Scottish Widows Financial Services Holdings

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

69 Morrison Street
Edinburgh
Midlothian
EH3 8YF

Company Number

SC199548

STRATEGIC REPORT

The Directors present their strategic report on Scottish Widows Financial Services Holdings ("the Company") for the year ended 31 December 2019.

Principal activities

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

The Company's principal activity is that of an intermediate holding company. Its three subsidiaries are SW Funding plc ("SWF") (formerly Scottish Widows plc), HBOS Financial Services Limited ("HBOS FS"), and HBOS International Financial Services Holdings Limited ("HBOS IFS").

Result for the year

The result of the Company for the year ended 31 December 2019 is a loss before tax of £117.9m (2018: profit before tax of £20.0m). The total net assets of the Company at 31 December 2019 are £353.3m (2018: total net assets £471.2m).

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 raise~~s~~ additional uncertainty for the UK economic outlook. The Company's response to these risks and uncertainty includes contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts. Also a no deal EU exit outcome has been analysed to identify impacts and assess robustness of contingency plans.

Coronavirus

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

Climate Change

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

Our ambition
LBG has set seven leadership ambitions to support the UK's transition to a sustainable future. Those that are relevant to the Company are:
• Pensions & Investments: be a leading UK pension provider that offers our customers sustainable investment choices, and challenges companies we invest in to behave more sustainably and responsibly.
• 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.

Progress
Throughout 2019, we have been actively reviewing asset exposures by type and continue to make enhancements to existing Stewardship policies and procedures. Much of our engagement activity is currently undertaken through 3rd party asset managers. In addition to our own stewardship activity, our investment managers will work with Investee Companies to influence their strategy and approach, liaising with management and voting on resolutions, with a clear focus on enhancing a company's Environmental, Social and Governance (ESG) approach.

Metrics and targets
As part of our TCFD implementation plan we are developing our approach to reporting appropriate metrics and targets during 2020. Initially we will consider our exposure to carbon intensive sectors and the subsequent risks. This will be used to support a long term reporting framework, enabling us to track our performance against our sustainability strategy, and disclose the financial impact of climate change related risks and opportunities.

Risk management
Climate risk is a key emerging risk for the Company. Our approach to identifying and managing climate risks is founded on embedding it into our existing Risk Management Framework, and integrating through policies, authorities and risk control mechanisms. During 2019, we updated our plan for implementing the TCFD recommendations and invested in resource to implement.

STRATEGIC REPORT (continued)

Governance
Given the importance of our ambitions, our governance structure provides clear oversight and ownership of the sustainability strategy, implementation of the TCFD recommendations and adherence to the evolving regulatory requirements on climate risk. Further details of the LBG approach of transitioning to a low carbon economy can be found in LBG's Annual Report and Accounts, which can be downloaded at www.lloydsbankinggroup.com.

Key performance indicators

The Company's principal business during the year was the holding of investments in subsidiaries. Its principal income is the receipt of dividends from these subsidiaries. In 2019, no dividends were received from subsidiary undertakings (2018: £20.0m).

The Directors are of the opinion that the above is the key performance indicator which is appropriate to the principal activity of the Company. The development, performance and position of the Insurance and Wealth Division are presented within LBG's annual report, which does not form part of this report.

Outlook

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

Principal risks and uncertainties

The Company is managed as part of LBG's Insurance and Wealth Division. The management of the business and the execution of the Company's strategy are subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to market, credit, financial soundness, and operational risks are set out in note 13.

In addition, the Company through its investment in subsidiaries is also exposed to financial risk, in particular the risk of reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting, financial reporting fraud and impairment of subsidiary companies. Further details on the current year impairment are included in note 5. The financial and risk management objectives and policies of the Company are also set out in note 13.

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. Further details on key actions in this regard are also contained within the Directors' Report on pages 7 – 8.

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.

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

STRATEGIC REPORT (continued)

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.

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 the Company has robust prudential standards and supervision arrangements in place, ensuring the fair treatment of customers, adapting to changes in regulatory requirements, recovery and resolution, and preparations for the UK's withdrawal from the EU.

The Board has received regular updates on regulatory interaction, providing a view of key areas of focus, alongside progress made addressing regulatory actions. During 2019, LBG colleagues had regular meetings with the regulators, representing the interests of the Company as required. 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

Principal activities

The Directors present the audited financial statements of the Company, an unlimited liability Company domiciled and incorporated in the United Kingdom, whose principal activity is that of an intermediate holding company. The Company is a wholly owned subsidiary of Scottish Widows Group Limited ("SWG").

Results and dividend

The result of the Company for the year ended 31 December 2019 is a loss before tax of £117.9m (2018: profit before tax of £20.0m) and this has been transferred to reserves. The result for the year reflects income from investments and an impairment of the investment in a subsidiary company. The Directors consider the result for the current year to be satisfactory in light of the activities of the Company and its subsidiaries and the prevailing economic climate. The total net assets of the Company at 31 December 2019 are £353.3m (2018: total net assets £471.2m).

During the year, no dividends were paid (2018: £nil). No final dividend is proposed in respect of the year ended 31 December 2019 (2018: £nil).

Post balance sheet events

Further information on post balance sheet events is set out in note 17.

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 14.

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 directors who joined the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the Directors' period of office. The deed indemnifies the Directors to the maximum extent permitted by law.

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

Political contributions

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

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.

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 under principal risks and uncertainties. These include the liquidity and capital position in addition to considering projections for the Company's capital and liquidity position. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Independent auditors

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

DIRECTORS' REPORT (continued)

Statement of Directors' responsibilities in respect of the financial statements

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 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 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 6, and the Directors' Report on pages 7 to 8 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 of Scottish Widows Financial Services Holdings

Report on the audit of the financial statements

Opinion

In our opinion, Scottish Widows Financial Services Holdings's financial statements:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 8, 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 member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Neil Riches

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Revenue			
Income from shares in subsidiary undertakings	14	-	20,000
Investment income	2	43	30
Total revenue		43	20,030
Expenses			
Impairment of subsidiary undertakings	5	(117,586)	-
Other operating expenses	3	(419)	-
Total expenses		(118,005)	-
(Loss) / Profit before tax		(117,962)	20,030
Tax credit/(charge)	4	52	(6)
(Loss) / Profit for the year		(117,910)	20,024

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

The notes set out on pages 15 to 27 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	5	373,992	491,578
Current assets			
Other financial assets	6	30	449
Cash and cash equivalents	7	6,604	6,567
Current tax assets	8	52	-
Total assets		380,678	498,594
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	9	1,000	1,000
Share premium	9	375	375
Other reserves	10	1,082,213	1,082,213
Accumulated losses		(730,310)	(612,400)
Total equity		353,278	471,188
Current liabilities			
At amortised cost:			
Amounts owed to LBG undertakings	14	27,400	27,400
Current tax liabilities	11	-	6
Total liabilities		27,400	27,406
Total liabilities and equity		380,678	498,594

The notes set out on pages 15 to 27 are an integral part of these financial statements.

The financial statements on pages 11 to 27 were approved by the Board of Directors on 19 March 2020 and signed on its behalf by

J C S Hillman
Director
20 March 2020

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
(Loss) / profit before tax		(117,962)	20,030
Adjusted for:			
Income from shares in subsidiary undertakings	14	-	(20,000)
Investment income	2	(43)	(30)
Net movement in operating assets and liabilities	12	419	(20,000)
Impairment of subsidiary undertakings	5	117,586	-
Taxation paid		(6)	(1)
Net cash flows used in operating activities		(6)	(20,001)
Cash flows from investing activities			
Dividend income received	14	-	20,000
Investment income received	2	43	30
Net cash flows generated from investing activities		43	20,030
Net increase in cash and cash equivalents		37	29
Cash and cash equivalents at the beginning of the year		6,567	6,538
Cash and cash equivalents at the end of the year	7	6,604	6,567

The notes set out on pages 15 to 27 are an integral part of these financial statements.

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

	Share capital £000	Share premium £000	Other reserves £000	Accumulated losses £000	Total equity £000
Balance as at 1 January 2018	1,000	375	1,082,213	(632,424)	451,164
Profit and total comprehensive income for the year	-	-	-	20,024	20,024
Balance as at 31 December 2018	1,000	375	1,082,213	(612,400)	471,188
Loss and total comprehensive income for the year	-	-	-	(117,910)	(117,910)
Balance as at 31 December 2019	1,000	375	1,082,213	(730,310)	353,278

All of the above amounts are attributable to the equity holder of the Company.

The notes set out on pages 15 to 27 are an integral part of these financial statements.

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

1. Accounting policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

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

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

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

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

In accordance with IAS 1 "Presentation of Financial Statements", assets and liabilities in the balance sheet are presented in accordance with management's estimated order of liquidity.

As the Company is a wholly owned subsidiary undertaking of LBG, registered in the United Kingdom, the Company has taken advantage of the provisions under section 400 of the Companies Act 2006 and has not produced consolidated financial statements.

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.

Details of standards and interpretations in issue but which have not been adopted early are set out at note 16.

(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. 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.

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.

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

(c) Revenue recognition

Dividend income in respect of the Company's investments in subsidiary undertakings is recognised when received. All dividends received are recognised through the statement of comprehensive income, within income from shares in subsidiary undertakings.

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

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

1. Accounting policies (continued)

(d) Investments in subsidiary undertakings

The Company owns a number of subsidiaries as set out in note 5. These subsidiaries are held at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company's impairment policy is set out in policy (f).

(e) Cash and cash equivalents

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

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

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

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

(f) Impairment

Financial assets

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 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.

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, for example investments in subsidiaries, are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

1. Accounting policies (continued)

(g) Taxation, including deferred income taxes

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

Current tax

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

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or 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.

(h) Share capital

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

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

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

The recoverable amount of investments in subsidiaries involves critical accounting estimates with regard to future cash flows and the applied growth and discount rates. In determining these estimates, key judgements are applied concerning the future operations and estimation uncertainty at the reporting date in particular when calculating the value in use for subsidiaries still trading. Further information on these estimates is given in note 5.

2. Investment income

	2019 £000	2018 £000
Interest receivable on investments in a liquidity fund	43	30
Total	43	30

3. Other operating expenses

	2019 £000	2018 £000
Other operating expenses	419	-
Total	419	-

£419k of historic balances (2018: nil) have been written off in the year.

	2019 £000	2018 £000
Fees payable to the Company’s auditors for the audit of the Company’s annual financial statements	5	5
Total	5	5

(a) Audit fees for 2019 and 2018 were borne by another Company within LBG and are not recharged to the Company.
(b) The Company had no direct employees during the year (2018: nil).

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

4. Tax credit/(charge)

(a) Current tax credit/(charge)

	2019 £000	2018 £000
Current tax:		
UK corporation tax	52	(6)
Total current tax credit/(charge)	52	(6)

(b) Reconciliation of tax credit/(charge)

	2019 £000	2018 £000
(Loss)/Profit before tax	(117,962)	20,030
Tax at 19% (2018: 19%)	22,413	(3,806)
Effects of:		
Disallowed items	(20)	-
Untaxed items:		
Income from shares in subsidiary undertakings	-	3,800
Impairment of investment in subsidiary undertakings	(22,341)	-
Total	52	(6)

5. Investments in subsidiary undertakings

Investments in subsidiary undertakings are as follows:

	2019 £000	2018 £000
At 1 January	491,578	491,578
Impairment of subsidiary undertakings	(117,586)	-
At 31 December	373,992	491,578

An impairment of £117.6m has been recognised during 2019 in respect of the investment in HBOS Financial Services Limited (“HBOS FS”), leaving a carrying value of £353.7m (2018: £471.3m).

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

Significant Estimate: Impairment Charge
The impairment arose following an impairment of the carrying value in Halifax Financial Services (Holdings) Limited (“HFS(H)L”) of the investment in its subsidiary, HBOS Investment Fund Managers Limited (“HIFML”). This occurred as a result of changes to a cost sharing agreement between HIFML and Scottish Widows Limited resulting in a reduction in the HIFML value in use. HBOS FS is the parent of HFS(H)L.

Significant Estimate: Impact of possible changes in key assumptions
If the discount rate applied to the cash flow projections had been 1% higher (9.64% instead of 8.64%), the impairment charge would have been £133.6m, an increase of £16.0m. If the discount rate had been 1% lower (7.64% instead of 8.64%), the impairment charge would have been £99.8m, a decrease of £17.8m. In the prior year, there were no reasonable potential changes in any of the key assumptions that would have resulted in an impairment.

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

5. Investments in subsidiary undertakings (continued)

All entities below are wholly-owned, directly or indirectly, and transact insurance or reinsurance business, investment management activities or services in connection therewith, unless otherwise stated. The following are particulars of the Company's subsidiaries:

SW Funding plc	(1)	Legacy Renewal Company Limited	(6)
HBOS Financial Services Limited	(2)	HBOS International Financial Services Holdings Limited	(2)
Halifax Financial Services (Holdings) Limited	(3)	Clerical Medical Finance plc	(2)
HBOS Investment Fund Managers Limited	(3)	Clerical Medical Financial Services Limited	(2)
Halifax Financial Brokers Limited	(3)	Pensions Management (S.W.F.) Limited	(4)
Clerical Medical Investment Fund Managers Limited	(3)	Scottish Widows Annuities Limited [1]	(7)
Halifax Financial Services Limited	(3)	Scottish Widows Unit Funds Limited	(1)
Halifax Investment Services Limited	(3)	Clerical Medical International Holdings B.V. [1]	(5)

[1] In liquidation.

Registered office addresses

(1) 69 Morrison Street, Edinburgh, EH3 8YF
(2) 33 Old Broad Street, London, EC2N 1HZ
(3) Trinity Road, Halifax, HX1 2RG
(4) 15 Dalkeith Road, Edinburgh, EH16 5BU
(5) Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands
(6) Bank of Scotland, The Mound, Edinburgh, EH1 1YZ
(7) Atria One, 144 Morrison Street, Edinburgh, EH3 8EX

6. Other financial assets

	2019 £000	2018 £000
Other receivables	30	449
Total	30	449

7. Cash and cash equivalents

Cash and cash equivalents, for the purposes of the statement of cash flows, include the following:

	2019 £000	2018 £000
Investments in a liquidity fund	6,604	6,567
Total	6,604	6,567

8. Current tax assets

	2019 £000	2018 £000
Current tax assets	52	-
Total	52	-

9. Share capital and premium

	2019 £000	2018 £000
Allotted, called up and fully paid share capital:		
100,000,000 (2018: 100,000,000) ordinary shares of £0.01 each	1,000	1,000
Share premium	375	375
Total	1,375	1,375

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

10. Other reserves

During the year ended 31 December 2004, the Company was re-registered as a private unlimited company and subsequently altered its capital structure. The share capital of the Company was reduced by £5,846,000,000 through the cancellation of 584,600,000,000 issued redeemable ordinary shares of 1p each. An amount of £4,763,787,000 was transferred from share capital to the profit and loss reserves of the Company and the remaining £1,082,213,000 was transferred from share capital to other reserves.

Subsequent to the year ended 31 December 2015, the Board approved a Resolution to make other reserves distributable. This reserve is therefore available for future distributions.

11. Current tax liabilities

	2019 £000	2018 £000
Current tax liabilities	-	6
Total	-	6

12. Net movement in operating assets and liabilities

	2019 £000	2018 £000
Net decrease/(increase) in operating assets:		
Financial assets:		
Other financial assets	419	(449)
Net decrease/(increase) in operating assets	419	(449)
Net decrease in operating liabilities:		
Amounts owed to LBG undertakings	-	(19,115)
Other financial liabilities	-	(436)
Net decrease in operating liabilities	-	(19,551)
Net movement in operating assets and liabilities	419	(20,000)

13. Risk management

The Company acts as an intermediate holding company. This note summarises the risks associated with the activities of the Company and the way in which the Company manages them.

(a) Governance framework

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

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

Responsibility for the management of risk resides with the Board of the Company. The Board manages risks in line with LBG and Insurance risk policies. The Board has delegated certain risk matters to the Insurance Risk Oversight Committee (“ROC”) with the operational implementation of these being 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 LBG and Insurance and Wealth Division, are responsible for drafting risk policies, for ensuring that they remain up-to-date and for facilitating any changes. Policies are subject to at least an annual review. Limits are prescribed within which those responsible for the day to day management of each company within the Insurance and Wealth Division 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.

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

13. Risk management (continued)

(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 Insurance and Wealth Division 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 (capital, insurance underwriting, credit, market and liquidity) and non-financial (conduct, governance, model and operational) 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 (by exception) to each meeting of IWRC and ROC. Copies are also supplied regularly to the regulators as part of a close and continuous relationship. Reporting focuses on ensuring and demonstrating to the Board, and their delegate ROC that the Company 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 a range of financial risks through its financial assets and financial liabilities.

The market risk that the Company primarily faces due to the nature of its assets and liabilities is interest rate risk. The Company manages these risks in a number of ways, including monitoring of cash flow requirements.

Financial assets and financial liabilities are measured on an on-going basis 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 are recognised.

(c)(i) Market risk

Market risk is defined as the risk that the Company's capital or earnings profile is affected by adverse market rates.

The main investments of the Company are the holdings in subsidiary companies, which are set out in note 5 and the risks associated with investments in subsidiaries are covered further in paragraph (d) below. Holdings of individual assets are essentially interest bearing, and are covered further below.

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

(c)(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 arises in respect of cash balances which are invested in a cash fund. None of the other financial assets or financial liabilities of the Company are subject to interest rate risk.

(c)(iii) Credit risk

The risk that parties with whom we have contracted fail to meet their financial obligations. The Company holds investments in a liquidity fund of £6,604k (2018: £6,567k), all of which are from A to AAA rated. Credit risk in respect of these balances is not considered to be significant.

There were no past due or impaired financial assets at 31 December 2019 (2018: none). No terms in respect of financial assets had been renegotiated at 31 December 2019 (2018: none).

(c)(iv) 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 has been analysed as arising from the settlement of intercompany balances. Liquidity risk is managed in line with LBG Funding and Liquidity Risk Policy.

In order to measure liquidity risk exposure the Company's liquidity is assessed in a stress scenario. Liquidity risk is actively managed and monitored to ensure that, even under stress conditions, the Company has sufficient liquidity to meet its obligations and remains within approved risk appetite. The Company holds primary liquid assets in the form of cash.

The following table analyses the Company's contractual maturity for financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company is obliged to pay. The table includes both interest and principal cash flows.

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

13. Risk management (continued)

As at 31 December 2019

Liabilities		Contractual cash flows (undiscounted)					
	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
Amounts owed to LBG undertakings – current	27,400	-	27,400	-	-	-	-
Total	27,400	-	27,400	-	-	-	-

As at 31 December 2018

Liabilities		Contractual cash flows (undiscounted)					
	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
Amounts owed to LBG undertakings – current	27,400	-	27,400	-	-	-	-
Total	27,400	-	27,400	-	-	-	-

(c)(v) 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 Company's objectives when managing capital are to ensure that sufficient capital is available to safeguard the Company's ability to continue as a going concern so that it can continue to provide a return to the shareholder.

The Company manages the capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets.

The Company's capital comprises all components of equity £353.3m (2018: £471.2m), movements in which are set out in the statement of changes in equity.

(d) Risk associated with investment in subsidiaries

The Company directly owns three subsidiary undertakings, the carrying values of which are assessed for reasonableness at least once in each financial year. Any impairment in the value of this investment could result in a significant financial exposure of the Company. The underlying activity in the subsidiary undertakings is regularly monitored and any implications on the financial position of the Company assessed. These subsidiaries are managed in accordance with LBG risk policies to mitigate against any unforeseen circumstances.

(e) Non-Financial risks

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

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

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

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

13. Risk management (continued)

(e) Non-Financial risks (continued)

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

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

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

The primary non-financial risk categories are:

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

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

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:

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

(e)(ii) Cyber and information security
The risk of financial loss, disruption or damage to the reputation of the Group from a malicious attack that impacts the confidentiality and/or integrity of electronic data or the availability of systems.

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

(e)(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.

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

13. Risk management (continued)

(e) Non-Financial risks (continued)

(e)(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.

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

(e)(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.

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

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

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

(e)(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).

(e)(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).

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

(e)(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.

(f) 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 raise~~s~~ additional uncertainty for the UK economic outlook. The Group'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.
- Committed investments for our entity in the EU to ensure continuity of certain business activities, and contingency planning in relation to wider areas of impact.
- No deal EU exit outcome analysed to identify impacts and assess robustness of contingency plans.

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

(g) 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 Group.
- 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 Group 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. Whilst the ultimate impact is currently unknown, we are exploring the credit risk impact.

14. Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Scottish Widows Group Limited, a company registered in the United Kingdom. Scottish Widows Group Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Copies of the Lloyds Banking Group plc financial statements in which the Company is consolidated can be obtained from the Group Secretary's Department, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

(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 the year £000	Expenses during the year £000	Payable at the year end £000	Receivable at the year end £000
Relationship				
Subsidiary	-	-	-	-
Other related parties	-	-	27,400	-

	2018			
	Income during the year £000	Expenses during the year £000	Payable at the year end £000	Receivable at the year end £000
Relationship				
Subsidiary	20,000	-	-	-
Other related parties	-	-	27,400	-

Transactions between the Company and entity employing key management

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

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

14. Related party transactions (continued)

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

Key management compensation:

	2019 £000	2018 £000
Short-term employee benefits	219	235
Post-employment benefits	-	1
Share-based payments	48	61
Total	267	297

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by directors in respect of qualifying services of £101k (2018: £99k).

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

Certain members of key management in the Company, including the highest paid director, provide services to other companies within LBG. In such cases, for the purposes of this note, figures have been included based on an apportionment to the Company of the total compensation earned. This cost has not been recharged to the Company.

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 £23k (2018: £28k). During the year, two directors exercised share options (2018: one director) and three directors received qualifying services shares under long term incentive schemes (2018: two directors).

Movements in share options are as follows:

	2019 Options	2018 Options
Outstanding at 1 January	467	418
Granted	256	198
Vested	(143)	(106)
Forfeited	(131)	(47)
Dividend awarded	7	4
Outstanding at 31 December	456	467

Detail regarding the highest paid Director is as follows:

	2019 £000	2018 £000
Apportioned aggregate emoluments	55	54
Apportioned post-employment benefits	-	-
Apportioned share based payments	17	21

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

15. Contingent liability

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 £170K (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.

16. Future accounting developments

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

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

17. 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.