net cash and cash equivalents at the end of the year		-	-

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

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

	Note	Share capital £ 000	Retained earnings £ 000	Total equity £ 000
Balance as at 1 January 2020		225	5,302	5,527
Profit and total comprehensive income for the year		-	7	7
Balance as at 31 December 2020	10	225	5,309	5,534
Profit and total comprehensive income for the year		-	7	7
Dividends paid			(5,309)	(5,309)
Balance as at 31 December 2021	10	225	7	232

The notes set out on pages 14 to 22 form 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 years presented in these financial statements unless stated otherwise, are set out below.

(a) Basis of preparation

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

The Directors have an intention to liquidate of the Company. Consequently the financial statements are not prepared on a going concern basis but instead on a basis other than going concern. No adjustments were necessary to the valuation of net assets in order to disclose all current and prior year balances at fair value following the decision to liquidate. Sufficient funds are available to support the business activities until liquidation occurs, including liquidation costs.

No new IFRS amendments have been adopted in the current or prior year.

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.

(b) Interest income

Interest income consists of investment income on liquidity funds and interest receivable on subordinated assets. Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method for subordinated assets.

(c) 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. 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.

Financial liabilities are recognised initially at fair value, being the issue proceeds net of transaction costs incurred.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**1. Accounting policies (continued)****(c) Financial assets and financial liabilities (continued)**

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

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 and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(d) Impairment of financial assets

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

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

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 initial recognition, the asset is transferred back to Stage 1.

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

Typically financial instruments with an external credit rating of investment grade are considered to have low credit risk.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)**1. Accounting policies (continued)****(e) Taxation, including deferred income taxes**

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

Current tax 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 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 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.

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

(f) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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 critical accounting estimates or judgements included within the reported amount of assets and liabilities in the current year.

3. Interest income

	2021 £ 000	2020 £ 000
Investment income	-	16
Total	-	16

Investment income relates to the interest received on liquidity fund holdings, which were transferred to HBOS FS in the prior year.

4. Movement in impairment loss allowance

	2021 £ 000	2020 £ 000
Movement in impairment loss allowance	8	(7)
Total	8	(7)

The current year movement relates to the reversal of a loss allowance on an intercompany balance with HBOS FS, as the majority of the balance was settled during the year.

5. Auditor's remuneration

Audit fees are borne by another subsidiary within Lloyds Banking Group and are as follows:

	2021 £ 000	2020 £ 000
Fees payable for the audit of the Company's annual financial statements	8	8
Total	8	8

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

6. Taxation

a) Analysis of (charge)/credit for the year

	2021 £ 000	2020 £ 000
UK corporation tax:		
Current tax on taxable profit for the year	-	(3)
Current tax charge	-	(3)
UK Deferred tax:		
Origination and reversal of timing differences	(1)	1
Current tax charge	(1)	(2)

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

b) Factors affecting the tax charge for the year

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

	2021 £ 000	2020 £ 000
Profit before tax	8	9
Tax thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	(1)	(2)
Factors affecting charge:		
Non-taxable items	-	-
Tax charge on profit on ordinary activities	(1)	(2)
Effective tax rate	13%	22%

The disclosed effective rates for 2021 and 2020 are calculated using rounded values. When using actual values, the effective rate for both years is 19%.

7. Deferred tax asset

The movement in the deferred tax asset is as follows:

	2021 £ 000	2020 £ 000
Brought Forward:	1	-
Charge for the year:	(1)	1
Total	-	1

The deferred tax credit in the period comprises the following temporary differences:

	2021 £ 000	2020 £ 000
Other temporary differences	(1)	1
Total	(1)	1

The deferred tax asset comprises:

	2021 £ 000	2020 £ 000
Other temporary differences	-	1
Total	-	1

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

7. Deferred tax asset (continued)

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

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

8. Other receivables

	2021 £ 000	2020 £ 000
Other amount receivable from related party	235	5,536
Total	235	5,536

The above current year total relates to an intercompany asset with HBOS FS, shown net of the impairment loss allowance on the loan (note 4). This balance is repayable on demand, unsecured and non-interest bearing.

9. Dividends Paid

	2021 £ 000	2020 £ 000
Dividends paid	(5,309)	-
Total	(5,309)	-

During the year, a dividend was paid from the Company to its parent, HBOS FS, through the cancellation of £5.3 million of intercompany assets.

10. Share capital

	2021 £ 000	2020 £ 000
Issued and fully paid share capital:		
225,000 (2020: 225,000) ordinary shares of £1 each	225	225
Total	225	225

11. Current tax liabilities

	2021 £000	2020 £000
Current tax payable	3	3
Total	3	3

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

12. Risk management

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

The Company is exposed to a range of financial risks.

The measurement of financial assets and financial liabilities is outlined in note 1(c). The summary of significant accounting policies (note 1) describes how the class of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

(a) Credit risk

The risk that parties with whom the Company has contracted, fail to meet their financial obligations, resulting in loss to the Company.

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

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

	2021 £000	2020 £000
Other receivables	235	5,536
Total assets bearing credit risk	235	5,536

The tables below analyse financial assets subject to credit risk using Standard & Poor's rating or equivalent.

As at 31 December 2021

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Other receivables	235	-	-	235	-	-
Exposure to credit risk	235	-	-	235	-	-
Total	235	-	-	235	-	-

As at 31 December 2020

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Other receivables	5,543	-	-	5,543	-	-
Loss allowance	(7)	-	-	(7)	-	-
Exposure to credit risk	5,536	-	-	5,536	-	-
Total	5,536	-	-	5,536	-	-

No terms in respect of financial assets had been renegotiated as at 31 December 2021 or 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

12. Risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk is concentrated across counterparties as follows:

As at 31 December 2021

	Total £000
Loans and receivables at amortised cost:	
Other receivables	235
Total	235

As at 31 December 2020

	Total £000
Loans and receivables at amortised cost:	
Other receivables	5,536
Total	5,536

(b) Liquidity risk

Liquidity risk is defined as the risk that the Company has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or from the inability to generate cash inflows as anticipated.

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

(c) Capital risk

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

The Company's objectives when managing capital is to have sufficient capital to safeguard the Company's ability to continue and support business activities until liquidation occurs.

13. Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking is HBOS Financial Services Limited, a company registered in the United Kingdom. HBOS Financial Services Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

13. Related party transactions (continued)

(b) Transactions and balances with related parties

Transactions between the Company and other companies in Lloyds Banking Group

The Company has entered into the following transactions with other related parties during the year and holds the following balances with other related parties at the end of the year:

Relationship	2021			
	Income during year £000	Expenses during year £000	Payable at year end £000	Receivable at year end £000
Parent	-	5,309	-	235

Relationship	2020			
	Income during year £000	Expenses during year £000	Payable at year end £000	Receivable at year end £000
Parent	-	-	-	5,536

The Company paid dividends of £5.3 million to its parent company during the year ended 31 December 2021 (2020: nil).

Transactions between the Company and key management personnel

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 Directors.

The Directors consider that they receive no remuneration for their services to the Company.

14. Contingent Liability

Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed Lloyds Banking Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. Lloyds Banking Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £81k (including interest). Lloyds Banking Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

15. Changes to accounting policies and future accounting developments

There were no changes to accounting policies since 31 December 2021, and there are no standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company.