SW No. 1 Limited

Annual Report and Accounts

2019

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

C M Murison
R J McIntyre
D J Campbell

Company Secretary

V M Smithard

Independent Auditors

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

Registered Office

69 Morrison Street
Edinburgh
EH3 8YF

Company Number

SC203484

STRATEGIC REPORT

The Directors present their strategic report on SW No. 1 Limited ("the Company") for the year ended 31 December 2019. The Company is limited by share capital.

The Company contributes to the results of the Insurance and Wealth Division of Lloyds Banking Group plc ("LBG" or "Group").

Principal activities

The Directors present the audited financial statements of the Company, a private limited Company domiciled and incorporated in the United Kingdom, whose principal activity is the holding of shares in LBG. The Company is a wholly owned subsidiary of Scottish Widows Limited ("SWL").

Result for the year

The result of the Company for the year ended 31 December 2019 is a profit for the year of £4.4m (2018: loss of £4.0m). The profit is driven by positive market movements impacting the LBG share price. The market value of the Company's investment in the shares of LBG as at 31 December 2019 was £19.6m.

The United Kingdom leaving the European Union

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 impact of this however on the Company is expected to be minimal.

Coronavirus

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The potential adverse impact on the value and trading of stocks, bond yields, credit spreads and commodities can also be seen in significant market falls, reduced liquidity and rises in volatility. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the retail or corporate customers of the Lloyds Banking Group and as a result have a material adverse effect on the Lloyds Banking Group's results of operations, financial condition or prospects. This is expected to have a material impact on the value of the Company's investment in the shares of LBG. See note 14 for further information.

Key performance indicators (KPI)

The Company is focused on ensuring it maximises returns for its shareholder and the LBG Insurance and Wealth Division. To support this, the Company is focused on the following financial key performance indicators. There are no non-financial KPI's to consider.

Dividend income

Dividend income of £1.0m (2018: £1.0m) was earned by the Company during the year in respect of its shareholding in LBG.

Value of LBG shares

At the end of the year, the value of shares held by the Company was £19.6m (2018: £16.2m). The number of shares held by the Company remained unchanged during the year (2018: unchanged).

Review of the business

The Directors are of the opinion that the information presented in the financial statements as a whole provides the management information necessary for the Directors to understand the development, performance and position of the business of the Company.

Outlook

There is the intention to have the Company wound up as part of an LBG project to reduce the number of companies within the Insurance and Wealth Division. Accordingly, the going concern basis of accounting is not appropriate, and the financial statements have been prepared on a basis other than going concern as described in note 1 to the financial statements. As part of the liquidation process it is the Company's intention to repay the loan from SWL to the extent of proceeds from the sale of the Company's investment in the shares of LBG and the realisable value of the liquidity fund. It is the intention of the Directors of the Parent Company to waive off the remaining amounts due to the Parent Company.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties

During the year, the management of the business and the execution of the Company's strategy are subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to risks, most notably market, liquidity and capital risk, are set out in note 12.

Section 172(1) 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 section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the following statement also provides details of how the Directors have engaged with and had regard to the interests of key stakeholders. The Company is a subsidiary of Lloyds Banking Group plc ('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.

Shareholders

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

Communities and the Environment

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

The Responsible Business Committee of the Board of LBG is responsible for overseeing LBG's approach, including that of the Company, to responding to environmental and sustainability issues, including measurement and reporting. Priorities during the year have included supporting the ongoing transition to a low carbon economy, and the development of related targets for LBG and its subsidiaries. LBG is working closely with the Government to support their Clean Growth Strategy, as well as supporting customers with a range of initiatives to help them with being more sustainable, including support in accessing 'green' finance. LBG's Sustainability team provides further coordination in the delivery and reporting of LBG's sustainability strategy, including mechanisms for keeping management and directors of LBG subsidiaries, including those of the Company, updated on environmental and sustainability issues impacting LBG. Further information in respect of the work of LBG's Responsible Business Committee is included within the Corporate Governance Report within the LBG Annual Report and Accounts for 2019, available on the LBG website.

On behalf of the Board of Directors

R J McIntyre
Director
8th September 2020

DIRECTORS' REPORT

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

The Company is a wholly owned subsidiary of Scottish Widows Limited ("SWL"). The Company's ultimate parent company and ultimate controlling party is LBG.

There is the intention to have the Company wound up as part of an LBG project to reduce the number of companies within the Insurance and Wealth Division.

Results and dividend

The profit for the year ended 31 December 2019 is £4.4m (2018: loss of £4.0m), and this has been transferred to reserves. The market value of the Company's investment in the shares of LBG as at 31 December 2019 was £19.6m. The Directors consider this result to reflect their expectations for the year in light of favourable market movements impacting the LBG share price.

The Directors have not recommended the payment of a dividend for the year (2018: £nil).

Post balance sheet events

Further information on post balance sheet events is set out in note 14.

Directors

The names of the current Directors are listed on page 3. There have been no changes in directorships during the year and since the end of the year.

Particulars of the Directors' emoluments are set out in note 13.

Directors' indemnities

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

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

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each Director in office at the date the report is approved:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all the steps that they ought to have taken as a Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

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

Financial risk management

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

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 European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

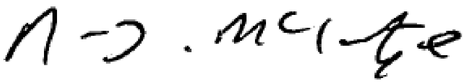
The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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 profit of the Company; and
- the Strategic Report on pages 4 to 5, and the Directors' Report on pages 6 to 7, 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



R J McIntyre
Director
8th September 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SW No. 1 LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, SW No. 1 Limited's financial statements:

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

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

Basis for opinion

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

Independence

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

Emphasis of matter - financial statements prepared on a basis other than going concern

In forming our opinion on the financial statements, which is not modified, we draw attention to note 1 to the financial statements which describes the directors' reasons why the financial statements have been prepared on a basis other than 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 MEMBERS OF SW No. 1 LIMITED (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 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Neil Riches (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
8th September 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Investment income	3	1,020	976
Finance income	3	661	471
Finance expenses	4	(661)	(471)
Net gains / (losses) on financial assets at fair value through profit or loss	7	3,357	(5,019)
Profit/(Loss) before tax		4,377	(4,043)
Taxation	6	-	-
Profit/(Loss) for the year		4,377	(4,043)

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 the total comprehensive income for the year.

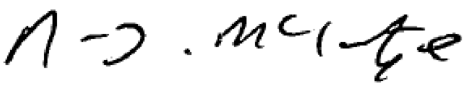
The notes set out on pages 14 to 26 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
CURRENT ASSETS			
Financial assets at fair value through profit or loss	7	19,558	16,201
Cash and cash equivalents	8	76,972	75,291
Total assets		96,530	91,492
EQUITY AND LIABILITIES			
Equity			
Share capital	9	-	-
Accumulated losses		(77,463)	(81,840)
Total equity		(77,463)	(81,840)
CURRENT LIABILITIES			
Financial liabilities:			
Amount due to Parent undertaking	10	173,993	173,332
Total liabilities		173,993	173,332
Total equity and liabilities		96,530	91,492

The notes set out on pages 14 to 26 are an integral part of these financial statements.

The financial statements on pages 10 to 26 were approved by the Board of Directors on 8th September 2020 and signed on its behalf by



R J McIntyre
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Profit / (Loss) before tax		4,377	(4,043)
Adjusting items:			
Financing expenses		661	471
Financing income		(661)	(471)
Investment income		(1,020)	(976)
Net movement in financial assets at fair value through profit or loss	7	(3,357)	5,019
Taxation paid		-	(14)
Net cash flows used in operating activities		-	(14)
Cash flows from investing activities			
Investment income	3	1,020	976
Interest received	3	661	471
Net cash flows generated from investing activities		1,681	1,447
Cash flows from financing activities			
Net movement in financing assets and liabilities	11	661	486
Financing expenses	4	(661)	(471)
Net cash flows generated from financing activities		-	15
Net increase in cash and cash equivalents		1,681	1,448
Cash and cash equivalents at the beginning of the year		75,291	73,843
Cash and cash equivalents at the end of the year	8	76,972	75,291

The notes set out on pages 14 to 26 are an integral part of these financial statements.

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

	Share capital	Accumulated losses	Total Equity
	£000	£000	£000
Balance as at 1 January 2018	-	(77,797)	(77,797)
Total comprehensive income/(loss) for the year	-	(4,043)	(4,043)
Balance as at 31 December 2018	-	(81,840)	(81,840)
Total comprehensive income/(loss) for the year	-	4,377	4,377
Balance as at 31 December 2019	-	(77,463)	(77,463)

The notes set out on pages 14 to 26 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 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 IFRS; and

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

The Directors have an intention to commence the liquidation of the Company during 2020. Consequently, the accounts are not prepared on a going concern basis but instead on a non-going concern basis. Since all the assets and liabilities are measured at their recoverable value, no adjustments were necessary to the valuation of net assets which are included in these financial statements. The comparative financial information is prepared on the same basis as the current year financial information. Sufficient funds are available to support the business activities until liquidation occurs, including liquidation costs.

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.

Standards and interpretations effective in 2019

The Company has not adopted any new standards, amendments to standards and interpretations of published standards which became effective financial years beginning on or after 1 January 2019, which have had a material impact on the Company.
There are no standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company.

(b) Financial assets and financial liabilities

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.

(i) Financial instruments measured at amortised cost

Financial assets 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. 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. Financial assets measured at amortised cost are predominantly trade and other receivables together with certain cash and cash equivalents.

Financial liabilities are measured at amortised cost, except for financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

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

1. Accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(ii) Financial instruments measured at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost. All equity instruments are carried at fair value through profit or loss.

Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value, with fair value gains and losses recognised through net gains and losses on assets and liabilities at fair value through profit or loss in the statement of comprehensive income.

Financial liabilities are measured at fair value through profit or loss where the liabilities are part of a group of liabilities (or assets and liabilities) which is managed, and its performance evaluated, on a fair value basis; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for. Financial liabilities measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses are recognised in the statement of comprehensive income within net gains and losses on assets and liabilities at fair value through profit or loss in the period in which they occur.

(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 (unadjusted) in active markets for identical assets and liabilities to those being valued. An active market is one in which arm’s length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) Level 2

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

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

(iii) Level 3

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

Further analysis of the Company’s instruments held at fair value is set out at note 12 c) 1).

(d) Revenue recognition

Investment income

Dividends receivable in respect of listed shares are recognised on the date that these are quoted ex-dividend. All dividends received are recognised through the statement of comprehensive income, within investment income.

Finance income

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

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

1. Accounting policies (continued)

(e) Expense recognition

Finance costs

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

(f) Cash and cash equivalents

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

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

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

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

(g) Impairment

Financial assets

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

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

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

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

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

Impairment process

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

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

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

1. Accounting policies (continued)

(g) Impairment (continued)

Impairment process (continued)

(iv) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be identified with the individual assets of the Company, including:
- adverse changes in the payment status of issuers or receivables; or
- national or local economic conditions that correlate with defaults on the assets in the Company.

In addition to the above, a significant or prolonged decline in the fair value of an investment in an equity investment below its cost is also objective evidence of impairment.

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

(h) Taxes

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

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

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

Deferred tax 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.

(i) 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.

(j) Other financial liabilities

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

2. Critical accounting estimates and judgements in applying accounting policies

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

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

2. Critical accounting estimates and judgements in applying accounting policies (continued)

There are no significant accounting estimates or judgements that have been used in the preparation of these financial statements for the year ended 2019.

3. Investment and finance income

	2019 £000	2018 £000
Investment income	1,020	976
Finance income	661	471
Total	**1,681**	**1,447**

Investment income represents dividends received in respect of the Company's shareholding in LBG. Finance income represents interest on investment in a liquidity fund.

4. Finance expenses

	2019 £000	2018 £000
Finance expenses	661	471
Total	**661**	**471**

Finance expenses are associated with interest received in note 3 above and are due to SWL.

5. Auditors' remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	2	2
Total	**2**	**2**

Audit fees for 2018 and 2019 were borne by another LBG entity and were not recharged to the Company.

6. Taxation

(a) Current year tax charge

	2019 £000	2018 £000
Current tax:		
UK corporation tax charge	-	-
Total income tax charge	**-**	**-**

At 31 December 2019, the market value of the shares the Company holds in LBG was less than cost (2018: below cost). The unrecognised deferred tax asset in respect of the difference between the shares' cost and market value at 31 December 2019 is £25m (2018: £nil).

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent with effect from 1 April 2020. This was enacted under the Provisional Collection of Taxes Act 1968. Had this rate change been substantively enacted at 31 December 2019, the effect would have been to increase the unrecognised deferred tax asset by £3m.

(b) Reconciliation of tax expense

	2019 £000	2018 £000
Profit / (Loss) before tax	4,377	(4,043)
Tax at 19.00% (2018: 19.00%)	832	**(768)**
Disallowed items	-	954
Non-taxable income	(832)	(186)
Total tax charge for the year	**-**	**-**

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

7. Financial assets at fair value through profit or loss

	2019 £000	2018 £000
Market value at 1 January	16,201	21,220
Net gains/ (losses) on financial assets at fair value through profit or loss	3,357	(5,019)
Total	**19,558**	**16,201**

The Company holds shares in LBG. The shares are listed on a recognised stock exchange.

Name of Undertaking	% Held
Lloyds Banking Group plc (i)	0.04%

Principle Place of Business
(i) 25 Gresham Street, London, EC2V 7HN

8. Cash and cash equivalents

	2019 £000	2018 £000
Investment in liquidity fund	76,911	75,256
Other short term deposits	61	35
Total	**76,972**	**75,291**

9. Share capital

	2019 £000	2018 £000
Authorised share capital: 1,000 ordinary shares of £1 each (2018: 1,000)	1	1
Allotted, called up and fully paid share capital: 1 ordinary share (2018: 1) of £1 (2018: £1)	-	-

There were no changes in share capital during the year.

10. Amount due to Parent undertaking

	2019 £000	2018 £000
Intercompany creditor – cost of shares	166,694	166,694
Intercompany creditor – current tax	-	14
Intercompany creditor – accrued interest	7,299	6,624
Total	**173,993**	**173,332**

Prior to the demutualisation of Scottish Widows’ Fund and Life Assurance Society on 3 March 2000, the Company received shares in LBG. The receipt of the shares was financed through an intercompany loan which is payable to SWL.

Accrued interest represents interest earned on investments which is subsequently payable to SWL.

11. Net movement in financing assets and liabilities

	2019 £000	2018 £000
Increase in financing liabilities:		
Financial liabilities:		
Amounts owed to Parent undertaking	661	486
Net increase in financing assets and liabilities	**661**	**486**

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

12. Risk management

The principal activity of the Company is to hold shares in LBG.

This note summarises the risks associated with the Company's business and the way in which the Company managed them during the year.

(a) Governance framework

The Company is part of LBG's Insurance & Wealth Division which has established a risk management function with responsibility for implementing the LBG risk management framework.

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

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

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

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

(b) Risk appetite

Risk appetite is the amount and type of risk that the Insurance and Company Boards prefer, accept or wish to avoid and is aligned to Insurance and LBG strategy. The Insurance Board has defined a framework for the management of risk and approved a set of risk appetite statements that cover financial risks (capital, credit, market and liquidity), operational risks, people risks, conduct risks, regulatory & legal risks, model and governance risks. The risk appetite statements set limits for exposures to the key risks faced by the business. Risk appetite is reviewed at least annually by the Insurance 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 (by exception) to each meeting of IWRC and ROC. Any breaches of risk appetite require clear plans and timescales for resolution.

(c) Financial risks

During the year, the Company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of financial risk are credit, market, capital, and liquidity risks.

The market risks that the Company primarily faces due to the nature of its financial assets and financial liabilities are interest rate and equity risk.

The Company manages these risks in a number of ways, including risk appetite assessment and monitoring of capital.

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 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.

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

12. Risk management (continued)

(c) Financial risks (continued)

(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.

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

As at 31 December 2019

	Fair value hierarchy			
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at fair value through profit or loss	19,558	-	-	19,558
Total assets	**19,558**	**-**	**-**	**19,558**

As at 31 December 2018

	Fair value hierarchy			
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at fair value through profit or loss	16,201	-	-	16,201
Total assets	**16,201**	**-**	**-**	**16,201**

Investments in a liquidity fund are classified as level 1 in the fair value hierarchy.

(i) Equity risk

The Company is exposed to equity risk through its holding of shares in LBG. The value of these financial assets will fluctuate as a result of changes in market prices other than from interest and foreign exchange fluctuations.

The sensitivity analysis below illustrates how the fair value of future cash flows in respect of equity instruments will fluctuate because of changes in market prices at the reporting date:

	Impact on profit after tax and equity for the year	
	2019 £000	**2018 £000**
6.60% (2018: 6.60%) increase in equity prices	1,291	1,069
6.60% (2018: 6.60%) decrease in equity prices	(1,291)	(1,069)

(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. The sensitivity analysis below illustrates how the fair value of future cash flows in respect of interest-bearing financial assets will fluctuate because of changes in market interest rates at the reporting date.

	Impact on profit after tax and equity for the year	
	2019 £000	**2018 £000**
25 basis points (2018: 25 basis points) increase in yield curves	156	152
25 basis points (2018: 25 basis points) decrease in yield curves	(156)	(152)

(2) Credit risk

Credit risk is defined as the risk that parties with whom we have contracted fail to meet their financial obligations.

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

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

12. Risk management (continued)

(c) Financial risks (continued)

(2) Credit risk (continued)

The following table sets out details of the credit quality of financial assets that are not impaired:

	2019 £000	2018 £000
Cash and cash equivalents	76,972	75,291
Total assets bearing credit risk	**76,972**	**75,291**

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

As at 31 December 2019

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Cash and cash equivalents	76,972	76,911	-	61	-	-
Total	**76,972**	**76,911**	**-**	**61**	**-**	**-**

As at 31 December 2018

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Cash and cash equivalents	75,291	75,256	-	35	-	-
Total	**75,291**	**75,256**	**-**	**35**	**-**	**-**

(3) Liquidity risk

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

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

The following tables indicate the timing of the contractual cash flows arising from the Company's financial liabilities, as required by IFRS 7.

As at 31 December 2019

			Contractual cash flows (undiscounted)				
Liabilities	**Carrying amount £000**	**No stated maturity £000**	**Less than 1 month £000**	**1-3 Months £000**	**3-12 months £000**	**1-5 years £000**	**More than 5 years £000**
Amount due to Parent undertaking	173,993	-	173,993	-	-	-	-
Total	**173,993**	**-**	**173,993**	**-**	**-**	**-**	**-**

As at 31 December 2018

			Contractual cash flows (undiscounted)				
Liabilities	**Carrying amount £000**	**No stated maturity £000**	**Less than 1 month £000**	**1-3 Months £000**	**3-12 months £000**	**1-5 years £000**	**More than 5 years £000**
Amount due to Parent undertaking	173,332	-	173,332	-	-	-	-
Total	**173,332**	**-**	**173,332**	**-**	**-**	**-**	**-**

The amount due to SWL is contractually payable within one month of the reporting date. However, settlement is not expected to be made within this timeframe.

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

12. Risk management (continued)

(c) Financial risks (continued)

(4) 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 Insurance and Wealth Division.

Within the Insurance and Wealth Division, capital risk is actively monitored by the Insurance and Wealth Asset and Liability Committee ("IWALCO”).

The Company’s capital comprises all components of equity, movements in which are set out in the statement of changes in equity.

As part of the liquidation process it is the Company’s intention to repay the loan from SWL to the extent of proceeds from the sale of the Company’s investment in the shares of LBG and the realisable value of the liquidity fund. It is the intention of the Directors of the Parent Company to waive off the remaining amounts due to the parent company.

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

The various stages of the framework are:

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

Measurement
- Evaluate risk exposure vs appetite
- Actual vs expected losses
- Scenario analysis

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

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

12. Risk management (continued)

(d) Non-financial risks (continued)

The primary non-financial risk categories are:

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

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

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:

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

(d)(ii) Cyber and information security
The risk of financial loss, disruption or damage to the reputation of the Company 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.

(d)(iii) 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.

(d)(iv) 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.

(d)(v) 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.

(d)(vi) 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.

(d)(vii) 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,

(d)(viii) Internal service provision
The risk associated with the management of internal service arrangements.

(d)(ix) IT systems
The risk of failure in technology governance and the development, delivery and maintenance of effective IT solutions.

(d)(x) 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.

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

12. Risk management (continued)

(d) Non-financial risks (continued)

(d)(xi) 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).

(d)(xii) 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).

(d)(xiii) 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.

(d)(xiv) 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 impact of this however on the Company is expected to be minimal.

(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 rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. This is expected to have a material impact on the value of the Company's investment in the shares of LBG. See note 14 for further information.

13. Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Scottish Widows Limited, a company registered in the United Kingdom.

The parent undertaking which is the parent undertaking of the smallest group to consolidate these financial statements is Scottish Widows Limited. Copies of the consolidated annual report and financial statements of Scottish Widows Limited may be obtained from Insurance Secretariat, 69 Morrison Street, Edinburgh EH3 8YF.

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

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

13. Related party transactions (continued)

(b) Transactions and balances with related parties

Transactions between the Company and other LBG companies

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

	2019			
	Income during year £000	**Expenses during year £000**	**Payable at year end £000**	**Receivable at year end £000**
Relationship				
Ultimate Parent	1,020	-	-	-
Parent	-	661	173,993	-

	2018			
	Income during year £000	**Expenses during year £000**	**Payable at year end £000**	**Receivable at year end £000**
Relationship				
Ultimate Parent	976	-	-	-
Parent	-	471	173,332	-

Transactions between the Company and 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 the Executive Directors.

The Directors consider that they receive no remuneration for their services to the Company (2018: £nil).

14. 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.

The Directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the Directors are unable to estimate its financial and other effects, however it is probable that the value of the shares the Company holds in LBG will be negatively impacted. The value of the Company’s investment in LBG shares as at 31 August 2020 was £8,871,662 and reached a low of £8,200,419 on 30 July 2020.