St Andrew's Insurance Plc

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

33 Old Broad Street
London
EC2N 1HZ

Company Registration Number

03104671

STRATEGIC REPORT

The Directors present their strategic report on St Andrew's Insurance Plc ("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 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.

As part of the Insurance strategy the Company has been closed to new business but continues to focus on servicing existing renewal customers for home and creditor insurance. Accordingly, 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 Insurance. To support this, the Company is focused on the following key performance indicators:

- Net insurance premiums;
- Claims and loss adjustment expenses;
- Combined ratio;
- Solvency II Regulatory capital; and
- Liquidity position.

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 principal activity of the Company is to underwrite general insurance, including home insurance and creditor insurance, which were marketed primarily under the Halifax and Bank of Scotland (BOS) brands and which were sold through the LBG distribution channels and other corporate partnerships.

Result for the Year

The result of the Company for the year ended 31 December 2019 is a profit before tax of £71m (2018: £65m).

The United Kingdom 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.

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:

a. Insurance: be a leading UK insurer in improving the resilience of customers' lives against extreme weather caused by climate change

b. 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

Net insurance premiums

Net insurance premiums reduced by 20% to £145m in 2019 (2018: £182m). The decrease reflects the run-off of both the home and creditor books.

Claims and loss adjustment costs

Claims and loss adjustment costs reduced by 35% to £44m in 2019 (2018: £68m). The decrease in current year claims and loss adjustment costs reflects benign weather related experience in 2019 and favourable prior year development. This was offset by increases in Q4 2019 due to weather events.

Combined ratio

The Company's combined ratio has decreased to 61% (2018: 65%). This reflects a decrease in the claims ratio of 7pp to 30% (2018: 37%) and an increase in expenses ratio of 3pp to 31% (2018: 28%).

Solvency II

As agreed with the Prudential Regulation Authority ("PRA"), the wider Insurance and Wealth Division submitted a single Own Risk and Solvency Assessment ("ORSA") for year end 2018 covering the Group headed by Scottish Widows Group Limited, and the assessment of own risks and solvency needs of the Company is therefore covered by that assessment. The ORSA report for year end 2018 was submitted to the PRA in March 2019 with an update provided in September 2019.

The Directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. On a Solvency II basis the regulatory surplus of the Company in excess of capital requirements is £51m (2018: £36m).

The Solvency II ratio for the Company is 160% (2018: 205%) reflecting the net profit for the period less dividends paid. Further information on the capital position of the Company is given in note 24.

During the year, the Company has delivered Solvency II reporting in respect of full annual quantitative reporting for 31 December 2018, as well as the narrative reporting required by Solvency II. The Company has a waiver from the PRA exempting it from preparing a single Solvency and Financial Condition Report ("SFCR") and instead the Company reported publicly through a Group SFCR for Scottish Widows Group Limited that was published in May 2019.

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 at 31 December 2019, the Company had liquidity coverage of 137% (2018: 132%) over and above the liquidity required under stressed conditions.

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 are the key performance indicators which are appropriate to the principal activity of the Company. These, together with other metrics which cover customer, operational measures and capital, are included in the balanced scorecard which is used to measure all aspects of the performance of the business. In addition, the Directors are of the opinion that the information contained in the Company's Solvency II reporting on capital resources and requirements and regular actuarial reports, in conjunction with 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.

STRATEGIC REPORT (Continued)

Key performance indicators (continued)

Review of the business

In addition to the progress made against the strategic initiatives summarised earlier there are other areas that are worthy of note and these are described below. Decisions taken in the areas described below and in pursuit of our strategy are brought to the Board for due consideration and approval.

Investment strategy

As part of its efficient balance sheet management, the Company is focused on low risk, very short duration assets to match its liabilities.

Further details on the credit risk and fair value measurement of these assets can be found in note 24.

Changes in terms of trade

New terms of trade arrangements were implemented with an effective date of 1 July 2018 to align with current market practice and to simplify the approach. This has resulted in a reduction of commission and profit share payments from the Company to the Retail division of LBG.

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 is subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to market, insurance, credit, conduct and operational risks are set out in note 24.

FCA Market Pricing Study

The Company is participating in the FCA’s market pricing study covering pricing practices in the UK home and motor insurance markets. This started at the end of 2018 and is expected to deliver conclusions in 2020, and may lead to market-wide changes in pricing practices as well as changes to relevant regulations.

Legacy Customer Communications

In addition, as described in note 26, the Company is undertaking a review in relation to legacy customer communications processes and governance. Given uncertainty related to potential outcomes, no amounts are provided or can be quantified in relation to this specific exercise, whether directly incurred by the Company or indemnified for HGISL, under the Intragroup Agreement dated 21 December 2005 and varied on 19 December 2016 and 1 July 2019.

Other legal actions and regulatory matters

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

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

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

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

In accordance with the Companies Act 2006 (the ‘Act’) (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 10.

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 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 and current enforcement activity. 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 limited Company, domiciled and incorporated in the United Kingdom.

Principal activities

The principal activity of the Company is to underwrite General Insurance, including home and creditor insurance, which were marketed primarily under the Halifax and Bank of Scotland (BOS) brands and which were sold through the LBG distribution channels and other corporate partnerships.

Results for the year

The result of the Company for the year ended 31 December 2019 is a profit before tax of £71m (2018: £65m).

The result reflects income received from Halifax General Insurance Services Ltd ("HGISL") in respect of an indemnity arrangement. Further details are set out in note 6.

During the year, an interim dividend of £40m was paid on the ordinary shares in respect of 2019 (2018: £45m).

Post balance sheet events

Further information on post balance sheet events is set out in note 28.

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 Pfaudler	(Resigned 18 December 2019)

Particulars of the Directors' emoluments are set out in note 25.

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. 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 in note 27.

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 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 24). 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 24 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 Accounts in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the 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 European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments 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 .

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. A copy of the financial statements is placed on our website www.scottishwidows.co.uk.

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 European Union, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company; and

– the Company strategic report on pages 4 to 8, and the Directors' Report on pages 9 to 10 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

J C S Hillman

Director

20 March 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBER'S OF ST ANDREW'S INSURANCE PLC

Report on the audit of the financial statements

Opinion

In our opinion, St Andrew's Insurance plc'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.

Our opinion is consistent with our reporting to the Audit Committee.

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, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall materiality: 1.1m (2018: 1.0m), based on 1% of net assets.

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of material balances and other qualitative factors (including history of misstatement through fraud or error).

- Valuation of General insurance reserves particularly judgements surrounding the determination of the incurred but not reported (IBNR) reserve.
- Assessment and disclosure of significant contingent liabilities in relation to conduct matters

INDEPENDENT AUDITORS' REPORT TO THE MEMBER'S OF ST ANDREW'S INSURANCE PLC (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including, but not limited to, insurance industry regulations and financial conduct issues. Our tests included, but were not limited to, review of complaints and correspondence with the regulators. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements of the Company. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure or increase the capital position of the Company, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of general insurance contract liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Insurance division's Board, management, senior management involved in the Company's Risk and Compliance functions and legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with, reports to and meeting with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Insurance division's Audit Committee and Claims & Reserving Working Group which the Company is a part of;
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of general insurance contract liabilities described in the related key audit matter below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, posted on unusual days, posted by infrequent users, posted by senior management or posted with descriptions indicating a higher level of risk;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing over immaterial liabilities and assets balances

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER'S OF ST ANDREW'S INSURANCE PLC (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of General insurance reserves - particularly judgements surrounding the determination of the incurred but not reported (IBNR) reserve. *Refer to page 26 (Critical accounting estimates and judgements in applying accounting policies) and Note 17 in page 31* Valuation of claims reserves across the General Insurance (Home) portfolio represent a significant judgement. In particular, judgements surrounding uncertainties including, determining the incurred but not reported (IBNR) reserve and consideration of the assumptions management have made as regards significant inevitable events such as weather or subsidence which can materially impact the value of the reserves.	We engaged our actuarial specialists to perform an independent re-projection of the significant claims reserves and assessed the adequacy of reserving over any weather events close to the period end. In particular, the independent re-projection has involved our actuarial specialists making judgements and assumptions in respect of: • the claims development pattern; • claims numbers and average costs per claim; and • expected loss ratios. We have reconciled key inputs to source data, tested the application of the incurred but not reported (IBNR) claims methodology and assumptions and reconciled the model output to the financial statements. We have considered significant adjustments to the modelled best estimate in more detail and challenged how these are quantified and reviewed annually. We have compared management's judgments against what we are seeing at other large insurers. We have also compared management's claims experience judgements on frequency and severity for the fire, theft and escape of water perils to the rest of the market. Through the procedures detailed above and having considered the specific nature and circumstances of the Company's business, we have found the methodology and assumptions used by management in relation to the estimated IBNR value to be reasonable in the context of the inherent uncertainty in reserving for claims.
Assessment and disclosure of significant contingent liabilities in relation to conduct matters *Refer to page 25 (Accounting policies) and Note 26 in page 49.* Matters relating to conduct of business practices, and specifically the Company's potential for customer redress payments, operational costs and regulatory fines continue to be significant. Ultimately this could result in the need for provisions or disclosure of contingent liabilities in the financial statements. The Company is undertaking a review in relation to legacy customer communications processes and governance. There is a significant amount of uncertainty as to the probability and magnitude of any possible cash outflow arising from the conclusion of this review. There is a financial reporting risk that these issues are not appropriately disclosed in the financial statements.	In relation to the contingent liabilities identified with regards to the company's conduct matter; •We read correspondence with the Financial Conduct Authority and Prudential Regulation Authority. •We have discussed with the internal legal counsel of the Insurance division which the company is a part of. Discussions have included conduct matters being considered by the company and likelihood of redress. •We inspected and read the minutes of key governance meetings. •We challenged the rationale as to whether a provision or contingent liability is required with reference to supporting evidence. • We assessed the sufficiency of disclosures made within the financial statements and where quantifiable statements are made, audited with reference to supporting evidence. Based on the results of our audit work and the evidence available, we are satisfied that the disclosures made are appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

As part of the Lloyds Banking Group ("LBG") Insurance Division, the entity acts as an underwriter of the General Insurance policies for Lloyds Banking Group, where home and creditor insurance is underwritten. All contracts of insurance are underwritten in the United Kingdom.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER'S OF ST ANDREW'S INSURANCE PLC (continued)

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	1.1m (2018: 1.0m).
How we determined it	1% of net assets.
Rationale for benchmark applied	We believe that net assets is the most appropriate benchmark for company materiality because the liabilities held on the balance sheet of an underwriter are relevant to policyholders, who along with the regulator are most interested in solvency and therefore net assets is the most appropriate measure given it is akin to solvency.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 58k (2018: 51k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

a. the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

b. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER'S OF ST ANDREW'S INSURANCE PLC (continued)

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 10, 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 18 May 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ended 31 December 2009 to 31 December 2019.

Sue Morling (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
Revenue			
Gross earned premiums	3	149,638	188,250
Premiums ceded to reinsurers	3	(4,605)	(5,945)
Premiums net of reinsurance		145,033	182,305
Investment income	4	579	890
Net gain on assets and liabilities at fair value through profit or loss	5	1,236	863
Other income	6	12,700	—
Total revenue		159,548	184,058
Net Insurance Claims			
Claims and loss adjustment costs	7	(44,452)	(68,017)
Claims and loss adjustment costs recoverable from reinsurers	7	666	321
Claims and loss adjustment costs		(43,786)	(67,696)
Expenses			
Expenses for acquisition of Insurance contracts	8	(12,404)	(25,401)
Expenses for administration	8	(32,647)	(25,622)
		(45,051)	(51,023)
Total expenses		(88,837)	(118,719)
Profit before tax		70,711	65,339
Taxation charge	10	(13,435)	(12,414)
Profit for the year and total comprehensive income		57,276	52,925

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

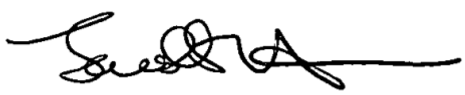
The notes set out on pages 20 to 50 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Intangible insurance assets	11	1,392	4,075
Reinsurance assets	12	2,575	2,885
Financial Assets:			
Loans and receivables at amortised cost	13	85,262	106,043
Investments at fair value through profit or loss	14	106,270	118,134
Cash and cash equivalents	15	101,459	72,526
Total assets		296,958	303,663
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	16	1,000	1,000
Retained profits		113,601	96,325
Total equity		114,601	97,325
LIABILITIES			
Insurance contracts	17	120,510	151,849
Deferred tax liabilities	18	4,038	6,261
Current tax liabilities	18	15,659	14,638
Provisions for other liabilities and charges	19	8,207	5,848
Financial liabilities:			
Other financial liabilities	20	33,943	27,742
Total liabilities		182,357	206,338
Total equity and liabilities		296,958	303,663

The notes set out on pages 20 to 50 are an integral part of these financial statements.

The financial statements on pages 16 to 50 were approved by the Board 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		70,711	65,339
Adjusted for:			
Investment income and net fair value gains on assets held at fair value through profit or loss	4,5	(1,815)	(1,753)
Net decrease/(increase) in operating assets and liabilities	21	995	(34,459)
Taxation paid		(14,637)	(12,517)
Net cash flows generated from operating activities		55,254	16,610
Cash flows from investing activities			
Net decrease of investments at fair value through profit or loss	5,14	13,100	66,085
Dividends and other income received	4	579	890
Net cash flows generated from investing activities		13,679	66,975
Cash flows from financing activities			
Dividends paid	22	(40,000)	(45,000)
Net cash flows used in financing activities		(40,000)	(45,000)
Net increase in cash and cash equivalents		28,933	38,585
Cash and cash equivalents at the beginning of the year		72,526	33,941
Net cash and cash equivalents at the end of the year	15	101,459	72,526

The notes set out on pages 20 to 50 are an integral part of these financial statements.

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

	Note	Share capital £'000	Retained profits £'000	Total equity £'000
Balance as at 1 January 2018		1,000	88,400	89,400
Profit and total comprehensive income for the year		—	52,925	52,925
Dividend paid	22	—	(45,000)	(45,000)
Balance as at 31 December 2018		1,000	96,325	97,325
Profit and total comprehensive income for the year		—	57,276	57,276
Dividend paid	22	—	(40,000)	(40,000)
Balance as at 31 December 2019		1,000	113,601	114,601

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 24.

The notes set out on pages 20 to 50 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;

(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 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

The Company has adopted IFRIC 23 'Uncertainty over income tax' as at 1 January 2019. Adoption has had no significant impact on the financial position of the Company.

Details of standards and interpretations in issue but which have not been adopted early are set out at note 27.

(b) Financial assets and financial liabilities

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

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

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

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

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

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

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

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

1. Accounting policies (continued)

(c) Fair value methodology

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

(i) Level 1

Valued using quoted prices in active markets for identical assets and liabilities to those being valued. An active market is one in which similar arm’s length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an 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 such as Over the Counter interest rate swaps, listed debt and restricted equity securities.

(iii) Level 3

Valuations are based on mathematical models, market prices/data (where available) and subjective assumptions, including unobservable inputs. Unobservable inputs may have been used to measure fair value where observable inputs are not available. This approach allows for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability, for example private equity investments held by 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 at note 24. The Company’s management, through a fair value pricing committee, review information on the fair value of the Company’s financial assets and the sensitivities to these values on a regular basis.

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

(d) Revenue recognition

Premiums

Premiums received in respect of all general insurance contracts are recognised as revenue proportionally over the period of coverage. Written premiums, gross of commission payable to intermediaries, comprise the premiums on contracts entered into in a financial year, regardless of whether such amounts may relate in whole or in part to a later financial year, exclusive of insurance premium tax and duties levied on premiums. The amount of insurance premium tax due by the Company which has not been paid over to Her Majesty’s Revenue & Customs (“HMRC”) as at the Balance Sheet date is included as a liability under the heading “Other financial liabilities”.

Premiums written include adjustments for any differences between unearned premiums recorded in prior years and amounts ultimately received. Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the inwards insurance business.

Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

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

1. Accounting policies (continued)

Investment income

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

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

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

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

(e) Expense recognition

Claims and loss adjustment expenses

Claims and loss adjustment expenses, including claims handling expenses, are charged to the Statement of Comprehensive Income as incurred based on the estimated liability for compensation owed to policyholders or to third parties where policyholders are liable. They include direct and indirect claims settlement costs and arise from events that have occurred up to the Balance Sheet date even if they have not yet been reported to the Company.

Operating expenses

Commissions and other acquisition costs are recognised through the Statement of Comprehensive Income, within expenses for the acquisition of insurance contracts. Commission and other acquisition costs that vary with and are directly related to securing new contracts and renewing existing contracts are deferred as set out in policy (f).

Other operating expenses are recognised in the Statement of Comprehensive Income as incurred, within expenses for administration.

(f) Intangible insurance assets

Deferred acquisition costs ("DAC")

Commissions and other acquisition costs that vary with and are directly related to securing new contracts and renewing existing contracts are capitalised as an intangible asset, where they can be identified separately and measured reliably and it is probable that they will be recovered. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised in line with earned premiums.

(g) Assets arising from reinsurance contracts held

The Company cedes reinsurance in the normal course of business. Where the reinsurance contract transfers significant insurance risk to the reinsurer, the assets arising from reinsurance contracts held are classified as insurance contracts.

Assets arising from reinsurance contracts held – classified as insurance contracts

These assets are recognised within assets arising from reinsurance contracts held. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying contracts and in accordance with the terms of each reinsurance contract. These balances are subject to an annual impairment review. Further information on the Company’s impairment policy is set out at policy (k).

Changes in these assets are recognised on the face of the statement of comprehensive income, through change in assets arising from reinsurance contracts held.

Premiums ceded and claims recoverable are recognised when corresponding insurance premiums are assumed and claims incurred. These items are disclosed separately on the face of the statement of comprehensive income.

(h) 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 transaction costs and subsequently measured at amortised cost, subject to impairment. Further information on the Company’s impairment policy is set out at policy (k).

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

1. Accounting policies (continued)

(i) Investments at fair value through profit or loss

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

Classification

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

Recognition

Purchases and sales of financial assets are recognised on the trade date, i.e. the date the Company commits to purchase the asset from, or deliver the asset to, the counterparty. Investments are initially recognised at cost, being the fair value of the consideration given, and are subsequently remeasured 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. Refer to note 1(c) Fair value methodology and note 24(c) Financial risk management for details of valuation techniques and significant inputs to valuation models.

Structured entities

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

(j) 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 (i).

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

(k) 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 and certain lease receivables. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

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

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

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

1. Accounting policies (continued)

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

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

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

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

Non-financial assets

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

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

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

(l) 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.

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 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.

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

1. Accounting policies (continued)

(m) 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.

(n) Insurance contracts

The Company issues insurance contracts, which transfer significant insurance risk. The Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event which are significantly more than the benefits payable if the insured event were not to occur. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly over time.

Recognition and measurement

All insurance contracts issued by the Company are short-term contracts categorised as home and creditor.

Home insurance contracts mainly compensate the Company's customers for damage suffered to their properties and their contents.

Creditor contracts mainly compensate the Company's customers against the cost to the insured of sustaining injury, suffering sickness or infirmity or suffering loss of income where the benefits payable under the contract relate to loans, credit card balances or other debts.

For all these contracts, the portion of premium received on in-force contracts that relates to unexpired risks at the Balance Sheet date is reported as the unearned premium reserve.

The Company does not discount its liabilities for unpaid claims.

The provision for outstanding claims represents the ultimate cost of settling all claims, including direct and indirect claims settlement costs, arising from events that have occurred up to the Balance Sheet date. This provision comprises an amount for the cost of claims notified but not settled and for claims incurred but not yet reported.

The provision for claims incurred but not reported at the date of the Balance Sheet and the related claims settlement expenses together with the anticipated reinsurance and other recoveries, is made on the basis of the best information currently available, having regard, in particular, to past claims experience. Subsequent information and events may result in the ultimate liabilities being more than, or less than, the amount provided for the estimated net liabilities at a particular Balance Sheet date. The estimates made are regularly reviewed in the light of subsequent information and any resulting adjustments are reflected in the earnings of the year in which the adjustments are made.

(o) Provisions for other liabilities and charges

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

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

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

(p) 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

2. 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.

Insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

In particular, home insurance policies are exposed to claims for subsidence. The Company subscribes to the Association of British Insurers (ABI) Subsidence "Change of Insurer" Claims Agreement which places an obligation upon it to deal with subsidence claims. Hence the estimation of the ultimate cost of subsidence claims is complex.

Where there is insufficient information to determine the required provision, statistical techniques are used which take into account the cost of claims that have recently been settled and make assumptions about the future development of the outstanding cases. Similar statistical techniques are used to determine a provision for claims incurred but not reported at the Balance Sheet date.

Deferred Tax

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

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

3. Premiums net of reinsurance

	2019 £'000	2018 £'000
Short-term insurance contracts		
- premiums receivable (note 17)	132,448	169,323
- change in unearned premium reserve (note 17)	17,190	18,927
Total gross earned premiums	149,638	188,250
Short-term reinsurance contracts		
- premiums payable (note 17)	(3,939)	(5,317)
- change in unearned premium reserve (note 17)	(666)	(628)
Total premiums ceded to reinsurers	(4,605)	(5,945)
Total premiums net of reinsurance	145,033	182,305

4. Investment income

	2019 £'000	2018 £'000
Net income on investments at fair value through profit or loss	303	384
Other Interest Income	276	506
Total	579	890

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

	2019 £'000	2018 £'000
Net gains on assets held at fair value through profit or loss	1,236	863
Total	1,236	863

Net gains on assets held at fair value through profit or loss include net realised gains of £0.3m (2018: gains of £Nil) and net unrealised gains of £1.0m (2018: gains of £0.9m).

6. Other income

	2019 £'000	2018 £'000
Other income	12,700	—
Total	12,700	—

Other income of £12.7m is in respect of an indemnity payment from Halifax General Insurance Services Ltd. Halifax General Insurance Services Ltd remains liable for certain conduct-related operational risk liabilities associated with historic sales, communication practices for policies underwritten by the Company as well as any future amounts which that company may incur in this regard. Halifax General Insurance Services Ltd has entered into an Intragroup agreement with the Company whereby the Company will indemnify Halifax General Insurance Services Ltd for liabilities and costs associated with such operational losses.

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

7. Claims and loss adjustment costs

	2019			2018		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Current year claims and loss adjustment costs (note 17)	56,822	(661)	56,161	83,128	(305)	82,823
Movement in costs of prior year claims and loss adjustment costs (note 17)	(12,370)	(5)	(12,375)	(15,111)	(16)	(15,127)
Total claims and loss adjustment costs	44,452	(666)	43,786	68,017	(321)	67,696

8. Expenses

	2019	2018
	£'000	£'000
Fees and commissions payable	9,721	20,128
Change in deferred costs	2,683	5,273
Expenses for the acquisition of insurance contracts	12,404	25,401
Expenses for administration	32,647	25,622
Total	45,051	51,023

The administration of the Company is undertaken by another group company. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company, although there are some operating expenses which are incurred directly by the Company. In 2019 expenses recharged to the Company were £26.2m (2018: £27.7m) of which £4.8m (2018: £6.4m) of claims handling expenses were allocated to insurance claims costs.

The Company had no direct employees during the year (2018: nil). Employee costs, including pension costs and share-based payment costs, are included in the recharge noted above.

9. Auditors' remuneration

	2019	2018
	£'000	£'000
Audit fees		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	242	235
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	48	48
Total fees payable	290	283

Audit fees are borne by another company within the group and recharged to the Company.

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

10. Taxation charge

(a) Current year tax charge

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax	15,659	14,638
Total current tax	15,659	14,638
Deferred tax:		
Deferred tax credit	(2,224)	(2,224)
Total deferred tax	(2,224)	(2,224)
Total income tax charge	13,435	12,414

(b) Reconciliation of tax charge

	2019 £'000	2018 £'000
Profit before tax	70,711	65,339
Tax at 19% (2018: 19.0%)	13,435	12,414
Effects of:		
Rate Change and related impacts	—	—
Total	13,435	12,414

The effective tax rate for the year is 19.0% (2018: 19.0%).

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. The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

11. Intangible insurance assets

Deferred acquisition costs

	2019 £'000	Restated* 2018 £'000
At 1 January	4,075	9,348
Additions	6,510	16,220
Amortisation through Statement of Comprehensive Income	(9,193)	(21,493)
At 31 December	1,392	4,075

*Amortisation and additions have been restated due to a misclassification of certain costs that were not deferred. The opening and closing balances are unchanged.

Of the above total, £1.4m (2018: £4.1m) is expected to be released within one year after the reporting date.

Amortisation is charged to expenses for the acquisition of insurance contracts in the Statement of Comprehensive Income.

12. Reinsurance assets

	2019 £'000	2018 £'000
Reinsurers' unearned premium	1,914	2,580
Reinsurers' share of claims reserves	661	305
Total	2,575	2,885

The above total is all expected to be recovered less than one year after the reporting date. Reinsurers' unearned premium amounts relate to home contracts of insurance. The Reinsurers' share of claims reserves relate to Flood Re.

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

13. Loans and receivables at amortised cost

	2019 £'000	2018 £'000
Receivables arising from insurance and reinsurance contracts:		
Due from related parties	20,300	26,237
Due from policyholders	59,459	74,705
Other loans and receivables:		
Due from related parties	3,472	2,825
Due from external underwriters	2,031	2,276
Total	85,262	106,043

All of the above Loans and Receivables at Amortised Cost are expected to be received within one year of the reporting date.

14. Investments at fair value through profit or loss

	2019 £'000	2018 £'000
Collective Investment Schemes - unlisted	96,451	105,375
Debt securities- unlisted	9,819	12,759
Total	106,270	118,134

Of the above total, £9.8m (2018: £12.8m) is expected to be received more than one year after the reporting date.

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss and cash and cash equivalents are investments in unconsolidated structured entities of £182.1m (2018: £160.4m) arising from investments in collective investment vehicles and limited partnerships.

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

15. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand	15,781	17,466
Aberdeen Liquidity Fund	85,678	55,060
Total	101,459	72,526

16. Share capital

	2019 £'000	2018 £'000
Issued and fully paid share capital:		
1,000,000 (2018: 1,000,000) ordinary shares of £1 each	1,000	1,000
Total	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 earnings or less any accumulated deficits.

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

17. Liabilities arising from insurance contracts

	2019			2018		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Recoverable from reinsurers*	*Net*	*Gross*	*Recoverable from reinsurers*	*Net*
Short-term insurance contracts						
Claims reported & loss adjustment costs	33,455	(661)	32,794	44,941	(305)	44,636
Claims incurred but not reported	28,240	—	28,240	30,903	—	30,903
Unearned premiums	58,815	(1,914)	56,901	76,005	(2,580)	73,425
Total insurance liabilities	120,510	(2,575)	117,935	151,849	(2,885)	148,964

Of the above total £19.1m (2018: £24.0m) is expected to be settled more than one year after the reporting date.

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustment expenses

	2019			2018		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Notified claims	44,941	(305)	44,636	46,274	—	46,274
Incurred but not reported	30,903	—	30,903	32,018	—	32,018
Total at beginning of the year	75,844	(305)	75,539	78,292	—	78,292
Cash paid for claims settled in the year	(58,601)	310	(58,291)	(70,465)	16	(70,449)
Increase in liabilities:						
Arising from current year claims	56,822	(661)	56,161	83,128	(305)	82,823
Arising from prior year claims	(12,370)	(5)	(12,375)	(15,111)	(16)	(15,127)
Total at the end of the year	61,695	(661)	61,034	75,844	(305)	75,539
Notified claims	33,455	(661)	32,794	44,941	(305)	44,636
Incurred but not reported	28,240	—	28,240	30,903	—	30,903
Total at the end of the year	61,695	(661)	61,034	75,844	(305)	75,539

(b) Unearned premiums

	2019			2018		
	£'000	£'000	£'000	£'000	£'000	£'000
	Gross	*Reinsurance*	*Net*	*Gross*	*Reinsurance*	*Net*
Unearned premiums						
At 1 January	76,005	(2,580)	73,425	94,932	(3,208)	91,724
Increase in the year	132,448	(3,939)	128,509	169,323	(5,317)	164,006
Release in the year	(149,638)	4,605	(145,033)	(188,250)	5,945	(182,305)
At 31 December	58,815	(1,914)	56,901	76,005	(2,580)	73,425

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

18. Tax liabilities

	2019 £'000	2018 £'000
Current tax liabilities	15,659	14,638
Deferred tax liabilities	4,038	6,261
Total tax liabilities	19,697	20,899

Of the deferred tax liabilities in the above table, £2.2m are expected to be settled within one year of the reporting date.

Recognised deferred tax

Deferred tax assets and deferred liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17.30% (2018: 17.83%).

The movement on the deferred income tax account is as follows:

	2019 £'000	2018 £'000
Deferred tax liabilities comprise:		
Claims equalisation reserve ("CER") provision	4,038	6,261
Total deferred tax liabilities	4,038	6,261

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 17.30% (2018: 17.83%).

The tax credit in the statement of comprehensive income relating to each of the above items is as follows

	2019 £'000	2018 £'000
Claims equalisation reserve provision	(2,224)	(2,224)
Total deferred tax credit	(2,224)	(2,224)

Finance Act 2012, s26 abolished relief for claims equalisation reserves with effect from an appointed day, confirmed as 1 January 2016 per Statutory Instrument 2015/1999. As a result, the CER will unwind as to 1/6th each year from the accounting period ending 31 December 2016.

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

19. Provisions for other liabilities and charges

2019	Levies	Premium Rebates	Customer Discount Communications	Payment Protection Insurance (PPI)	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January	—	2,895	—	2,953	5,848
Increase in the year	5,772	4,270	2,070	5,106	17,218
Utilised during the year	(5,772)	(4,969)	—	(4,118)	(14,859)
At 31 December	—	2,196	2,070	3,941	8,207

2018	Levies	Premium Rebates	Customer Discount Communications	Payment Protection Insurance (PPI)	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January	—	2,636	—	3,931	6,567
Increase in the year	6,363	3,300	—	5,000	14,663
Utilised during the year	(6,363)	(3,041)	—	(5,978)	(15,382)
At 31 December	—	2,895	—	2,953	5,848

(a) Levies

(i) Financial Services Compensation Scheme ("FSCS") Levy

This levy of £0.5m (2018: £0.1m) relates to the amount payable to the Financial Services Compensation Scheme ("FSCS") in the event of the failure of a company authorised by the Prudential Regulatory Authority ("PRA") and/or the Financial Conduct Authority (FCA). In accordance with IFRIC 21 the FSCS Levy was accrued and paid during the year.

(ii) Flood Re Levy

In 2016 the Company entered the market wide Flood Re scheme to ensure at risk customers are able to obtain flood protection. This requires the Company to pay, based on its proportion of total market gross written premium, a levy. This was £5.3m in (2018: £6.3m).

(b) Premium Rebates

In accordance with the ABI Statement of Recommended Practice a provision has been made in respect of premiums that may be refunded in the future but on which the premiums have already been fully earned. This estimate is based upon prior experience and includes an amount in respect of potential rebates required for customers identified as having dual insurance cover.

(c) Customer Discount Communications

Following investigations relating to an anomaly with communication of discounts on certain home insurance contracts, provisions of £2.1m have been established in the Company to reflect the best estimate of rectification payments to be made to customers whether directly incurred by the Company or indemnified for Halifax General Insurance Services Limited, Intragroup Agreement dated 21 December 2005 and varied on 19 December 2016 and 1 July 2019.

(d) Payment Protection Insurance (PPI)

The Company provided for redress costs pertaining to sales related complaints on PPI products following sales made up until 2010. The Company's estimate of the likely remaining redress costs from these sales at the end of 2019 is £3.9m and has provided for this cost appropriately. The Company holds an indemnity with Lloyds Bank Plc whereby Lloyds Bank Plc will indemnify the Company for liabilities and costs associated with related complaints on PPI products, up to a limit of £49.0m.

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

20. Other financial liabilities

	2019 £'000	2018 £'000
Insurance payables	6,114	3,768
Due to related parties	20,072	15,024
Other taxes payable	3,721	4,601
Other payables	4,036	4,349
Total	33,943	27,742

All insurance and other payables are current liabilities.

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

	2019 £'000	2018 £'000
Net (increase)/decrease in operating assets		
Intangible insurance assets	2,683	5,273
Prepayments	—	489
Loans and receivables	20,781	40,004
Net (increase)/decrease in operating assets	23,464	45,766
Net (decrease)/increase in operating liabilities		
Insurance contract liabilities (net)	(31,029)	(21,052)
Provisions for other liabilities and charges	2,359	(719)
Other financial liabilities	6,201	(58,454)
Net (decrease)/increase in operating liabilities	(22,469)	(80,225)
Net (decrease)/increase in operating assets and liabilities	995	(34,459)

22. Dividends paid

	2019 £'000	2018 £'000
Total dividends paid on equity shares	40,000	45,000

Dividends of £40m (£40 per share) were paid during the year in respect of 2019 (2018: £45m, £45 per share).

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

23. Short-term insurance contracts - assumptions, change in assumptions and sensitivities

(1) Processes used to determine key assumptions in respect of insurance contracts

The methodology and assumptions used in relation to determining the bases of the earned premium levels are derived for each individual underwritten product and contained within the appropriate software programmes of the in-house policy underwriting system. Assumptions are intended to be neutral estimates of the most likely or expected outcome ('best estimates').

The levels, adequacies and assumptions used to determine these claims reserves are set out in the Claims and Reserving Working Group ("CRWG") and Claims and Reserving Committee ("CRC") Reports.

These reports from the Head of Actuarial and recommendations are formally reviewed by the Claims and Reserving Committee on a regular basis.

An analysis of methodology and assumptions in calculating technical reserves is shown below for each significant product class.

(2) Key assumptions

(a) Home

Significant perils and loss factors include accidental damage, fire, escape of water, subsidence, public liability, theft and adverse weather. The reserving methodology and associated assumptions are set out below:

Outstanding claims reserve ("OCR")

The OCR represents the case estimate reserves held in respect of claims which have been reported before the accounting date.

Claims incurred but not reported reserve ("IBNR")

The IBNR reflects the difference between the total reserves (set using standard actuarial techniques), and the OCR (which reflects reported reserves only).

The IBNR covers both:

- Incurred but not enough reported ("IBNER") – a reserve to provide for changes in the case estimates of those claims which have been reported before the accounting date
- Pure IBNR – a reserve to provide for those claims which have occurred before the accounting date, but have yet to be reported to the insurer

The IBNR is determined for each peril separately using various actuarial techniques, such as the application of a chain ladder statistical projection method to reported case estimates, paid amounts and volumes. Consideration is also given to the impact of any changes in claims handling. If any considerable uncertainty exists, then an uncertainty provision will be identified and documented within the reserving reports. Particularly, additional provisions are established for fire and liability claims, to reflect the additional volatility over and above that seen in the available data.

Major events such as storms or floods are considered separately, using projection patterns appropriate to the specific event in question.

Unearned premium reserve ("UPR")

The UPR is calculated using a daily allocation method.

(b) Creditor

Significant perils and loss factors include unemployment, morbidity, interest rates and the UK economic outlook generally. The vast majority of financial loss business underwritten by the Company consists of loan protection covering accident, sickness and unemployment. The reserving methodology and associated assumptions for loan protection are set out below:

Outstanding claims reserve ("OCR")

The OCR is calculated as the product of the number of active claims, the average duration remaining and the monthly repayment amount. The average claim duration assumption is based on past experience of loan protection data adjusted for the current economic conditions. This adjustment is made on a judgemental basis, taking into account the most recent data and economic predictions.

Claims incurred but not reported reserve ("IBNR")

IBNR reflects the difference between total reserves set using standard actuarial techniques and the OCR, which reflects claims that are in course of payment.

Unearned premium reserve ("UPR")

Earned premiums are calculated on a basis that reflects the length of time for which contracts have been in force and the projected incidence of risk over the term of each contract.

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

23. Short-term insurance contracts - assumptions, change in assumptions and sensitivities (Continued)

Claims development tables

The development of insurance liabilities is a measure of the Company's ability to estimate the ultimate value of claims.

The top half of each of the following tables below illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the liability amount appearing in the Balance Sheet. The accident year basis is considered the most appropriate for the business written by the Company.

Home - gross

Accident year	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Estimate of ultimate claims costs:						
- at end of accident year	104,259	77,762	54,845	55,090	34,726	
- one year later	94,992	77,814	49,938	49,461	—	
- two years later	97,634	71,175	48,921	—	—	
- three years later	93,457	70,707	—	—	—	
- four years later	93,878	—	—	—	—	
Current estimate of cumulative claims	93,878	70,707	48,921	49,461	34,726	297,693
Cumulative payments to date	(91,303)	(68,009)	(44,257)	(39,615)	(12,743)	(255,927)
Liability recognised in the Balance Sheet	2,575	2,698	4,664	9,846	21,983	41,766
Liability in respect of prior years						6,034
Total gross liability included in the Balance Sheet						47,800

Home - net

Accident year	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Estimate of ultimate claims costs:						
- at end of accident year	104,259	77,762	54,845	54,769	33,995	
- one year later	94,992	77,814	49,938	49,221	—	
- two years later	97,634	71,175	48,921	—	—	
- three years later	93,457	70,707	—	—	—	
- four years later	93,878	—	—	—	—	
Current estimate of cumulative claims	93,878	70,707	48,921	49,221	33,995	296,722
Cumulative payments to date	(91,303)	(68,009)	(44,257)	(39,375)	(12,673)	(255,617)
Liability recognised in the Balance Sheet	2575	2698	4664	9846	21322	41,105
Liability in respect of prior years						6,034
Total net liability included in the Balance Sheet						47,139

As at the year ended 31 December 2019 the Company limited its exposure to loss within insurance operations through participation in reinsurance arrangements. The home portfolio is protected through a catastrophe excess of loss arrangement which operates across both the Company and Lloyds Banking Group General Insurance Ltd legal entities. The reinsurance programme was renewed on 1 July 2019. Amounts recoverable from reinsurers were estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits. The purpose of a home excess of loss catastrophe reinsurance programme is to protect against the adverse effects of large weather related events.

The gross home liability of £47.8m and net liability of £47.1m shown in the above tables exclude £2.4m (2018: £3.2m) of unallocated claims handling expenses.

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

23. Short-term insurance contracts - assumptions, change in assumptions and sensitivities (Continued)

Creditor - gross and net						
Accident year	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Estimate of ultimate claims costs:						
- at end of accident year	15,782	14,125	17,352	14,433	11,389	
- one year later	16,663	15,915	13,524	13,012	—	
- two years later	16,431	15,651	12,273	—	—	
- three years later	16,596	15,586	—	—	—	
- four years later	16,522	—	—	—	—	
Current estimate of cumulative claims	16,522	15,586	12,273	13,012	11,389	68,782
Cumulative payments to date	(16,459)	(15,486)	(12,057)	(10,186)	(4,564)	(58,752)
Liability recognised in the Balance Sheet	63	100	216	2,826	6,825	10,030
Liability in respect of prior years						220
Total Gross liability included in the Balance Sheet						10,250

The Company has not had any reinsurance cover in place for the current and preceding 5 years in respect of creditor insurance.

The creditor liability of £10.2m shown in the above tables exclude £1.3m (2018: £1.7m) of unallocated claims handling expenses.

While management believes that the total insurance liability for all products in the portfolio carried at year end is adequate, the application of statistical techniques requires significant judgment. An increase of 10% in the cost of total claims would result in the recognition of an additional cost of £5.5m net of reinsurance (2018: £6.8m). Similarly, an increase of 10% in the number of all claims would result in the recognition of an additional cost of £5.9m net of reinsurance (2018: £7.3m). A 5% increase in the inflation rate of claims would result in the recognition of an additional cost of £2.8m net of reinsurance (2018: £3.4m).

24. Risk management

The principal activity of the Company is the undertaking of general insurance business in the UK. The Company underwrites a range of general insurance products such as home insurance and creditor insurance. Products are marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through the LBG network and corporate partnerships. The Company also reinsures business with insurance entities external to the Company.

The Company assesses the relative costs and concentrations of each type of risk through the Own Risk and Solvency Assessment ("ORSA") and material issues are escalated to the Insurance and Wealth Risk Committee ("IWRC") and the Insurance and Wealth Executive Committee ("IWEC"). This note summarises these risks and the way in which the Company manages them.

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, model risk, credit, capital, liquidity, regulatory & legal, conduct, people, governance and operational risks. The performance of the Company, its continuing ability to write business 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 ("ROC") with operational implementation assigned to the Insurance and Wealth Risk Committee ("IWRC").

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

24. Risk management (continued)

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 Board prefers, accepts or wishes to avoid and is aligned to group and LBG strategy. The Board has defined a framework for the management of risk and approved a set of risk appetite statements that cover financial risks (capital, insurance underwriting, credit, market and liquidity), operational risks, people, conduct risks, regulatory & legal risks, model risk 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 Board. Executive owned Tier 2 and Tier 3 limits sit beneath Board owned risk appetite (Tier 1) and are managed and governed within the Insurance business.

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

(c) Financial risks

The Company is exposed to financial risk through its financial assets, financial liabilities, assets arising from reinsurance contracts and liabilities arising from insurance and investment contract liabilities. In particular, the key financial risk is that investment proceeds are not sufficient to fund the obligations arising from its insurance contracts.

The Company manages these risks in a number of ways, including risk appetite assessment and monitoring of capital resource requirements. The Company has a defined investment policy which sets out limits on the Company's exposure to its investments. Investment management meetings are held regularly where the Company's investments are reviewed. Exposure to investments are monitored by the finance function in order to ensure compliance with internal and relevant external regulatory limits for solvency purposes and to allow additional measures to be taken if limits are breached.

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.

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

(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.

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 is exposed to market risk through its portfolio of investments, the majority of which are short term in nature. The Company categorises its financial assets at fair value through profit or loss as follows:

- 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;
- Listed debt securities: includes sterling denominated floating rate notes; and
- Unlisted debt securities: All classed as level 3, comprising asset backed securities and covered bonds which are not actively traded and are valued using a discounted cash flow model.

Below is an analysis of assets and liabilities at fair value through profit or loss and assets and liabilities for which a fair value is required to be disclosed, according to their fair value hierarchy (as defined in note 1 (c)).

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

24. Risk management (continued)

As at 31 December 2019

	Fair value hierarchy			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Collective Investment Schemes - unlisted	96,451	—	—	96,451
Aberdeen Liquidity Fund	85,678	—	—	85,678
Debt securities - unlisted	—	—	9,819	9,819
Total assets	182,129	—	9,819	191,948

As at 31 December 2018

	Fair value hierarchy			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Collective Investment Schemes - unlisted	105,375	—	—	105,375
Aberdeen Liquidity Fund	55,060	—	—	55,060
Debt securities - unlisted	—	—	12,759	12,759
Total assets	160,435	—	12,759	173,194

The unlisted debt securities classified as Level 3 above are not actively traded and are valued using a discounted cash flow model. The valuation incorporates credit risk spreads, which are generally based on observable spreads of similar securities, plus a liquidity premium. Assumptions are made about the expected life of the securities, reflecting prepayment behaviour.

The table below shows movements in the assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only).

	2019 £'000	**2018 £'000**
Balance at 1 January	12,758	16,528
Disposals	(3,137)	(3,814)
Net gains recognised within net gains on assets and liabilities at fair value through profit or loss in the statement of comprehensive income	198	44
Balance at 31 December	9,819	12,758
Total unrealised gains for the period included in the statement of comprehensive income for assets and liabilities held at 31 December	198	44

An additional source of market risk is the mismatch between payout patterns of liabilities and the assets backing those liabilities. However, this component is a minor source of risk for the Company because the majority of assets as well as liabilities are of a short term nature.

The market risk in the investment portfolio is measured using ‘Value at Risk’ (VaR) methodology. VaR is defined as the maximum loss over a given time horizon, with a defined low probability that the actual loss on the portfolio will be larger. A 5% VaR with a one year time horizon is used to set the Company’s tolerance to market risk. A loss equal to VaR is the worst case loss considered for the management of market risk.

The VaR calculation allows for dependencies between the values of investments in the portfolio. Its inputs include 15 years of historic movements in the values of appropriate market indices and interest rates.

The VaR for the Company as at 31 December 2019 was £0.9m (2018: £2.5m).

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

24. Risk management (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk in respect of the Company's insurance and investment contracts arises when there is a mismatch in duration or yield between liabilities and the assets backing those liabilities.

The Company underwrites predominantly short-term insurance liabilities with durations of less than 5 years, which are not directly sensitive to the level of market interest rates as they are undiscounted and contractually non-interest bearing.

Impact on profit after tax and equity at reporting date	2019 £'000	2018 £'000
100 basis points increase in yield curves	857	599
100 basis points decrease in yield curves	(857)	(599)

(2) Insurance underwriting risk

Insurance underwriting risk is defined as the risk of adverse developments in the timing, frequency and severity of claims for insured/underwritten events and in customer behaviour, leading to reductions in earnings and/or value.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number of claims will vary from year to year from the estimate established using statistical techniques. When submitting a claim, proof will be needed. The Company follows any principles set up by the ABI and PRA in respect of handling claims. Claims information is retained to help with the estimation of future claim payments and risk pricing.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to ensure that within each of its risk categories sufficiently large populations of risks are achieved to reduce the variability of the expected outcome.

(i) Home

(a) Frequency and severity of claims

For home insurance contracts, climatic changes appear to be giving rise to more frequent and severe extreme weather events and their consequences. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company can charge a premium appropriate to the risk presented, decline to underwrite certain applications at sale, impose policy terms and conditions or higher excesses and, in the majority of cases, has the right not to renew individual policies. The Company also has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (i.e. subrogation).

The Company has the right to re-price the risk on renewal and also has the ability to impose excesses. These contracts are underwritten by reference to the replacement value of the properties and contents insured. Claim payment limits are always included for contents insurance to cap the amount payable on occurrence of the insured event. Costs of rebuilding properties or replacement of, or indemnity for, contents, are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, fire, flood damage, freeze and subsidence. The Company has reinsurance cover for natural and man-made catastrophes to limit losses in any one year from both large single events and a number of events occurring over the year. For the Company standalone, the maximum loss for a single event up to £94.8m is £10.7m (2018 £117.8m, £13.1m) and £15.2m of aggregate protection is provided in excess of £17.3m (2018: £17.8m, £21.9m)

The insurance underwriting risk arising from these contracts is not concentrated in any of the regions in the UK in which the Company operates, and there is a balance between buildings and contents in the overall portfolio.

(b) Sources of uncertainty in the estimation of future claim payments

Home claims are analysed separately for each peril. The development of accumulations of weather claims in a single catastrophic event is analysed separately. The shorter settlement period for non-subsidence/liability claims allows the Company to achieve a higher degree of certainty about the estimated cost of these claims, and a relatively small Incurred but not Reported (''IBNR'') reserve is held at year-end. However, the longer time needed to assess the emergence of a subsidence or liability claim makes the estimation process more uncertain for these claims.

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

24. Risk management (continued)

(ii) Creditor

(a) Frequency and severity of claims

Significant perils and risk factors include unemployment, morbidity, interest rates and the UK economic outlook generally. The majority of financial loss business underwritten by the Company is payment protection, which has accident, sickness and unemployment as its main perils.

The claim amount paid is fixed at the level of repayment and is capped for a maximum duration for most contracts. There are waiting and exclusion periods during which no claim will be accepted. In addition, in the case of sickness, any pre-existing health conditions will not be covered.

The insurance underwriting risk arising from these contracts is not concentrated in any of the regions in the UK in which the Company operates. A credit scoring system and procedures are in place to approve loans on which insurance will be offered.

(b) Sources of uncertainty in the estimation of future claim payments

The Company's estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims would normally allow the Company to achieve a higher degree of certainty about the estimated cost of claims however there is still an IBNR held at year-end.

The Company ceased writing new creditor business in 2010, consequently the book is now in run-off which in itself establishes an additional source of uncertainty in analysing the behaviours of a diminishing book against a historically stable portfolio.

(3) 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).

Investment counterparty default risk arises primarily from holding invested assets to meet liabilities, and reinsurer default credit risk primarily arises from exposure to reinsurers.

Management considers that the Company’s only significant potential credit risk exposures are from reinsurance and financial assets held at fair value through profit or loss. Adequate and effective procedures are in place to mitigate these exposures and all the other sources of credit risk identified by the business. Credit risk exposure from insurance receivables is not considered to be significant, as the risk is diversified across a large volume of policyholders for all products and the amount of unpaid premiums at the Balance Sheet date is not significant. A provision for doubtful debt is recognised when payments due from policyholders have not been received for at least a month.

The Company’s risk transfer policy addresses the management of reinsurance credit risk and is authorised by the Insurance and Wealth Asset and Liability Committee (“IWALCO”). Only reinsurers with a minimum credit rating of “A-” will be accepted. The Company also requires a “special termination clause” in all contracts allowing a reinsurer to be replaced mid-term, in the event their security rating is downgraded below an acceptable level during the period of the reinsurance contract.

Reinsurance claims recoveries management information is supplied to the actuarial function by the reinsurance broker. The Company’s actuarial function monitors the status of claims made on reinsurance policies. Reinsurance is primarily used to reduce insurance risk. However, it is also sought for other reasons such as improving profitability, reducing capital requirements and obtaining technical support.

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 and also ensures compliance with regulatory requirements. Credit default risk is the most significant financial risk, but this is mitigated by a very cautious approach to counterparty risk.

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

24. Risk management (continued)

The table below analyses financial assets subject to credit risk using Moody's or equivalent:

As at 31 December 2019

	Total £'000	AAA £'000	AA/A £'000	BBB £'000	Not rated £'000
Stage 1 assets					
Cash and cash equivalents	101,459	85,678	15,781	—	—
Loans and receivables at amortised cost	25,803	—	—	—	25,803
Exposure to credit risk	127,262	85,678	15,781	—	25,803
Simplified approach assets					
Loans and receivables at amortised cost	59,459	—	—	—	59,459
Exposure to credit risk	59,459	—	—	—	59,459
Investments at fair value through profit or loss					
Debt Securities - unlisted	9,819	9,819	—	—	—
Collective investment schemes - unlisted	96,451	96,451	—	—	—
Other					
Reinsurance contracts	2,575	—	2,575	—	—
Total	295,566	191,948	18,356	—	85,262

As at 31 December 2018

	Total £'000	AAA £'000	AA/A £'000	BBB £'000	Not rated £'000
Stage 1 assets					
Cash and cash equivalents	72,526	55,060	17,466	—	—
Loans and receivables at amortised cost	31,338	—	—	—	31,338
Exposure to credit risk	103,864	55,060	17,466	—	31,338
Simplified approach assets					
Loans and receivables at amortised cost	74,705	—	—	—	74,705
Exposure to credit risk	74,705	—	—	—	74,705
Investments at fair value through profit or loss					
Debt Securities - unlisted	12,759	12,759	—	—	—
Collective investment schemes - unlisted	105,375	105,375	—	—	—
Other					
Reinsurance contracts	2,885	—	2,885	—	—
Total	299,588	173,194	20,351	—	106,043

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

24. Risk management (continued)

(i) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its financial commitments as they fall due, or can secure them only at an excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from an insurance liability falling due for payment earlier than expected; or from the inability to generate cash inflows as anticipated.

The main objective of the Company's liquidity risk policy is to ensure that all funds within the Company that serve to fulfil liabilities are available in sufficiently liquid form to settle liabilities as and when they fall due. Liquidity risk is considered to be small, as the Company primarily holds financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs together with short term cash deposits which are viewed as readily available at short notice. The Company also holds unlisted debt securities which have maturities of longer term duration (3–5 years maximum). The Company routinely reviews its capital and liquidity position and only invests excess liquidity (where balances exceed a level required to settle insurance claims and other creditors including an internal buffer) in longer term assets. As such the assets do not carry any significant liquidity risk.

In order to measure liquidity risk exposure the Company's liquidity is assessed in a stress scenario. Liquidity risk appetite considers two time periods; three month stressed outflow are required to be covered by primary liquid assets; and one year stressed outflow are required to be covered by primary and secondary liquid assets, after taking account of management actions. Primary liquid assets are gilts or cash, and secondary liquid assets are tradable non-primary assets

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

The following table analyses the Company's insurance and financial liabilities into relevant maturity groupings. The analysis of insurance liabilities is an estimated maturity analysis of the amount recognised in the Balance Sheet as permitted by IFRS 4. For financial liabilities, the groupings are based on the period remaining at the Balance Sheet to the contractual maturity date. The amounts disclosed in the table are undiscounted.

As at 31 December 2019	**Carrying amount**	**Up to 3 months**	**3-12 months**	**1-2 years**	**More than 2 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Short-term insurance contracts	59,033	19,786	20,144	8,950	10,153
Accruals, and other financial liabilities	33,944	30,223	3,721	—	—
Total	92,977	50,009	23,865	8,950	10,153

As at 31 December 2018	**Carrying amount**	**Up to 3 months**	**3-12 months**	**1-2 years**	**More than 2 years**
	£'000	£'000	£'000	£'000	£'000
Short-term insurance contracts	73,038	24,445	24,630	10,585	13,379
Accruals, and other financial liabilities	27,742	23,141	4,601	—	—
Total	100,780	47,586	29,231	10,585	13,379

(ii) Capital Risk

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

- the Company has insufficient capital to meet its regulatory capital requirements;
- the Company has insufficient capital to provide a stable resource to absorb all losses up to a confidence level defined in the risk appetite;
- the Company loses reputational status by having capital that is regarded as inappropriate, either in quantity, type or distribution; and/or
- the capital structure is inefficient.

The Company is regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The PRA rules, which incorporate all Solvency II requirements, specify the minimum amount of capital that must be held by the regulated Company in addition to their insurance liabilities. Under the Solvency II rules, the Company must hold assets in excess of this minimum amount, which is derived from an economic capital assessment undertaken by each regulated company and the quality of capital held must also satisfy Solvency II tiering rules. This is reviewed on a quarterly basis by the PRA.

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

24. Risk management (continued)

(ii) Capital Risk (continued)

The Solvency II minimum required capital must be maintained at all times throughout the year. These capital requirements and the capital available to meet them are regularly estimated in order to ensure that capital maintenance requirements are being met.

The Company’s objectives when managing capital are:

- to have sufficient capital to safeguard the Company’s ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders;
- to comply with the insurance capital requirements set out by the PRA in the UK; and
- when capital is needed, to require an adequate return to the shareholder by pricing insurance contracts according to the level of risk associated with the business written.

The capital management strategy is such that the integrated insurance business (comprising Scottish Widows Group (‘SWG’) and its subsidiaries, including the Company) will hold capital in line with the stated risk appetite for the business, which is to be able to withstand a one in ten year stress event without breaching the capital requirements. At SWG level it is intended that all surplus capital above that required to absorb a one in ten year stress event will be distributed to LBG.

The Company’s capital comprises all components of equity, movements in which are set out in the Statement of Changes in Equity.

The table below sets out the regulatory capital held at 31 December in each year for the Company on a Solvency II basis. The current year information is an estimate of the final result:

	2019	2018
	£'000	£'000
Regulatory Capital held	135,515	93,121

All minimum regulatory requirements were met during the year.

(4) Concentration risk

Credit concentration risk

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

Credit risk is managed through the setting and regular review of counterparty credit and concentration limits on asset types which are considered more likely to lead to a concentration of credit risk. For other asset types, such as UK government securities or investments in funds falling under the Undertakings for Collective Investment in Transferable Securities “UCITS” Directive, no limits are prescribed as the risk of credit concentration is deemed to be immaterial. This policy supports the approach mandated by the PRA for regulatory reporting.

At 31 December 2019 and 31 December 2018, the Company did not have any significant concentration of credit risk with a single counterparty or Group of counterparties where limits applied.

Liquidity concentration risk

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

As most of the Company's invested assets are diversified across a range of marketable equity and debt securities in line with the investment options offered to policyholders it is unlikely that a material concentration of liquidity concentration could arise.

This is supplemented by active liquidity management in the Company, to ensure that even under stress conditions the Company has sufficient liquidity as required to meet its obligations. This is delegated by the Board to and monitored through the Insurance and Wealth Asset and Liability Committee (“IWALCO”), the Insurance Risk Committee (“IRC”), Insurance Shareholder Investment Management Committee (“ISIM”) and Insurance Banking Liquidity Operations Committee (“BLOC”).

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

24. 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 the Company. 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
- Reverse stress testing

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 and Own Risk and Solvency Assessment (ORSA) review
- 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
- ORSA reporting

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.

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

24. Risk management (continued)

(d) Non-financial risks (continued)

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.

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.

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 Company's risk appetite.

– **Cyber and information security**

The risk of financial loss, disruption or damage to the reputation of LBG 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 Company fails to effectively govern, manage and protect its data (or the data shared with Third Party Suppliers) impacting the Company's agility, accuracy, access and availability of data, ultimately leading to poor customer outcomes, loss of value to the Company 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 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,

– **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 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).

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

24. Risk management (continued)

(d) Non-financial risks (continued)

– **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).

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.

(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 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 the lack of clarity around an EU trade deal is likely to keep investment subdued. 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 are 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.

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

25. 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. 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.

(b) 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				
Parent	—	40,000	—	—
Other related parties	15,930	40,248	20,528	39,292

	2018			
	Income during period £'000	**Expenses during period £'000**	**Payable at period end £'000**	**Receivable at period end £'000**
Relationship				
Parent	—	—	—	—
Other related parties	3,839	51,174	15,024	59,287

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

Parent undertaking transactions relate to all transactions and balances with parent companies, such transactions include cash and cash equivalent balances and Group relief for income tax.

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

Transactions with 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	438	470
Post-employment benefits	1	3
Share-based payments	95	122
Total	534	595

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £201k (2018: £198k).

There were no retirement benefits accruing 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 Group of the total compensation earned.

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

25. Related party transactions (continued)

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 £46k (2018: £55k). During the year, two directors exercised share options (2018: one director) and three directors' received qualifying service shares under long term incentive schemes (2018: two directors).

Movements in share options are as follows:

	2019 Thousands Options	2018 Thousands Options
Outstanding at 1 January	935	836
Granted	512	396
Exercised	(287)	(211)
Forfeited	(262)	(94)
Dividends awarded	14	8
Outstanding at 31 December	912	935

Detail regarding the highest paid Director is as follows:

	2019 £'000	2018 £'000
Apportioned aggregate emoluments	109	107
Apportioned post-employment benefits	—	0
Apportioned share-based payments	34	42
Total	143	149

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).

26. 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 £53.4m (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.

Legacy customer communications

The Company is undertaking a review in relation to legacy customer communications processes and governance. There is a significant amount of uncertainty as to the probability/likelihood and magnitude of any possible cash outflow arising from the conclusion of this review and consequently it is not practicable to quantify a reliable estimate of such amounts, whether directly incurred by the Company or indemnified for Halifax General Insurance Limited, under the Intragroup Agreement dated 21 December 2005 and varied on 19 December 2016 and 1 July 2019.

Other legal actions and regulatory matters

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

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

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

27. Future accounting developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2019 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 17 "Insurance Contracts"[1]	IFRS 17 replaces IFRS 4 'Insurance Contracts' and is currently effective for annual periods beginning on or after 1 January 2021, although, in its Exposure Draft published on 26 June 2019, the International Accounting Standards Board have proposed delaying implementation until 1 January 2022. IFRS 17 requires insurance contracts and participating investment contracts to be measured on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. Changes to estimates of future cash flows from one reporting date to another are recognised either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it. The effects of some changes in discount rates can either be recognised in profit or loss or in other comprehensive income as an accounting policy choice. The risk adjustment is released to profit and loss as an insurer's risk reduces. These requirements will result in changes to the timing of profit recognition for insurance and participating investment contracts issued by the Group and Company. The Group's IFRS 17 project is progressing to plan. Work has focused on interpreting the requirements of the standard, developing methodologies and accounting policies, and assessing the required changes to reporting and other systems The development of the Group's data warehousing and actuarial liability calculation processes required for IFRS 17 reporting is progressing in line with the Group's plans. The standard will have a significant impact on the accounting for the insurance and participating investment contracts issued by the Group and Company. Presentation and disclosure for these contracts will be considerably different and more extensive than under IFRS 4.	Annual periods beginning on or after 1 January 2022

[1] At the date of this report, these pronouncements are awaiting European Union endorsement.

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

28. 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.