

# LLOYDS BANK GENERAL INSURANCE LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2018



Member of Lloyds Banking Group plc

COMPANIES HOUSE  
EDINBURGH

31 MAY 2019

FRONT DESK

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**COMPANY INFORMATION**

**Board of Directors**

N E T Prettejohn (Chairman)

A M Blance  
K Cheetham  
S J O'Connor  
M G Culmer  
J E M Curtis  
M Harris\*  
J F Hylands  
A Lorenzo\*  
C J G Moulder  
J Pfaudler

\* 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**

25 Gresham Street  
London  
EC2V 7HN

**Company Registration Number**

00204373

## STRATEGIC REPORT

The Directors present their Strategic Report on Lloyds Bank General Insurance Limited ("the Company") for the year ended 31 December 2018.

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

Our strategy to help our customers is by:

- Delivering a leading customer experience - LBG has won 4 consumer intelligence awards on Home Insurance;
- Digitising the Group – Online submission of claims related documentation was developed and successfully piloted throughout 2018, this feature is now available for all new claims;
- Maximising the Group's capabilities – 476k new Home Insurance customers added in 2018; and
- Transforming ways of working - engaged customers and colleagues in the development of a refreshed Home Insurance proposition for branches that delivers a simplified process and more flexible product that will be fully rolled out in 2019.

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

- Net insurance premiums;
- Claims and loss adjustment expenses;
- Combined ratio;
- Solvency II Regulatory capital in excess of internal buffers; and
- Liquidity position.

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

### Principal activities

The principal activity of the Company is to underwrite General Insurance, including home insurance, creditor insurance, pet insurance, accident and health insurance marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through direct channels, LBG distributors and corporate partnerships. All contracts of insurance are written in the UK.

In home insurance, we continue to enhance digital capabilities for leading customer experiences, responding to the continued shift to digital channels and interactions. Creditor, pet, accident and health books of business are all in run off.

### Result for the year

The result of the Company for the year ended 31 December 2018 is a profit before tax of £6m (2017: £4m).

### Post balance sheet events

An interim dividend of £70m (2018: £75m) in respect of the year ending 31 December 2019 was declared on 7 February 2019 and paid to Lloyds Bank General Insurance Holdings Limited on 11 February 2019.

### The UK leaving the European Union ("EU")

The continued lack of clarity over the UK's eventual relationship with the EU has heightened risks in the Eurozone and raises uncertainty for the UK economic outlook. Leadership changes in the EU have contributed to further uncertainty. There is a risk of a no deal EU exit outcome, which could have a significant impact given our UK-centric footprint. The Company's response to these risks, as described in note 25, includes internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts, no deal EU exit outcome analysed to identify impacts and assess robustness of contingency plans.

### Climate change

As part of LBG, the Company is committed to supporting the UK to successfully engage with the opportunities and challenges created by climate change and the need to transition to a low carbon economy. LBG has set ambitions anchored to the goals laid out in the UK Government's Clean Growth Strategy, which align closely to LBG's business priorities.

**STRATEGIC REPORT (continued)****Climate change (continued)**

Those that are relevant to the Company are:

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

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

**Key performance indicators***Net insurance premiums*

Net insurance premiums decreased by 6% to £489m in 2018 (2017: £517m), the decrease reflects the continued competitiveness of the household market and the run off of legacy books of business.

*Claims and loss adjustment costs*

Claims and loss adjustment costs increased by 9% to £267m (2017: £246m). Current year claims and loss adjustment costs reflect an increase in weather and subsidence related claims, partially offset by a decrease in the file size.

*Combined ratio*

The Company's combined ratio has not changed and is 101% (2017: 101%). This reflects a decrease in net insurance premiums and an increase in claims, offset by a fall in overall expenses.

*Solvency II*

Solvency II came into force on 1 January 2016. Through preparation for Solvency II in previous years, the Company had already embedded Solvency II into decision making and when taking account of capital requirements. As agreed with the Prudential Regulation Authority ("PRA"), the wider insurance division submitted a single Own Risk and Solvency Assessment ("ORSA") for 2017 covering the group headed by Scottish Widows Group Limited, and the assessment of own risks and solvency needs of the Company is therefore covered by that assessment. The ORSA report for 2018 was submitted to the PRA in March 2019.

The Directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. On a Solvency II basis the estimated regulatory surplus of the Company in excess of capital requirements is £102m (2017: £152m).

The estimated Solvency II ratio for the Company is 175% (2017: pre dividend position: 194%). Further information on the capital position of the Company is given in note 25.

During the year, the Company has successfully delivered Solvency II reporting in respect of full annual quantitative reporting for 31 December 2017, as well as the narrative reporting required by Solvency II. The Company has a waiver from the PRA exempting it from preparing a single Solvency and Financial Condition Report ("SFCR") and instead the Company reported publicly through a group SFCR for Scottish Widows Group Limited that was published in June 2018.

*Liquidity*

The Company regularly monitors its liquidity position to ensure that, even under stressed conditions, the Company has sufficient liquidity to meet its obligations and remain within approved risk appetite as set out in note 25. As at 31 December 2018, the Company had liquidity coverage of 134% (2017: 189%).

*Other sources where KPIs are presented*

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

The Directors consider that the above are the key performance indicators which are appropriate to the principal activity of the Company.

**STRATEGIC REPORT (continued)***Other sources where KPIs are presented(continued)*

These, together with other metrics which cover customer, operational measures and capital, are included in the balanced scorecard which is used to measure all aspects of the performance of the business. In addition, the Directors are of the opinion that the information contained in the Company's Solvency II reporting on capital resources and requirements and regular actuarial reports, in conjunction with the information presented in the financial statements as a whole, provide the management information necessary for the Directors to understand the development, performance and position of the business of the Company.

**Review of the business**

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

*Investment strategy*

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

Further details on the credit risk and fair value measurement of these assets can be found in note 25.

*Changes in terms of trade*

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

**Outlook**

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future.

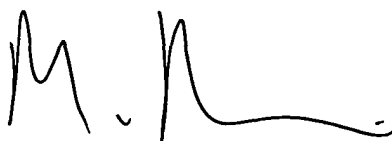
**Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy is subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to market, insurance underwriting, credit, conduct and operational risks are set out in note 25.

In addition, the Company is also exposed to financial and prudential regulatory reporting risk, in particular the risk of reputational damage, financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting or over prudential regulatory reporting and financial reporting fraud. The financial and risk management objectives and policies of the Company in respect of financial and prudential regulatory reporting risk are also set out in note 25.

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

On behalf of the Board of Directors



M Harris  
Director  
22 May 2019

## DIRECTORS' REPORT

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

### Principal activities

The principal activity of the Company is to underwrite General Insurance, including home insurance, creditor insurance, pet insurance, accident and health insurance marketed primarily under the Lloyds Bank, Bank of Scotland and Halifax brands and sold predominantly through direct channels, LBG distributors and corporate partnerships.

### Result for the year

The result of the Company for the year ended 31 December 2018 is a profit before tax of £6m (2017: £4m).

### Post balance sheet events

An interim dividend of £70m (2018: £75m) in respect of the year ending 31 December 2019 was declared on 7 February 2019 and paid to Lloyds Bank General Insurance Holdings Limited on 11 February 2019.

### Directors

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

K A Cook	(Resigned 22 June 2018)
R L M Wohanka	(Resigned 18 October 2018)
K Cheetham	(Appointed 27 September 2018)
J Pfaudler	(Appointed 5 November 2018)

Particulars of the Directors' emoluments are set out in note 27.

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

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

### Disclosure of information to auditors

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

### Future developments

Future developments are detailed within the Strategic Report and future accounting developments are detailed within note 28.

### Political contributions

During the year, the Company made no political contributions (2017: £nil).

### Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in the risk management note (note 25). Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

**DIRECTOR'S REPORT (continued)****Financial risk management**

Disclosures relating to financial risk management are included in note 25 to the financial statements and are therefore incorporated into this report by reference.

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing 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.

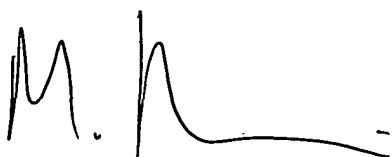
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors whose names are listed on page 3 confirms that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report on pages 4 to 6 and the Directors' Report on pages 7 and 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



M Harris  
Director  
22 May 2019



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

## **Report on the audit of the financial statements**

### **Opinion**

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 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 Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the statement of comprehensive income, the statement of cash flows; the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

### **Basis for opinion**

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

### **Independence**

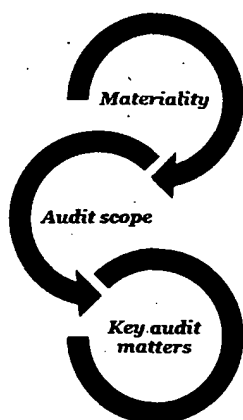
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

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

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

### **Our audit approach**

#### *Overview*



- Overall materiality: £3.8m (2017: £4.6m), based on 1% of net assets (2017: 1% of average net assets over the last 3 years).
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of material balances and other qualitative factors (including history of misstatement through fraud or error).
- General insurance reserves.

## ***Independent auditors' report to the members of Lloyds Bank General Insurance Limited (continued)***

### ***The scope of our audit***

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

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

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

### ***Capability of the audit in detecting irregularities, including fraud***

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

- Discussions with the Board, management, senior management involved in the Risk and Compliance functions and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating and testing the operating effectiveness of management's internal controls designed to prevent and detect irregularities, in particular their controls around authorisation of payments to agents and other third parties;
- Reading key correspondence with, reports to and meeting with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Insurance Audit Committee and Claims Reserving Committee;
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of general insurance contract liabilities described in the related key audit matter below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, posted on unusual days, posted by infrequent users, posted by senior management or posted with descriptions indicating a higher level of risk;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of claim payments.

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

# ***Independent auditors' report to the members of Lloyds Bank General Insurance Limited (continued)***

## ***Key audit matters***

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

<b><i>Key audit matter</i></b>	<b><i>How our audit addressed the key audit matter</i></b>
<p><b><i>General insurance reserves</i></b></p> <p>The level of claims reserves across the General Insurance portfolio represent a significant judgement. In particular, judgements surrounding uncertainties including, for example, significant weather events are an area of focus when they occur.</p>	<p>We understood and tested processes and controls over the reserving process, including controls over appropriateness of methodologies, completeness and accuracy of inputs and outputs. We found that the key controls in this area were designed and implemented effectively. Therefore we are able to place reliance on these controls for the purposes of our financial statement audit.</p> <p>We engaged our actuarial specialists to perform an independent re-projection of the significant claims reserves and assessed the adequacy of reserving over any weather events close to the period end.</p> <p>In particular, the independent re-projection has involved our actuarial specialists making judgements and assumptions in respect of:</p> <ul style="list-style-type: none"> <li>• the claims development pattern;</li> <li>• the rate of claims inflation; and</li> <li>• future expected loss ratios.</li> </ul> <p>We have reconciled key inputs to source data, tested the application of the incurred but not reported ('IBNR') claims methodology and assumptions and reconciled the model output to the financial statements.</p> <p>We have compared management's judgements against what we are seeing at other large insurers. We have also compared management's claims experience judgements on frequency and severity for the fire, theft and escape of water perils to the rest of the market.</p> <p>Based on the results of our audit work we concluded that the data and assumptions used by management were reasonable.</p>

## ***How we tailored the audit scope***

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

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

## ***Materiality***

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

## ***Independent auditors' report to the members of Lloyds Bank General Insurance Limited (continued)***

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

<b>Overall materiality</b>	£3.8m (2017: £4.6m).
<b>How we determined it</b>	1% of net assets (2017: 1% of average net assets over the last 3 years)
<b>Rationale for benchmark applied</b>	We believe that net assets is the most appropriate benchmark for Company materiality because the liabilities held on the balance sheet of an underwriter are relevant to policyholders, who along with the regulator are most interested in solvency and therefore net assets is the most appropriate measure given it is akin to solvency.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2m (2017: £0.2m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### **Conclusions relating to going concern**

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

- 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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

### **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 2018 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 Lloyds Bank General Insurance 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 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### ***Use of this report***

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

## **Other required reporting**

### **Companies Act 2006 exception reporting**

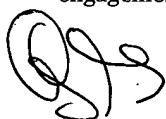
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

### **Appointment**

Following the recommendation of the audit committee, we were appointed by the members on 10 July 1997 to audit the financial statements for the year ended 31 December 1997 and subsequent financial periods. The period of total uninterrupted engagement is 22 years, covering the years ended 31 December 1997 to 31 December 2018.



Sue Morling (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol

22 May 2019

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
<b>Revenue</b>			
Gross earned premiums	3	509,984	537,483
Premiums ceded to reinsurers	3	(21,167)	(20,075)
<b>Premiums net of reinsurance</b>		<b>488,817</b>	<b>517,408</b>
Investment income	4	1,540	6,168
Net gain / (loss) on assets at fair value through profit or loss	5	3,304	(837)
Other operating income	6	5,100	2,754
<b>Total revenue</b>		<b>498,761</b>	<b>525,493</b>
<b>Net Insurance claims</b>			
Claims and loss adjustment costs	7	(267,927)	(246,142)
Claims and loss adjustment costs recoverable from reinsurers	7	617	(28)
<b>Claims and loss adjustment costs</b>		<b>(267,310)</b>	<b>(246,170)</b>
<b>Expenses</b>			
Expenses for the acquisition of insurance contracts	8	(154,841)	(206,465)
Expenses for administration	8	(70,713)	(69,095)
		(225,554)	(275,560)
<b>Total expenses</b>		<b>(492,864)</b>	<b>(521,730)</b>
<b>Profit before tax</b>		<b>5,897</b>	<b>3,763</b>
Taxation charge	10	(1,128)	(725)
<b>Profit for the year</b>		<b>4,769</b>	<b>3,038</b>

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

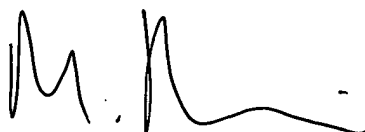
The notes on pages 18 to 50 form an integral part of these financial statements.

## BALANCE SHEET AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
<b>ASSETS</b>			
Intangible insurance assets	11	33,784	43,361
Reinsurance assets	12	11,241	10,099
Financial assets:			
Loans and receivables at amortised cost	13	271,129	284,036
Investments at fair value through profit or loss	14	449,671	451,765
Cash and cash equivalents	15	177,517	232,692
<b>Total assets</b>		<b>943,342</b>	<b>1,021,953</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves attributable to the Company's equity shareholder</b>			
Share capital	16	86,700	86,700
Retained profits		293,389	363,620
<b>Total equity</b>		<b>380,089</b>	<b>450,320</b>
<b>LIABILITIES</b>			
Insurance contracts	17	444,461	408,340
Deferred tax liabilities	18	8,700	11,790
Current tax liabilities	18	4,214	3,855
Provisions for other liabilities and charges	19	3,688	1,640
Accruals	20	7,165	4,107
Financial liabilities:			
Other financial liabilities	21	95,025	141,901
<b>Total liabilities</b>		<b>563,253</b>	<b>571,633</b>
<b>Total equity and liabilities</b>		<b>943,342</b>	<b>1,021,953</b>

The notes on pages 18 to 50 form an integral part of these financial statements.

The financial statements on pages 14 to 50 were approved by the Board on 22 May 2019.



M Harris  
Director

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
<b>Cash flows from operating activities</b>			
Profit before tax		5,897	3,763
Adjusted for:			
Investment income and net fair value gains on assets held at fair value through profit or loss	4,5	(4,844)	(5,331)
Net decrease in operating assets and liabilities	22	15,693	34,226
Taxation paid		(3,859)	(11,978)
<b>Net cash flows generated from operating activities</b>		<b>12,887</b>	<b>20,680</b>
<b>Cash flows from investing activities</b>			
Net decrease of investments at fair value through profit or loss	4,5	5,467	71,587
Interest received	4	967	909
Dividend and other income received	4,5	504	5,222
<b>Net cash flows generated from investing activities</b>		<b>6,938</b>	<b>77,718</b>
<b>Cash flows used in financing activities</b>			
Dividends paid	23	(75,000)	-
<b>Net cash flows (used in) financing activities</b>		<b>(75,000)</b>	<b>-</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(55,175)</b>	<b>98,398</b>
Cash and cash equivalents at the beginning of the year	15	232,692	134,294
<b>Net cash and cash equivalents at the end of the year</b>	<b>15</b>	<b>177,517</b>	<b>232,692</b>

The notes on pages 18 to 50 form an integral part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Share capital £000	Retained profits £000	Total equity £000
<b>Balance at 1 January 2017</b>		86,700	360,582	447,282
Profit for the year and total comprehensive income for the year		-	3,038	3,038
<b>Balance at 31 December 2017</b>		86,700	363,620	450,320
Profit for the year and total comprehensive income for the year		-	4,769	4,769
Dividend paid	23	-	(75,000)	(75,000)
<b>Balance at 31 December 2018</b>		86,700	293,389	380,089

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 25.

The notes on pages 18 to 50 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**1. Accounting policies**

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

**(a) Basis of preparation**

The financial statements of the Company have been prepared:

- (1) in accordance with the International Accounting Standards ("IASs") and IFRSs issued by the International Accounting Standards Board and the Standards and Interpretations ("SICs") and International Financial Reporting Interpretations issued by its IFRS Interpretations Committee ("IFRS IC"), as endorsed by the European Union;
- (2) in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs;
- (3) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies.

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

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

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

**Standards and interpretations effective in 2018**

The Company has adopted IFRS 9 "Financial Instruments" as at 1 January 2018. In accordance with the transitional provisions in IFRS 9.7.2.15, comparative figures have not been restated. The resulting changes to accounting policies are summarised in note 30(a). The adoption of IFRS 9 has not had a significant impact on the overall financial position of the Company, there were no financial assets in the Company reclassified from amortised cost to fair value through profit or loss at 1 January 2018. Further details are set out in note 30.

The Company has adopted IFRS 15 "Revenue from Contracts with Customers" as at 1 January 2018. Since insurance contracts are out of scope of IFRS 15 and existing accounting policies are consistent with the requirements of IFRS 15, the application of this standard has not 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 28.

**(b) Financial assets and financial liabilities**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**1. Accounting policies (continued)****(b) Financial assets and financial liabilities (continued)**

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

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

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

**(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 similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis. Examples include listed equities, listed debt securities, Open Ended Investment Companies ("OEICs") and unit trusts traded in active markets and exchange traded derivatives such as futures.

**(ii) Level 2**

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

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

Examples of these are securities measured using discounted cash flow models based on listed debt or equity securities in a market that is inactive.

**(iii) Level 3**

Valued using inputs for the asset or liability that include significant unobservable inputs (inputs not based on observable market data). Unobservable inputs may have been used to measure fair value where observable inputs are not available. This approach allows for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability, for example certain private equity investments held by the Company. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

Further analysis of the Company's instruments held at fair value is set out at note 25. The Company's management, through the Insurance Fair Value Pricing Committee, review information on the fair value of the Company's financial assets and financial liabilities and the sensitivities to these values on a regular basis.

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**1. Accounting policies (continued)****(d) Revenue recognition****Premium income**

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

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

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

**Investment income**

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

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

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

Net gains and losses on assets held at fair value through profit or loss include both realised and unrealised gains and losses. Movements are recognised in the Statement of Comprehensive Income in the year in which they arise.

**Other operating income**

Other income includes a service fee being applied for customers paying by direct debits and is being recognised as the service is being provided.

**(e) Expense recognition****Claims and loss adjustment expenses**

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

**Operating expenses**

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

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

**(f) Intangible insurance assets****Deferred acquisition costs ("DAC")**

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 1. Accounting policies (continued)

## (g) Assets arising from reinsurance contracts held

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

**Assets arising from reinsurance contracts held – classified as insurance contracts**

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

Changes in these assets are recognised in the Statement of Comprehensive Income, through change in assets arising from reinsurance contracts held.

Premiums ceded and claims reimbursed are recognised when due and disclosed separately on the face of the Statement of Comprehensive Income.

## (h) Loans and receivables at amortised cost

Loans and receivables at amortised cost are financial assets, other than cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest.

Loans and receivables at amortised cost are initially recognised at fair value less directly attributable transactions costs and subsequently measured at amortised cost, subject to impairment. Further information on the Company's impairment policy is set out in policy (k).

## (i) Investments at fair value through profit or loss

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

**Classification**

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

**Recognition**

Purchases and sales of financial assets are recognised on the trade date, i.e. the date the Company commits to purchase the asset from, or deliver the asset to, the counterparty. Investments are initially recognised at cost, being the fair value of the consideration given, and are subsequently remeasured at fair value.

**Measurement**

The fair values of investments are based on current bid prices. If the market for a financial asset is not active, and also for unlisted securities, the Company establishes fair value by using valuation techniques. These include the use of similar arm's length transactions and reference to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Refer to note 1(c) Fair value methodology and note 25(c) Financial risk management for details of valuation techniques and significant inputs to valuation models.

**Structured entities**

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 1. Accounting policies (continued)

## (j) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, short-term highly liquid investments (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments) and bank overdrafts where a legal right of set off exists.

Cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Cash and cash equivalents that are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis or do not meet the criteria to be measured at amortised cost are classified and measured as investments at fair value through profit or loss, as set out in policy (i).

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

## (k) Impairment

## Financial assets

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**1. Accounting policies (continued)****(k) Impairment (continued)****Non-financial assets**

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

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

If there is objective evidence that an impairment loss has occurred, the amount of the loss is charged to the relevant line in the Statement of Comprehensive Income in the year in which it occurs. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(l) Taxes**

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

**Current tax**

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

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

**Deferred tax**

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

**(m) Share capital**

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

**Dividends payable**

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**1. Accounting policies (continued)****(n) Insurance contracts**

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

**Recognition and measurement**

All insurance contracts issued by the Company are short-term contracts categorised mainly as home and creditor, other contracts include: accident and health, and pet.

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

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

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

The Company does not discount its liabilities for unpaid claims.

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

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

**(o) Provisions for other liabilities and charges**

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

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

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

**(p) Other financial liabilities**

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. Critical accounting estimates and judgements in applying accounting policies

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

**Insurance contract liabilities**

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

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

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

## 3. Premiums net of reinsurance

	2018 £000	2017 £000
Short-term insurance contracts		
- premiums receivable (note 17)	513,035	514,045
- change in unearned premium reserve (note 17)	(3,051)	23,438
Total gross earned premiums	509,984	537,483
Short-term reinsurance contracts		
- premiums payable (note 17)	(21,955)	(19,931)
- change in unearned premium reserve	788	(144)
Total premiums ceded to reinsurers	(21,167)	(20,075)
<b>Total premiums net of reinsurance</b>	<b>488,817</b>	<b>517,408</b>

## 4. Net investment income

	2018 £000	2017 £000
Net Income on investments designated at fair value through profit or loss	573	5,259
Other interest income	967	909
<b>Total</b>	<b>1,540</b>	<b>6,168</b>

## 5. Net gains/(losses) on assets at fair value through profit or loss

	2018 £000	2017 £000
Net gains/(losses) on assets at fair value through profit or loss	3,304	(837)
<b>Total</b>	<b>3,304</b>	<b>(837)</b>

Net gains/(losses) on assets held at fair value through profit or loss include net realised losses of £0.1m (2017: gains of £1.0m) and net unrealised gains of £3.4m (2017: losses of £1.8m).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 6. Other operating income

	2018 £000	2017 £000
Other operating income	5,100	2,754
<b>Total</b>	<b>5,100</b>	<b>2,754</b>

Other operating income includes a service fee being applied for customers paying by direct debits.

## 7. Claims and loss adjustment costs

	£000	2018 £000	£000	£000	2017 £000	£000
	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>
Current year claims and loss adjustment costs (note 17)	301,181	(431)	300,750	249,700	(77)	249,623
Movement in costs of prior year claims and loss adjustment costs (note 17)	(32,902)	(186)	(33,088)	(3,113)	105	(3,008)
Movement in the expected cost of claims for unexpired risks (note 17)	(352)	-	(352)	(445)	-	(445)
<b>Total claims and loss adjustment costs</b>	<b>267,927</b>	<b>(617)</b>	<b>267,310</b>	<b>246,142</b>	<b>28</b>	<b>246,170</b>

## 8. Expenses

	2018 £000	2017 £000
Fees and commissions payable	51,778	79,720
Acquisition expenses	93,486	85,849
Change in deferred acquisition costs	9,577	40,896
Expenses for the acquisition of insurance contracts	154,841	206,465
Expenses for administration	70,713	69,095
<b>Total expenses</b>	<b>225,554</b>	<b>275,560</b>

The administration of the Company is undertaken by another group company. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company, although there are some operating expenses which are incurred directly by the company. In 2018 operating expenses recharged to the Company were £153.7m (2017: £161.7m) of which £50.3m (2017: £49.5m) of claims handling expenses were allocated to insurance claims costs.

The Company had no direct employees during the year (2017: nil). Employee costs, including pension costs and share-based payment costs, are included in the recharge noted above.

## 9. Auditors' remuneration

	2018 £000	2017 £000
<b>Audit fees</b>		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	210	213
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	48	47
<b>Total</b>	<b>258</b>	<b>260</b>

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 10. Taxation charge

## (a) Current year tax charge

	2018 £000	2017 £000
<b>Current tax:</b>		
UK corporation tax	4,218	3,855
<b>Total current tax</b>	<b>4,218</b>	<b>3,855</b>
<b>Deferred tax:</b>		
Deferred tax (credit)/charge (note 18)	(3,090)	(3,130)
<b>Total deferred tax (credit)/charge</b>	<b>(3,090)</b>	<b>(3,130)</b>
<b>Total income tax charge for the year</b>	<b>1,128</b>	<b>725</b>

## (b) Reconciliation of tax charge

	2018 £000	2017 £000
<b>Profit before tax</b>	<b>5,897</b>	<b>3,763</b>
<b>Tax charge at effective UK corporation rate of 19.00% (2017: 19.25%)</b>	<b>1,120</b>	<b>725</b>
Effects of:		
Disallowed items	4	-
Adjustments in respect of prior years	4	-
<b>Total</b>	<b>1,128</b>	<b>725</b>

The Finance (No. 2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017.

Finance Act 2016 further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

The effective tax rate for the year is 19.1% (2017: 19.3%).

## 11. Intangible insurance assets

<b>Deferred acquisition costs</b>	<b>2018 £000</b>	<b>2017 £000</b>
<b>At 1 January</b>	<b>43,361</b>	<b>84,257</b>
Additions	30,932	25,787
Amortisation through Statement of Comprehensive Income	(40,509)	(66,683)
<b>At 31 December</b>	<b>33,784</b>	<b>43,361</b>

Of the above total, £0.5m (2017: £0.5m) is expected to be released more than one year after the reporting date.

## 12. Reinsurance assets

	2018 £000	2017 £000
Reinsurers' unearned premium (note 17)	10,810	10,022
Reinsurers' share of claims reserves (note 17)	431	77
<b>Reinsurance assets</b>	<b>11,241</b>	<b>10,099</b>

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 13. Loans and receivables at amortised cost

	2018 £000	Restated 2017 £000
Receivables arising from insurance and reinsurance contracts:		
- due from policyholders*	226,787	237,047
- due from external parties	-	8,500
- due from related parties * (note 27)	44,342	38,489
<b>Total loans and receivables at amortised cost</b>	<b>271,129</b>	<b>284,036</b>

\* Receivables arising from policyholders were disclosed in previous years as due from related parties, being the agents appointed by the Company to collect the premiums. The presentation has been changed to better reflect the contractual relationship between the Company, the agent and the policyholder. Comparatives have been restated to reflect the revised presentation

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

The adoption of IFRS 9 on 1 January 2018 did not result in changes to the classification and measurement of certain financial instruments. The above table presents classification and measurement under IFRS 9.

## 14. Investments at fair value through profit or loss

	2018 £000	2017 £000
Collective Investment Schemes – unlisted	430,533	426,971
Debt securities – unlisted	19,138	24,794
<b>Total financial investments at fair value through profit or loss</b>	<b>449,671</b>	<b>451,765</b>

Of the above total £19.1m (2017: £24.8m) is expected to be received more than one year after the reporting date.

## Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss and cash and cash equivalents (note 15) are investments in unconsolidated structured entities of £605.9m (2017: £655.9m) arising from investments in collective investment schemes and liquidity funds.

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

The adoption of IFRS 9 on 1 January 2018 did not result in changes to the classification and measurement of investments at fair value through profit or loss. The above table presents classification and measurement under IFRS 9.

## 15. Cash and cash equivalents

	2018 £000	2017 £000
Cash at bank and in hand	2,116	3,669
Aberdeen Liquidity fund	175,401	229,023
<b>Total cash and cash equivalents for cash flow purposes</b>	<b>177,517</b>	<b>232,692</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 16. Share capital

	2018 £000	2017 £000
<b>Allotted, called up and fully paid ordinary share capital:</b>		
At 1 January and 31 December		
Issued and fully paid – 86.7m shares of £1 each	86,700	86,700
<b>Total</b>	<b>86,700</b>	<b>86,700</b>

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

## 17. Liabilities arising from insurance contracts

	2018				2017	
	£000	£000	£000	£000	£000	£000
	<i>Gross</i>	<i>Recoverable from reinsurers</i>	<i>Net</i>	<i>Gross</i>	<i>Recoverable from reinsurers</i>	<i>Net</i>
<b>Short-term insurance contracts:</b>						
Claims reported & loss adjustment costs	96,849	(431)	96,418	82,256	(77)	82,179
Claims incurred but not reported	80,106	-	80,106	61,277	-	61,277
Unexpired risk reserve	1,390	-	1,390	1,742	-	1,742
Unearned premiums	266,116	(10,810)	255,306	263,065	(10,022)	253,043
<b>Total insurance liabilities</b>	<b>444,461</b>	<b>(11,241)</b>	<b>433,220</b>	<b>408,340</b>	<b>(10,099)</b>	<b>398,241</b>

Of the above total £50.4m (2017: £40.3m) is expected to be settled more than one year after the reporting date.

The unexpired risk reserve includes £1.4m (2017: £1.7m) in respect of the pet insurance business.

## Movements in insurance liabilities and reinsurance assets

## (a) Claims and loss adjustment expenses

	2018	2017				
	£000	£000				
	£000	£000				
	£000	£000				
	£000	£000				
	£000	£000				
	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>
Notified claims	82,256	(77)	82,179	79,164	(208)	78,956
Incurred but not reported	61,277	-	61,277	50,201	-	50,201
Total at beginning of year	143,533	(77)	143,456	129,365	(208)	129,157
Cash paid for claims settled in the year	(234,857)	263	(234,594)	(232,419)	103	(232,316)
Increase in liabilities						
- arising from current year claims (note 7)	301,181	(431)	300,750	249,700	(77)	249,623
- arising from prior year claims (note 7)	(32,902)	(186)	(33,088)	(3,113)	105	(3,008)
Total at end of year	176,955	(431)	176,524	143,533	(77)	143,456
Notified claims	96,849	(431)	96,418	82,256	(77)	82,179
Incurred but not reported	80,106	-	80,106	61,277	-	61,277
Total at end of year	176,955	(431)	176,524	143,533	(77)	143,456

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. Liabilities arising from insurance contracts (continued)

## (b) Unearned premiums and unexpired short-term insurance risks

	£000	2018 £000	£000	£000	2017 £000	£000
	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurance</i>	<i>Net</i>
<b>Unearned premiums</b>						
At 1 January	263,065	(10,022)	253,043	286,503	(10,166)	276,337
Increase in the year (note 3)	513,035	(21,955)	491,080	514,045	(19,931)	494,114
Release in the year (note 3)	(509,984)	21,167	(488,817)	(537,483)	20,075	(517,408)
<b>At 31 December</b>	<b>266,116</b>	<b>(10,810)</b>	<b>255,306</b>	<b>263,065</b>	<b>(10,022)</b>	<b>253,043</b>
<b>Unexpired risk reserve</b>						
At 1 January	1,742	-	1,742	2,187	-	2,187
Release in the year (note 7)	(352)	-	(352)	(445)	-	(445)
<b>At 31 December</b>	<b>1,390</b>	<b>-</b>	<b>1,390</b>	<b>1,742</b>	<b>-</b>	<b>1,742</b>

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end. The unexpired risk provision relates to pet policies for which the Company expects to pay claims in excess of the related unearned premium provision.

## 18. Tax liabilities

	2018 £000	2017 £000
Current tax liabilities	4,214	3,855
Deferred tax liabilities	8,700	11,790
<b>Total tax liabilities</b>	<b>12,914</b>	<b>15,645</b>

Of the deferred tax liabilities in the above table, £3.1m (2017: £3.0m) is expected to be settled within one year of the reporting date.

**Recognised deferred tax**

Deferred income tax assets and deferred liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

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

	2018 £000	2017 £000
<b>Deferred tax liabilities comprise:</b>		
Claims equalisation reserve ("CER") provision	8,700	11,790
<b>Total deferred tax liabilities</b>	<b>8,700</b>	<b>11,790</b>
<b>Net deferred tax liabilities</b>	<b>8,700</b>	<b>11,790</b>

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 17.83% (2017: 18.13%).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 18. Tax liabilities (continued)

The tax charge in the Statement of Comprehensive Income relating to each of the above items is as follows:

	2018 £000	2017 £000
Claims equalisation reserve provision	(3,090)	(3,130)
<b>Total deferred tax charge/(credit)</b>	<b>(3,090)</b>	<b>(3,130)</b>

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

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the corporation tax rate to 17% with effect from 1 April 2020.

## 19. Provisions for other liabilities and charges

	2018			2017		
	Premium rebates £000	Levies £000	Total £000	Premium rebates £000	Levies £000	Total £000
<b>At 1 January</b>	1,640	-	1,640	5,125	-	5,125
Utilised during the year	(1,252)	(17,845)	(19,097)	(1)	(19,661)	(19,662)
- additional provisions	3,300	17,845	21,145	516	19,661	20,177
- over provision from prior years	-	-	-	(4,000)	-	(4,000)
<b>At 31 December</b>	<b>3,688</b>	<b>-</b>	<b>3,688</b>	<b>1,640</b>	<b>-</b>	<b>1,640</b>

All of the above provisions are expected to be utilised within one year of the reporting date.

## (a) Levies

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

This levy £0.2m (2017: £0.8m) relates to the amount payable to the Financial Services Compensation Scheme ("FSCS") in the event of the failure of a company authorised by the Prudential Regulatory Authority ("PRA") and/or the Financial Conduct Authority ("FCA"). In accordance with IFRIC 21, the FSCS Levy was accrued and paid during the year.

## (ii) Flood Re Levy

In 2017 the Company entered the market wide Flood Re scheme to ensure at risk customers are able to obtain flood protection. This requires the Company to pay, based on its proportion of total market GWP, a levy of £17.7m in 2018 (2017: £18.9m).

## (b) Premium rebates

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 20. Accruals

	2018 £000	2017 £000
Accrued expenses	7,165	4,107
<b>Total</b>	<b>7,165</b>	<b>4,107</b>

All accruals are current liabilities.

## 21. Other financial liabilities

	2018 £000	2017 £000
Due to related parties (note 27)	51,379	102,170
Insurance payables	10,189	6,787
Other payables	17,933	17,048
Other taxes payable	15,524	15,896
<b>Total</b>	<b>95,025</b>	<b>141,901</b>

All insurance and other payables are current liabilities.

## 22. Net decrease in operating assets and liabilities

	2018 £000	2017 £000
<b>Decrease in operating assets:</b>		
Intangible insurance assets	9,577	40,896
Financial assets:		
Loans and receivables at amortised cost	12,907	17,218
<b>Net decrease in operating assets</b>	<b>22,484</b>	<b>58,114</b>
<b>Increase in operating liabilities:</b>		
Insurance contract liabilities (net)	34,979	(9,440)
Provisions for other liabilities and charges	2,048	(3,485)
Other financial liabilities and accruals	(43,818)	(10,963)
<b>Net increase in operating liabilities</b>	<b>(6,791)</b>	<b>(23,888)</b>
<b>Net decrease in operating assets and liabilities</b>	<b>15,693</b>	<b>34,226</b>

## 23. Dividends paid

	2018 £000	2017 £000
Total dividends paid on equity shares	75,000	-

Dividends of £75m (£0.865 per share) were paid during the year in respect of 2018 (2017: £nil).



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 24. Short-term insurance contracts – assumptions, change in assumptions and sensitivities

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

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

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

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

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

(2) Key assumptions

## (a) Home

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

*Outstanding claims reserve ("OCR")*

The aim of the OCR review for home is to generate a best estimate weighted average OCR using various actuarial techniques including a chain ladder statistical projection method applied to past claims paid, case estimates and claims volume data for each peril separately. Consideration is also given to the impact any change in claims processing will have on the estimate. If considerable uncertainty exists, then an uncertainty provision will be identified and documented within the reserving reports.

*Claims incurred but not reported reserve ("IBNR")*

The aim of the IBNR review is to assess the appropriateness of the IBNR factors used to set the IBNR reserve. To do this, a chain ladder statistical projection method is applied to past claims volume reported triangles.

This covers both the reserve reflecting expected changes in estimates for reported claims only (incurred but not enough reported) and reserve to provide for claims in respect of events that may have occurred before the accounting date but have still to be reported to the insurer by that date (incurred but not yet reported).

Major events such as storms or floods are treated separately using development patterns appropriate to that type of event. In addition, additional provisions are established for liability and fire claims to reflect the additional volatility over and above that seen in the available data.

*Unearned premium reserve ("UPR")*

The UPR is calculated using a daily allocation method.

## (b) Creditor

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

*Outstanding claims reserve ("OCR")*

The aim of the OCR review for Creditor is to generate a best estimate weighted average OCR using various actuarial techniques including a chain ladder statistical projection method applied to past claims paid, and claims volume data for each peril separately. Consideration is also given to the impact any change in claims processing will have on the estimate. If considerable uncertainty exists, then an uncertainty provision will be identified and documented within the reserving reports.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 24. Short-term insurance contracts – assumptions, change in assumptions and sensitivities (continued)

(2) Key assumptions (continued)(b) Creditor (continued)*Claims incurred but not reported reserve ("IBNR")*

The aim of the IBNR review is to assess the appropriateness of the IBNR factors used to set the IBNR reserve. To do this, a chain ladder statistical projection method is applied to past claims volume reported triangles. This covers both the reserve reflecting expected changes in estimates for reported claims only (incurred but not enough reported) and reserve to provide for claims in respect of events that may have occurred before the accounting date but has still to be reported to the insurer by that date (incurred but not yet reported).

*Unearned premium reserve ("UPR")*

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

**Claims development tables**

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

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

<b>Home - gross</b>						
<b>Accident year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Estimate of ultimate claims costs:						
- at end of accident year	145,391	205,166	224,067	194,280	245,411	-
- one year later	145,780	198,512	217,821	180,407	-	-
- two years later	146,396	202,366	206,033	-	-	-
- three years later	144,709	197,915	-	-	-	-
- four years later	146,373	-	-	-	-	-
Current estimate of cumulative claims	146,373	197,915	206,033	180,407	245,411	976,139
Cumulative payments to date	(144,533)	(193,335)	(196,304)	(160,426)	(123,687)	(818,285)
Liability recognised in the Balance Sheet	1,840	4,580	9,729	19,981	121,724	157,854
Liability in respect of prior years						6,275
<b>Total gross liability included in the Balance Sheet</b>						<b>164,129</b>

<b>Home - net</b>						
<b>Accident year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Estimate of ultimate claims costs:						
- at end of accident year	145,391	205,166	224,067	194,280	244,718	-
- one year later	145,780	198,512	217,821	180,407	-	-
- two years later	146,396	202,366	206,033	-	-	-
- three years later	144,709	197,915	-	-	-	-
- four years later	146,373	-	-	-	-	-
Current estimate of cumulative claims	146,373	197,915	206,033	180,407	244,718	975,446
Cumulative payments to date	(144,533)	(193,335)	(196,304)	(160,426)	(123,425)	(818,023)
Liability recognised in the Balance Sheet	1,840	4,580	9,729	19,981	121,293	157,423
Liability in respect of prior years						6,275
<b>Total net liability included in the Balance Sheet</b>						<b>163,698</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 24. Short-term insurance contracts – assumptions, change in assumptions and sensitivities (continued)

(2) Key assumptions (continued)

## Claims development tables (continued)

As at the year ended 31 December 2018 the Company limited its exposure to loss within insurance operations through participation in reinsurance arrangements. The home portfolio is protected through a catastrophe excess of loss arrangement which operates across both the Company and St Andrew's Insurance PLC. The reinsurance programme was renewed on 1 July 2018. Amounts recoverable from reinsurers were estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits. The purpose of a home excess of loss catastrophe reinsurance programme is to protect against the adverse effects of large weather related events.

The gross home liability of £164.1m and net liability of £163.7m shown in the above tables exclude £8.3m of unallocated claims handling expenses.

Creditor – gross and net Accident year	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Estimate of ultimate claims costs:						
- at end of accident year	7,388	5,596	4,892	5,252	4,714	-
- one year later	6,197	4,225	3,595	3,071	-	-
- two years later	6,555	3,393	3,345	-	-	-
- three years later	5,997	3,312	-	-	-	-
- four years later	5,915	-	-	-	-	-
Current estimate of cumulative claims	5,915	3,312	3,345	3,071	4,714	20,357
Cumulative payments to date	(5,865)	(3,209)	(3,155)	(2,595)	(1,570)	(16,394)
Liability recognised in the Balance Sheet	50	103	190	476	3,144	3,963
Liability in respect of prior years						34
<b>Total liability included in the Balance Sheet</b>						<b>3,997</b>

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

The creditor liability of £4m shown in the above table excludes £0.3m of unallocated claims handling expenses.

While management believes that the total insurance liability for all products in the portfolio (excluding pet) carried at year end is adequate, the application of statistical techniques requires significant judgment. An increase of 10% in the cost of total claims would result in the recognition of an additional cost of £16.6m net of reinsurance (2017: £12.8m). Similarly, an increase of 10% in the number of all claims would result in the recognition of an additional cost of £17.5m net of reinsurance (2017: £13.7m). A 5% increase in the inflation rate of claims would result in the recognition of an additional cost of £8.3m net of reinsurance (2017: £6.4m).

## 25. Risk management

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

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

The Insurance businesses are managed together as part of Insurance; as such risk is managed across all of the Insurance companies and not at the individual company level. The Company's activities expose it to a variety of risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**25. Risk management (continued)****(a) Governance framework**

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

This enterprise-wide risk management framework for the identification, assessment, measurement and management of risk covers the full spectrum of risks 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, insurance underwriting, credit, capital, liquidity, regulatory & legal, conduct, people, governance, operational, model and financial reporting risks. The performance of LBG, its continuing ability to write business and the strategic management of the business depend on its ability to manage these risks.

Responsibility for the management of risk resides with the Board of the Company. The Board manages risks in line with LBG and Insurance risk policies. The Board has delegated certain risk matters to the Insurance Risk Oversight Committee ("IROC") with the operational implementation of these being assigned to the Insurance and Wealth Risk Committee ("IWRC").

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

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

**(b) Risk appetite**

Risk appetite is the amount and type of risk that the Board prefers, accepts or wishes to avoid and is aligned to LBG strategy. The Board has defined a framework for the management of risk and approved a set of risk appetite statements that cover financial risks (capital, insurance underwriting, credit, market and liquidity), operational risks, people, conduct risks, regulatory & legal risks, financial reporting, 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 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 IROC. Copies are also supplied regularly to the LBG's regulators as part of the close and continuous relationship. Reporting focuses on ensuring, and demonstrating to the Board, and their delegate IROC that LBG is run in line with approved risk appetite. Any breaches of risk appetite require clear plans and timescales for resolution.

**(c) Financial risks**

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

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

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

The timing of the unwind of the deferred tax assets and liabilities is dependent on the timing of the unwind of the temporary timing differences, arising between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes, to which these balances relate.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 25. Risk management (continued)

## (c) Financial risks (continued)

The sensitivity analyses given throughout this note are based on a change in an assumption while holding all other assumptions constant unless stated otherwise. 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 analyses presented also represents management's assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

## (1) Market risks

Market risk is defined as the risk that unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and/or value.

The Company's objective in managing market risk is to maximise returns from investments whilst ensuring regulatory requirements are met and adequate financial security is maintained on an ongoing basis.

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

- Collective investment schemes: unlisted investments which are authorised and regulated by the FCA and fall under the European Union directive on Undertakings for Collective Investment in Transferable Securities;
- Listed debt securities: includes sterling denominated floating rate notes; and
- Unlisted debt securities: All classed as level 3, comprising asset backed securities and covered bonds which are not actively traded and are valued using a discounted cash flow model.

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

As at 31 December 2018	Fair value hierarchy			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Collective Investment Schemes – unlisted	430,533	-	-	430,533
Aberdeen Liquidity Fund	175,401	-	-	175,401
Debt securities – unlisted	-	-	19,138	19,138
<b>Total assets</b>	<b>605,934</b>	<b>-</b>	<b>19,138</b>	<b>625,072</b>

As at 31 December 2017	Fair value hierarchy			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Collective Investment Schemes – unlisted	426,971	-	-	426,971
Debt securities – unlisted	-	-	24,794	24,794
<b>Total assets</b>	<b>426,971</b>	<b>-</b>	<b>24,794</b>	<b>451,765</b>

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 25. Risk management (continued)

## (c) Financial risks (continued)

## (1) Market risks (continued)

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

	2018 £000	2017 £000
Balance at 1 January	24,794	29,614
Net losses recognised within net fair value gains on financial assets held at fair value through profit or loss in the Statement of Comprehensive Income	66	(194)
Disposals	(5,722)	(4,626)
<b>Balance at 31 December</b>	<b>19,138</b>	<b>24,794</b>
Total unrealised gains for the period included in the Statement of Comprehensive Income for assets held at 31 December	66	331

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

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

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

The VaR for the Company as at 31 December 2018 was £4.9m (2017: £5.5m).

**Interest rate risk**

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

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

	2018 £000	2017 £000
Impact on (loss)/profit after tax and equity at reporting date		
100 basis points increase in yield curves	2,324	1,250
100 basis points decrease in yield curves	(2,324)	(1,250)

**(2) Insurance underwriting risk**

Insurance underwriting risk is defined as the risk of adverse developments in general insurance underwriting and policyholder behaviour, leading to reductions in earnings and/or value.

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**25. Risk management (continued)****(c) Financial risks (continued)****(2) Insurance underwriting risk (continued)**

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

**(i) Home****(a) Frequency and severity of claims**

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

The Company has the right to re-price the risk on renewal and also has the ability to impose excesses. These contracts are underwritten by reference to the replacement value of the properties and contents insured. Claim payment limits are always included for contents insurance to cap the amount payable on occurrence of the insured event. Costs of rebuilding properties or replacement of, or indemnity for, contents, are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, fire, flood damage, freeze and subsidence. The Company has reinsurance cover for natural and man-made catastrophes to limit losses in any one year from both large single events and a number of events occurring over the year. For the Company standalone, the maximum loss for a single event up to £585.4m is £62.8m (2017: £569.0m, £60.6m) and £82.2m of aggregate protection is provided in excess of £101.4m (2017: £78.0m, £96.3m).

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

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

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

**(ii) Creditor****(a) Frequency and severity of claims**

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

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

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

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

The Company estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims would normally allow the Company to achieve a higher degree of certainty about the estimated cost of claims but as stated above there remains greater uncertainty this year even as claims reduce, however, there is still a relatively small IBNR held at year-end.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**25. Risk management (continued)****(c) Financial risks (continued)****(2) Insurance underwriting risk (continued)****(ii) Creditor (continued)****(b) Sources of uncertainty in the estimation of future claim payments (continued)**

To reduce the uncertainty the Company has been modelling national economic data, notably unemployment inflows and their relationship to creditor claims, as well as a detailed analysis of claim transitional probabilities. This latter data has been showing a slight decrease in the proportion of claimants transitioning to later claim duration periods.

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

**(3) Credit risk**

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

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

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 25. Risk management (continued)

## (c) Financial risks (continued)

## (3) Credit risk (continued)

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

As at 31 December 2018	Total £000	AAA £000	AA/A £000	B £000	Not Rated £000
<b>Stage 1 assets</b>					
Loans and receivables at amortised cost	44,342	-	-	-	44,342
Cash and cash equivalents	177,517	175,401	2,116	-	-
Loss allowance	-	-	-	-	-
<b>Exposure to credit risk</b>	<b>221,859</b>	<b>175,401</b>	<b>2,116</b>	<b>-</b>	<b>44,342</b>
<b>Simplified approach assets</b>					
Loans and receivables at amortised cost	226,787	-	-	-	226,787
Loss allowance	-	-	-	-	-
<b>Exposure to credit risk</b>	<b>226,787</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>226,787</b>
<b>Investments at fair value through profit or Loss</b>					
Debt Securities – unlisted	19,138	19,138	-	-	-
Collective investment schemes – unlisted	430,533	430,533	-	-	-
<b>Other</b>					
Reinsurance assets	11,241	-	11,241	-	-
<b>Total</b>	<b>909,558</b>	<b>625,072</b>	<b>13,357</b>	<b>-</b>	<b>271,129</b>
<b>As at 31 December 2017</b>					
	<b>Total £000</b>	<b>AAA £000</b>	<b>AA/A £000</b>	<b>B £000</b>	<b>Not Rated £000</b>
Reinsurance assets	10,099	-	10,099	-	-
Loans and Receivables at amortised cost	284,036	-	-	-	281,151
Debt securities – unlisted	24,794	24,794	-	-	-
Collective investment schemes – unlisted	426,971	426,971	-	-	-
Cash and Cash equivalents	232,692	229,023	3,669	-	-
<b>Total</b>	<b>978,592</b>	<b>680,788</b>	<b>13,768</b>	<b>-</b>	<b>281,151</b>

## (i) Liquidity risk

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 25. Risk management (continued)

## (c) Financial risks (continued)

## (3) Credit risk (continued)

## (i) Liquidity risk (continued)

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

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

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

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

## As at 31 December 2018

	Total £000	Up to 3 months £000	3-12 months £000	1-2 years £000	More than 2 years £000
Short-term insurance contracts	174,955	64,874	59,699	21,868	28,514
Other financial liabilities and accruals	102,190	102,190	-	-	-
<b>Total</b>	<b>277,145</b>	<b>167,064</b>	<b>59,699</b>	<b>21,868</b>	<b>28,514</b>

## As at 31 December 2017

	Total £000	Up to 3 months £000	3-12 months £000	1-2 years £000	More than 2 years £000
Short-term insurance contracts	145,275	52,407	50,164	19,940	22,764
Other financial liabilities and accruals	146,008	146,008	-	-	-
<b>Total</b>	<b>291,283</b>	<b>198,415</b>	<b>50,164</b>	<b>19,940</b>	<b>22,764</b>

Short-term insurance contracts include claims reported and loss adjustment expenses, claims incurred but not reported and unexpired risk reserve as disclosed in note 17.

## (ii) Capital risk

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

The Company is regulated by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"). The PRA specifies the minimum amount of regulatory capital that must be held by the Company.

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 25. Risk management (continued)

## (c) Financial risks (continued)

## (3) Credit risk (continued)

## (ii) Capital risk (continued)

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

The Company's objectives when managing capital are:

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

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

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

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

	2018 £000	2017 £000
Regulatory capital held	332,431	392,809

All minimum regulatory requirements were met during the year.

## (4) Concentration risk

*Credit concentration risk*

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

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

At 31 December 2018 and 31 December 2017, the Company did not have any significant concentration of credit risk with a single counterparty or groups of counterparties where limits applied.

*Liquidity concentration risk*

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**25. Risk management (continued)****(d) Operational risk**

The Company is exposed to the risk of reductions in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people related or external events.

There are a number of secondary categories of operational risk including the undernoted:

**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.

**Financial crime and fraud risk**

Financial crime concerns activity related to money laundering, sanctions, terrorist financing and bribery. Fraud covers acts intended to defraud, misappropriate property or circumvent the law. These activities could give rise to risk of reduction in earnings and/or value, through financial or reputational loss. Losses may include censure, fines or the cost of litigation.

Fraud risk covers the risk of acts intended to defraud, misappropriate property or circumvent the law.

**Information security and physical security risk**

Information security risk relates to the risk of reductions in earnings and/or value, through financial or reputational loss, resulting from theft of or damage to the security of the Company's information and data. Physical security risk relates to the risk to the security of people and property.

**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.

**Governance risk**

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.

**Change risk**

Change risk is related to the management of change - designing and implementing key projects or programme. Potential loss could arise from failure requirements, budget or timescale; failure to implement change effectively; or failure to realise desired benefits.

**Sourcing and service provision risk**

Sourcing risk covers the risk of reductions in earnings and/or value through financial or reputational loss from risks associated with activity related to the agreement and management of services provided by third parties including outsourcing.

Service provision risk covers the risks associated with provision of services to a third party and with the management of internal intra-group service arrangements.

**IT Systems and Cyber risk**

The risk of reductions in earnings and/or value through financial or reputational loss resulting from the failure to develop, deliver, maintain or protect against cyber attack affecting the Company's IT solutions. The Directors have embedded a risk framework and monitor the effective operation of this across the Company.

**Regulatory and legal risk**

Regulatory and legal risk is defined as the risk that the Company is exposed to fines, censure, or legal or enforcement action; or to civil or criminal proceedings in the courts (or equivalent) and / or the Company is unable to enforce its rights due to failing to comply with applicable laws (including Codes of Practice which could have legal implications), regulations, codes of conduct or legal obligations.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**25. Risk management (continued)****(d) Operational risks (continued)**

Regulators aim to protect the rights of customers, ensuring firms satisfactorily manage their affairs for the benefit of customers and that they retain sufficient capital and liquidity. The Group has embedded a risk framework to closely monitor and manage its legal and regulatory risks, and maintains regular interaction with its regulators.

**Conduct risk**

Conduct risk is defined as the risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure and financial and reputational loss.

The Company is focused on delivering fair customer outcomes, and has embedded a risk framework to effectively monitor and manage its conduct risks.

**Financial and prudential regulatory reporting, tax and disclosure risks**

The Company is exposed to the risk that policies and procedures are not sufficient to maintain adequate books and records to support statutory, regulatory and tax reporting and to prevent and detect financial reporting fraud.

Insurance has developed procedures to ensure that compliance with both the current and potential future requirements are understood and that policies are aligned to its risk appetite. The Company has established a system of internal controls the objective of which is to provide reasonable assurance that transactions are recorded and undertaken in accordance with delegated authorities that permit the preparation and disclosure of financial statements, regulatory reporting and tax returns in accordance with IFRSs, statutory and regulatory requirements.

Insurance undertakes a programme of work designed to support an annual assessment of the effectiveness of internal controls over financial reporting, to identify tax liabilities and to assess emerging legislation and regulation.

**(e) UK political uncertainties including EU exit**

The continued lack of clarity over the UK's eventual relationship with the EU has heightened risks in the Eurozone and raises uncertainty for the UK economic outlook. Leadership changes in the EU have contributed to further uncertainty. There is a risk of a no deal EU exit outcome, which could have a significant impact given our UK-centric footprint. The Company's response to these risks and uncertainty is as follows:

- Internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts.
- As part of the LBG, engagement with politicians, officials, media, trade and other bodies to reassure our commitment to helping Britain prosper.
- Committed investments to establish a new 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.

**(f) Economic risk**

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**26. Contingencies and commitments**

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 £21.8m (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.

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 27. Related party transactions

## (a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Lloyds Bank General Insurance Holdings Limited, a company registered in the UK. Lloyds Bank General Insurance Holdings Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the only group to consolidate these financial statements. Once approved, copies of the consolidated annual report and financial statements of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via [www.lloydsbankinggroup.com](http://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 related parties in the normal course of business during the year.

Relationship	2018			
	Income	Expenses	Payable at	Receivable at
	during period £000	during period £000	period end £000	period end £000
Parent	-	-	-	-
Other related parties	-	191,665	51,379	65,596

Relationship	Restated 2017			
	Income	Expenses	Payable at	Receivable at
	during period £000	during period £000	period end £000	period end* £000
Parent	-	-	-	-
Other related parties *	-	235,547	102,170	66,952

\* The 2017 restatement reflects the presentation of an internal investment and internally held cash and cash equivalents.

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

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

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

## Transactions with key management

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

	2018 £000	2017 £000
<b>Key management compensation</b>		
Salaries and other short-term employee benefits	470	456
Post-employment benefits	3	6
Share-based payments	122	139
<b>Total</b>	<b>595</b>	<b>601</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 27. Related-party transactions (continued)

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

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £198k (2017: £187k).

There were no retirement benefits accrued to Directors (2017: no Directors) under defined benefit pension schemes. Six Directors (2017: four Directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2017: £nil).

Certain members of key management in the Group, including the highest paid Director, provide services to other companies within LBG. In such cases, for the purposes of this note, figures have been included based on an apportionment to the Group of the total compensation earned.

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 £55k (2017: £76k). During the year, one Director exercised share options (2017: two Directors) and two Directors received qualifying services shares under long term incentive schemes (2017: five Directors).

Movements in share options are as follows:

	2018 Thousands options	2017 Thousands options
<b>At 1 January</b>	836	827
Granted	396	590
Vested	(211)	(260)
Forfeited	(94)	(329)
Dividend awarded	8	8
<b>At 31 December</b>	935	836

Detail regarding the highest paid Director is as follows:

	2018 £000	2017 £000
Apportioned aggregate emoluments	107	103
Apportioned post employment benefits	-	-
Apportioned share based payments	42	63
<b>Total</b>	149	166

The highest paid Director did not exercise share options during the year. (2017: The highest paid Director exercised share options during the year).



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**28. Future accounting developments**

The following pronouncement may have a significant effect on the Company's financial statements but is not applicable for the year ending 31 December 2018 and has not been applied in preparing these financial statements. Except as disclosed below, the full impact of this accounting change is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 17 "Insurance Contracts"	<p>IFRS 17 replaces IFRS 4 'Insurance Contracts'.</p> <p>IFRS 17 requires insurance contracts and participating investment contracts to be measured on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. Changes to estimates of future cash flows from one reporting date to another are recognised either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it. The effects of some changes in discount rates can either be recognised in profit or loss or in other comprehensive income as an accounting policy choice. The risk adjustment is released to profit and loss as an insurer's risk reduces. These requirements will result in changes to the timing of profit recognition for insurance and participating investment contracts issued by the Group and Company.</p> <p>The Group has developed a detailed project plan for designing and implementing the operational and systems changes required by IFRS 17. Following the IASB's tentative decision to delay the effective date of IFRS 17 one year to 1 January 2022, the Group is finalising the plan for the revised implementation date. Work on the plan has progressed significantly, particularly on methodology, data platforms and actuarial systems and processes. The Group will continue to monitor updates and future changes to the standard issued by the IASB to ensure compliance and operational capability.</p> <p>The standard will have a significant impact on the accounting for the insurance and participating investment contracts issued by the Group and Company. Presentation and disclosure for these contracts will be considerably different and more extensive than under IFRS 4.</p>	Annual periods beginning on or after 1 January 2022

At the date of this report, this pronouncement is awaiting European Union endorsement.

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

**29 Post balance sheet events**

An interim dividend of £70m (2018: £75m) in respect of the year ending 31 December 2019 was declared on 7 February 2019 and paid to Lloyds Bank General Insurance Holdings Limited on 11 February 2019.

**30 Adoption of IFRS 9**

On 1 January 2018, the Company adopted IFRS 9 "Financial Instruments", which replaced IAS 39 "Financial Instruments: Recognition and Measurement". Adoption of this standard has had the following impacts on the financial statements:

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

**30. Adoption of IFRS 9 (continued)****(a) Changes to accounting policies**

The new accounting policies, as amended for IFRS 9, are set out in note 1 (b), (h), (i) and (k). A summary of the changes is as follows:

**(i) Financial assets and financial liabilities**

The classification of financial assets has changed such that the assessment is based on the business model for managing the financial assets and whether cash flows represent solely payments of principal and interest. Financial assets held in a business model that is managed and whose performance is evaluated on a fair value basis are held at fair value through profit or loss and those that are held in a business model that is held to collect contractual cash flows, and where the cash flows represent solely payment of principal and interest, are classified as amortised cost. See note 1(b) for more detail.

**(ii) Loans and other receivables at amortised cost**

Under IAS 39, loans and receivables were held at amortised cost. Under IFRS 9, loans and receivables held in a business model whose purpose is to hold assets to collect the contractual cash flows and where the cash flows represent solely payments of principal and interest are held at amortised cost. There have been no changes to the classification of loans and other receivables at amortised costs as a result of adopting IFRS 9. For more detail see note 1(h).

Loans and receivables at amortised cost continue to be subject to impairment. However, the "incurred loss" approach under IAS 39 has been replaced with an "expected credit losses" approach under IFRS 9, as described in note 1(h).

**(iii) Investments at fair value through profit or loss**

The accounting policy for classification has changed from financial assets being held at fair value through profit or loss if they are designated as such under IAS 39, to financial assets being in this category if they are part of a business model that is managed and whose performance is evaluated on a fair value basis, or where the cash flows do not represent solely payments of principal and interest. There have been no other changes to financial assets held at fair value through profit or loss as a result of adopting IFRS 9. For more detail see note 1(i).

**(iv) Impairment**

IFRS 9 results in changes to the impairment approach for financial assets at amortised cost. Under IAS 39, an "incurred loss" approach was used, which required a charge for impairment when events or circumstances indicated that amounts were not recoverable. The approach under IFRS 9 is an "expected credit loss" approach, which requires an assessment of expected future losses on initial recognition. For more detail see note 1(k).

**(b) Opening reserves on transition**

As a result of the adoption of IFRS 9 there has been no impact to opening reserves as no changes to classification or impairment were required.

**(c) Classification of financial assets and liabilities on initial application of IFRS 9**

There have been no changes to the classification or carrying amounts of financial assets or financial liabilities as a result of adopting IFRS 9.

**(d) Loss allowance on transition**

At 31 December 2017, the IAS 39 allowance for impairment losses for loans and other receivables was £nil. As a result of the adoption of IFRS 9 there continue to be no impairment losses.