

Company Registration No: 06447316 (England and Wales)

**EMBRACE FINANCIAL SERVICES LIMITED**  
**STRATEGIC REPORT, DIRECTORS' REPORT**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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## **EMBRACE FINANCIAL SERVICES LIMITED COMPANY INFORMATION**

### **Directors**

O T Blake  
P F Nurdin  
J Round  
S Whittle (appointed 4<sup>th</sup> February 2022)  
T Adorian (appointed 31<sup>st</sup> January 2022)  
A R Castleton (resigned 16<sup>th</sup> December 2021)  
R Raichura (resigned 31<sup>st</sup> January 2022)  
S Cox (resigned 25<sup>th</sup> February 2021)  
A P Trantum (resigned 25<sup>th</sup> February 2021)

### **Secretary**

S B Fitzgerald

### **Auditors**

Ernst & Young LLP  
1 Bridgewater Place  
Water Lane  
Leeds  
LS11 5QR

### **Bankers**

Barclays Bank PLC  
York Area Group  
1, 2 & 3 Parliament Street  
York  
YO1 8XD

### **Registered Office**

Howard House  
3 St. Mary Court  
Blossom Street  
York  
England  
YO24 1AH

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# **EMBRACE FINANCIAL SERVICES LIMITED**

## **STRATEGIC REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2021**

The directors present the strategic report and financial statements for the year ended 31 December 2021.

#### **Principal activity and review of the business**

The principal activity of the Company in the year under review was that of providing mortgage and protection intermediary services.

The Company is regulated by the Financial Conduct Authority (FCA) indirectly as an Appointed Representative (AR) of the PRIMIS Network. This provides a substantial compliance infrastructure to ensure suitable outcomes for its customers.

	<b>2021</b>	<b>2020 Restated</b>
Revenue (£'000)	16,776	11,839
Operating loss (£'000)	(3,018)	(674)
Operating margin (%)	(17.99)%	(4.95)%
Number of consultants	217	187

Revenue was driven from FCA regulated income streams including Mortgage Procurement Fees, the sale of protection policies and advice fees.

Income was negatively impacted in the year 2020 due to Covid-19 and the subsequent decision to furlough advisers during the early months of the pandemic.

#### **Principal risk and uncertainties**

The principal risk and uncertainties facing the Company are as follows:

- The Company's turnover and profitability could be adversely affected by the following external factors: the general economic position across the UK and the Eurozone, the housing market, Government schemes & initiatives, customer behaviour, provider behaviour, broker behaviour and competition from other firms.
- Ensuring ongoing compliance within the current regulatory and legislative frameworks and meeting future changes.
- The Company's results could also be affected by the following internal factors: failure to recruit or retain key staff, failure of information systems; failure to comply with relevant legislation.

#### **Section 172 Report**

As directors we have taken decisions to promote the long-term success of the Company for the benefit of its members, examples of this include moving to a singular platform technology solution for the benefit of our AR's and the end consumers.

In doing so, we have considered the interests of the company's employees, the need to foster business relationships with suppliers, customers and others and the impact of the company's operations on the community and environment. We also considered how any conflicts could be balanced, including conflicts between the long-term and short-term good of the company and the interests of different stakeholder groups.

To ensure that the requirements of s172 Companies Act 2006 are met, the interests of our stakeholder groups are considered through a combination of the following:

- Specific agenda points and papers presented at each board meeting.
- Regular communication with all employees on various topics such as operational matters or health & safety.
- Regular engagement with our external stakeholders, including, but not limited to, suppliers and customers. During 2019 the Company undertook a review of governance arrangements in relation to the Company's engagement with key stakeholders.
- Consideration of the impact of the Company's operations on the community and the environment, and how this can be improved.

**EMBRACE FINANCIAL SERVICES LIMITED  
STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2021**

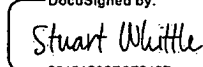
**Section 172 Report (continued)**

In addition, the directors of the Company operate the Company in line with the objectives of the ultimate parent, LSL Property Services plc, including with regard to stakeholder engagement. Further details of how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 and a detailed directors' statement required under section 414CZA of that Act, are available in the consolidated financial statements of LSL Property Services plc.

**Future developments**

The business will continue to develop and grow its panel of lenders and introducers. It will also continue to develop countercyclical income streams and to assess opportunities along the value chain which will strengthen the ability of the business to trade successfully through market downturns. The business will continue to manage its cost base appropriately whilst investing in its network and support services.

On behalf of the board

DocuSigned by:  
  
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S Whittle  
Director  
29 September 2022

## **EMBRACE FINANCIAL SERVICES LIMITED**

### **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2021**

The directors present their report and financial statements for the year ended 31 December 2021.

#### **Dividends**

No dividend has been paid in the year (2020 – £nil).

#### **Going Concern**

The net liability position of the Company at 31 December 2021 is (£3,612,000) (2020: £524,000). The company has made a loss for the year and is in a net current liabilities position of (£4,203,000) (2020: £524,000).

The Company participates in the Group's centralised treasury management and so shares banking arrangements with its fellow subsidiaries. LSL Property Services Plc is a listed entity in the UK. In determining whether the financial statements can be prepared on a going concern basis, the Directors have considered the Company's business activities together with the principal risk and uncertainty factors which are likely to affect its future performance and financial position. The key risks that the Company faces are described in the Strategic/Directors Report and mainly relate to the current UK Market Environment, competition, and external factors such as the geopolitical uncertainties adding to existing inflationary cost pressures.

Forecasts prepared to 30 September 2023 demonstrate that the Company is forecast to trade profitably and generate cash, taking into account the risks explained above. These forecasts have been constructed on conservative assumptions and have been based on a range of scenarios including the worst possible trading outcomes. The continuing support of the Group Company and the cash-pooling arrangement is also a factor in the going concern review. Consequently, the Company has obtained a letter of support from the parent company confirming that it will provide financial support to the Company for a period to 29 September 2023 to assist in meeting its liabilities to the extent that the money is not otherwise available to the company to meet such liabilities. The Directors have assessed the level of financial support available, taking into account the Company's financial plan and cash flow forecast for the period to 30 September 2023 and are satisfied such support is available.

#### **Directors'**

The directors who served the Company during the year were as follows:

A R Castleton (resigned 16<sup>th</sup> December 2021)

S Cox (resigned 25<sup>th</sup> February 2021)

A P Trantum (resigned 25<sup>th</sup> February 2021)

R Raichura (resigned 31<sup>st</sup> January 2022)

O T Blake

P F Nurdin

J Round

S Whittle (appointed 4<sup>th</sup> February 2022)

T Adorian (appointed 31<sup>st</sup> January 2022)

#### **Financial instruments**

##### *Liquidity risk*

The Treasury Department in the ultimate parent company managed the liquidity risk in the group, in which they monitor the cash flow position of the company to prevent shortage of funds to meet liabilities when they fall due.

##### *Credit risk*

There are no significant concentrations of credit risk within the company. It is the Company policy to obtain appropriate details of new Authorised Representatives before entering into contracts. The company is exposed to a credit risk in respect to making some payments prior to receiving the revenue. The majority of payments are made after receipt of the associated funds from the providers.

#### **Independent auditors**

The auditors, Ernst & Young LLP, have been reappointed as auditors at LSL Property Services plc's Annual General Meeting on 27 May 2022.

## **EMBRACE FINANCIAL SERVICES LIMITED DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021**

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Strategic Report, Directors' 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 Generally Accepted Accounting Practice, including FRS 101 Reduced Disclosure Framework (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are 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. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Statement of disclosure to auditors**

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

### **On behalf of the board**

DocuSigned by:  
  
S Whittle  
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Director  
29 September 2022

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EMBRACE FINANCIAL SERVICES LIMITED**

### **Opinion**

We have audited the financial statements of Embrace Financial Services Limited for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, Balance Sheet and Statement of changes in Equity and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance 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 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.

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 29 September 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

### **Other information**

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 there is 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 the other information, we are required to report that fact.

We have nothing to report in this regard.



## **INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF EMBRACE FINANCIAL SERVICES LIMITED**

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 2, 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.

### **Explanation as to what extent 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF EMBRACE FINANCIAL SERVICES LIMITED**

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom.
- We understood how Embrace Financial Services Limited is complying with those frameworks making enquiries of management to understand how the Company maintains and communicates its policies and procedures in these areas. We corroborated the results of our enquiries through reading the board minutes and other correspondence, making inquiries of management to identify if there are matters where there is a risk of breach of such frameworks that could have a material impact on the company. We understood controls put in place by management to reduce the opportunities for fraudulent transactions.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by internal EY team wide conversations and discussions, discussions with management from various parts of the business to understand where they considered there was susceptibility to fraud and what entity level controls are in place. We also identified the existence of performance targets and their potential influence on management to manage earnings by manipulating revenue. We considered the controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how management monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with the laws and regulations and frameworks identified above and to respond to the assessed risks. Our procedures included: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions; enquiries of company management; and challenging the assumptions and judgements made by management by agreeing to supporting third party evidence wherever possible. We also leveraged our data analytics platform to review the entire population of journals to assist in identifying specific transactions to test being those that did not meet certain criteria. The results of our procedures did not identify any instances of irregularities, including fraud.

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

### **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.

*Ernst & Young LLP*

.....  
Mark Morritt (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Leeds

30 September 2022

**EMBRACE FINANCIAL SERVICES LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

		<b>2021</b>	<b>2020</b>
		<b>£'000</b>	<b>Restated £'000</b>
Revenue	3	16,776	11,839
Administrative expenses	3	(19,794)	(12,513)
<b>Operating (loss)</b>	<b>4</b>	<b>(3,018)</b>	<b>(674)</b>
Income tax	8	(108)	125
		<b>(3,125)</b>	<b>(549)</b>

All of the above are derived from continuing operations.

The comparative figures have been restated as described in note 3. The restatement is presentational only and there is no impact on losses nor on retained earnings for the comparative period.

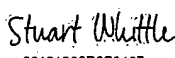
**STATEMENT OF OTHER COMPREHENSIVE INCOME**

There are no items of other comprehensive income in the current or preceding period.

**EMBRACE FINANCIAL SERVICES LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2021**

	Notes	2021 £'000	2020 £'000
<b>Non-current assets</b>			
Property, plant and equipment	9	10	17
Deferred tax asset	8	32	16
Contract assets	13	550	-
		<u>592</u>	<u>33</u>
<b>Current assets</b>			
Trade and other receivables	11	3,211	4,145
Cash and cash equivalents		-	-
		<u>3,212</u>	<u>4,145</u>
<b>Total assets</b>		<u>3,803</u>	<u>4,178</u>
<b>Current liabilities</b>			
Trade and other payables	12	6,686	3,804
Bank loans and overdrafts		730	898
Financial liabilities		-	-
		<u>7,415</u>	<u>4,702</u>
<b>Non-current liabilities</b>			
Financial liabilities		-	-
<b>Total Liabilities</b>		<u>7,415</u>	<u>4,702</u>
<b>Net (liabilities) / assets</b>		<u>(3,612)</u>	<u>(524)</u>
<b>Shareholder's equity</b>			
Share capital	15	-	-
Share based payment reserve	16	78	41
Retained earnings		(3,690)	(565)
<b>Total shareholder's equity</b>		<u>(3,612)</u>	<u>(524)</u>

The financial statements were approved by the Board on 29 September 2022 and were signed on its behalf by:

DocuSigned by:  
  
 80121206D8F8467...  
**S Whittle**  
 Director

Company Registration number: 06447316

**EMBRACE FINANCIAL SERVICES LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**AS AT 31 DECEMBER 2021**

	Share capital £'000	Share based payment reserve £'000	Retained earnings £'000	Total shareholders equity £'000
<b>At 1 January 2020</b>	-	22	(16)	6
Loss for the year	-	-	(549)	(549)
<b>Total comprehensive loss for the year</b>	-	-	(549)	(549)
Share-based payment transactions	-	19	-	19
<b>At 31 December 2020</b>	-	41	(565)	(524)
Loss for the year	-	-	(3,125)	(3,125)
<b>Total comprehensive loss for the year</b>	-	-	(3,125)	(3,125)
Share-based payment transactions	-	37	-	37
<b>At 31 December 2021</b>	-	78	(3,690)	(3,612)

**EMBRACE FINANCIAL SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**1. Corporate Information**

The financial statements of Embrace Financial Services Limited for the year ended 31 December 2021 were authorised for issue by the board of directors on 29 September 2022 and the balance sheet was signed on the board's behalf by S Whittle. Embrace Financial Services Limited is a private limited company incorporated in England. The company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of LSL Property Services plc.

These financial statements were prepared in accordance with IAS1 Presentation of Financial Statements and in accordance with applicable accounting standards. The financial statements are prepared under the historical cost convention.

The Company's financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand (£'000) except when otherwise indicated. The Company's financial statements are individual entity financial statements. The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of LSL Property Services plc.

**2. Accounting policies**

**2.1 Basis of preparation**

The Company has prepared primary statements in accordance with International Financial Reporting Standards. The Company's ultimate parent undertaking and controlling party is LSL Property Services plc, a Company registered in England. Its group financial statements are available on application to the Group Company Secretary, LSL Property Services plc, Newcastle House, Albany Court, Newcastle Business Park, Newcastle upon Tyne, NE4 7YB. No other group financial statements include the results of the Company. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2021.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because: the share based payment arrangement concerns the instruments of another group entity.
- (b) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- (c) the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D and 134-136 of IAS 1 Presentation of Financial Statements;
- (d) the requirements of IAS 7 Statement of Cash Flows;
- (e) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (g) requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

**2.2 Significant accounting policies**

**Going Concern**

The net liability position of the Company at 31 December 2021 is (£3,612,000) (2020: £524,000). The company has made a loss for the year and is in a net current liabilities position of (£4,203,000) (2020: £557,000).

The Company participates in the Group's centralised treasury management and so shares banking arrangements with its fellow subsidiaries. LSL Property Services Plc is a listed entity in the UK. In determining whether the financial statements can be prepared on a going concern basis, the Directors have considered the Company's business activities together with the principal risk and uncertainty factors which are likely to affect its future performance and financial position. The key risks that the Company faces are described in the Strategic/Directors Report and mainly relate to the current UK Market Environment, competition, and external factors such as the geopolitical uncertainties adding to existing inflationary cost pressures.

## **EMBRACE FINANCIAL SERVICES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2021**

## **2. Accounting policies (continued)**

### **2.2 Significant accounting policies (continued)**

Forecasts prepared to 30 September 2023 demonstrate that the Company is forecast to trade profitably and generate cash, taking into account the risks explained above. These forecasts have been constructed on conservative assumptions and have been based on a range of scenarios including the worst possible trading outcomes. The continuing support of the Group Company and the cash-pooling arrangement is also a factor in the going concern review. Consequently, the Company has obtained a letter of support from the parent company confirming that it will provide financial support to the Company for a period to 29 September 2023 to assist in meeting its liabilities to the extent that the money is not otherwise available to the company to meet such liabilities. The Directors have assessed the level of financial support available, taking into account the Company's financial plan and cash flow forecast for the period to 30 September 2023 and are satisfied such support is available.

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Financial assets are derecognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. The subsequent measurement of financial assets depends on their classification.

#### **Goodwill**

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations, goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the company amortised goodwill a period of 15 years would have been chosen as the useful life for goodwill.

A test of impairment was performed on goodwill to determine the recoverable amount of the CGU. This was based upon a value in use calculation using cash flow projections based on financial budgets approved by the board covering a 3 year period. The discount rate applied to cash flow projections was 11.7% (2020: 11.7%). Cash flows beyond the three year plan are extrapolated using a 2.0% growth rate (2020: 2.0%). Management are satisfied that the outcome of the impairment test demonstrates that no provision for impairment was necessary.

#### **Intangible assets**

Intangible assets include software development costs, purchased software and purchased contracts that in the opinion of the directors meets the definition of an intangible asset. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the day they are available for use. The estimated useful lives are as follows:

Developed software	–	5 years straight line
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#### **Research and development**

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

**EMBRACE FINANCIAL SERVICES LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**2. Accounting policies (continued)**

**2.2 Significant accounting policies (continued)**

**Property, plant and equipment**

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Fixtures and fittings	–	3 years straight line
Motor Vehicles	–	4 years reducing balance

**Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprises cash at bank and in hand.

**Investments**

Fixed asset investments are shown at cost less provision for impairment.

**Trade receivables**

Trade receivables do not carry any interest and are stated at their original invoiced value as reduced by appropriate allowances for estimated irrecoverable amounts.

Under IFRS 9 the chosen method of recognising the expected credit loss across the company is the simplified approach allowing a provision matrix to be used. This is based on the expected life of trade receivables and historic default rates. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are de-recognised when they are assessed as uncollectible.

**Trade payables**

Trade payables do not carry any interest and are stated at their original invoice value.

**Interest bearing loans and borrowings**

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance costs.

**Impairment of assets**

**Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses on continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the profit and loss account.

**Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and



**EMBRACE FINANCIAL SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**2. Accounting policies (continued)**

**2.2 Significant accounting policies (continued)**

only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Leases**

Leases are defined as a contract which gives the right to use an asset for a period of time in exchange for consideration. The Company recognises one class of lease:

- Motor Vehicle leases

Property Leases and Motor Vehicle leases have been recognised on the balance sheet, in financial liabilities, by recognising the future cash-flows of the lease obligation, discounted using the incremental borrowing rate of the Company, adjusted for factors such as swap rates available and the credit risk of the entity entering into the lease.

Corresponding Right of Use assets have been recognised in the balance sheet under property, plant and equipment and have been measured as being equal to the discounted lease liability plus any lease payments made at or before the inception of the lease and initial direct costs, less any lease incentives received.

Other leases are leases for low value items (less than \$5,000) or leases whose contract term is less than 12 months. The practical expedient not to recognise right-of-use assets and lease liabilities for these leases has been utilised by the Company. A charge for these leases has been recognised through the income statement as an operating expense

For sub-leases where the Company is an intermediate lessor, the Company has assessed whether the sub-lease is an operating lease or finance lease in respect to the right of use asset generated by the head lease. It has performed this assessment on a lease-by-lease basis. The Company has both finance leases and operating leases based on this assessment, and a sub-lease asset has been recognised in financial assets at transition for finance leases.

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Where the implicit rate of interest relating to a lease is not readily available, the Company has used an incremental borrowing rate representative of the incremental borrowing rate of interest that the entity within the LSL Company that entered into the lease would have to pay to borrow over a similar term, with a similar security. The rate applied to each lease was determined taking into account the risk free rate, adjusted for factors such as the swap rates available to the Company and the credit risk of the entity entered into the lease.

**Revenue recognition**

Revenue is recognised under IFRS 15. This standard is based on a single model that distinguishes between promises to a customer that is satisfied at a point in time and those that are satisfied over time.

Revenue from mortgage procurement fees is recognised at point in time by reference to the completion date of the mortgage on the housing transaction. Revenue from the policy sales is recognised at point in time by reference to the date that the policy is accepted by the insurer. Revenue from other income is recognised at a point in time by reference to the completion date of the transaction.

**Pensions**

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are invested and managed independently of the finances of the Company. The pension cost charge represents contributions payable in the year. The contributions are recognised in the income statement in the period in which they become payable.

**EMBRACE FINANCIAL SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**2. Accounting policies (continued)**

**2.2 Significant accounting policies (continued)**

**Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. The Management Team periodically evaluates positions taken in the tax returns with respect to the situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting period and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment. Income tax is charged or credited directly to other comprehensive income or equity, if it relates to items that are charged or credited in the current or prior periods to other comprehensive income or equity respectively. Otherwise income tax is recognised in the income statement.

**Share-based payments**

The equity share option programme allows employees to acquire shares of the ultimate holding company. The fair value of the option granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vests. No expense is recognised for awards that do not ultimately vest, except for equity settled transactions where vesting is conditional upon a market or non-vesting condition, which is treated as vesting irrespective of whether or not the market or non-market vested condition, is satisfied, provided that all other performance and/or service conditions are satisfied.

**Provisions**

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Under certain circumstances, the policy providers can clawback all or a proportion of commission previously paid as a result of early cancellation by policy holders. Under such circumstances, the Company is required to repay that element of commission attributable to the cancellation. In the opinion of the directors

**EMBRACE FINANCIAL SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**2. Accounting policies (continued)**

**2.2 Significant accounting policies (continued)**

**Judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Company's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following note on lapse provision.

**Accrued income cut off**

Accrued income relating to policies or mortgages with an inception or completion date in the financial year is included if commission has not been received at the year end. Estimates are applied to the basis of calculation of this accrued income which is based on historic post year end revenue as a proportion of the subsequent year's revenue.

**Lapse provision**

Significant judgement is required when provisioning for potential clawbacks. Under certain circumstances, the policy providers can clawback all or a proportion of commission previously paid as a result of early cancellation by policy holders. Under such circumstances, the Company is required to repay that element of commission attributable to the cancellation. In the opinion of the directors, this obligation is considered to be a legal obligation, and as such, is provided for in full, based on the anticipated clawback likely to occur. The provision is calculated by using historical lapses as a proportion of sales in that period and then applying that proportion rate against live policies to form an estimate.

**Agent versus principal**

As recognised by IFRS 15, assessing whether the company is acting as a principal or an agent requires judgement which can significantly affect the timing and amount of revenue recognised. The company has determined that it is acting as an agent of the customer and only recognises the company's share of commission as revenue.

**Government Grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received, and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in operating costs within the income statement over the period necessary to match on a systematic basis to the costs that it is intended to compensate.

Government grants have been recognised in relation to the ongoing COVID-19 pandemic. These comprise amounts receivable under the Coronavirus Job Retention Scheme (CJRS) and amounts receivable under the Retail, Hospitality and Leisure Grant (RHLG) Fund.

CJRS comprises grants receivable in relation to the costs incurred by the Company for furloughed employees and is recognised in the income statement, within operating costs, in the same period as the related costs and when there is reasonable assurance that the grant will be received.

RHLG comprises grants receivable in relation to retail properties used for estate agency and lettings agency and is recognised in the income statement, within operating costs, in the same period as the related costs and when there is reasonable assurance that the grant will be received.

**3. Revenue**

The total revenue of the company for the year has been derived from its activities undertaken in the United Kingdom.

**Disaggregation of Revenue**

Set out below is the disaggregation of the Company's revenue from contracts with customers:

**EMBRACE FINANCIAL SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**3 Revenue (continued)**

**2021**

	<b>Financial Services £'000</b>	<b>Total £'000</b>
<b>Timing of revenue recognition:</b>		
Services transferred at a point in time	16,776	16,776
Services transferred over time	-	-
<b>Total revenue from contracts with customers</b>	<b>16,776</b>	<b>16,776</b>

**2020**

	<b>Financial Services £'000</b>	<b>Total £'000</b>
<b>Timing of revenue recognition:</b>		
Services transferred at a point in time	11,839	11,839
Services transferred over time	-	-
<b>Total revenue from contracts with customers</b>	<b>11,839</b>	<b>11,839</b>

	<b>2020 Restated £'000</b>	<b>2020 £'000</b>
<b>2020 Restated</b>		
Revenue	11,839	13,589
Administrative expenses	(12,513)	(14,263)
<b>Operating Loss</b>	<b>(674)</b>	<b>(674)</b>

The 2020 comparative numbers have been restated to recognise £1,749,996 of LSL Recharges within Revenue rather than Admin Expenses. This presentation is consistent with that adopted by LSL Property Services plc and its subsidiaries. The restatement is presentational only and there is no impact on losses nor on retained earnings for the comparative period.

**4. Operating (loss)**

	<b>2021 £'000</b>	<b>2020 £'000</b>
<b>Operating (loss) is stated after charging:</b>		
Depreciation – Owned assets	8	7
Depreciation – Leased assets	-	3