CLERICAL MEDICAL INVESTMENT FUND MANAGERS LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2018

Member of Lloyds Banking Group plc

CONTENTS

COMPANY INFORMATION

Board of Directors

S W Lowther
I H Price

Company Secretary

C A Hankin

Independent Auditors

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

Registered Office

Trinity Road
Halifax
HX1 2RG

Company Registration Number

02792006

STRATEGIC REPORT

The Directors present their strategic report on Clerical Medical Investment Fund Managers Limited ("the Company") for the year ended 31 December 2018.

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

Principal Activities

Prior to 26 November 2016, the principal activity of the Company was that of Authorised Corporate Director ("ACD") of an Open-Ended Investment Company ("OEIC") with 4 authorised sub funds. In November 2016, the underlying OEIC was transferred to Scottish Widows Unit Trust Managers Limited ("SWUTM"). The Company continues to receive interest income and associated expenses in relation to its cash balances.

Result for the year

The result of the Company for the year ended 31 December 2018 is a loss before tax of £44k (2017: loss before tax of £45k).

Britain leaving the European Union

The LBG Insurance Division has already considered many of the potential implications following the UK's vote to leave the European Union ("EU") and continues to manage related developments to assess, and if possible mitigate any impact to its customers, colleagues and products – as well as legal, regulatory, tax, finance and capital implications.

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. LBG's response to these risks, as described in note 14, includes internal contingency plans being recalibrated and regularly reviewed for potential strategic, operational and reputational impacts, analysis of no deal EU exit outcome to identify impacts and assessment of the robustness of contingency plans. While the impact on the Insurance Division could be significant, the impact on the Company is expected to be minimal.

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. The ambition that is relevant to the Company is: 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 LBG Annual Report and Accounts, which can be downloaded via www.lloydsbankinggroup.com.

Key performance indicators

The Company is focused on ensuring it maximises capital efficiency and returns for its shareholder and the LBG Insurance Division. To support this, the Company is focused on the following key performance indicators. There are no non-financial KPIs to be considered.

Liquidity

Regular liquidity monitoring is carried out on the Company which would highlight if there is insufficient liquidity to meet its obligations.

Outlook

The OEIC business of the Company was discontinued after the underlying OEIC was transferred to SWUTM in 2016. There is the intention to have the Company wound up as part of an LBG project to reduce the number of companies within the Insurance Division. Accordingly, the going concern basis of accounting is not appropriate, and the financial statements have been prepared on a basis other than going concern as described in note 1 to the financial statements.

An application was submitted in December 2017 to the FCA for the Company's deauthorisation, with the ultimate aim of liquidating the Company. Confirmation of approval from the FCA was received in 2018 and actions are being taken to prepare the entity for liquidation in 2019.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties

During the year, the management of the business and the execution of the Company's strategy were subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to risks, most notably operational risks, are set out in note 14.

On behalf of the Board of Directors

S W Lowther
Director
24 June 2019

DIRECTORS' REPORT

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

The Company is a wholly owned subsidiary of Halifax Financial Services (Holdings) Limited. The Company's ultimate parent company and ultimate controlling party is LBG.

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

Results and dividend

The result of the Company for the year ended 31 December 2018 is a loss before tax of £44k (2017: loss before tax of £45k).

The loss before tax in 2018 is driven by monthly fees payable to Aberdeen Asset Management ("AAM") in respect of investment in the Aberdeen Liquidity Fund ("ALF"). Further information can be found in the Strategic Report. The Directors consider the result for the year to be satisfactory in light of these factors.

No dividend is proposed in respect of the year ended 31 December 2018 (2017: £nil).

Directors

The names of the current Directors are listed on page 2. Change in Directorships during the year and since the end of the year is as follows:

J M Black	(resigned 18 June 2018)
C M Herd	(resigned 18 June 2018)
G M Stewart	(resigned 18 June 2018)
M E Williams	(appointed 18 June 2018, resigned 02 November 2018)
I H Price	(appointed 02 November 2018)

Particulars of the Directors' emoluments are set out in note 15.

Directors' indemnities

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

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

Disclosure of information to auditors

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

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

Future developments

Details of future developments are provided in the Company Strategic Report.

Financial risk management

Disclosures relating to financial risk management are included in note 14 to the financial statements and are therefore incorporated into this report by reference.

DIRECTORS' REPORT (CONTINUED)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' 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.

Each of the Directors whose names are listed on page 2 confirms that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report on pages 3 to 4, and the Directors' Report on pages 5 to 6, 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

S W Lowther
Director
24 June 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLERICAL MEDICAL INVESTMENT FUND MANAGERS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Clerical Medical Investment Fund Managers 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 loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and 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.

Basis for opinion

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

Independence

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

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

In forming our opinion on the financial statements, which is not modified, we draw attention to note 1 to the financial statements which describes the directors' reasons why the financial statements have been prepared on a basis other than going concern.

Reporting on other information

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLERICAL MEDICAL INVESTMENT FUND MANAGERS LIMITED (CONTINUED)

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.

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Neil Riches

Neil Riches (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
24 June 2019

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Revenue	3	-	6
Gross profit		-	6
Investment income	4	33	17
Administrative expenses	5	(77)	(68)
Loss before tax		(44)	(45)
Taxation credit	7	8	11
Loss for the financial year		(36)	(34)

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

The notes set out on pages 13 to 26 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
ASSETS			
Financial assets:			
Loans and receivables	8	22	43
Current tax receivable	9	8	11
Cash and cash equivalents	10	4,954	5,060
Total assets		4,984	5,114
EQUITY AND LIABILITIES			
Equity attributable to Company's equity shareholders			
Share capital	11	500	500
Retained earnings		4,449	4,485
Total equity		4,949	4,985
Financial liabilities:			
Other financial liabilities	12	35	129
Total liabilities		35	129
Total liabilities and equity		4,984	5,114

The notes set out on pages 13 to 26 are an integral part of these financial statements.

The financial statements on pages 9 to 26 were approved by the Board of Directors on 24 June 2019 and signed on its behalf by:

S W Lowther
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Loss before tax		(44)	(45)
Adjusted for:			
Investment income	4	(33)	(17)
Net movement in operating assets and liabilities	13	(73)	(235)
Taxation credit received		11	90
Net cash flow used in operating activities		(139)	(207)
Cash flows from investing activities			
Investment income	4	33	17
Net cash flow generated from investing activities		33	17
Net decrease in cash and cash equivalents		(106)	(190)
Cash and cash equivalents at the beginning of the year		5,060	5,250
Net cash and cash equivalents at the end of the year	10	4,954	5,060

The notes set out on pages 13 to 26 are an integral part of these financial statements.

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

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Balance as at 1 January 2017	500	4,519	5,019
Loss for the year and total comprehensive loss	-	(34)	(34)
Balance as at 31 December 2017	500	4,485	4,985
Loss for the.year and total comprehensive loss	-	(36)	(36)
Balance as at 31 December 2018	500	4,449	4,949

The notes set out on pages 13 to 26 are 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 IFRSs issued by the International Accounting Standards Board and the Standards and Interpretations ("SICs") and International Financial Reporting Interpretations issued by its IFRS Interpretations Committee ("IFRS IC"), as endorsed by the European Union;

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

3) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through the profit and 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.

There is the intention to have the Company wound up as part of an LBG project to reduce the number of companies within the Insurance Division. Accordingly, the going concern basis of accounting is not appropriate, and the financial statements have been prepared on a basis other than going concern. The comparative financial information is prepared on the same basis as the current year financial information. Adjustments were made in prior period financial statements to reduce assets to their realisable values and to reclassify fixed assets and long-term liabilities as current assets and liabilities. Accordingly no additional adjustments were made in these financial statements.

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

Standards and interpretations effective in 2018

The Company has adopted IFRS 9 "Financial Instruments" as at 1 January 2018. The resulting changes to accounting policies are summarised in note 19(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 19.

The Company has adopted IFRS 15 "Revenue from Contracts with Customers" as at 1 January 2018. The existing accounting policies are consistent with the requirements of IFRS 15 so the application of this standard has not had a material impact on the Company.

(b) Revenue recognition

Investment income

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

1. Accounting policies (continued)

(c) Expense recognition

Administrative expenses

Administrative expenses consist of fund management fees and the release of prior year fees associated with the sale, repurchase and transfer of underlying OEIC funds that were recognised in the statement of comprehensive income in the period in which they accrued.

(d) Financial assets and financial liabilities

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

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

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

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

(1) Financial instruments measured at amortised cost

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

1. Accounting policies (continued)

(e) Fair value methodology

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

(i) Level 1

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

(ii) Level 2

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

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

(iii) Level 3

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

Further analysis of the Company's instruments held at fair value is set out at note 14.

(f) Loans and receivables

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 are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment. In practice the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within loans and receivables. Further information on the Company's impairment policy is set out at policy (h).

(g) Cash and cash equivalents

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

1. Accounting policies (continued)

(h) Impairment

Financial assets

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

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

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

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

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

Impairment process

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

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract;
(iii) the disappearance of an active market for that asset because of financial difficulties; or
(iv) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be identified with the individual assets of the Company, including:

- adverse changes in the payment status of issuers or debtors; or
- national or local economic conditions that correlate with defaults on the assets in the Company.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

1. Accounting policies (continued)

(i) Taxation

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

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

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

(j) 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 for the period in which they are approved.

(k) Other financial liabilities

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

2. Critical accounting estimates and judgments in applying accounting policies

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

There are no significant accounting estimates or judgements that have been used in the preparation of these financial statements for the year ended 2018.

3. Revenue

	2018 £000	2017 £000
Other income	-	6
Total	**-**	**6**

4. Investment income

	2018 £000	2017 £000
Interest income	33	17
Total	**33**	**17**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

5. Administrative expenses

	2018 £000	2017 £000
Investment expenses	75	75
Other	2	3
OEIC transfer costs	-	(10)
Total	77	**68**

Investment expenses relate to a £6.25k monthly investment management fee per the investment management agreement. This relates to the minimum fee chargeable for fund management services.

No staff are employed directly by the Company (2017: nil). All staff providing services to the Company are employed by other subsidiaries of the LBG; employee costs are not recharged to the Company.

6. Auditors' remuneration

	2018 £000	2017 £000
Fees payable to the company's auditors for the audit of the company's annual financial statements	5	5
Fees payable to the company's auditors and its associates for other services:		
Audit-related assurance services	-	19
Total	5	**24**

Audit fees for 2017 and 2018 were borne by another LBG entity and were not recharged to the Company.

7. Taxation credit

(a) Current year tax credit

	2018 £000	2017 £000
Current tax:		
UK corporation tax	8	11
Adjustment in respect of prior years	-	-
Total current tax	**8**	**11**

(b) Reconciliation of tax credit

	2018 £000	2017 £000
Loss before tax	(44)	(45)
Tax at 19.00% (2017: 19.25%)	**(8)**	**(9)**
Adjustment in respect of non-tax-deductible items	-	(2)
Total	**(8)**	**(11)**

Finance Act 2016 reduced the main rate of corporation tax to 17.00% with effect from 1 April 2020.

8. Loans and receivables

	2018 £000	2017 £000
Prepayments	22	22
Amounts due from group undertakings	-	21
Total	22	**43**

None of the above balances are interest-bearing (2017: none).

Further information in respect of credit risk is given in note 14. Of the above total, £nil (2017: £nil) is expected to be settled in more than one year after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

9. Current tax receivable

	2018 £000	2017 £000
Current tax receivable	8	11
Total tax asset	**8**	**11**

10. Cash and cash equivalents

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

	2018 £000	2017 £000
Cash at bank	-	41
Investments held through liquidity funds	4,954	5,019
Total	**4,954**	**5,060**

Investments held through liquidity funds are used to optimise returns on excess funds held by the Company. Further information in respect of credit risk in relation to cash and cash equivalents is given in note 14.

11. Share capital

	2018 £000	2017 £000
Authorised, allotted, called up and fully paid share capital:		
500,000 (2017: 500,000) ordinary shares of £1 each	**500**	**500**

There were no changes in share capital during the year. All shares rank equally with regard to the Company's residual assets.

12. Other financial liabilities

	2018 £000	2017 £000
Trade payables	15	36
Accrued expenses	20	42
Amounts due to group undertakings	-	51
Total	**35**	**129**

None of these balances are interest-bearing (2017: none). Further information in respect of liquidity risk in relation to trade and other payables is given in note 14.

13. Movement in operating assets and liabilities

	2018 £000	2017 £000
Decrease in operating assets:		
Financial assets:		
Loans and receivables	21	59
Net decrease in operating assets	**21**	**59**
Decrease in operating liabilities:		
Financial liabilities:		
Trade and other payables	(43)	(146)
Amounts owed to group undertakings	(51)	(148)
Net decrease in operating liabilities	**(94)**	**(294)**
Net movement in operating assets and liabilities	**(73)**	**(235)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14. Risk Management

Until 26 November 2016, the Company managed OEIC sub funds. In November 2016, the underlying OEIC was transferred to SWUTM.

This note summarises the risks associated with the activities of the Company and the way in which the Company managed them during the year.

(a) Governance framework

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

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, insurance underwriting, credit, capital, liquidity, people, governance, operational, model and financial reporting risks. The performance of the Company and the strategic management of the business depend on its ability to manage these risks.

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

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

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

(b) Risk appetite

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

Experience against Risk Appetite is reported (by exception) to each meeting of IWRC and IROC. Any breaches of risk appetite require clear plans and timescales for resolution.

(c) Financial risks

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

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

The Company manages this risk in a numbers of ways, including risk appetite assessment and monitoring of capital resource requirements.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14. 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. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated, for example changes in interest rates and changes in market values. The sensitivity analysis presented also represents management's assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

(1) Market risk

Market risk is defined as the risk that 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.

All of the financial assets of the Company which are measured at fair value, which relate to investments in liquidity funds of £4,954k (2017: £5,019k), are classified in level 1 of the IFRS 7 fair value hierarchy.

(i) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. The sensitivity analysis below illustrates how the fair value of future cash flows in respect of investments in liquidity funds will fluctuate because of changes in market interest rates at the reporting date.

	Impact on profit after tax and equity for the year	
	2018	2017
	£000	£000
25 basis points (2017: 25 basis points) increase in yield curves	13	13
25 basis points (2017: 25 basis points) decrease in yield curves	(13)	(13)

(2) Credit risk

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

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

The following table sets out details of the credit quality of financial assets that are neither past due nor impaired:

	2018	2017
	£000	£000
Loans and receivables	22	43
Cash and cash equivalents	4,954	5,060
Total assets bearing credit risk	**4,976**	**5,103**

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

As at 31 December 2018	**Total**	**AAA**	**AA**	**A**	**Not rated**
	£000	**£000**	**£000**	**£000**	**£000**
Loans and receivables	22	-	-	22	-
Cash and cash equivalents	4,954	4,954	-	-	-
Total	**4,976**	**4,954**	-	**22**	-

As at 31 December 2017	**Total**	**AAA**	**AA**	**A**	**Not rated**
	£000	**£000**	**£000**	**£000**	**£000**
Loans and receivables	43	-	-	43	-
Cash and cash equivalents	5,060	5,019	-	41	-
Total	**5,103**	**5,019**	-	**84**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14. Risk Management (continued)

(c) Financial risk (continued)

(3) Liquidity risk

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

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

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

As at 31 December 2018

Liabilities			**Contractual cash flows (undiscounted)**				
	Carrying amount £000	**No stated maturity £000**	**Less than 1 month £000**	**1-3 Months £000**	**3-12 months £000**	**1-5 years £000**	**More than 5 years £000**
Trade payables	15	-	15	-	-	-	-
Accrued expenses	20	-	20	-	-	-	-
Total	**35**	-	**35**	-	-	-	-

As at 31 December 2017

Liabilities			**Contractual cash flows (undiscounted)**				
	Carrying amount £000	**No stated maturity £000**	**Less than 1 month £000**	**1-3 Months £000**	**3-12 months £000**	**1-5 years £000**	**More than 5 years £000**
Trade payables	36	-	36	-	-	-	-
Accrued expenses	42	-	42	-	-	-	-
Amounts due to group undertakings	51	-	51	-	-	-	-
Total	**129**	-	**129**	-	-	-	-

The contractual cash flow analysis set out above has been based on the earliest possible contractual date, regardless of the surrender penalties that might apply and has not been adjusted to take account of such penalties.

(4) Capital risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14. Risk Management (continued)

(d) Operational risks

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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

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.

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 Insurance Division's information and data. Physical security risk relates to the risk to the security of people and property.

Operational resilience risk

Operational resilience risk covers the risk or instances of interruptions to business operations (including critical buildings, critical and core infrastructure and IT systems, suppliers and colleagues), as a consequence of external or internal events due to insufficient resilience, inadequate recovery strategies and/or continuity systems and controls.

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 or maintain a resilient IT solution or protect against cyber attack and other system disruption. A risk framework has been embedded and this is monitored to ensure its effective operation across the Insurance Division.

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 have been implemented effectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14. Risk Management (continued)

(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 Group's response to these risks and uncertainty is as follows:

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

15. Related party transactions

Ultimate parent and shareholding

The Company's immediate parent undertaking is Halifax Financial Services (Holdings) Limited, a company registered in the United Kingdom. Halifax Financial Services (Holdings) Limited has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

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

Transactions between the Company and other LBG companies

The Company has entered into the following transactions with other related parties during the year and holds the following balances with other related parties at the end of the year:

	2018			
	Income during year £000	Expenses during year £000	Payable at year end £000	Receivable at year end £000
Relationship				
Parent	-	-	-	-
Other related parties	-	-	-	-

	2017			
	Income during year £000	Expenses during year £000	Payable at year end £000	Receivable at year end £000
Relationship				
Parent	-	-	-	-
Other related parties	-	-	51	21

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

15. Related party transactions (continued)

Transactions between the Company and key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are the Executive Directors.

The Directors consider that they receive no remuneration for their services to the Company (2017: £nil).

16. Contingent liabilities and capital commitments

There were no contracted capital commitments at the balance sheet date (2017: £nil).

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 £347k (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.

17. Future accounting developments

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

18. Events after the reporting date

There are no events after the reporting date.

19. 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:

(a) Changes to accounting policies

The new accounting policies, as amended for IFRS 9, are set out in note 1 (d), (f) and (h). 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 in which the asset is held. All other financial assets held in a business model that is managed on a fair value basis are held at fair value through profit or loss and those that are held in a business model that collects the contractual cash flows are classified as amortised cost. See note 1(d) for more detail.

(ii) Loans and receivables
Under IAS 39, loans and receivables were held at amortised cost. Under IFRS 9, certain loans and receivables continue to be held at amortised cost, but some are now held at fair value through profit or loss. The classification is dependent on whether those loans and receivables are held in a business model whose purpose is to hold assets to collect the contractual cash flows (resulting in amortised cost classification) or where the assets are managed on a fair value basis (resulting in a mandatory fair value classification). For more detail see note 1(f).

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) Cash and cash equivalents
Cash and cash equivalents include investments in liquidity funds, which were previously designated at fair value through other comprehensive income under IAS 39 and are now mandatorily at fair value through profit or loss. For more detail see note 1(g).

(iv) Impairment
IFRS 9 results in changes to the impairment process 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(h).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

19. Adoption of IFRS 9 (continued)

(b) Opening reserves and loss allowance on transition

At 31 December 2017, the IAS 39 allowance for impairment losses for was £nil. At 1 January 2018, the IFRS 9 loss allowance was £nil. There were therefore no adjustments to opening reserves as a result of adopting IFRS 9.

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

	IAS 39		IFRS 9	
Financial Assets	**Measurement Category**	**Carrying Amount £000**	**Measurement Category**	**Carrying Amount £000**
Loans and receivables	Amortised cost	43	Amortised cost	43
Cash and cash equivalents	FVTPL (Designated)	5,060	FVTPL (Mandatory)	5,060
Total		**5,103**		**5,103**

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

As set out in the table above, loans and receivables continue to be held at amortised cost. This is the result of identifying these assets as being part of a business model whose purpose is to hold assets to collect the contractual cash flows.

Cash and cash equivalents that were previously designated at fair value through profit or loss under IAS 39 are now mandatorily at fair value through profit or loss. This is the result of identifying these assets as being part of a business model that is managed on a fair value basis.

There are no differences between the IAS 39 carrying amounts for financial assets at 31 December 2017 and the IFRS 9 carrying amounts at 1 January 2018.

(d) *Loss allowance on transition*

At 31 December 2017, the IAS 39 allowance for impairment losses for loans and receivables was £nil. At 1 January 2018, the IFRS 9 loss allowance was £nil.