00968406

Lloyds Bank Insurance Services Limited

Annual Report and Accounts
2023

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

J L Harrison
V Lennon
J A Ward*

* denotes Executive Director

Company Secretary

G J Donaldson

Independent Auditors

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London
EC4A 3HQ

Registered Office

25 Gresham Street
London
EC2V 7HN

Company Registration Number

00968406

STRATEGIC REPORT

The Directors present their Strategic Report on Lloyds Bank Insurance Services Limited ('the Company') for the year ended 31 December 2023.

The Company is a subsidiary of Lloyds Bank General Insurance Holdings Limited (LBGIH) and forms part of the general insurance business unit within the Insurance, Pensions and Investments (IP&I) Division of Lloyds Banking Group, focusing on providing general insurance to meet our customers' needs.

Our strategy is to help our customers by:

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

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

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

Principal activities

The principal activity of the Company is to act as an intermediary for insurance undertakings of Lloyds Banking Group and third party underwriters. The Company also acts as an introducer to other insurance intermediaries of Lloyds Banking Group. All contracts of insurance are written in the United Kingdom (UK).

In home insurance, we continue to focus on direct business, responding to a rapid customer shift to digital channels, adapting to ensure we can compete more effectively online. Motor insurance is provided via corporate partnerships. Life insurance through it's subsidiary Cavendish Online offering simple, affordable and accessible protection products to our customers. The creditor and accident and health books of business are all in run off.

Result for the Year

The results for the year ended 31 December 2023 is a profit after tax of £12.5 million (2022 profit: £5.7 million). The total net assets of the Company at 31 December 2023 are £37.2 million (2022: £39.7 million).

Profit after tax increased from £5.7 million to £12.5 million as a result of higher revenue across the motor and home business and a lower proportion of adminstration expenses recharged from Lloyds Banking Group.

Interim dividends of £15.0 million were declared on the ordinary shares during the year in respect of 2023 (2022: £50.0 million).

Economic Environment

The UK economy saw modest but resilient performance in 2023, with initial estimates indicating growth of 0.1 per cent. This was despite a large increase in interest rates intended to prevent elevated inflation after the surge in global energy and food prices caused in large part by Russia's invasion of Ukraine. While inflation fell in the second half of 2023, the cost of living squeeze is still ongoing, with energy prices still around 50 per cent higher than in 2021 and food prices broadly 30 per cent higher. Government support protected households from some of the impact across 2022 and 2023, but this is not planned to continue through to 2024. Also, interest rate rises to date have not yet had their full impact, with many households yet to refinance fixed-rate mortgages at higher rates. The UK economy in 2024 is thus expected to echo its 2023 growth performance, but there are of course risks to this view, not least via consequences of any escalation of wars in Ukraine or the Middle East.

In line with Lloyds Banking Group's purpose of Helping Britain Prosper and a clear customer focus, Lloyds Banking Group are helping people and businesses finance their ambitions and growth whilst proactively providing support to those most affected by changes to the economic environment. The Company will continue to monitor the situation and risks to the business.

STRATEGIC REPORT (continued)

Climate Change

The Company's ultimate parent is Lloyds Banking Group plc. Lloyds Banking Group (LBG) is committed to supporting the aims of the 2015 Paris Agreement in transitioning to a more sustainable, low carbon economy and recognises the importance of embedding climate-related risks and opportunities into business operations and strategy.

The Company is supportive of the Task Force on Climate-Related Financial Disclosures (TCFD) framework and related regulatory expectations and is aligned to best practice outlined by the Climate Financial Risk Forum (CFRF). In previous years the Company was included in a TCFD aligned report at the intermediate parent entity level, Scottish Widows Group Limited (SWG). From this year onwards, the Company is included in the LBG Sustainability Report. This report is available on the LBG website at www.lloydsbankinggroup.com/investors/esg-information.

Key performance indicators

Net commission income

Net commission income has increased by £5.8 million to £26.4 million in 2023 (2022: £20.6 million), due to growth in the home and motor market. In the prior year the Company was less competitive in the market following the implementation of the Financial Conduct Authority (FCA) pricing practices regulations.

The Company's net commission income only reflects commission in respect of insurance entities external to the Lloyds Banking Group. The Company is not remunerated for activity in relation to insurance entities within the Lloyds Banking Group.

Capital resources

The Directors assess that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. The Company's surplus in excess of regulatory capital requirements (on MIPRU - Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries) is £22.9 million (2022: £25.5 million). MIPRU represents the excess of equity over and above a proportion of the Company's annual commission income and further detail around this measure can be seen in note 20.

Liquidity

The Company regularly monitors its liquidity position to ensure that, even under stressed conditions, the Company has sufficient liquidity to meet its obligations and remains within approved risk appetite as set out in note 20.

Other Sources where KPIs are presented

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

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

Review of the business

Cavendish Online Limited

On 30 November 2022 the Company completed the purchase of Cavendish Online for a consideration of £12.0 million (of which £1.0 million was deferred for 12 months). In November 2023 the Company paid the deferred amount of £1.0 million as per the terms of the share purchase agreement.

Outlook

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

Principal risks and uncertainties

Risks and uncertainties to our strategic plan, both positive and negative, are considered by product through the planning process. The following table describes the principal risks faced by the Company. Further details on financial risks and how the Company mitigates them can be found in note 20, as shown by the note reference.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Financial risks

Principal Risk	Note reference	Description
Market Risk	20(a)	Market risk is defined as the risk that the Company's capital or earnings profile is affected by adverse market rates, in particular interest rates and inflation in insurance business. External rates are outwith the Company's control therefore mitigation is via having sufficient financial reserves to cover reduced earnings.
Credit Risk	20(b)	Credit risk is the risk that parties with whom we have contracted, fail to meet their financial obligations. The Company is subject to credit risk through a variety of counterparties through cash in liquidity funds and bank accounts. Credit risk is mitigated via the risk transfer policy and the investment policy which ensure exposures are appropriately monitored and action taken where necessary.
Capital risk	20(c)	Capital risk is defined as the risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held or that capital is inefficiently deployed across the Company. The Company is regulated by the FCA. The FCA imposes a Minimum Capital Requirement on the Company as defined in FCA regulations. Capital risk is managed via the Capital Risk Policy, which includes tools and governance to monitor capital requirements and assign capital accordingly.
Liquidity risk	20(d)	Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. 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 mitigated by applying the Liquidity Risk Policy, which includes controls to maintain liquidity at necessary levels.

Non-financial risks

Principal Risk	Description
Operational risk	Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. This includes risks around cyber and information security, provision of external and internal services, financial crimes, financial reporting risk, fraud, IT systems, security and sourcing. Operational risk is managed through an operational risk framework, including a Risk and Control Self-Assessment (RCSA) process, and operational risk policies. The Company maintains a formal approach to operational risk event escalation, whereby material events are identified, captured and escalated. Root causes of events are determined, and action plans put in place to ensure an optimum level of control to keep customers and the business safe, reduce costs, and improve efficiency.
Data risk	Data risk is defined as the risk of failing to effectively govern, manage and control data (including data processed by third party suppliers), leading to unethical decisions, poor customer outcomes, loss of value and mistrust. It is present in all aspects of the business where data is processed, both within the company and by third parties. This risk is measured through a series of quantitative and qualitative indicators, covering data governance, data management, records management, data privacy and ethics. Data risks and controls are monitored and governed in line with an embedded risk management framework, which involves identification, measurement, management, monitoring and reporting.
Climate risk	Climate risk is defined as the risk that the Company experiences losses and/or reputational damage, either from the impacts of climate change and the transition to net zero, or as a result of the Company's responses to tackling climate change. The Company considers the impact of climate risk as a risk driver on other risks types, such as credit risk, market risk, and operational risk. Climate risk is mitigated via the application of the Climate Risk Policy, and actions taken to address other risk types.
Conduct Risk	Conduct Risk is defined as the risk of customer detriment across the customer lifecycle including: failures in product management, distribution and servicing activities; from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss. This is managed through our governance committee structure and is supported through the management of the Policy Framework, specifically the Product Management and Governance Policy.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Non-financial risks (continued)

Principal Risk	Description
Regulatory Compliance Risk	Regulatory Compliance Risk is defined as the risk arising from failure to follow (specific) rules, regulations and laws (including Codes of Practice) that apply to all stages of the customer and product journeys and managing our relationship with our regulators. This could lead to any or all of unfair customer outcomes, undermining the integrity of the market, distortion of competition, regulatory censure, or financial and reputational loss. This is managed through our governance committee structure and is supported through the management of the Policy Framework, specifically the Compliance Policy, which aims to ensure the business implements controls, and that monitoring and testing is in place to ensure compliance with laws rules and regulations.

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

All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date as set out in note 16.

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

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

In accordance with the Companies Act 2006 (the Act), the Directors of the Board provide this Statement, describing how they have had regard to the matters set out in Section 172(1) of the Act when fulfilling their key duty to promote the success of the Company, under Section 172 of the Act.

This Statement also provides examples of how the Directors have engaged with and had regard to the interests of key stakeholders. The Company is a subsidiary of Lloyds Banking Group plc (Lloyds Banking Group), and as such follows many of the processes and practices of Lloyds Banking Group, which are further referred to in this Statement where relevant.

The Board is collectively responsible for the long-term success of the Company. Understanding the views and interests of key stakeholders (this includes, where relevant, customers, shareholders, communities and environment, regulators, and suppliers), is central to the Company's strategy and informs key aspects of Board decision making. Stakeholder engagement is embedded in all aspects of the Board's decision making and can be seen in the range of activities across key stakeholder groups.

How the Board has discharged its Section 172 duties

The Directors, on appointment and during their induction to the Board, are briefed on their statutory director duties and the standards required of subsidiary boards within Lloyds Banking Group. The Board undertakes periodical reviews of its governance arrangements. This enables the Board to provide effective, sound, and entrepreneurial leadership of the Company within Lloyds Banking Group's strategic aims and effective controls.

Stakeholder engagement is embedded in the Board's delegation to the Company's Chief Executive for the delivery of the Company's strategy and overall management of the Company's business within its defined risk appetite. Examples of related actions taken during the year are included within the Report. The Chief Executive discharges his responsibility for the day-to-day management of the Company's business by delegating key areas of his authority to management. This enables him to make informed decisions about the operations of the Company's business.

The Chief Executive and management provide the Board with details of material stakeholder interaction and feedback, through quarterly business updates. Stakeholder interests are also identified by management in the wider proposals put to the Board. The Board also receives regular updates from the Chief Executive of its subsidiary, Cavendish Online Limited, regarding its business, performance and future strategy.

Further details of how the Board considers each of the specific matters set out in Section 172 along with specific examples of how these considerations have influenced decisions taken by the Board are set out in pages 7 to 10 which serves as the Directors' Section 172(1) Statement. Given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

STRATEGIC REPORT (continued)

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

Consumers

The Board remains committed to understanding and addressing customer needs, which is vital in setting and achieving the Company's goals. The Company serves a wide variety of different customers and acts in a way designed to meet their diverse needs in a timely and efficient way through its range of products and associated customer service. Quarterly reporting from management allows the Board to monitor performance, and challenge management, in delivering on its customer-related objectives and the Board reviews customer complaints to understand areas where improvements can be made. Management regularly reviews the Company's performance against key customer service metrics. Every opportunity is taken by the Board, and the wider IP&I business, to consider customer feedback and related management information, including as part of the Board's strategic decision-making process.

Consumer Duty

During the year, the Board continued to embed the implementation of the Financial Conduct Authority's (FCA) Consumer Duty regime.This will strengthen the focus of the Company's business on the delivery of good outcomes for customers, specifically ensuring customers receive information they can understand, products and services that meet their needs and offer fair value, and ensuring customers receive the support they need. Regular updates from management have been made available to the Board related to the implementation of Consumer Duty within the IP&I Business.

Delivering Value for Customers

The IP&I business routinely reviews the performance of its customer propositions. This includes reviewing the effectiveness of the various channels open to customers to do business with the IP&I business. The Board of the Company recognises the importance of understanding how the Company performs relative to its peers. Regular Board updates from management cover a range of relevant internal and external sources. Together these provide important insight that informs Board decision-making.The Board has also received regular updates from the Chief Executive of its subsidiary, Cavendish Online Limited, regarding that entity's performance and its approach to customer service.

The IP&I business has continued to engage proactively with its regulator to drive forward good business conduct in its core markets including as part of the continued implementation of the requirements of the FCA's General Insurance Pricing Practices Market Study (the Market Study), together with other regulatory developments, including Consumer Duty.

Technology

The IP&I business has taken steps to build on its responses to customer demand for digitised customer journeys. Whilst digital transformation; particularly through a recent project to digitise aspects of the home insurance customer journey, has remained a key focus in improving the customer experience, the Board acknowledges that many customers still value being able to contact customer service staff over the phone, via letter or through email. The Board recognised the importance of the Company continuing to offer a range of engagement channels to suit customers and improve these services in parallel. This will provide long-term benefits to the Company's customers, allowing customers to use the journey channel most appropriate to them.

Helping Britain Prosper

Lloyds Banking Group's purpose is Helping Britain Prosper. It does this by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.

The Company contributes to the results of the IP&I business of Lloyds Banking Group, with a focus on helping customers to protect themselves today whilst preparing for a secure financial future. General insurance market share grew during 2023, helping IP&I to meet more customers' financial needs. Further information on Lloyds Banking Group's initiatives can be found in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2023, available on the Lloyds Banking Group website, at https://www.lloydsbankinggroup.com/investors/annual-report.html.

Shareholders

During 2023, the Board approved interim dividends of £15.0 million. The Company is a wholly owned subsidiary of Lloyds Banking Group plc and as such the Board ensures that the strategy, priorities, processes, and practices of the Company are aligned where appropriate to those of Lloyds Banking Group, ensuring that its interests as the Company's shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group with its shareholders is included in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2023, available on the Lloyds Banking Group website, at https://www.lloydsbankinggroup.com/investors/annual-report.html.

The views and interests of the Company's shareholders are key considerations when the Board determines the level of dividend payments (further details of which can be found on page 4 of the Strategic Report) as well as when approving the Company's business strategy and long-term objectives.

STRATEGIC REPORT (continued)

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

Impact on the Community and Environment

Creating a sustainable future is core to Lloyds Banking Group's strategy and purpose of Helping Britain Prosper. The Group is focusing on areas where it can have impact, supporting the UK's transition through its products and services. The Responsible Business Committee of the Board of Lloyds Banking Group is responsible for overseeing and supporting Lloyds Banking Group's strategy and plans for delivering the Group's aspirations to be a truly purpose-driven organisation.

The Board considers environmental matters in its decision making, with cognisance of the IP&I General Insurance business's aim to support customers in improving the resilience of their homes against extreme weather caused by climate change. The Board supports the three sustainability commitments regarding home insurance: (i) propositions to improve flood resilience; (ii) reducing carbon emissions; and (iii) advocating change internally and externally.

Further information on the IP&I General Insurance business's ambition can be found in the Lloyds Banking Group Sustainability Report 2023. This can be found on the Lloyds Banking Group website https://www.lloydsbankinggroup.com/investors/annual-report.html.

Climate Risk

The Board considers the Company's management of climate risk, providing oversight and challenge on those activities which impact on the Company's reputation as a responsible business.

Regulators

The Board and the Company continue to maintain strong, open, and transparent relationships with relevant regulators and government authorities. Liaison with regulators and the Government, both directly and as part of Lloyds Banking Group, is an ongoing priority at all levels of the organisation, ensuring the strategic aims of Lloyds Banking Group and the Company align with the requirements of these important stakeholders.

Regulatory Agenda

Individual Directors have, in the ordinary course of business, held discussions with the FCA on key aspects of the regulatory agenda impacting the Company. These have included, but not are limited to: FCA portfolio letters and strategy meetings, General Insurance (GI) propositions in the short and long term, product governance thematic reviews and the GI pricing practices evaluation process.

The Board, in turn received regular quarterly updates on these and the wider IP&I business' regulatory interactions during the year. This has included updates on: the FCA's cost of living "fire drill" exercise and GI value measures data.

In addition, throughout the year, the Board received details of the key Regulatory Developments impacting the Company which included Consumer Duty, the Bank of England's proposal to bring more GI products up to 100% under the Financial Services Compensation Scheme, and an FCA consultation and policy statement on multi-occupancy building insurance.

Suppliers

The IP&I business of Lloyds Banking Group has entered into a number of strategic partnerships for important aspects of its operations and customer service provision. As well as external partners, the IP&I business relies on intra-group supplier arrangements for certain services. The Board delegates to management the primary responsibility of oversighting those relationships, while recognising that they are integral to the Group's future success. Throughout 2023 the Board has held management to account for the performance of supplier relationships.

The advantage of being part of a larger group means there are robust processes in place to monitor and review costs with third parties who provide services to the IP&I business and, where applicable, the Company. The outsourced business model allows the Company to negotiate competitive fees and commercial terms with its service suppliers to control costs for all the Company's customers as well as ensuring robust processes are in place to ensure suppliers adhere to in-scope Group Policies.

Supplier Experience

Recognising the role of suppliers in IP&I's and in the Company's day-to-day operations, and its future ambitions, the Board undertakes regular reviews of the performance of its key external suppliers and takes into consideration supplier feedback on the Company's processes for potential improvement. The Company's approach to reviews is collaborative with participation from both management and suppliers.

STRATEGIC REPORT (continued)

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

Supplier Framework

Importance is placed on having the right supplier framework to operate responsibly. Lloyds Banking Group's Sourcing & Supply Chain Management Policy applies to all its businesses units, divisions, and subsidiaries, including the Company, with the Directors assuming ultimate responsibility for its application as relevant to the Company. This ensures the most significant supplier contracts receive the approval of the Board, including those which are key in progressing strategic priorities. IP&I have also elected to further enhance some of the controls in place. The framework also ensures appropriate Executive oversight of supplier spending not considered by the Board, allowing challenge to be made where appropriate, and minimising risks and unnecessary cost.

The Policy has been updated to enhance the exit and resilience testing required for suppliers categorised as medium or above for resilience, i.e. those suppliers whom Lloyds Banking Group has a reliance upon to deliver key services or who interact with customers.

Suppliers are required to adhere to relevant Lloyds Banking Group policies and comply with its Code of Supplier Responsibility which can be found on the Lloyds Banking Group website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and Lloyds Banking Group to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular reviews of key supplier risks. In addition, there are regular (risk based) reviews of supplier adherence to in-scope Policies. Where gaps are identified, actions are agreed with the supplier to remediate.

Lloyds Banking Group remains committed to collaborating with suppliers to tackle climate change and ensure it is embedded within the strategy and governance of their organisations. Reducing suppliers' emissions is a key component of its sustainability strategy. Lloyds Banking Group asks suppliers to work towards and to help drive progress towards a lower carbon future. Sustainability questions now form a part of all supplier tender processes with appropriate contractual wording being embedded as contracts are then agreed.

Modern Slavery and Human Rights

Lloyds Banking Group's role as a sustainable and inclusive business is central to its purpose, with the Board of Lloyds Banking Group's Responsible Business Committee overseeing its ambitions in building a truly purpose driven organisation. As part of its oversight of its performance (including that of the Company, as a responsible business) it governs Lloyds Banking Group's approach to business human rights and modern slavery.

Lloyds Banking Group is committed to operating in accordance with internationally accepted human rights standards and with all relevant legislation including the UK Modern Slavery Act 2015. Further information on Lloyds Banking Group's approach to human rights and modern slavery is available in its Sustainability Report and Modern Slavery Policy Statement on its website and its annual Modern Slavery Statement published on the homepage of its website and covers all its subsidiary companies, setting out the steps taken to prevent and manage the risk of modern slavery in Lloyds Banking Group's business and supply chains.

Maintaining a reputation for high standards of business conduct

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

On behalf of the Board of Directors

J A Ward

Director

17 June 2024

DIRECTORS' REPORT

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

The Company is a wholly owned subsidiary of LBGIH. The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc.

Results and dividend

The results for the year ended 31 December 2023 is a profit after tax of £12.5 million (2022 profit: £5.7 million). The total net assets of the Company at 31 December 2023 are £37.2 million (2022: £39.7 million).

Profit after tax increased from £5.7 million to £12.5 million as a result of higher revenue across the motor and home business lines and a lower proportion of adminstration expenses recharged from Lloyds Banking Group.

During the year, an interim dividend of £15.0 million was paid on the ordinary shares in respect of 2023 (2022: £50.0 million).

Post balance sheet events

An interim dividend of £20 million in respect of the year ending 31 December 2024 was declared on 12 June 2024. In addition a capital injection of £1.5 million to the Company's subsidiary Cavendish Online Limited was approved on 12 June 2024.

Further information on post balance sheet events is set out in note 24.

Directors

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

S C Quinn	(Resigned 3 May 2023)
V Lennon	(Appointed 3 May 2023)
V Flenk	(Appointed 3 May 2023 / Resigned 7 June 2024)
C J Thornton	(Resigned 15 February 2024)
J A Ward	(Appointed 15 February 2024)
J L Harrison	(Appointed 23 May 2024)

Particulars of the Directors' emoluments are set out in note 22.

Directors' indemnities

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

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

Disclosure of information to auditor

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

Future developments

Future developments are detailed within the Strategic Report and also in note 23.

Engagement with suppliers, customers and others

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

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in note 20, and additionally have considered projections for the Company's capital and funding position. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

DIRECTORS' REPORT (continued)

Financial risk management

Disclosures relating to financial risk management are included in note 20 to the financial statements and are therefore incorporated into this report by reference.

Independent auditors

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

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company.

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

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

- the Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company
- the Strategic Report on pages 4 to 10, and the Directors' Report on pages 11 to 12 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

The Directors have also separately reviewed and approved the Strategic Report.

On behalf of the Board of Directors

J A Ward

Director

17 June 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF LLOYDS BANK INSURANCE SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Lloyds Bank Insurance Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the related notes 1 to 24 (except note 20(c) for regulatory capital held and regulatory capital required).

The financial reporting framework that has been applied in their preparation is applicable law, and IFRSs as adopted by the United Kingdom.

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.

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 of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF LLOYDS BANK INSURANCE SERVICES LIMITED (continued)

Responsibilities of directors

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

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

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 their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

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 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 including relevant internal specialists such as tax and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of the above procedures, we have identified a significant risk relating to the cut-off and completeness of revenue recorded from profit share. This is in relation to the accrual of profit commissions due from external insurers at the reporting date. This therefore results in profit commission being recognised on a cash receipt basis. We have tested all the material profit commission receipts in the period, and performed audit procedures to ensure that subsequent receipts and confirmation received post year end pertaining to year ended 31 December 2023, are appropriately recorded within 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 internal audit 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, reviewing internal audit reports and reviewing correspondence with the FCA and PRA.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF LLOYDS BANK INSURANCE SERVICES LIMITED (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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.

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.

Charlie Scarr, ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

17 June 2024

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 £'000	2022 £'000
Revenue - commission income		27,282	21,983
Commission expense		(922)	(1,433)
Net commission income	3	26,360	20,550
Investment income	4	4,198	1,437
Net gains on assets at fair value through profit or loss	5	126	78
Other income		4,324	1,515
Expenses			
Expenses for administration	6	(8,868)	(9,036)
Expenses for acquisition of insurance contracts	6	(5,387)	(5,966)
Total expenses		(14,255)	(15,002)
Profit before tax		16,429	7,063
Taxation charge	8	(3,880)	(1,353)
Profit for the year and total comprehensive income		12,549	5,710

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

The notes set out on pages 20 to 37 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2023

	Note	2023 £'000	2022 £'000
ASSETS			
Investment in subsidiaries	12	11,909	11,909
Deferred tax assets	9	103	125
Financial assets:			
Loans and receivables at amortised cost	10	10,780	9,919
Investments at fair value through profit or loss	11	30,204	30,078
Cash and cash equivalents	13	40,202	34,634
Total assets		93,198	86,665
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	14	13,600	13,600
Retained profits		23,625	26,076
Total equity		37,225	39,676
Liabilities			
Current tax liabilities	15	3,858	1,333
Provisions for other liabilities and charges	16	777	1,111
Financial liabilities:			
Other financial liabilities	17	51,338	44,545
Total liabilities		55,973	46,989
Total equity and liabilities		93,198	86,665

The notes set out on pages 20 to 37 are an integral part of these financial statements.

The financial statements on pages 16 to 37 were approved by the Board on 12 June 2024 and signed on behalf of the Board:

J A Ward

Director

17 June 2024

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 £'000	2022 £'000
Cash flows generated from/(used in) operating activities			
Profit before tax		16,429	7,063
Adjusted for:			
Investment income	4,5	(4,324)	(1,515)
Net decrease in operating assets and liabilities	18	5,598	13,612
Taxation paid		(1,333)	(4,413)
Net cash flows generated from operating activities		16,370	14,747
Cash flows (used in)/generated from investing activities			
Investment income	4	4,198	1,437
Net movement in investments at fair value through profit or loss		—	(30,000)
Acquisition of subsidiary	12	—	(11,909)
Net cash flows generated/(used in) from investing activities		4,198	(40,472)
Cash flows used in financing activities			
Dividends paid	19	(15,000)	(50,000)
Issue of share capital	14	—	13,500
Net cash flows used in financing activities		(15,000)	(36,500)
Net increase/(decrease) in cash and cash equivalents		5,568	(62,225)
Cash and cash equivalents at the beginning of the year	13	34,634	96,859
Net cash and cash equivalents at the end of the year		40,202	34,634

The notes set out on pages 20 to 37 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Share capital £'000	Retained profits £'000	Total equity £'000
Balance as at 1 January 2022		100	70,366	70,466
Profit for the year and total comprehensive income		—	5,710	5,710
Dividend paid	19	—	(50,000)	(50,000)
Issue of share capital	14	13,500	—	13,500
Balance as at 31 December 2022		13,600	26,076	39,676
Profit for the year and total comprehensive income		—	12,549	12,549
Dividend paid	19	—	(15,000)	(15,000)
Balance as at 31 December 2023		13,600	23,625	37,225

Not all the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 20.

The notes set out on pages 20 to 37 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

(1) in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006

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

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

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

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

Standards and interpretations effective in 2023

The Company has not adopted any new standards, amendments to standards or interpretations of published standards which became effective for financial years beginning on or after 1 January 2022 which have had a material impact on the Company.

(b) Financial assets and financial liabilities

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

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

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

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

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

Transaction costs incidental to the acquisition of a financial asset classified as measured at fair value through profit or loss are expensed through the statement of comprehensive income, within net gains and losses on assets and liabilities at fair value through profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(c) Fair value methodology

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

(i) Level 1

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

(ii) Level 2

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

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

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

(iii) Level 3

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

Examples of Level 3 assets include unlisted debt securities.

Further analysis of the Company’s instruments held at fair value is set out at note 20. The Company's management, through a Fair Value Pricing Committee, review information on the fair value of the Group’s financial assets and the sensitivities to these values on a regular basis.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(d) Revenue recognition

Commission income

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

Investment income

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

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

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

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

(e) Expense recognition

Expenses for the acquisition of insurance contracts.

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

Commission expense

Commission and profit share expense to third parties are recognised in the Statement of Comprehensive Income as incurred.

Administrative expenses

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

(f) Loans and receivables at amortised cost

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(g) Investments at fair value through profit or loss

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

Classification

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

Recognition

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

Measurement

The fair values of investments are based on current bid prices and therefore price in market expectations of the expected effects of potential changes to laws and regulations, risks associated with climate, credit and general market change and other factors. If the market for a financial asset is not active, and also for unlisted securities, the Company establishes fair value by using valuation techniques. These include the use of similar arm’s length transactions and reference to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Refer to note 2(c) Fair value methodology and note 22 Risk management for details of valuation techniques and significant inputs to valuation models.

Structured entities

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

(h) Investment in subsidiaries

The Company owns one subsidiary as set out in note 12. This subsidiary is held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company’s impairment policy is set out at policy (j).

(i) Cash and cash equivalents

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

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

Holdings in liquidity funds that meet the definition of cash equivalents are measured at fair value through profit or loss, with income received recognised in investment income.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(j) Impairment

Financial assets

An impairment charge in the statement of comprehensive income would include 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. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

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

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

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

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

Non-financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(k) Taxes

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

Current tax

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

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

Deferred tax

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

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

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

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

(l) Share capital

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

(m) Dividends payable

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

(n) Provisions for other liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that the obligation will result in an outflow of resources to settle the obligation and when a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from contracts are less than the unavoidable costs of meeting the obligations under the contracts.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless the likelihood of possible obligations arising is remote.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Accounting policies (continued)

(o) Other financial liabilities

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

In the course of preparing these financial statements, there are no critical judgements nor have any critical accounting estimates been made in the process of applying the Company's accounting policies.

3. Net commission income

	2023 £'000	2022 £'000
Commission income	18,657	17,293
Profit share income	8,625	4,690
Total revenue - commission income	27,282	21,983
Commission expense	(922)	(1,433)
Net commission income	26,360	20,550

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

4. Investment income

	2023 £'000	2022 £'000
Cash and cash equivalents interest income	3,848	1,087
Interest on loan to insurance intermediary	350	350
Total	4,198	1,437

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

	2023 £'000	2022 £'000
Net gains on assets held at fair value through profit or loss	126	78
Total	126	78

Net gains on assets held at fair value through profit or loss include net unrealised gains of £126 thousand (2022: gains of £78 thousand).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

6. Expenses

	2023 £'000	2022 £'000
Expenses for the acquisition of insurance contracts	5,387	5,966
Expenses for administration	8,868	9,036
Total	14,255	15,002

The administration of the Company is undertaken by another Lloyds Banking Group company. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company, in addition there are some operating expenses which are incurred directly by the Company. In 2023, net costs recharged to the Company were £14.0m (2022: £14.9 million).

The Company had no direct employees during the year (2022: nil). The employee costs, including pension costs and share-based payment costs, are included in the recharge noted above.

7. Auditors' remuneration

	2023 £'000	2022 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	106	102
Total	106	102

Audit fees are borne by another company within Lloyds Banking Group and recharged to the Company.

8. Taxation charge

(a) Current year tax charge

	2023 £'000	2022 £'000
Current tax		
UK corporation tax	3,858	1,333
Total current tax charge	3,858	1,333
Deferred tax		
Origination and reversal of timing differences	22	20
Impact of deferred tax rate change	—	—
Total deferred tax charge/(credit)	22	20
Total tax charge	3,880	1,353

(b) Reconciliation of tax charge

	2023 £'000	2022 £'000
Profit before tax	16,429	7,063
Tax charge at effective UK corporation tax rate of 23.50% (2022: 19.00%)	3,861	1,342
Effects of:		
Disallowed items	19	11
Corporation tax rate change and related impacts	—	—
Total	3,880	1,353

The effective tax rate for the year is 23.6 per cent (2022: 19.2 per cent).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

9. Deferred tax assets

	Accelerated capital allowances	Other short term differences and provisions	Total
	£000	£000	£000
At 1 January 2022	82	63	145
Statement of Comprehensive Income credit during 2022	(12)	(8)	(20)
At 31 December 2022	70	55	125
Statement of Comprehensive Income charge during 2023	(12)	(10)	(22)
At 31 December 2023	58	45	103

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

10. Loans and receivables at amortised cost

	2023	2022
	£'000	£'000
Loans and receivables:		
- Commission receivable	3,882	2,934
- Due from related parties	1,371	1,599
- Due from insurance intermediary	5,217	5,154
- Accrued income	310	232
Total	10,780	9,919

Amounts due from related parties includes an indemnification asset of £0.2 million (2022: £0.5 million) in relation to provisions (further details of which are disclosed in note 16) which are indemnified by LBGI under the Intragroup Agreement signed on 10 March 2015 and varied on 19 December 2016, 1 July 2019 and 17 February 2022.

Amounts due from Insurance intermediary of £5.2 million (2022: £5.2 million) represents commission and profit share due.

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

11. Investments at fair value through profit or loss

	2023	2022
	£'000	£'000
Collective Investment Schemes - Unlisted	30,204	30,078
Total	30,204	30,078

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss and cash and cash equivalents (note 13) are investments in unconsolidated structured entities of £69.6 million (2022: £63.9 million) arising from investments in collective investment schemes and liquidity funds.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

12. Investment in subsidiaries

	£'000
At 1 January 2022	
Cost of investment in Cavendish Online	11,909
At 31 December 2022	11,909
Additions	—
Impairment	—
At 31 December 2023	11,909

The Company completed the purchase of Cavendish Online on 30 November 2022.

13. Cash and cash equivalents

	2023 £'000	2022 £'000
Cash at bank and in hand	800	767
Investments held through liquidity funds	39,402	33,867
Total	40,202	34,634

14. Share capital

	2023 £'000	2022 £'000
Issued and fully paid share capital:		
13,600,000 (2022: 13,600,000) ordinary shares of £1 each	13,600	13,600
Total	13,600	13,600

On 23 November 2022, the Company issued ordinary share capital of £13.5 million to its parent, LBGIH.

15. Current tax liabilities

	2023 £'000	2022 £'000
Current tax liabilities	3,858	1,333
Total	3,858	1,333

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

16. Provisions for other liabilities and charges

	Commission clawbacks	Other	Customer discount communications	Total
	£'000	£'000	£'000	£'000
At 1 January 2022	697	130	281	1,108
(Release)/increase in the year	637	4	(9)	632
Amount utilised in the period	(669)	(46)	86	(629)
At 31 December 2022	665	88	358	1,111
Increase in the year	436	—	—	436
Amount utilised in the period	(546)	(16)	(208)	(770)
At 31 December 2023	555	72	150	777

The Company remains liable for certain conduct-related operational risk liabilities associated with historic sales, communication practices for policies underwritten by LBGI as well as any future amounts in respect of past events which the company may incur in this regard. LBGI has entered into an Intragroup Agreement with the Company signed on 10 March 2015 and varied on 19 December 2016, 1 July 2019 and 17 February 2022, whereby LBGI will indemnify the Company's liabilities and costs associated with such operational losses. An Indemnification Asset in relation to provisions indemnified is recognised in amounts due from related parties as disclosed in note 10.

a. Commission clawbacks

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

b. Other provisions

Other provisions relate to amounts held in respect of product rectification costs. An Indemnification Asset of £0.1 million (2022: £0.1 million has been recognised in amounts due from related parties as disclosed in note 10).

c. Customer Discount Communications

Following investigations relating to the communication of discounts on certain home insurance contracts, provisions have been established in the Company to reflect the best estimate of rectification payments to be made to customers by the Company, which are indemnified by LBGI under the Intragroup Agreement signed on 10 March 2015 and varied on 19 December 2016 and 1 July 2019. An Indemnification Asset of £0.2 million (2022: £0.5 million) has been recognised in amounts due from related parties as disclosed in note 10.

17. Other financial liabilities

	2023	2022
	£'000	£'000
Trade payables and accrued expenses	1,604	2,283
Amounts due to related parties	49,734	42,262
Total	51,338	44,545

All other financial liabilities are expected to be settled less than one year after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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

	2023 £'000	2022 £'000
Net (increase) / decrease in operating assets:		
Loans and receivables at amortised cost	(861)	46,079
Prepayments	—	18
Net (increase) / decrease in operating assets	(861)	46,097
Net increase / (decrease) in operating liabilities:		
Provisions for other liabilities and charges	(334)	3
Other financial liabilities	6,793	(32,488)
Net increase / (decrease) in operating liabilities	6,459	(32,485)
Net decrease in operating assets and liabilities	5,598	13,612

19. Dividends paid

	2023 £'000	2022 £'000
Total dividends paid on equity shares	15,000	50,000
Total	15,000	50,000

Dividends of £15.0 million (1.10 pound per share) were paid during the year in respect of 2023 (2022: £50.0 million, 500 pound per share).

20. Risk management

The principal activity of the Company is to act as an insurance intermediary for Lloyds Bank General Insurance and other third party underwriters. The Company brokers a range of general insurance products such as home and domestic all risks insurance, creditor insurance and accident and health insurance. Products are marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through the Lloyds Banking Group network and corporate partnerships. The Company also brokers business with insurance entities external to the Lloyds Banking Group.

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

The Company is exposed to financial risk through its financial assets and financial liabilities.

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

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

(a) Market risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

20. Risk management (continued)

(a) Market risk (continued)

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

As at 31 December 2023

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Collective Investment Schemes - unlisted	30,204	—	—	30,204
Investments held through liquidity funds	39,402	—	—	39,402
Total Assets	69,606	—	—	69,606

As at 31 December 2022

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Collective Investment Schemes - unlisted	30,078	—	—	30,078
Investments held through liquidity funds	33,867	—	—	33,867
Total Assets	63,945	—	—	63,945

Investments in unconsolidated structured entities of £69.6 million (2022: £63.9 million) arising from investments in Collective Investment Schemes is categorised as level 1 in the fair value hierarchy. There were no investments categorised as level 2 or level 3.

(i) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve.

If interest rates were to increase or decrease by 25 basis points, the impact on profit and loss would be an increase or decrease respectively of £0.2 million (2022: increase or decrease respectively of £0.2 million) in respect of financial assets and financial liabilities bearing floating rates of interest.

(b) Credit risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

20. Risk management (continued)

(b) Credit risk (continued)

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

As at 31 December 2023

	Total	AAA	AA	A	BBB or lower	Not rated
	£000	£000	£000	£000	£000	£000
Stage 1 assets						
Loans and receivables at amortised cost	1,681	—	—	310	—	1,371
Cash and cash equivalents	—	—	—	—	—	—
Loss allowance	—	—	—	—	—	—
Exposure to credit risk	**1,681**	**—**	**—**	**310**	**—**	**1,371**
Simplified approach assets						
Loans and receivables at amortised cost	9,338	—	3,817	4	29	5,488
Loss allowance	(238)	—	—	—	—	(238)
Exposure to credit risk	**9,100**	—	**3,817**	**4**	**29**	**5,250**
Assets at fair value through profit or loss						
Collective Investment Scheme - unlisted	30,204	—	—	30,204	—	—
Cash and cash equivalents	40,202	—	—	40,202	—	—
Total	**81,187**	**—**	**3,817**	**70,720**	**29**	**6,621**

As at 31 December 2022

	Total	AAA	AA	A	BBB or lower	Not rated
	£000	£000	£000	£000	£000	£000
Stage 1 assets						
Loans and receivables at amortised cost	1,831	—	—	232	—	1,599
Cash and cash equivalents	—	—	—	—	—	—
Loss allowance	—	—	—	—	—	—
Exposure to credit risk	**1,831**	**—**	**—**	**232**	**—**	**1,599**
Simplified approach assets						
Loans and receivables at amortised cost	8,351	—	2,297	247	322	5,485
Loss allowance	(263)	—	—	—	—	(263)
Exposure to credit risk	**8,088**	**—**	**2,297**	**247**	**322**	**5,222**
Assets at fair value through profit or loss						
Collective Investment Scheme - unlisted	30,078	—	—	30,078	—	—
Cash and cash equivalents	34,634	—	—	34,634	—	—
Total	**74,631**	**—**	**2,297**	**65,191**	**322**	**6,821**

Amounts classified as “not rated” in the above tables are not rated by Standard & Poor's or an equivalent rating agency.

(c) Capital risk

Capital risk is defined as the risk that the Company has an insufficient quantity or quality of capital or that capital is inefficiently deployed across the Company.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

20. Risk management (continued)

(c) Capital risk (continued)

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

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

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

	2023	2022
	£'000	£'000
Regulatory capital held (unaudited)	23,625	26,076
Regulatory capital required (unaudited)	(682)	(550)
Regulatory Surplus	22,943	25,526

(d) Liquidity risk

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

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

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

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

	Carrying value	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Over 2 years
	£'000	£'000	£'000	£'000	£'000
As at December 2023					
Other financial liabilities (note 17)	51,338	51,338	—	—	—
Carrying value	51,338	51,338	—	—	—

	Carrying value	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Over 2 years
	£'000	£'000	£'000	£'000	£'000
As at December 2022					
Other financial liabilities (note 17)	44,545	43,628	917	—	—
Carrying value	44,545	43,628	917	—	—

(e) Concentration risk

Credit concentration risk

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

20. Risk management (continued)

(e) Concentration risk (continued)

Exposure to credit risk is concentrated across counterparties as follows:

	2023 £'000	2022 £'000
Trade and other receivables:		
Amounts due from group undertakings	1,371	1,599
Amounts due from Insurance intermediary	5,217	5,154
Other receivables	4,193	3,166
Cash and cash equivalents (amounts due from financial institutions)	40,202	34,634
Collective Investment Scheme - unlisted	30,204	30,078
Total	81,187	74,631

Liquidity concentration risk

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

As most of the Company's invested assets are cash and cash equivalents it is unlikely that a material concentration of liquidity concentration could arise.

This is supplemented by active liquidity management in the Company, to ensure that even under stress conditions the Company has sufficient liquidity as required to meet its obligations. This is delegated by the Board to and monitored through the IP&I Asset and Liability Committee, the Insurance, Pensions & Investments Risk Committee , ISIM and Banking and Liquidity Operating Committee.

21. Contingencies and commitments

Tax authorities

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 appealed to the First Tier Tax Tribunal, with a hearing having taken place in May 2023. 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 £7.7 million (including interest). Lloyds Banking Group, following conclusion of the hearing and having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Other legal actions and regulatory matters

During the ordinary course of business the Company is subject to complaints and threatened or actual legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas.

All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters. However the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

22. Related party transactions

(a) Ultimate parent and shareholding

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

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the only group to consolidate these financial statements. Copies of the consolidated Annual Report and Accounts of Lloyds Banking Group plc may be obtained from Lloyds Banking Group’s head office at 25 Gresham Street, London EC2V 7HN or downloaded via https://www.lloydsbankinggroup.com/investors/annual-report.html.

(b) Transactions and balances with related parties

Transactions with other Lloyds Banking Group companies

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

	2023			
	Income during period £'000	Expenses during period £'000	Payable at period end £'000	Receivable at period end £'000
Relationship				
Parent	—	15,000	—	—
Other related parties	—	14,047	49,734	2,171

	2022			
	Income during period £'000	Expenses during period £'000	Payable at period end £'000	Receivable at period end £'000
Relationship				
Parent	—	50,000	—	—
Other related parties	33	8,066	42,262	2,366

In addition to the balances disclosed in the table, balances of £69.6 million (2022: £63.9 million) and income of £4 million (2022: £1.2 million) in respect of funds controlled by Lloyds Banking Group meet the definition of related parties.The above balances are unsecured in nature and are expected to be settled in cash.

Parent undertaking transactions relate to all reported transactions and balances with parent companies, such transactions include cash and cash equivalent balances and Group relief for corporation tax. Expenses during period with the Parent undertaking represent the payment of dividends in 2022 and 2023.

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

Related party income is in respect of the recognition of indemnification assets for provisions covered by the Intragroup Agreement between the Company and LBGI, a fellow subsidiary company, signed on 10 March 2015 and varied on 19 December 2016 and 1 July 2019.

Transactions between the Company and entity employing key management

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

Key management compensation:

	2023 £'000	2022 £'000
Short-term employee benefits	1,037	964
Post-employment benefits	18	12
Share-based payments	196	174
Total	1,251	1,150

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

22. Related party transactions (continued)

Key management compensation (continued)

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £1,036,859 (2022: £964,446).

There were no retirement benefits accrued to Directors (2022: nil) under defined benefit pension schemes. One Director (2022: One Director) is paying into a defined contribution scheme. The aggregate value of contributions paid to a pension scheme for qualifying services was £18,000 (2022: £12,132).

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

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £196,378 (2022: £174,217). During the year, no Directors exercised share options (2022: no Directors) and no Directors received qualifying service shares under long term incentive schemes (2022: no Directors).

Movements in share options are as follows:

	2023 Options	2022 Options
Outstanding at 1 January	1,352,813	1,590,418
Outstanding balance of directors newly appointed in the period	52,031	—
Granted	732,563	680,054
Exercised	(440,080)	(382,235)
Forfeited	(309,138)	(347,292)
Outstanding balance of directors resigned in the period	(214,879)	(188,133)
Outstanding at 31 December	1,173,310	1,352,812

A review has been undertaken of the presentation of the Directors share options. Accordingly, the prior year disclosure has been changed to better reflect leavers and joiners such that the closing balance of outstanding share options reflects active Directors at each reporting date.

Detail regarding the highest paid Director is as follows:

	2023 £'000	2022 £'000
Apportioned aggregate emoluments	615	495
Apportioned share-based payments	140	115

The highest paid Director did not exercise share options during the year. (2022: The highest paid Director did not exercise share options during the year).

23. Future accounting developments

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

24. Post balance sheet events

An interim dividend of £20 million in respect of the year ending 31 December 2024 was declared on 12 June 2024. In addition a capital injection of £1.5 million to the Company's subsidiary Cavendish Online Limited was approved on 12 June 2024.