Lloyds Bank General Insurance Holdings Limited

Annual Report and Accounts
2019

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

N E T Prettejohn (Chairman)

A M Blance
J R A Bond
W L D Chalmers
K Cheetham
J E M Curtis
J C S Hillman*
J F Hylands
A Lorenzo*
C J G Moulder
S J O'Connor
G E Schumacher

* denotes Executive Director

Company Secretary

J M Jolly

Independent Auditors

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

Registered Office

Charlton Place
Andover
Hampshire
SP10 1RE

Company Registration Number

01628564

STRATEGIC REPORT

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

The Company and its subsidiaries contribute to the results of the Insurance and Wealth Division ("Insurance") of Lloyds Banking Group plc ("LBG"), focusing on providing general insurance to meet our customers' needs.

Our strategy is to help our customers by:

• Delivering a leading customer experience;

• Digitising the Group;

• Maximising Groups capabilities; and

• Transforming ways of working.

Our strategy will enable us to transform ourselves into a digitised, simple, low risk, customer focused, UK general insurance provider, including home insurance, creditor insurance, pet insurance, accident and health insurance marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through direct channels, LBG distributors and corporate partnerships. The Company is focused on investing in the growth of its customer base and ensuring policyholder obligations are met, while at the same time ensuring the Company is managed to maximise capital efficiency and returns for its shareholder and the LBG Insurance.

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

Principal activities

The Company is a holding company and its subsidiaries provide general insurance services.

Result for the year

The result of the Company for the year ended 31 December 2019 is a profit before tax of £201.0m (2018: £151.4m). The total net assets of the Company at 31 December 2019 are £260.7m (2018: total net assets £269.8m).

Dividends of £210.0m were paid on the ordinary shares during the year in respect of 2019 (2018: £165.0m).

The UK leaving the European Union ("EU")

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including the financial services sector. The continued lack of clarity over the UK's eventual relationship with the EU and other foreign countries, and ongoing challenges in the Eurozone, including weak growth raises additional uncertainty for the UK economic outlook. The Company's response to these risks and uncertainty includes contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts. Also a no deal EU exit outcome has been analysed to identify impacts and assess robustness of contingency plans.

Coronavirus

Our business has primarily a UK focus and the outbreak of Covid-19, in line with its global impact, is expected to adversely impact the UK economy as well as causing volatility in global financial markets. As the situation continues to evolve, so does our assessment of the risks and the degree to which they might crystallise. The Company's resilience to such events is regularly reviewed through stress and scenario testing; plans to continue to operate critical business processes are in place and are being reviewed in light of the Covid-19 outbreak.

Climate Change

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

STRATEGIC REPORT (continued)

Climate Change (continued)

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

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

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

Key performance indicators

The Company's principal business during the year was the holding of investments in subsidiaries. Its principal income is the receipt of dividends from these subsidiaries. Dividends of £210m were received from subsidiary undertakings in the year (2018: £165m) resulting in an increase in income received of £45m (27%).

The Directors are of the opinion that the above is the key performance indicator which is appropriate to the principal activity of the Company.

Other sources where KPIs are presented

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

Outlook

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

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to market, credit, financial soundness, conduct and operational risks are set out in note 12.

In addition, the Company is also exposed to financial and prudential regulatory reporting risk, in particular the risk of reputational damage, financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting or over prudential regulatory reporting and financial reporting fraud. The financial and risk management objectives and policies of the Company, in respect of financial and prudential regulatory reporting risk, are also set out in note 12.

The Company, like other insurers, is subject to legal proceedings in the normal course of business. Whilst it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings, including litigation, will have a material effect on the results and financial position of the Company.

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

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide the following statement describing how they have had regard to the matters set out in section172 (1) of the Act, when performing their duty to promote the success of the Company under section 172. Further details on key actions in this regard are also contained within the Directors' Report on page 9.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the following statement also provides details of how the Directors have engaged with and had regard to the interest of key stakeholders. The Company is a subsidiary of LBG, and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant.

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

STRATEGIC REPORT (continued)

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

Customers

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

Shareholders

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

Communities and the Environment

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

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

Suppliers

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

In 2019 LBG's supplier expenditure was £5.9 billion, with 95 per cent of third party suppliers being located in the UK. Importance is placed on having the right supplier framework to operate responsibly. LBG's Sourcing & Supply Chain Management Policy applies to all businesses, divisions, and subsidiaries of LBG, including the Company, with the Directors assuming ultimate responsibility for its application as relevant to the Company. This Policy has been designed to assist in managing the inherent risk in outsourcing services, and dealing with third party suppliers. Suppliers are required to adhere to relevant LBG policies and comply with LBG's Code of Supplier Responsibility which can be found on the LBG website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and LBG to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

STRATEGIC REPORT (Continued)

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

Regulators

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

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

On behalf of the Board of Directors

J C S Hillman
Director
20 March 2020

DIRECTORS' REPORT

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

Results and dividend

The result of the Company for the year ended 31 December 2019 is a profit after tax of £201m (2018: £151.4m). This reflects the increased dividend income received from its subsidiaries during the year of £210m (2018: £165m) and the reduction in impairment of investments in subsidiary undertakings of £9.0m, (2018: £13.6m).

During the year, an interim dividend of £210m was paid on the ordinary shares in respect of 2019 (2018: £165m).

Post balance sheet events

Further information on post balance sheet events is set out in note 16.

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:

J R A Bond	(Appointed 24 July 2019)
G E Schumacher	(Appointed 24 July 2019)
M G Culmer	(Resigned 1 August 2019)
W L D Chalmers	(Appointed 9 August 2019)
M Harris	(Resigned 5 December 2019)
J C S Hillman	(Appointed 10 December 2019)
J Pfaulder	(Resigned 18 December 2019)

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

Directors' indemnities

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

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

Disclosure of information to auditors

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

Future developments

Future developments are detailed within the Strategic Report and future accounting developments are detailed within note 15.

Political contributions

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

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 have adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in the risk management section (note 12). Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Financial risk management

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

DIRECTORS' REPORT (continued)

Independent auditors

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

Information incorporated by reference

The following additional information forms part of the Directors' Report, and is incorporated by reference.

Content		Section
Disclosures required under the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Statement of other stakeholder engagement	Strategic report

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements 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 financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

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

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

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

Legislation in the 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 IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company; and
- the Strategic Report on pages 4 to 7 and the Directors' Report on pages 8 to 9 includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board of Directors

J C S Hillman
Director
20 March 2020

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

Report on the audit of the financial statements

Opinion

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

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Finance income	2	210,018	165,013
Impairment of investments in subsidiary undertakings	6	(9,042)	(13,592)
Profit from operating activities		200,976	151,421
Finance costs	4	(3)	(4)
Profit before tax		200,973	151,417
Taxation charge	5	(3)	(2)
Profit for the year		200,970	151,415

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 on pages 16 to 27 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
ASSETS			
Investments in subsidiary undertakings	6	258,302	267,344
Cash and cash equivalents	7	2,442	2,429
Total assets		260,744	269,773
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	8	1,000	1,000
Other reserves	9	302	302
Retained earnings		259,439	268,469
Total equity		260,741	269,771
LIABILITIES			
Current tax payable	10	3	2
Total liabilities		3	2
Total equity and liabilities		260,744	269,773

The notes on pages 16 to 27 form an integral part of these financial statements.

The financial statements on pages 10 to 27 were approved by the Board of Directors on 20 March 2020.

J C S Hillman
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Profit before tax		200,973	151,417
Adjusted for:			
Finance income	2	(210,018)	(165,013)
Finance costs	4	3	4
Impairment of investments in subsidiary undertakings	6	9,042	13,592
Taxation paid		(2)	(1)
Net cash used in operating activities		(2)	(1)
Cash flows from investing activities			
Interest received	2	18	13
Dividends received	2	210,000	165,000
Net cash flows generated from investing activities		210,018	165,013
Cash flows from financing activities			
Dividends paid	11	(210,000)	(165,000)
Interest paid	4	(3)	(4)
Net cash flows used in financing activities		(210,003)	(165,004)
Net increase in cash and cash equivalents		13	8
Cash and cash equivalents at beginning of year		2,429	2,421
Net cash and cash equivalents at end of year	7	2,442	2,429

The notes on pages 16 to 27 form an integral part of these financial statements.

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

	Note(s)	Share capital £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2018		1,000	302	282,054	283,356
Profit and total comprehensive income for the year		-	-	151,415	151,415
Dividend	11	-	-	(165,000)	(165,000)
Balance as at 31 December 2018	8,9	1,000	302	268,469	269,771
Profit and total comprehensive income for the year		-	-	200,970	200,970
Dividend	11	-	-	(210,000)	(210,000)
Balance as at 31 December 2019	8,9	1,000	302	259,439	260,741

The notes on pages 16 to 27 form an integral part of these financial statements.

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

1 Accounting policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

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

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

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

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

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

The Company forms part of LBG, which prepares a group set of consolidated financial statements under IFRS.

(b) Finance income

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

Dividend income in respect of the Company's investments in subsidiary undertakings is recognised when the right to receive the dividend is established. All dividends received are recognised through the Statement of Comprehensive Income, within finance income.

(c) Finance costs

Finance costs consisting of interest expense from bank accounts held with fellow LBG subsidiaries are recognised in the period to which they relate.

(d) Investments in subsidiary undertakings

The Company owns a number of subsidiaries as set out in note 6. These subsidiaries are 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 in note 1(f).

(e) Cash and cash equivalents

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

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

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

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

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

1 Accounting policies (continued)

(f) Impairment

Financial assets

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

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

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

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

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

Non-financial assets

Assets that have an indefinite useful life, for example investments in subsidiaries, 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.

(g) Taxes

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

Current tax

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

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

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

1 Accounting policies (continued)

(h) 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.

Dividends payable

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

(i) Critical accounting estimates and judgments in applying accounting policies

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

The recoverable amount of investments in subsidiaries involves critical accounting estimates with regard to future cash flows and the applied growth and discount rates. In determining these estimates, key judgements are applied concerning the future operations and estimation uncertainty at the reporting date in particular when calculating the value in use for subsidiaries still trading. Further information on these estimates is given in note 6.

2 Finance income

	2019 **£000**	**2018** **£000**
Cash and cash equivalents interest income	18	13
Dividend income	210,000	165,000
Total	210,018	165,013

During the year the Company received total dividend income of £210.0m (2018: £165.0m) from the following entities: St Andrew's Insurance plc £40.0m (2018: £45.0m), Halifax General Insurance Services Limited £nil (2018: £20.0m), Lloyds Bank General Insurance Limited £170.0m (2018: £75.0m) and Lloyds Bank Insurance Services Limited £nil (2018: £25.0m).

Interest income of £18k (2018: £13k) is generated from cash held in the Aberdeen Liquidity Fund (Lux).

3 Operating expenses

Audit fees for 2019 (£3k) and 2018 (£3k) were borne by another company within the group and recharged to a subsidiary of the Company. The Company had no direct employees during the year (2018: nil).

4 Finance costs

	2019 **£000**	**2018** **£000**
Interest expense	3	4
Total	3	4

All interest expense arises from accounts held with a fellow LBG subsidiary.

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

5 Taxation charge

(a) Current year tax charge

	2019 £000	2018 £000
UK corporation tax:		
- Current tax on taxable profit for the year	(3)	(2)
Current tax charge	(3)	(2)
Tax charge	(3)	(2)

Corporation tax is calculated at a rate of 19.0% (2018: 19.0 %) of the taxable profit for the year.

(b) Factors affecting the tax charge for the year

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

	2019 £000	2018 £000
Profit before tax	200,973	151,417
Tax charge thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	(38,185)	(28,769)
Factors affecting credit:		
- Disallowed items	(1,718)	(2,583)
- Non-taxable items	39,900	31,350
Tax charge on profit on ordinary activities	(3)	(2)

Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent on 1 April 2020.

6 Investments in subsidiary undertakings

	1 January 2019 £000	Impairment £000	31 December 2019 £000
Lloyds Bank Insurance Services Limited	53,075	-	53,075
Lloyds Bank General Insurance Limited	90,661	-	90,661
St Andrew's Insurance plc	93,800	-	93,800
St Andrew's Group Limited	4,400	-	4,400
Halifax General Insurance Services Limited	25,408	(9,042)	16,366
Net book value	267,344	(9,042)	258,302

An impairment of £9.0m has been recognised during 2019 in respect of the investment in Halifax General Insurance Services Ltd (2018: £13.6m) due to losses in the year, leaving a carrying value of £16.4m (2018: £25.4m).

Significant Estimate: Key assumptions used for value-in-use calculations
A review of the carrying value of the subsidiary investments to assess indications of impairment is performed on an annual basis. The recoverable amount for 2018 and 2019 have both been calculated on a value in use basis. A discount factor has been applied to underlying profit and dividend payments over the expected life of the subsidiary in order to establish a net present value. The applicable discount factor used for 2019 is 8.64% (2018: 8.64%).

Significant Estimate: Impact of possible changes in key assumptions
If the discount rate applied to the cash flow projections had been 1% higher (9.64% instead of 8.64%), the impairment charge would have been £9.2m, an increase of £0.2m. If the discount rate had been 1% lower (7.64% instead of 8.64%), the impairment charge would have been £8.9m, a decrease of £0.1m.

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

6 Investments in subsidiary undertakings (continued)

The Company owned the whole of the issued ordinary share capital of the following subsidiaries during the reporting period:

Name	Class of share	Percentage held	Country of Registration or Incorporation	Nature of Business
Lloyds Bank Insurance Services Limited (i)	Ordinary	100	England	General insurance broker
Lloyds Bank General Insurance Limited (i)	Ordinary	100	England	General insurance underwriter
St Andrew's Insurance plc (ii)	Ordinary	100	England	General insurance underwriter
St Andrew's Group Limited (ii)	Ordinary	100	England	Administration of general insurance products
Halifax General Insurance Services Limited (iii)	Ordinary	100	England	General insurance broker

The year-end of all subsidiaries is 31 December and their country of incorporation and principal operations (where relevant) is the UK.

Principal Place of Business:

(i) 25 Gresham Street, London, EC2V 7HN
(ii) 33 Old Broad Street, London, EC2N 1HZ
(iii) Trinity Road, Halifax, West Yorkshire, HX1 2RG

The ability of the regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by regulatory solvency requirements as well as Companies Act distributable reserve requirements. The ability of non-regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by Companies Act distributable reserve requirements.

7 Cash and cash equivalents

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

	2019 £000	2018 £000
Aberdeen Liquidity Fund (Lux)	2,442	2,429
Total cash and cash equivalents	2,442	2,429

8 Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid ordinary share capital:		
At 1 January	1,000	1,000
At 31 December	1,000	1,000

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

9 Other reserves

	2019 £000	2018 £000
At 1 January and 31 December		
Capital contribution reserve	302	302
Total	302	302

Other reserves represent a capital contribution from the Company's holding company which is not repayable, but which forms part of the Company's distributable reserves.

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

10 Current tax payable

	2019 £000	2018 £000
Current tax payable	3	2
Total	3	2

11 Dividends paid

	2019 £000	2018 £000
Total dividends paid on equity shares	210,000	165,000
Total	210,000	165,000

The dividends paid in 2019, in respect of 2019, were £210.0m (£210 per share) to Scottish Widows Group Limited, the Company's immediate parent (2018: £165.0m in respect of 2018 (£165 per share)).

12 Risk management

The Company is a holding company and its subsidiaries provide General Insurance services.

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

(a) Governance framework

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

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

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

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

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

(b) Risk appetite

Risk appetite is the amount and type of risk that the Insurance Board prefers, accepts or wishes to avoid and is aligned to Insurance and LBG strategy. The Insurance Board has defined a framework for the management of risk and approved a set of risk appetite statements that cover financial risks, operational risks, people risks, conduct risks, regulatory and legal risks, model and governance risks. The risk appetite statements set limits for exposures to the key risks faced by the business.

Risk appetite is reviewed at least annually by the Insurance Board and is set at an Insurance level.

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

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

12 Risk management (continued)

(c) Financial risks

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

1) Market risk

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

Investments in liquidity funds are categorised as level 1 in the fair value hierarchy.

The Directors do not consider market risk to be a significant risk to the Company.

2) Credit risk

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

The Directors do not consider credit risk to be a significant risk to the Company.

(i) Investment credit risk

The Company's investment policy sets rules limiting exposure to concentrations of risk as a result of aggregation of exposure to any single counterparty. Setting limits mitigates such credit risk exposure. Credit default risk is the most significant financial risk, but this is mitigated by a very cautious approach to counterparty risk.

(ii) Loans and receivables

Other loans and receivables are considered not to carry significant credit risk as they are primarily due from fellow subsidiary companies of Insurance.

3) Liquidity risk

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

Liquidity risk is managed in line with the Insurance Liquidity Risk Policy and the wider LBG Funding and Liquidity Risk Policy.

There are no assets or liabilities exposed to liquidity risk as at 31 December 2019 (2018: £nil).

4) Non-financial risks

The Company faces a variety of non-financial risks through its operations and service provision. The Company manages these risks by following the embedded Risk Management Framework, which uses methodologies and systems consistent with those implemented across the Group. The various stages of the framework are:

Identification

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

Measurement

- Evaluate risk exposure vs appetite
- Modelling and stress testing, including Internal Model outputs
- Actual vs expected losses
- Scenario analysis

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

12 Risk management (continued)

Management

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

Monitoring

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

Reporting

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

The primary non-financial risk categories are:

Conduct risk

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

Governance risk

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

Operational risk

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

Change risk

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

Cyber and information security

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

Financial crime

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

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

12 Risk management (continued)

Financial reporting risk

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

Fraud

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

IT systems

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

Operational resilience risk

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

Physical security risk

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

People risk

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

Regulatory and Legal risk

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

(d) UK political uncertainties including EU exit

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

There is a risk of a no deal EU exit outcome. The Company's response to these risks and uncertainty is as follows:

- Internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts.

- As part of LBG, engagement with politicians, officials, media, trade and other bodies to reassure our commitment to Helping Britain Prosper.

- No deal EU exit outcome analysed to identify impacts and assess robustness of contingency plans.

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

12 Risk management (continued)

(e) Economic risk

UK economic growth remains muted and there are signs of pressure in business investment and consumer related sectors. High levels of credit market liquidity have reduced spreads and weakened terms in some sectors, creating a potential under-pricing of risk and heightened risk of a market correction. The Company's response to these risks is as follows:

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

Additionally, the more recent coronavirus outbreak and related global health issues are already starting to impact economies and markets.

13 Contingencies and commitments

Tax Authorities

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £291k (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

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.

14 Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent company is Scottish Widows Group Limited, a company registered in the UK. Scottish Widows Group Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated Financial Statements.

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

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

14 Related party transactions (continued)

(b) Transactions and balances with related parties

Transactions with other LBG companies

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

	2019			
	Income during year £000	Dividends paid £000	Payable at year end £000	Receivable at year end £000
Relationship				
Parent	-	210,000	-	-
Subsidiary	210,000	-	-	-

	2018			
	Income during year £000	Dividends paid £000	Payable at year end £000	Receivable at year end £000
Relationship				
Parent	-	165,000	-	-
Subsidiary	165,000	-	-	-
Other related parties	-	-	-	-

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

Transactions between the Company and entity employing key management

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

Key management compensation:

	2019 £000	2018 £000
Short-term employee benefits	1,096	1,174
Post-employment benefits	2	6
Share based payments	238	305
	1,337	1,485

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by directors in respect of qualifying services of £503k (2018: £496k).

There were no retirement benefits accrued to directors (2018: no directors) under defined benefit pension schemes. Three directors (2018: six directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2018: Nil).

Certain members of key management in the Company, including the highest paid director, provide services to other companies within LBG. In such cases, for the purposes of this note, figures have been included based on an apportionment to the 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 £115k (2018: £139k). During the year, two directors exercised share options (2018: one director) and three directors received qualifying services shares under long term incentive schemes (2018: two directors).

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

14 Related-party transactions (continued)

(b) Transactions and balances with related parties (continued)

Movements in share options are as follows:	**2019 Thousands options**	**2018 Thousands options**
Outstanding at 1 January	2,333	2,090
Granted	1,280	990
Vested	(717)	(528)
Forfeited	(655)	(240)
Dividend awarded	35	20
Outstanding at 31 December	2,276	2,333

Detail regarding the highest paid Director is as follows:

	2019 £000	**2018 £000**
Apportioned aggregate emoluments	274	268
Apportioned post- employment benefits	-	-
Apportioned share based payments	84	106

The highest paid Director did not exercise share options during the year. (2018: The highest paid director did not exercise share options during the year).

15 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.

16 Post balance sheet events

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