Clerical Medical Financial Services Limited

Annual report and accounts
for the year ended 31 December 2017

Registered office

33 Old Broad Street
London
EC2N 1HZ

Registered number

02114901

Current directors

M E Mazzocchi
P R Grant
S W Lowther

Company Secretary

G J Donaldson

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2017

The directors present their report and the audited financial statements of Clerical Medical Financial Services Limited ("the Company") for the year ended 31 December 2017.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 02114901).

The Company ceased all of its trading activities in May 2010 and continues to receive interest on its cash balances.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to credit, financial soundness risk and interest rate risk are set out in note 10.

Key performance indicators ("KPIs")

The directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. Further information on the capital position of the Company is given in note 10.4.

The directors are of the opinion that the information on capital resource requirements submitted by regular return to the Financial Conduct Authority ("FCA"), in conjunction with the information presented in the financial statements as a whole, provides the management information necessary for the directors to understand the development, performance and position of the business of the Company.

The Company also forms part of the Insurance division of the Group. The development, performance and position of this division are discussed in Lloyds Banking Group plc's ("LBG") financial statements, which do not form part of this report.

Future outlook

The directors consider that the Company's activities will continue unchanged in the foreseeable future. At a future point, management expect to de-authorise and ultimately liquidate the Company.

The Company is part of the wider Lloyds Banking Group ("the Group"), and, at that level, consideration of many of the potential implications following the UK's vote to leave the European Union has been undertaken. Work continues to assess the impact of EU exit at the level of the Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Dividends

No dividends were paid or proposed during the year ended 31 December 2017 (2016: £nil).

Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors

The current directors of the Company are shown on the front cover.

The following changes have taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

S W Lowther	(appointed 10 April 2017)
R F C Taylor	(resigned 31 December 2017)

Directors' report (continued)

For the year ended 31 December 2017

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of directors who join the board of the Company during the financial year. Directors no longer in office but who served on the board of the Company at any time in the financial year have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts in accordance with applicable law and regulation.

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

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

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

The directors are 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.

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

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

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Approved by the board of directors and signed on its behalf by:

Sean Lowther

S W Lowther
Director

16TH APRIL 2018

Statement of comprehensive income

For the year ended 31 December 2017

	Note	**2017 £'000**	2016 £'000
Finance income	3	**9**	15
Profit before tax		**9**	15
Taxation	7	**(2)**	(3)
Profit for the year, being total comprehensive income		**7**	12

The accompanying notes to the financial statements are an integral part of these financial statements.

Balance sheet
As at 31 December 2017

	Note	**2017 £'000**	2016 £'000
ASSETS			
Cash and cash equivalents	8	**3,153**	3,147
Total assets		**3,153**	3,147
LIABILITIES			
Current tax liability		**2**	3
Total liabilities		**2**	3
EQUITY			
Share capital	9	**9,575**	9,575
Retained earnings		**(6,424)**	(6,431)
Total equity		**3,151**	3,144
Total equity and liabilities		**3,153**	3,147

The accompanying notes to the financial statements are an integral part of these financial statements.

The financial statements were approved by the board of directors and were signed on its behalf by:

Sean Lowther

S W Lowther
Director
16th APRIL 2018

Statement of changes in equity

For the year ended 31 December 2017

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2016	9,575	(6,443)	3,132
Profit for the year being total comprehensive income	-	12	12
At 31 December 2016	**9,575**	**(6,431)**	**3,144**
Profit for the year being total comprehensive income	-	7	7
At 31 December 2017	**9,575**	**(6,424)**	**3,151**

The accompanying notes to the financial statements are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows used in operating activities		
Profit before tax	**9**	15
Adjustments for:		
Finance income	**(9)**	(15)
Cash generated from operations	**-**	-
Group relief paid	**(3)**	(2)
Net cash used in operating activities	**(3)**	(2)
Cash flows generated from investing activities		
Finance income	**9**	15
Net cash generated from investing activities	**9**	15
Change in Cash and cash equivalents	**6**	13
Cash and cash equivalents at beginning of year	**3,147**	3,134
Cash and cash equivalents at end of year	**3,153**	3,147

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2017

1. Accounting policies

1.1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The following new IFRS pronouncement relevant to the Company has been adopted in these financial statements:

(i) Amendments to IAS 7: Disclosure Initiative (issued January 2016). The amendments are intended to clarify IAS 7 'Statement of Cash Flows' to improve information provided to users of financial statements about an entity's financing activities.

The application of this pronouncement has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2017 and which have not been applied in preparing these financial statements are given in note 14. No standards have been early adopted.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention.

1.2 Income recognition

Finance income for all interest bearing financial instruments is recognised in the Statement of comprehensive income as it accrues, within Finance income.

1.3 Financial assets and liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Financial assets comprise Cash and cash equivalents. The Company has no financial liabilities.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all of the risks and rewards of ownership. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

All financial assets and financial liabilities are stated at amortised cost.

1.4 Cash and cash equivalents

Cash and cash equivalents include investments in a liquidity fund which are accessible on demand.

1.5 Taxation

Tax expense comprises current tax. Current tax is 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 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.

Notes to the financial statements (continued)
For the year ended 31 December 2017

1. Accounting policies (continued)

1.6 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.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

There are no significant estimates or judgements that have been used in the preparation of these financial statements.

3. Finance income

	2017	2016
	£'000	£'000
Investment income (see note 11)	**9**	15

4. Other operating expenses

Fees payable to the Company's auditors for the audit of the financial statements of £2,000 (2016: £5,000) have been borne by a fellow group company and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are not recharged to the Company.

5. Staff costs

The Company did not have any employees during the year (2016: none).

6. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2016: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 11).

7. Taxation

	2017	2016
	£'000	£'000
Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**2**	3

Corporation tax is calculated at a rate of 19.25% (2016: 20.00%) of the taxable profit for the year.

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

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

There are no reconciling differences between the actual tax charge and the tax charge when applying the effective tax rate to accounting profit.

8. Cash and cash equivalents

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

	2017 £'000	2016 £'000
Investment in liquidity fund (see note 11)	**3,153**	3,147

9. Share capital

	2017 £'000	2016 £'000
Allotted, issued and fully paid		
9,575,000 ordinary shares of £1 each	**9,575**	9,575

On 1st June 2017 the shareholder Charterhall (No.2) Limited transferred its shareholding of 2 ordinary shares in the Company to the principal shareholder, HBOS International Financial Services Holdings Limited, who then held 100% of the share capital in the Company effective from that date.

10. Financial risk management

This note summarises the risks associated with the activities of the Company and the way in which these are managed.

10.1 Governance framework

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

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

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

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

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

10. Financial risk management (continued)

10.2 Risk appetite

Risk appetite is the amount and type of risk that the Board is prepared to seek, accept or tolerate and is fully aligned to Insurance division and LBG strategy. The Insurance Board has defined a framework for the management of risk and approved a set of risk appetite statements that cover financial risks (earnings, capital, insurance, credit, market and liquidity), operational risks, people, conduct risks, regulatory & legal risks, financial reporting and governance risks. The risk appetite statements set limits for exposures to the key risks faced by the business. Risk appetite is reviewed at least annually by the Insurance Board. Executive owned Tier 2 and Tier 3 limits sit beneath Insurance Board owned risk appetite (Tier 1) and are managed and governed within the Insurance business.

Experience against Risk Appetite is reported monthly (by exception) and quarterly (in full) to the IWRC, quarterly (by exception) to the IROC and bi-annually (in full) to the Insurance Board. Reporting focuses on ensuring, and demonstrating to the Insurance Board, and their delegate the IROC that Insurance is run in line with approved risk appetite. Any breaches of risk appetite require clear plans and timescales for resolution.

10.3 Financial risks

The Company is exposed to a range of financial risks through its financial assets. The most important components of this financial risk are credit risk and interest rate risk.

Financial assets are measured on an ongoing basis at amortised cost. Descriptions of how income is recognised can be found under note 1.

Credit risk

Credit risk is the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the failure of the party with whom the Company has contracted to meet its obligations.

Credit risk is managed in line with the Insurance Credit Risk Policy and the wider Group Credit Risk Policy.

Credit risk is not considered to be significant to the Company as Cash and cash equivalents is invested in a AAA rated liquidity fund with Standard and Poor's, which is neither past due nor impaired.

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk arises in respect of cash balances which are either held on deposit or invested in a cash fund.

If interest rates were to increase or decrease by 25 basis points, the impact on profit after tax would be an increase or decrease respectively of £8,000 (2016: £8,000) in respect of cash balances.

10. Financial risk management (continued)

10.4 Financial soundness risk

Financial soundness risk covers the risk of financial failure, reputational loss or loss of earnings and/or value arising from a lack of liquidity, funding or capital and/or the inappropriate recording, reporting or disclosure of financial, taxation and regulatory information.

Financial and regulatory reporting, tax and disclosure risk

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.

LBG has developed procedures to ensure that compliance with both current and potential future requirements are understood and that policies are aligned to its risk appetite. LBG maintains a system of internal controls, consistently applied, providing reasonable assurance that transactions are recorded and undertaken in accordance with delegated authorities that permit the preparation and disclosure of financial statements and tax returns in accordance with IFRSs, statutory and regulatory requirements.

LBG 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.

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 the inability to generate cash inflows as anticipated.

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

Capital risk

Capital risk is defined as the risk that:

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

The business of the Company is regulated by the FCA. The FCA specifies the minimum amount of capital that must be held by the Company in addition to its liabilities.

10. Financial risk management (continued)

10.4 Financial soundness risk (continued)

Capital risk (continued)

The Company's objectives when managing capital are:

- To comply with the capital requirements set out by the FCA in the UK;
- To have sufficient further 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; and
- When capital is needed, to require an adequate return to the shareholder by pricing mutual fund contracts according to the level of risk associated with the business written.

The Company's capital comprises all components of equity, movements in which are set out in the Statement of changes in equity. The estimated regulatory surplus of the Company in excess of capital requirements is £3,131k (2016: £3,129k).

The table below sets out the regulatory capital and the required capital held at 31 December in each year for the Company. The current year information is an estimate of the final result:

	2017 **£'000**	2016 £'000
Regulatory capital held	**3,151**	3,144

All minimum regulatory capital requirements were met during the year.

10.5 Legal and regulatory risks

Legal and regulatory risk is the risk of reductions in earnings and/or value, through financial or reputational loss from failing to comply with the laws regulations or codes applicable.

The Company also faces a number of legal and prudential regulatory risks, reflecting the volume and pace of change within the UK. This impacts the Company both operationally, in terms of costs of compliance and uncertainty about regulatory expectations, and strategically, through pressure on key earnings streams. The latter could potentially result in major changes to business and pricing models, particularly in the UK retail market. Business planning processes continue to reflect change to the regulatory environment.

Regulators are interested in protecting the rights of the investors and ensuring that the Company is satisfactorily managing affairs on behalf of the policyholders. Regulators are also keen to ensure that the Company maintains appropriate solvency levels to meet unforeseen liabilities arising from reasonably foreseeable economic shocks or natural disasters. As such, the Company is subject to regulatory requirements which prescribe and impose certain restrictive provisions.

10.6 Fair values of financial assets and liabilities

The directors consider that there are no significant differences between the carrying amounts in the Balance sheet and the fair value.

11. Related party transactions

The Company is controlled by HBOS International Financial Services Holdings Limited. A number of transactions are entered into with related parties in the normal course of business. Details of these are discussed further below.

Liquidity Fund

The Aberdeen Liquidity Fund (Lux) ("ALF") is a managed investment fund (Collective Investment Scheme) investing in short term highly liquid investments and is managed by Aberdeen Asset Management plc.

At 31 December 2016 the Company's ultimate parent company held a controlling interest in the ALF and consolidated it as a subsidiary under IFRS 10. As a fellow group undertaking, the ALF was therefore a related party of the Company during 2016.

At 31 December 2016 the Company held investments in the liquidity fund of £3,147k with Investment income of £15k.

At 31 December 2017, the Company's ultimate parent company no longer held a controlling interest in the ALF. The ALF was therefore not a related party of the Company during 2017.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management is comprised of the directors of the Company and the Lloyds Banking Group plc board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

12. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2016: £nil).

13. Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements.

14. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2017 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 9 'Financial Instruments'	Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.	Annual periods beginning on or after 1 January 2018

Notes to the financial statements (continued)
For the year ended 31 December 2017

14. Future developments (continued)

Pronouncement	Nature of change	Effective date
Amendments to other accounting standards	The IASB has issued amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions' and IAS 40: 'Transfers of Investment Property'.	Annual periods beginning on or after 1 January 2018
	The IASB has issued amendments to IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments.	Annual periods beginning on or after 1 January 2019

The Company has assessed these pronouncements and can confirm that there is no expected impact.

15. Ultimate parent undertaking and controlling party

The immediate parent company is HBOS International Financial Services Holdings Limited (incorporated in England and Wales). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

Independent Auditors' report to the member of Clerical Medical Financial Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, Clerical Medical Financial Services Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2017; the Statement of comprehensive income, the Cash flow statement and the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

Reporting on other information

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

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

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

Based on these 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.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2017 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 Directors' report.

Independent Auditors' report to the member of Clerical Medical Financial Services 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 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Claire Turner

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

16th April 2018