St Andrew's Group Limited

Annual Report and Accounts
2019

Member of Lloyds Banking Group plc

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COMPANY INFORMATION

Board of Directors

S C Quinn (Chairman)
C J Thornton *
M K Staples *

* denotes Executive Director

Company Secretary

N C Gracey

Independent Auditors

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

Registered Office

33 Old Broad Street
London
EC2N 1HZ

Company Registration Number

03011193

STRATEGIC REPORT

The Directors present their Strategic Report on St Andrew's Group Limited (the "Company") for the year ended 31 December 2019.

The Company forms part of the General Insurance business unit within the Insurance and Wealth Division ("Insurance") of Lloyds Banking Group plc ("LBG"), focusing on providing insurance to meet our customers' needs.

Our strategy to help our customers is by:

- Delivering a leading customer experience;
- Digitising LBG and it's subsidiaries ("Group");
- Maximising the Group's capabilities; and
- Transforming ways of working.

The Company is focused on 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 LBG Insurance.

To support this, the Company is focused on the result, including dividends, as the key performance indicator of the Company.

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 United Kingdom ("UK") Modern Slavery Act.

Principal activities

The principal activities of the Company are to receive creditor policy premium renewals and settle customer payments on behalf of other Group companies.

Result for the year

The result for the year ended 31 December 2019 is a loss before tax of £1,185k (2018: £282k profit).

The loss for the year was driven by one-off charge of £1,190k for impairment provisions on assets held in relation to co-insurance and the transfer of Republic of Ireland policies. The Company ceased the administration of business in the Republic of Ireland on 28 March 2019. The majority of the existing policies were transferred to AXA France IARD SA from 29 March 2019. A small number of creditor policies did not renew and expired on 28 March 2019. Further information on these one off charges is set out in note 5.

Before one-off charges, the profit before tax was £5k (2018 : £282k) which has decreased due to a decrease in foreign exchange gains as a result of the transfer of the Republic of Ireland book of business. The total net assets of the Company at 31 December 2019 are £2.4m (2018: £3.6m restated*).

No dividends were paid during the year in respect of 2019 (2018: £nil).

*See note 22 for details regarding the restatement.

Emerging Risks

Coronavirus

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy.

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. The principal activities of the Company are to receive creditor policy premium renewals and settle customer payments on behalf of other Group companies and as such the risk to the company is not expected to be significant.

STRATEGIC REPORT (continued)

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.

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

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 remain within the approved risk appetite as set out in note 18.

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.

The Directors consider that the above key performance indicator is appropriate to the principal activity of the Company. This, 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, provide the management information necessary for the Directors to understand the development, performance and position of the business of the Company. Along with fellow direct and indirect subsidiaries of the ultimate Insurance parent undertaking, the Company is included in the calculation of the Scottish Widows Group Solvency II capital surplus.

Outlook

The Directors consider that the Company's principal activities will continue for 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 18.

In addition, the Company is also exposed to financial 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 financial reporting fraud. The financial and risk management objectives and policies of the Company, in respect of financial reporting risk, are also set out in note 18.

The Company 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.

STRATEGIC REPORT (continued)

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), for the year ended 31 December 2019, 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 under section 172.

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 interests 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.

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 have also worked to ensure the business of the Company is undertaken in line with the objectives of LBG's annually agreed customer plans. 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 banks in the UK, has responsibilities to invest in the communities in which it operates, to help them prosper economically, build social cohesion and tackle disadvantage. The Company therefore 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 approach, 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.

STRATEGIC REPORT (continued)

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

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 95.5 per cent of third party supplier spend being incorporated in the UK. Great 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 risk that may occur as a result of outsourcing services, as well as the risks inherent in dealing with third party suppliers. Suppliers are required to adhere to relevant LBG policies and comply with LBG's Code of Supplier Responsibility. 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.

On behalf of the Board of Directors

Martin Staples

M K Staples
Director
21 September 2020

DIRECTORS' REPORT

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

The Company is a wholly owned subsidiary of Lloyds Bank General Insurance Holdings Limited. The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc.

Results and dividends

The result of the Company for the year ended 31 December 2019 is a loss before tax of £1,185k (2018: £282k profit) as set out in the Statement of Comprehensive Income on page 12.

The loss for the year was driven by one-off charge of £1,190k for impairment provisions on assets held in relation to co-insurance and the transfer of Republic of Ireland policies. The Company ceased the administration of business in the Republic of Ireland on 28 March 2019. The majority of the existing policies were transferred to AXA France IARD SA from 29 March 2019. A small number of creditor policies did not renew and expired on 28 March 2019. Further information on these one off charges is set out in note 5.

Before one-off charges, the profit before tax was £5k (2018 : £282k) which has decreased due to a decrease in foreign exchange gains as a result of the transfer of the Republic of Ireland book of business. The total net assets of the Company at 31 December 2019 are £2.4m (2018: £3.6m restated*).

No Dividends were paid during the year in respect of 2019 (2018: £nil). The Directors do not recommend any further dividends in respect of 2019.

*See note 22 for details regarding the restatement.

Directors

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

M K Staples	(appointed 14 March 2019)
J Leiper	(resigned 14 March 2019)
J C S Hillman	(resigned 3 December 2019)
S C Quinn	(appointed 9 December 2019)

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 LBG. 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 21.

Political contributions

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

DIRECTORS' REPORT (continued)

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 the risk management section (note 18). 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 18 to the financial statements and are therefore incorporated into this report by reference.

Independent auditors

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

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 European Union. 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 European Union 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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have 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.

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 and 9 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.

On behalf of the Board of Directors

M K Staples
Director
21 September 2020

Independent auditors' report to the members of St Andrew's Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, St Andrew's Group 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 loss 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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 Statement of Directors' responsibilities 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

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Administration fee income	3	16	5
Administrative expenses	4	(12)	(47)
Impairment	5	(1,190)	-
Operating expenses before financing income		(1,186)	(42)
Net gains on assets at fair value through profit or loss	6	3	2
Foreign exchange (loss)/gain	7	(2)	322
Net finance income		1	324
(Loss)/Profit before tax		(1,185)	282
Taxation	8	-	5
(Loss)/Profit for the year		(1,185)	287

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

The notes on pages 16 to 34 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £000	Restated* 2018 £000	Restated* 1 January 2018 £000
ASSETS				
Deferred tax assets	9	16	19	25
Financial assets:				
Investments at fair value through profit or loss	10	266	263	261
Loans and receivables at amortised cost	11	5,632	7,222	15,963
Current tax assets	12	3	-	2
Cash and cash equivalents	13	8,759	9,210	6,689
Total assets		14,676	16,714	22,940
EQUITY AND LIABILITIES				
Capital and reserves attributable to the Company's equity shareholders				
Share capital	14	1,000	1,000	1,000
Retained profits*	22	1,370	2,555	2,268
Total equity		2,370	3,555	3,268
Liabilities				
Current tax liabilities	15	-	44	-
Other financial liabilities*	16,22	12,306	13,115	19,672
Total liabilities		12,306	13,159	19,672
Total equity and liabilities		14,676	16,714	22,940

*See note 22 for details regarding the restatement.

The notes set out on pages 16 to 34 are an integral part of these financial statements.

The financial statements on pages 12 to 34 were approved by the Board of Directors on 21 September 2020 and signed on its behalf by:

Martin Staples

M K Staples
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
(Loss) before tax		(1,185)	282
Adjusted for:			
Unrealised fair value movements	6	(3)	(2)
Net increase in operating assets and liabilities	17	781	2,184
Income tax (paid)/received		(44)	57
Net cash flows (used in)/generated from operating activities		(451)	2,521
Cash flows from investing activities			
Net cash flows generated from investing activities		-	-
Cash flows from financing activities			
Net cash flows used in financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(451)	2,521
Cash and cash equivalents at the beginning of the year		9,210	6,689
Net cash and cash equivalents at end of the year	13	8,759	9,210

The notes set out on pages 16 to 34 are an integral part of these financial statements.

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

	Share capital £000	Retained profits £000	Total equity £000
Balance at 1 January 2018 Previously reported	1,000	3,699	4,699
Prior year adjustment (see note 22)	-	(1,431)	(1,431)
Balance at 1 January 2018 (restated*)	1,000	2,268	3,268
Profit for the year and total comprehensive income for the year	-	287	287
Balance at 31 December 2018 (restated*)	1,000	2,555	3,555
Loss for the year and total comprehensive expense for the year	-	(1,185)	(1,185)
Balance at 31 December 2019	1,000	1,370	2,370

*See note 22 for details regarding the restatement.

The notes on pages 16 to 34 are 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 European Union;

(2) in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs; 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 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 LBG, which prepares a group set of consolidated financial statements under IFRS.

Standards and interpretations effective in 2019

There are no standards impacting on the financial position of 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 loans and receivables 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.

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

1 Accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

Transaction costs incidental to the acquisition of a financial asset 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.

(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 (unadjusted) prices in active markets for identical assets and liabilities to those being valued. An active market is one in which arm’s length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis. 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); and
- 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, and listed debt or equity securities in a market that is inactive.

(iii) Level 3

Valued using inputs for the asset or liability that include significant unobservable inputs (inputs not based on observable market data). Unobservable inputs may have been used to measure fair value where observable inputs are not available. This approach allows for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability, for example certain 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.

Further analysis of the Company’s instruments held at fair value is set out in note 10. The Company’s management, through a fair value pricing committee, review information on the fair value of the Company’s financial assets and financial liabilities 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 2019

1 Accounting policies (continued)

(d) Revenue recognition

Administration fee income

Administration fee income comprises administration fees receivable in respect of services provided to a third party company. All fees are recognised in the Statement of Comprehensive Income on an accruals basis.

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

Administrative expenses

Administrative expenses are recognised in the Statement of Comprehensive Income as incurred. These consist of costs recharged from fellow Insurance 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 (i).

(g) Investments at fair value through profit or loss

Investments at fair value through profit or loss comprise holdings in a collective investment scheme.

Classification

Holdings in collective investment schemes are measured 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 cost, being the fair value of the consideration given, and are subsequently re-measured at fair value.

Measurement

The fair values of investments are based on current bid prices. 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.

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.

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

1 Accounting policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, 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) 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, as set out in policy (g).

(i) 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 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. 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.

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.

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

1 Accounting policies (continued)

(j) 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 Her 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.

(k) 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.

(l) Dividends payable

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

(m) Other financial liabilities

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

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

1 Accounting policies (continued)

(n) Foreign currency translation

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's financial statements are presented in pounds sterling, (rounded to the nearest thousand ("£000")), which is the Company's presentation and functional currency.

Monetary items denominated in foreign currencies are translated into sterling at the exchange rates ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated at the exchange rates ruling at the date when the current fair value is determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the exchange rates ruling at the date of the transaction. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions. Any exchange differences are dealt with in that part of the Statement of Comprehensive Income in which the underlying transaction is reported.

2 Critical accounting estimates and judgements in applying accounting policies

The Company's management makes estimates and judgements that affect the reported amount of assets and liabilities. Estimates and 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.

There are no critical accounting estimates or judgements that have a significant effect on the amounts recognised in the financial statements.

3 Administration fee income

	2019 £000	2018 £000
Administration fee income	16	5
Total	16	5

4 Administrative expenses

	2019 £000	2018 £000
Administration expenses	(12)	(47)
Total	(12)	(47)

Audit fees for 2019 (£3k) and 2018 (£3k) were borne by fellow LBG subsidiaries. The Company had no direct employees during the year (2018: nil).

The decrease in administrative expenses relates to one off charges in 2018.

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

5 Impairment

	2019 £000	2018 £000
Impairment of Assets not recoverable	1,190	-
Total	1,190	-

Impairment provision of £954k in respect of premiums receivable from external parties where premiums have been paid on to the underwriter St Andrew's Insurance plc (STAI) where there is no likelihood of recoverability.

Impairment provision of £236k is in relation to the transfer of the Republic of Ireland policies to AXA France IARD SA. As a result of the transfer residual balances that could not be substantiated were identified where there is no likelihood of recoverability.

6 Net gains on assets at fair value through profit or loss

	2019 £000	2018 £000
Fair value gains on unlisted Collective Investment Scheme	3	2
Total	3	2

7 Foreign exchange (loss)/gain

	2019 £000	2018 £000
Foreign exchange:		
Current year	(2)	322
Total	(2)	322

8 Taxation (credit)/ charge

(a) Current year tax (credit)/ charge

	2019 £000	2018 £000
Current tax		
UK corporation tax	(3)	(11)
Total current tax (credit)/ charge	(3)	(11)
Deferred tax (note 9)		
Deferred tax charge	3	6
Total deferred tax charge	3	6
Total income tax (credit)/ charge	-	(5)

Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable profit for the year.

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

8 Taxation (credit)/ charge (continued)

(b) Reconciliation of tax (credit)/ charge

	2019 £000	2018 £000
(Loss)/profit before tax	(1,185)	282
Tax (credit)/charge at effective UK corporation tax rates of 19.00% (2018: 19.00%)*	(225)	54
Effects of:		
Disallowed items	226	
Non-taxable items	-	(60)
Reduction in tax rate and related impacts	(1)	1
Total	-	(5)

*The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent with effect from 1 April 2020. This intention to maintain the corporation tax rate was enacted under the Provisional Collection of Taxes Act 1968 on 17 March 2020.

The effective tax rate for the year is 0.0% (2018: 1.6%).

2018 Non-taxable items of (£60k) relate to the treatment of the reversal of the foreign exchange journal from the year ended 31 December 2015.

9 Deferred tax assets

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2018: 17%).

The movement in the deferred tax assets and liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred tax assets

	Total capital allowances £000
At 1 January 2018	25
Statement of Comprehensive Income charge during 2018	(6)
At 31 December 2018	19
Statement of Comprehensive Income charge during 2019	(3)
At 31 December 2019	16

10 Investments at fair value through profit or loss

	2019 £000	2018 £000
Collective Investment Scheme - Aberdeen Ultra Short Duration Sterling Fund	266	263
Total	266	263

The Aberdeen Ultra Short Duration Sterling Fund is an unlisted asset managed by Aberdeen Asset Management PLC (see note 18).

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss are investments in unconsolidated structured entities of £266k (2018: £263k) arising from investments in collective investment vehicles.

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

11 Loans and receivables at amortised cost

	2019 £000	2018 £000
Amounts due from related parties	5,628	7,134
Sundry debtors	4	88
Total	5,632	7,222

All loans and receivables are recoverable within one year.

12 Current tax assets

	2019 £000	2018 £000
Income tax assets	3	-
Total	3	-

13 Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank and in hand	8,759	9,210
Total	8,759	9,210

14 Share capital

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

The 1m 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 or less any accumulated deficits.

15 Current tax liabilities

	2019 £000	2018 £000
Current tax liabilities	-	44
Total	-	44

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

16 Other financial liabilities

	2019 £000	Restated* 2018 £000
Amounts due to related parties*	9,514	10,340
Insurance payables*	2,792	2,775
Total	12,306	13,115

All other financial liabilities are payable within one year.

*See note 22 for details regarding the restatement.

17 Net decrease in operating assets and liabilities

	2019 £000	Restated* 2018 £000
Decrease in loans and receivables	1,590	8,741
Decrease in other financial liabilities*	(809)	(6,557)
Net decrease in operating assets and liabilities	781	2,184

*See note 22 for details regarding the restatement.

18 Risk management

The principal activities of the Company are to receive creditor policy premium renewals and settle customer payments on behalf of other Group companies; the Company also receives administration fee income from a third party.

The Insurance businesses are managed together as part of Insurance; as such risk is managed across all of the Insurance companies and not at the individual company level. 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 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 is 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, credit, capital, liquidity, regulatory & legal, conduct, governance, operational 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 the management of risk resides with the Board of the Company. The Board manages risks in line with LBG and Insurance risk policies. The Board has delegated certain risk matters to the Insurance Risk Oversight Committee ("IROC") with the operational implementation of these being assigned to the Insurance and Wealth Risk Committee ("IWRC"). Within Insurance, capital risk is actively monitored by the Insurance and Wealth Asset and Liability Committee ("IWALCO").

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, Insurance Board and the Company Board that risks are recognised, monitored and managed within acceptable parameters.

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

18 Risk management (continued)

(a) Governance framework (continued)

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 within Insurance 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 and Company Boards prefer, accept or wish 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 (capital, credit, market and liquidity), operational risks, people, conduct risks, regulatory & legal risks, model and governance risks. The risk appetite statements set limits for exposures to the key risks faced by the business.

Risk appetite for Insurance is approved by the Board at least annually with experience against it tracked and reported to the Board quarterly.

(c) Financial risks

The Company is exposed to a range of financial risks through its financial assets and financial liabilities.

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

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.

(1) Market risk

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

Investments in collective investment schemes are categorised as level 1 in the fair value hierarchy.

Foreign exchange risk

Foreign exchange risk relates to the effects of movements in exchange markets including changes in exchange rates.

The overall risk to the Company is minimal as the Company's principal transactions are carried out in pounds sterling and the Company's financial assets are primarily denominated in the same currency as its financial liabilities. The currency giving rise to this risk is Euros.

The Company managed this risk in conjunction with other Group companies.

(2) Credit risk

The risk that counterparties with whom we have contracted, fail to meet their financial obligations (both on and off balance sheet).

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

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

18 Risk management (continued)

(c) Financial risks (continued)

(2) Credit risk (continued)

Credit risk to the Company arises primarily from exposure to trade receivable and financial assets at fair value through profit or loss. Exposure to trade receivables 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.

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

As at 31 December 2019

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Loans and receivables at amortised cost	5,632	-	-	5,628	-	4
Cash and cash equivalents	8,759	-	-	8,759	-	-
Exposure to credit risk	**14,391**	**-**	**-**	**14,387**	**-**	**4**
Assets at fair value through profit or loss						
Cash and cash equivalents	266	266	-	-	-	-
Total	**14,657**	**266**	**-**	**14,387**	**-**	**4**

As at 31 December 2018

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Loans and receivables at amortised cost	7,222	-	-	7,134	-	88
Cash and cash equivalents	9,210	-	-	9,210	-	-
Exposure to credit risk	**16,432**	**-**	**-**	**16,344**	**-**	**88**
Assets at fair value through profit or loss						
Cash and cash equivalents	263	263	-	-	-	-
Total	**16,695**	**263**	**-**	**16,344**	**-**	**88**

Amounts classified as "not rated" in the above table is not rated by Standard and Poor or an equivalent rating agency.

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

18 Risk management (continued)

(c) Financial risks (continued)

(2) Credit risk (continued)

Exposure to credit risk is concentrated across counterparties as follows:

	2019 £000	2018 £000
Trade and other receivables:		
Amounts due from Group undertakings	5,628	7,134
Sundry debtors	4	88
Cash and cash equivalents (amounts due from financial institutions)	8,759	9,210
Total	**14,391**	**16,432**

(3) Liquidity risk

Liquidity risk is defined as the risk that the Company has insufficient financial resources to meet its commitments as they fall due, or can secure them only 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 Policy. The Company only holds short term cash deposits which are viewed as readily available at short notice and therefore highly liquid.

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

As at 31 December 2019

	Total £000	Up to 3 months £000	3-12 months £000	1-2 years £000	More than 2 years £000
Amounts owed to related parties	9,514	9,514	-	-	-
Insurance payables	2,792	2,792	-	-	-
Total	**12,306**	**12,306**	**-**	**-**	**-**

As at 31 December 2018

	Total £000	Restated* Up to 3 months £000	3-12 months £000	1-2 years £000	More than 2 years £000
Amounts owed to related parties*	10,340	10,340	-	-	-
Insurance payables*	2,775	2,775	-	-	-
Total	**13,115**	**13,115**	**-**	**-**	**-**

*See 22 for details regarding the restatement

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

18 Risk management (continued)

(d) 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 LBG. The risk landscape is monitored and adjustments, including those needed as a result of the Coronavirus outbreak, are made as identified through the continuous application of this framework.

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
- Actual vs expected losses
- Scenario analysis

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 including Sarbanes-Oxley
- Effectiveness reviews

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

Reporting
- 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 LBG's organisational infrastructure fails to provide robust oversight of decision making and the control mechanisms to ensure strategies and management instructions are implemented effectively.

Model risk
The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of Models and Ratings systems.

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

18 Risk management (continued)

(d) Non-Financial Risks (continued)

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 Group 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.

Data management
The risk that the Group fails to effectively govern, manage and protect its data (or the data shared with Third Party Suppliers) impacting the Group's agility, accuracy, access and availability of data, ultimately leading to poor customer outcomes, loss of value to the Group and mistrust from regulators.

External service provision
Failure in the provision of the formally agreed services (i.e. within the scope for the Group Service Provision Policy / supporting Procedures) which are required so Business Units meet their agreed deliverables.

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

Financial reporting risk
Financial reporting risk is defined as the risk that the Group 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.

Internal service provision
The risk associated with the management of internal service arrangements.

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 Group 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).

Sourcing
Sourcing risk covers the risk associated with the activity related to the agreement and management of services provided by third parties including outsourcing (excludes internal service arrangements).

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

18 Risk management (continued)

(d) Non-Financial Risks (continued)

Operational risk (continued)

People risk
People risk is defined as the risk that the Group 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.

(e) 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.

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 the 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.

(f) 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.

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK.

19 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 UK. 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. Once approved, 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

19 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 period £000	Expenses during period £000	Payable at period end £000	Receivable at period end £000
Relationship				
Other related parties	-	-	9,514	13,912

	2018 Restated*			
	Income during period £000	Expenses during period £000	Payable at period end £000	Receivable at period end £000
Relationship				
Other related parties	-	-	10,340	16,344

*See 22 for details regarding the restatement

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. The emoluments of key management are not recharged to this Company as it is considered that their services to this Company are incidental to their other activities within LBG.

20 Contingencies and commitments

In the opinion of the Directors, there were no contingent liabilities or commitments requiring disclosure (2018: £nil).

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.

21 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.

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

22 Restatement of comparatives

The comparative information reported has been restated as explained below:

	Restated £000	Adjustment £000	Previously Reported £000
Balance sheet as at 1 January 2018			
Equity			
Retained profits	**2,268**	(1,431)	3,699
Liabilities			
Other financial liabilities – Related Party	**16,098**	(1,344)	17,442
Other financial liabilities – Insurance Payables	**3,530**	2,775	755
Balance sheet as at 31 December 2018			
Equity			
Retained profits	**2,555**	(1,431)	3,986
Liabilities			
Other financial liabilities – Related Party	**10,340**	(1,344)	11,684
Other financial liabilities – Insurance Payables	**2,775**	2,775	-

Correction of error in accounting of insurance payables and insurance receivables

Amounts due to related parties and insurance payables have been restated where insurance receivables were incorrectly netted against insurance payables and incorrectly classified as amounts due to related parties. The opening and closing 2018 balance sheets have therefore been restated.

An assessment of the recoverability of the insurance receivables at 31 December 2017 was undertaken. There is no likelihood of recoverability of the receivables and as per the 2017 accounting policy below and under IAS 39 they should have been impaired at this point.

The 2017 insurance receivables (£1,431k) have been re-classed from other financial liabilities to loans and receivables at amortised cost and subsequently impaired. The impact on the 31 December 2017 balance sheet is a £1,431k increase in the other financial liabilities and a decrease in equity.

The impact of this on the balance sheet at 1 January 2018 and 31 December 2018 has been shown in the table above. Net assets have decreased by £1,431k at 31 December 2017 and at 31 December 2018.

2017 Accounting Policy - Impairment

Financial assets

The carrying value of all financial assets held at amortised cost is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable fair prices and expected net selling prices. 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 the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment process

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract;
(iii) the disappearance of an active market for that asset because of financial difficulties; or

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

22 Restatement of comparatives (continued)

2017 Accounting Policy – Impairment (continued)

Impairment process (continued)

(iv) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be identified with the individual assets of the Company, including:

- adverse changes in the payment status of issuers or receivables; or
- national or local economic conditions that correlate with defaults on the assets in the Company.

The Company first assesses whether objective evidence of impairment exists individually for assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of assets with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.