CLERICAL MEDICAL FINANCE PLC

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2017

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Member of Lloyds Banking Group plc

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COMPANY INFORMATION

Board of Directors

S W Lowther
M E Williams

Secretary

A D Yuille

Independent Auditors

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

Registered Office

33 Old Broad Street
London
EC2N 1HZ

Company Number

03850542

STRATEGIC REPORT

The Directors present their strategic report on Clerical Medical Finance Plc ("the Company") for the year ended 31 December 2017.

As part of the Lloyds Banking Group ("LBG") Insurance Division strategy the Company provides finance to Scottish Widows Limited ("SWL"), a life insurance company within LBG. Listed subordinated debt raised by the Company is used to fund SWL's insurance and savings business. The funds loaned to SWL are on similar interest and repayment terms as those applied to the listed subordinated debt raised by the Company such that the Company returns a non significant pre tax profit.

Result for the year

The result of the Company for the year ended 31 December 2017 is a profit of £84k (2016: profit of £91k), and this has been transferred to reserves.

The carrying value of the subordinated assets at the year end was £48.4m (2016: £48.4m). Interest income receivable on the subordinated assets as a percentage of the average subordinated asset in the year was 8.0% (2016: 8.0%).

The carrying value of the subordinated liabilities at the year end was £50.6m (2016: £50.6m). The interest expense payable on the subordinated liabilities as a percentage of the average subordinated liabilities in the year was 7.4% (2016: 7.4%).

Britain leaving the European Union

The Company is part of the wider Lloyds Banking 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. LBG 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.

Key performance indicators

The Directors are of the opinion that the information presented in the financial statements 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 LBG. The development, performance and position of this division are discussed in LBG's annual report, which does not form part of this report.

Liquidity

The Company is dependent on the liquidity of SWL. SWL regularly monitors its liquidity position to ensure that, even under stressed conditions, it has sufficient liquidity to meet its obligations and remain within the approved risk appetite.

STRATEGIC REPORT (continued)

Review of the business

Litigation in relation to SWL insurance business in Germany

SWL continues to receive claims in Germany from customers relating to policies issued by the company, under its former name of Clerical Medical Investment Group Limited. The German industry-wide issue regarding notification of contractual 'cooling off' periods has continued to lead to similar numbers of claims in 2017 as 2016. The total provision made to 31 December 2017 remains at £639m (2016: £639m). Settlement experience has improved and therefore only £30m was utilised in the year ended 31 December 2017 (2016: £50m) the remaining unutilised provision as at 31 December 2017 is £138m (2016: £168m).

The validity of the claims facing SWL depends upon the facts and circumstances in respect of each claim. As a result the ultimate financial effect, which could be significantly different from the current provision, will be known only once all relevant claims have been resolved.

This ongoing matter has not resulted in any impact in these financial statements. The matter affects SWL and is included for reference here due to the loans receivable from SWL, see note 17.

Outlook

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

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 market, credit, financial soundness and operational risks are set out in note 16.

In addition, the Company is also exposed to financial reporting risk, in particular the risk of reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting and financial reporting fraud. The financial and risk management objectives and policies of the Company in respect of financial reporting risk are also set out in note 16.

On behalf of the Board of Directors

S W Lowther
Director
22 March 2018

DIRECTORS' REPORT

Principal activities and review of the business

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

The Company is a subsidiary of HBOS Financial Services Limited. The Company's ultimate parent company and ultimate controlling party is LBG.

The Company's principal activity is to act as a finance company for SWL a fellow subsidiary of LBG. Listed subordinated debt raised by the Company is loaned to SWL on similar interest and repayment terms as those applied to the listed subordinated debt raised by the Company.

Results and dividend

The result of the Company for the year ended 31 December 2017 is a profit for the financial year of £84k (2016: profit of £91k). No interim dividend was paid during the year (2016: £nil). The Directors do not recommend the payment of a final dividend (2016: £nil). Further information on the results of the Company is provided in the Strategic Report.

Post balance sheet events

No significant post balance sheet events have been identified affecting the Company's financial statements.

Directors

The Directors of the Company who were in office during the year and up to the date of approving the financial statements were:

A M Parsons (resigned 31 May 2017)
M E Williams
S W Lowther

Particulars of the Directors' emoluments are set out in note 17.

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. 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

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

Future developments

Details of future outlook are detailed in the Strategic Report. Details of future developments are detailed in note 19.

Political contributions

During the year, the Company made no political contributions (2016: £nil).

Corporate governance statement

In accordance with the Financial Conduct Authority's Disclosure and Transparency Rule ("DTR") 7.2.1, the disclosures required by DTR 7.2.5R are within note 16 to the financial statements and are therefore incorporated into this report by reference.

DIRECTORS' REPORT (continued)

Going concern

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

Financial risk management

Disclosures relating to financial risk management are included in note 16 to the financial statements and are therefore incorporated into this report by reference.

Statement of Directors' responsibilities

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

A copy of the financial statements is placed on our website http://www.clericalmedical.co.uk. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

- the Strategic Report on pages 4 to 5 and the Directors' Report on pages 6 to 7 includes 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
22 March 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CLERICAL MEDICAL FINANCE PLC

Report on the audit of the financial statements

Opinion

In our opinion, Clerical Medical Finance Plc'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 Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year ended 31 December 2017; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to those charged with governance.

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

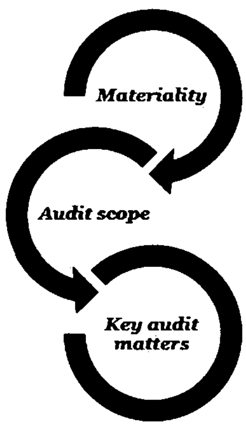
Independence
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

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

We have provided no non-audit services to the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall materiality: £560,000, based on 1% of total assets
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of material balances (primarily listed debt and intercompany receivable) and other qualitative factors (including history of misstatement through fraud or error).
- We have no key audit matters to report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CLERICAL MEDICAL FINANCE PLC (continued)

The scope of our audit

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

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including, but not limited to the Companies Act 2006. Our tests included, but were not limited to review of the financial statement disclosures to underlying supporting documentation. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

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

As part of the Lloyds Banking Group ("LBG") Insurance Division strategy the Company provides finance to Scottish Widows Limited ("SWL", formerly Clerical Medical Insurance Group Ltd), a life insurance company within the LBG group. Subordinated debt raised by the Company is used to fund SWL's insurance and savings business. The funds loaned to SWL are on similar interest and repayment terms as those applied to the subordinated debt raised by the Company such that the Company returns a non-significant pre-tax profit.

Materiality

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

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

Overall materiality	£560,000
How we determined it	1% of total assets
Rationale for benchmark applied	The entity is primarily focused on servicing listed loan notes in issue, through interest received on corresponding intercompany receivables, both of these being balance sheet items. In addition, there are relatively few transactions for the year. We therefore believe that total assets is the primary measure used by the shareholders in assessing the performance of the Company.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £28,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CLERICAL MEDICAL FINANCE PLC (continued)

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 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 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 7, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CLERICAL MEDICAL FINANCE PLC (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the Directors on 26 June 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 December 2009 to 31 December 2017.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
22 March 2018

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £ 000	2016 £ 000
Revenue			
Interest income	3	3,870	3,881
Other income	4	5	5
Total revenue		**3,875**	**3,886**
Expenses			
Finance costs	5	(3,738)	(3,738)
Other expenses	6	(34)	(34)
Total expense		**(3,772)**	**(3,772)**
Profit before tax		**103**	**114**
Taxation charge	8	(19)	(23)
Profit for the financial year		**84**	**91**

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

The notes set out on pages 16 to 29 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2017

	Note	2017 £ 000	2016 £ 000
ASSETS			
Financial assets:			
Loans and receivables	9	48,360	48,355
Other receivables	10	3,313	3,195
Cash and cash equivalents	11	4,902	4,888
Total assets		**56,575**	**56,438**
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's equity shareholder			
Share capital	12	225	225
Retained earnings		5,120	5,036
Total equity		**5,345**	**5,261**
Liabilities			
Financial liabilities:			
Subordinated liabilities	13	50,617	50,583
Other financial liabilities	14	571	571
Current tax liabilities	15	42	23
Total liabilities		**51,230**	**51,177**
Total equity and liabilities		**56,575**	**56,438**

The notes set out on pages 16 to 29 are an integral part of these financial statements.

The financial statements on pages 12 to 29 were approved by the Board of Directors on 22 March 2018 and signed on its behalf by:

S W Lowther
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £ 000	2016 £ 000
Cashflow from operating activities			
Profit before tax		103	114
Adjusted for:			
Amortisation of finance costs on subordinated debt	6	34	34
Movement in loans and receivables	9	(5)	(5)
Movement in subordinated debt	13	-	1
Movement in other receivables	10	(118)	(129)
Movement in other liabilities	14	-	8
Taxation paid		-	(34)
Net cash inflow/(outflow) from operating activities		**14**	**(11)**
Net increase/(decrease) in cash and cash equivalents		14	(11)
Cash and cash equivalents at the beginning of the year		4,888	4,899
Net cash and cash equivalents at the end of the year	11	**4,902**	**4,888**

The notes set out on pages 16 to 29 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £ 000	Retained earnings £ 000	Total equity £ 000
Balance as at 1 January 2016	**225**	**4,945**	**5,170**
Profit and total comprehensive income for the year	-	91	91
Balance as at 31 December 2016	**225**	**5,036**	**5,261**
Profit and total comprehensive income for the year	-	84	84
Balance as at 31 December 2017	**225**	**5,120**	**5,345**

The notes set out on pages 16 to 29 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

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

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

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

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

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

Standards and interpretations effective in 2017

The Company has not adopted any new standards, amendments to standards and interpretations of published standards which became effective for financial years beginning on or after 1 January 2017, which have had a material impact on the Company.

Details of standards and interpretations in issue but which have not been adopted early are set out at note 19.

(b) Interest income

Interest income consists of interest receivable on subordinated assets. Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

(c) Finance costs

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

(d) Financial assets and financial liabilities

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

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 designated at amortised cost (as described in note 1(g) and 1(k) below) with the exception of accrued interest on loans which is recognised using the effective interest rate method and other amount receivable from related party which is stated at fair value. The classification depends on the purpose for which the financial assets and financial liabilities were acquired.

No assets are classified as held-to-maturity, available-for-sale or for trading; no liabilities are classified as held for trading.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

1. Accounting policies (continued)

(e) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that are not designated as fair value through profit or loss at initial recognition.

Loans and receivables are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment, with the exception of accrued interest, which is accounted for at fair value, reflecting the amounts receivable at the year end.

A charge for impairment in respect of loans and receivables would be made in the statement of comprehensive income when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. The impairment charge would be recognised through operating expense in that part of the statement of comprehensive income in which the original transaction was reported. Further information on the Company's impairment policy is set out at policy (h).

(f) Cash and cash equivalents

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

(g) Financial assets

The carrying value of all financial assets held at amortised cost is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable fair prices and expected net selling prices. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

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 cashflow from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be identified with the individual assets of the Company, including:

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

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 such groups as they are indicative of the issuers' 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 2017 (continued)

1. Accounting policies (continued)

(h) Taxes

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

Current tax 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.

(i) Share capital

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

(j) Subordinated liabilities

Subordinated liabilities comprise undated loan capital. They are recognised initially at fair value, being the issue proceeds net of transaction costs incurred. Subordinated liabilities are subsequently stated at amortised cost: any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income through amortisation of finance costs on subordinated debt over the period of the liabilities using the effective interest rate applicable to the instrument. Interest payable is recognised in the statement of comprehensive income, through finance costs (see 1(c)).

The subordinated guaranteed bonds were classified as a liability at the time that the instrument was issued on the basis of the existence of a capital disqualification event considered to be a genuine settlement provision in the context of current uncertainty surrounding the direction of future regulatory rule developments.

(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.

(l) Effective interest rate

Revenue on financial instruments classified as loans and receivables and finance costs on financial liabilities at amortised cost, are recognised on an effective interest rate basis. This calculation takes into account interest received or paid and fees and commissions paid or received that are integral to the yield as well as incremental transaction costs and all other premiums and discounts. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial instrument at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

2. Critical accounting estimates and judgements in applying accounting policies

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

3. Interest income

	2017 £ 000	2016 £ 000
Interest income on loans	3,870	3,881
Total	**3,870**	**3,881**

4. Other income

	2017 £ 000	2016 £ 000
Other Income	5	5
Total	**5**	**5**

Other income includes amortisation of finance costs on the sterling loan.

5. Finance costs

	2017 £ 000	2016 £ 000
Interest payable on bond issues	3,738	3,738
Total	**3,738**	**3,738**

Finance costs relate to the interest payable on subordinated guaranteed bonds in the year.

6. Other expenses

	2017 £ 000	2016 £ 000
Amortisation of finance costs on subordinated debt	34	34
Total	**34**	**34**

Other expenses includes amortisation of finance costs on the subordinated liabilities.

No staff are employed directly by the Company (2016: none). All staff providing services to the Company are employed by other subsidiaries of LBG.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

7. Auditors' remuneration

Audit fees are borne by another subsidiary within LBG and are as follows:

	2017 £ 000	2016 £ 000
Fees payable for the audit of the Company's current year annual report	10	8
Total	**10**	**8**

8. Taxation charge

a) Current year tax charge

	2017 £ 000	2016 £ 000
Current Tax:		
UK Corporation tax charge	(19)	(23)
Total	**(19)**	**(23)**

b) Reconciliation of tax charge

	2017 £ 000	2016 £ 000
Profit before tax	103	114
Tax at 19.25% (2016: 20%)	(19)	(23)
Total charge	**(19)**	**(23)**

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

9. Loans and receivables

	2017 £ 000	2016 £ 000
Amounts owed by group undertakings	48,360	48,355
Total	**48,360**	**48,355**

The receivables relate to funds deposited with SWL. The deposits bear nominal interest at 7.61% (2016: 7.61%), this income being received through the statement of comprehensive income. Further information in respect of amounts owed by group undertakings is given in note 17.

The balances above include £5k (2016: £5k) due from SWL in respect of amortised transaction costs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

10. Other receivables

	2017 £ 000	2016 £ 000
Accrued interest receivable	589	589
Other amount receivable from related party	2,724	2,606
Total	**3,313**	**3,195**

The above receivables are owed by group undertakings. Further information in respect of amounts owed by group undertakings is given in note 17.

11. Cash and cash equivalents

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

	2017 £ 000	2016 £ 000
Investments in a liquidity fund	4,902	4,888
Total	**4,902**	**4,888**

Investments in the liquidity funds are held for the purpose of meeting short-term cash commitments and are included in cash equivalents.

12. Share capital

	2017 £ 000	2016 £ 000
Issued and fully paid share capital:		
225,000 ordinary shares of £1 each	225	225
Total	**225**	**225**

There were no changes in ordinary share capital during the year.

13. Subordinated liabilities

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 16.

	2017 £ 000	2016 £ 000
Non-current liabilities		
Subordinated guaranteed bonds	50,617	50,583
Total	**50,617**	**50,583**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

13. Subordinated liabilities (continued)

The subordinated guaranteed bonds are carried at amortised cost. The amortisation schedule is set out below:

	2017 £ 000	2016 £ 000
Nominal value	50,680	50,680
Amortisation in one year	(34)	(34)
Amortisation two to five years	(29)	(63)
As at 31 December	**50,617**	**50,583**

The debt repayment schedule for the subordinated guaranteed bonds (by nominal value) is set out below:

As at 31 December 2017

	Total £ 000	Less than 1 year £ 000	1-2 years £ 000	2-5 years £ 000	More than 5 years £ 000
Subordinated Guaranteed Bonds (nominal value):					
£51m – at 7.375%	50,680	-	-	-	50,680
Total	**50,680**	-	-	-	**50,680**

As at 31 December 2016

	Total £ 000	Less than 1 year £ 000	1-2 years £ 000	2-5 years £ 000	More than 5 years £ 000
Subordinated Guaranteed Bonds (nominal value):					
£51m – at 7.375%	50,680	-	-	-	50,680
Total	**50,680**	-	-	-	**50,680**

Details of the terms for the subordinated guaranteed bonds are as follows:

£51m of 7.375% undated Subordinated Guaranteed Bonds, the redemption of which is at the option of the Company and is generally not allowable prior to 5 November 2019.

The bonds are guaranteed on a subordinated basis by SWL, a fellow subsidiary of LBG, after the claims of SWL senior creditors including all policyholders. The proceeds of each bond issue were loaned to SWL on similar interest, repayment and subordination terms as those applicable to the bonds.

Tranche	Original issue	Amount redeemed	Outstanding at 31 December 2017	Outstanding at 31 December 2016
7.375% originally issued: Nov 1999 / Dec 2000	£200m	£149m	£51m	£51m

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

14. Other financial liabilities

	2017 £ 000	2016 £ 000
Accrued interest on subordinated guaranteed bonds	571	571
Total	**571**	**571**

15. Current tax liabilities

	2017 £000	2016 £000
Current tax payable	42	23
Total	**42**	**23**

16. Risk management

The Company's principal activity is to act as a finance company for SWL, a fellow subsidiary undertaking. Subordinated debt raised by the Company is loaned to SWL on similar interest and repayment terms as those applied to the subordinated debt raised by the Company.

This note summarises risks and the way in which the Company manages them.

(a) Governance framework

The Company is part of LBG, which has established a risk management function with responsibility for implementing 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, financial soundness and operational risk.

Responsibility for the setting and management of risk appetite and risk policy resides with the Board who manage risks in line with LBG and Insurance Division risk policies. The Board has delegated operational implementation 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 Audit Committee and the Board that risks are recognised, monitored and managed within acceptable parameters.

(b) 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 LBG strategy. The Board has defined the methodology for the management of risk appetite and approved a set of risk appetite statements. The risk appetite statements set limits for exposures to the key risks faced by the business. Risk appetite is reviewed at least annually by the Board. Risk appetite is set at an Insurance Division level.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

16. Risk management (continued)

(c) Financial risks

The Company is exposed to a range of financial risks through its financial assets and financial liabilities.

The Company manages these risks in a numbers of ways, including risk appetite assessment and monitoring of cash flow requirements.

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

The following tables analyse the carrying amount of assets and liabilities, with financial assets and financial liabilities being presented according to their IAS 39 classification:

	2017 £000	2016 £000
Financial assets		
Cash and cash equivalents	4,902	4,888
Other receivables	3,313	3,195
Amortised cost:		
Loans receivable	48,360	48,355
	56,575	**56,438**

	2017 £000	2016 £000
Financial liabilities		
Amortised cost:		
Subordinated liabilities	50,617	50,583
Other financial liabilities	571	571
	51,188	**51,154**
Other liabilities		
Current tax payable	42	23
Total liabilities	**51,230**	**51,177**

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

16. Risk management (continued)

(c) Financial risks (continued)

(1) Market risk (continued)

The fair values together with the carrying amounts of those assets and liabilities affected by market risk shown in the balance sheet are as follows:

	2017 Carrying amount £000	Fair value £000	2016 Carrying amount £000	Fair value £000
Cash and cash equivalents	4,902	4,902	4,888	4,888
Loans to group undertaking	48,360	51,630	48,355	51,440
Subordinated guaranteed bonds	(50,617)	(54,095)	(50,583)	(51,440)

The carrying amount of Loans to group undertakings above includes £5k (2016: £5k) due from SWL in respect of amortised transaction costs.

The carrying amount of Loans to group undertakings and subordinated guaranteed bonds above is recognised initially at fair value, being the issue proceeds net of transaction costs incurred, and subsequently stated at amortised cost using the effective interest method.

The fair value of Loans to group undertakings and subordinated guaranteed bonds above are based on the open market value of the Subordinated guaranteed bonds, excluding amortised transaction costs.

(i) Equity and property risk

The Company is not exposed to equity or property risk through its financial assets and financial liabilities.

(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve.

Effective interest rates and re-pricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they re-price:

		2017				2016			
	Note	Effective Interest rate	Total £000	6 months or less £000	More than 5 years £000	Effective Interest rate	Total £000	6 months or less £000	More than 5 years £000
Cash and cash equivalents	11	0.5%	4,902	4,902	-	0.5%	4,888	4,888	-
Loans to group undertaking:									
GBP	9	7.8%	48,360	48,360	-	7.8%	48,355	48,355	-
Subordinated guaranteed bonds:									
GBP	13	7.6%	(50,617)	(50,617)	-	7.6%	(50,583)	(50,583)	-

Interest rates on interest-bearing financial assets and financial liabilities are closely matched. Any increase or decrease in interest rates would, therefore, not have a material impact on profit and loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

16. Risk management (continued)

c) Financial risks (continued)

2) Credit risk

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

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

The Company is primarily exposed to credit risk through the subordinated guaranteed bonds loaned on to SWL. Accordingly the Company is dependent upon SWL to meet its commitments in respect of the subordinated guaranteed bonds issued. Management monitor closely the solvency position and the credit risk exposure of SWL and the Company. They are satisfied that, as a consequence of the risk management procedures in place, as set out in the financial statements of SWL, this risk is suitably managed.

There were no past due or impaired financial assets at 31 December 2017 (2016: none). No terms in respect of financial assets had been renegotiated at 31 December 2017 or 31 December 2016.

3) 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.

(i) Financial, tax and disclosure risks

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

The Company 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. The Company has established a system of internal controls, the objective of which is to provide reasonable assurance that transactions are recorded and undertaken in accordance with delegated authorities that permit the preparation and disclosure of financial statements and tax returns in accordance with IFRSs and statutory requirements.

The Company 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.

(ii) 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 a liability falling due for payment earlier than expected; or from the inability to generate cash inflows as anticipated.

Liquidity risk is managed in line with the LBG Funding and Liquidity Risk Policy, see Strategic Report.

Liquidity risk has been analysed as arising from the settlement of balances from other group undertakings of £51,673,000 (2016: £51,550,000) which in turn is used to settle balances owed on subordinated guaranteed bonds.

(iii) Capital risk

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

The Company's objectives when managing capital is to have sufficient capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

16. Risk management (continued)

c) Financial risks (continued)

4) 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. A risk framework is embedded and monitored within the LBG to mitigate these.

17. Related party transactions

(a) Ultimate parent and shareholding

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

The parent undertaking which is the parent undertaking of the smallest group to consolidate these financial statements is Lloyds Bank plc. Copies of the consolidated financial statements of Lloyds Bank plc may be obtained from Insurance Secretariat, 69 Morrison Street, Edinburgh EH3 8YF.

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

(b) Transactions and balances with related parties

Transactions between the Company and other companies in the LBG

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:

	2017 Income during year £000	2017 Expenses during year £000	2017 Payable at year end £000	2017 Receivable at year end £000
Relationship				
Other related parties	3,870	-	-	51,673

	2016 Income during year £000	2016 Expenses during year £000	2016 Payable at year end £000	2016 Receivable at year end £000
Relationship				
Other related parties	3,881	-	-	51,550

All the transactions summarised above were entered into on an arm's length basis. The amounts outstanding at the end of the year are repayable on demand unless otherwise specified in the relevant note. The Company paid no dividends to its parent company in the year ended 31 December 2017 (2016: nil).

Transactions between the Company and key management personnel

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

The Directors consider that they receive no remuneration for their services to the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

18. Contingent Liability

LBG 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 £73,000 (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.

19. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2017 and have not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.

Pronouncement	Nature of change	IASB effective date
IFRS 9 "Financial Instruments"	Replaces IAS 39 "Financial Instruments: Recognition and Measurement." Classification 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 or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit and loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss The Insurance Division has undertaken an assessment of the classification and measurement of financial assets. The majority of assets of the Company retain the existing measurement category as under IAS 39; approximately £nil of financial assets will be reclassified from amortised cost to fair value through profit or loss at 1 January 2018. The reclassification will not result in any change to their valuation. IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk may be presented in other comprehensive income. Impairment The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantees not measured at fair value through profit or loss. IFRS 9 replaces the existing 'incurred loss' impairment approach with an Expected Credit Loss ('ECL') model, resulting in earlier recognition of credit losses compared with IAS 39. Expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions.	Annual periods beginning on or after 1 January 2018

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

19. *Future accounting developments (continued)*

Pronouncement	Nature of change	IASB effective date
IFRS 9 "Financial Instruments" (continued)	The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39. The new impairment requirements will not impact the Company's balance sheet provisions for credit losses. The ongoing impact on the financial results will only become clearer after running the IFRS 9 impairment models over a period of time and under different economic environments, however, it could result in impairment charges being more volatile when compared to the current IAS 39 impairment model, due to the forward looking nature of expected credit losses.	Annual periods beginning on or after 1 January 2018
IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 Revenue from Contracts with Customers IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and is effective for annual periods beginning on or after 1 January 2018. The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled. The Company current accounting policy is materially consistent with the requirements of IFRS 15 and, accordingly, no transition adjustments are required.	Annual periods beginning on or after 1 January 2018
Minor amendments to other accounting standards [1]	Minor amendments to other accounting standards The IASB has issued a number of minor amendments to IFRSs effective 1 January 2018 (including IFRS 2 Share-based Payment and IAS 40 Investment Property) and effective 1 January 2019 (including IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments). These revised requirements are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018 or 2019

[1] At the date of this report, these pronouncements are awaiting European Union endorsement.

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