

# HALIFAX LIFE LIMITED

ANNUAL REPORT

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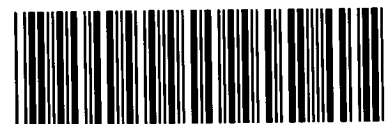
FINANCIAL STATEMENTS

31 DECEMBER 2016



Member of Lloyds Banking Group plc

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**COMPANY INFORMATION**

**Board of Directors**

J C S Hillman\*

S Lowther\*

R J McIntyre\*

\* denotes Executive Director

**Company Secretary**

A D Yuille

**Independent Auditors**

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

**Registered Office**

Trinity Road  
Halifax  
West Yorkshire  
HX1 2RG

**Company Registration Number**

2233654

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**STRATEGIC REPORT**

The Directors present their strategic report on Halifax Life Limited ("the Company") for the year ended 31 December 2016.

**Principal Activities**

At 31 December 2015, the business of the Company was transferred to Scottish Widows Limited (formerly Clerical Medical Investment Group Ltd) under an 'Insurance Business Transfer Scheme'. Prior to the transfer, the principal activity of the Company was the undertaking of ordinary long-term insurance and savings business and associated investment activities in the United Kingdom. The Company provided a wide range of life insurance products such as annuities, pensions, whole life, term life and investment type products. The Company also reinsured business with insurance entities internal to Lloyds Banking Group Plc ("LBG").

The Company was de-authorised on 7 September 2016. The Company's principal activities are holding investments and an investment in a subsidiary.

**Recapture of a Portfolio of Unit-linked policies - The Equitable Life Assurance Society**

In 2001, the Equitable Life Assurance Society ("ELAS") and the Company entered into an administration and reinsurance agreement covering unit-linked, non-profit, group pensions and annuity business. In 2012 the Equitable Life Assurance Society decided to transfer unit-linked business back from the Company to mitigate impending Solvency II issues. The relevant recapture agreement was signed on 23 July 2014 and the assets transfer was completed on 8 March 2015 with a net asset transfer of £1.9bn. Further information can be found in note 3.

**Insurance Business Transfer Scheme**

On 26 November 2015, the High Court of Justice approved the transfer of the long-term insurance business of the Company, to Scottish Widows Limited, the Company's immediate parent, pursuant to an insurance business transfer scheme, under Part VII of the Financial Services and Markets Act 2000.

All of the business assets and liabilities of the Company were transferred, save for a minimum of assets which were held back to cover the regulatory minimum capital requirements. However the ownership of the Company's subsidiary St Andrew's Life Assurance plc did not transfer. The transfer was effective 31 December 2015 and therefore income and expenses relating to the business transferred remained within the Company for the last year of trading. At a future point, management expect to transfer the remaining assets to Scottish Widows Limited. Further details can be found in note 18.

**Key performance indicator***Result for the Year*

The result of the Company for year ended 31 December 2016, is a profit after tax of £14k (2015: loss after tax of £291,000k, including a loss before tax on transfer of business assets of £138,000k and an impairment in investment in subsidiary on transfer of business of £533,000k, see note 18).

*Capital Resources*

Following de-authorisation there is no minimum capital requirement (2015: Pillar 1 £6,000k required capital, no excess capital held over requirement). The Company should aim to continue to contribute capital to the Insurance division Solvency II returns.

*Other Sources*

The Directors consider that the above is the key performance indicator which is appropriate to the principal activity of the Company. The Directors are of the opinion the information presented in the financial statements as a whole, provide the management information necessary for the Directors to understand the development, performance and position of the business of the Company. Along with fellow direct and indirect subsidiaries of the ultimate insurance parent undertaking, the Company is included in the calculation of the Scottish Widows Group Limited capital surplus. This is calculated in accordance with the Insurance Groups Directive, and is reported in the LBG annual report.

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STRATEGIC REPORT (CONTINUED)

**Risk Management – principal risks and uncertainties**

Risks associated with the business were transferred to Scottish Widows Limited under the Insurance Business Transfer Scheme in 2015. Limited business risk remains in the Company at 31 December 2016, in relation to liquidity, operational and financial risks as set out in note 16.

On behalf of the Board of Directors



R J McIntyre  
Director  
3 May 2017

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**DIRECTORS' REPORT****Principal activities**

The Directors present the audited financial statements of the Company. The Company is a limited company domiciled and incorporated in the United Kingdom. The Company's principal activities are holding investments and an investment in a subsidiary. Details of the principal subsidiary undertaking is given in note 10.

**Results and dividend**

The result of the Company for the year ended 31 December 2016 is a profit after tax of £14k (2015: loss after tax of £291,000k). The 2015 results included a dividend received of £330,000k from St Andrew's Life Assurance plc, a loss before tax on transfer of business assets of £138,000k and an impairment in investment in subsidiary on transfer of business of £533,000k, see note 18.

The Directors consider the result for the year to be satisfactory in light of these factors, further information can be found in the Strategic Report.

During the year, £nil interim dividends (2015: £425,000k) were paid. The Directors recommend no payment of a final dividend in respect of the year ended 31 December 2016 (2015: £nil).

**Directors**

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

R F C Taylor	(resigned 09 December 2016)
A M Parsons	(resigned 09 December 2016)
R J McIntyre	(appointed 09 December 2016)
S Lowther	(appointed 09 December 2016)
J M Black	(resigned 29 July 2016)

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

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

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

**Disclosure of information to auditors**

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director in order 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.

**Political contributions**

During the year, the Company made no political contributions (2015: £nil).

**Going Concern**

The going concern of the Company is dependent on successfully maintaining adequate levels of liquidity. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

**Financial risk management**

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

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**DIRECTORS' REPORT (CONTINUED)****Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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;
- make judgements and accounting estimates that are reasonable and prudent;
- 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; 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. They 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.

Each of the Directors, whose names are listed on page 3, confirm 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 result of the Company; and
- the Directors Report on pages 6 to 7 and the Strategic Report on pages 4 to 5 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



R J McIntyre  
Director  
3 May 2017

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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HALIFAX LIFE LIMITED****Report on the financial statements****Our opinion**

In our opinion, Halifax Life Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- Balance Sheet as at 31 December 2016;
- Statement of Comprehensive Income for the year then ended;
- Statement of Cash Flows for the year then ended;
- Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

**Other matters on which we are required to report by exception****Adequacy of accounting records and information and explanations received**

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF HALIFAX LIFE LIMITED (CONTINUED)****Responsibilities for the financial statements and the audit****Our responsibilities and those of the directors**

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 and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Joanne Leeson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol  
3 May 2017

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR END 31 DECEMBER 2016

	Note	2016 £000	2015 £000
<b>Revenue</b>			
Gross earned premiums		-	(1,932,000)
<b>Premiums net of reinsurance</b>		-	(1,932,000)
Fee and commission income	4	-	49,000
Investment income	5	17	437,000
Net gains on assets and liabilities at fair value through profit or loss	6	-	47,000
<b>Total revenue</b>		17	(1,399,000)
<b>Expenses</b>			
Gross claims and benefits paid		-	85,000
		-	85,000
Change in liabilities arising from insurance contracts and participating investment contracts		-	(1,931,000)
Change in liabilities arising from non-participating investment contracts		-	45,000
		-	(1,886,000)
Operating expenses	7	-	19,000
Expenses for asset management services received		-	13,000
		-	32,000
Loss on transfer of business	18	-	138,000
Impairment in investment in subsidiary on transfer of business	18	-	533,000
		-	671,000
<b>Total expenses</b>		-	(1,098,000)
<b>Profit/(Loss) before tax</b>		17	(301,000)
Taxation (charge)/credit	9	(3)	10,000
<b>Profit/(Loss) for the year</b>		14	(291,000)

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

The notes set out on pages 14 to 29 are an integral part of these financial statements.

## BALANCE SHEET AS AT 31 DECEMBER 2016.

	Note	31 December 2016 £000	31 December 2015 £000
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Investment in subsidiaries	10	3,157	3,157
<b>Current Assets</b>			
Investments at fair value through profit or loss	11	3,173	3,157
Cash and cash equivalents		1	-
<b>Total assets</b>		<b>6,331</b>	<b>6,314</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves attributable to Company's equity shareholder</b>			
Share capital	12	460,000	460,000
Retained losses		(453,672)	(453,686)
<b>Total equity</b>		<b>6,328</b>	<b>6,314</b>
<b>Current Liabilities</b>			
Current tax liabilities	13	3	-
<b>Total liabilities</b>		<b>3</b>	<b>-</b>
<b>Total equity and liabilities</b>		<b>6,331</b>	<b>6,314</b>

The financial statements on pages 10 to 29 and notes set out on pages 14 to 29 were approved by the Board on 3 May 2017.



R J McIntyre  
Director

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
<b>Cash flows from operating activities</b>			
Profit/(Loss) before tax		17	(301,000)
Adjusted for:			
Impairment in investment in subsidiary on transfer of business	18	-	533,000
Dividends received from subsidiary undertaking	5	-	(330,000)
Net movements in operating assets and liabilities	14	(16)	132,000
Taxation paid		-	(17,000)
Transfer of cash to immediate parent undertaking	18	-	60,000
<b>Net cash inflows from operating activities</b>		<b>1</b>	<b>77,000</b>
<b>Cash flows from investing activities</b>			
Dividends received from subsidiary undertaking	5	-	330,000
Transfer of cash to immediate parent undertaking	18	-	(60,000)
<b>Net cash inflows from investing activities</b>		<b>-</b>	<b>270,000</b>
<b>Cash flows from financing activities</b>			
Dividends paid	15	-	(425,000)
<b>Net cash outflows from financing activities</b>		<b>-</b>	<b>(425,000)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1</b>	<b>(78,000)</b>
Net cash and cash equivalents at the beginning of the year		-	78,000
<b>Net cash and cash equivalents at the end of the year</b>		<b>1</b>	<b>-</b>

The notes set out on pages 14 to 29 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Share capital £000	Retained profits £000	Total equity £000
<b>Balance as at 1 January 2015</b>		460,000	262,314	722,314
Loss for the year and total comprehensive expense		-	(291,000)	(291,000)
Dividends paid	15	-	(425,000)	(425,000)
<b>Balance as at 31 December 2015</b>		460,000	(453,686)	6,314
Profit for the year and total comprehensive income		-	14	14
<b>Balance as at 31 December 2016</b>		460,000	(453,672)	6,328

The notes set out on pages 14 to 29 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016****1. Accounting policies**

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

**(a) Basis of preparation**

The financial statements of the Company have been prepared:

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

The financial statements and its associated notes have been presented in £000's. The comparative period figures in the Statement of Comprehensive Income, the Statement of Cashflows and the Statement of Changes in Equity and their associated notes have been rounded to the nearest £000's. They have been presented in £millions in prior period financial statements.

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.

**Standards and interpretations effective in 2016**

There are no new standards and interpretations adopted in 2016 that will impact the financial statements.

**(b) Financial assets**

Management determines the classification of its financial assets at initial recognition. Management's policies for the recognition of specific financial assets 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.

The Company's investment strategy is to invest in equity and to evaluate the Company's investments with reference to their fair values. All financial assets are designated at fair value through profit or loss. No assets are classified as held-to-maturity or available-for-sale. For further details on the Company's fair value methodology see policy (d).

The Company's management, through a fair value pricing committee, review information on the fair value of the Company's financial assets and financial liabilities and the sensitivities to these values on a regular basis.

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

**(c) Revenue recognition****Fee and commission income**

Fee and commission income is recognised in the statement of comprehensive income in the period in which it is earned. Fee and commission received that relates to the provision of future services is deferred and recognised as the services are provided.

**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 2016 (CONTINUED)

## 1. Accounting policies (continued)

## (c) Revenue recognition (continued)

Dividends receivable in respect of listed shares or collective investment vehicles are recognised on the date that these are quoted ex-dividend; other dividend income is recognised when received. All dividends received are recognised through the statement of comprehensive income, within investment income.

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

Net gains and losses on assets and liabilities at fair value through profit or loss includes both realised and unrealised gains and losses. Movements are recognised in the statement of comprehensive income in the period in which they arise.

## (d) Fair value methodology

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

## (i) Level 1

Valued using quoted prices (unadjusted) in active markets for identical assets and liabilities to those being valued. An active market is one in which arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis. Examples include listed equities, listed debt securities, Open Ended Investment Companies ("OEICs") and quoted unit trusts traded in active markets and exchange traded derivatives such as futures.

## (ii) Level 2

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

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

## (iii) Level 3

Valued using inputs for the asset or liability that include significant observable 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.

Further analysis of the Company's instruments held at fair value is set out at note 11.

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

## (e) Expense recognition

**Operating expenses**

Commission paid in respect of the insurance business written by the Company is recognised through the statement of comprehensive income, within operating expenses. Where certain criteria are met, commission and other acquisition costs may be deferred.

Other operating expenses are recognised in the statement of comprehensive income as incurred, within operating expenses.

**Expenses for asset management services received**

Expenses for asset management services received are recognised in the statement of comprehensive income as they accrue, within expenses for asset management services received.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**1. Accounting policies (continued)****(f) Investment in subsidiaries**

The Company owns one operating subsidiary as set out in note 10. The risks and rewards of owning this subsidiary primarily rest with the equity shareholder of the Company. This subsidiary is held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company's impairment policy is set out in policy (i).

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

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

**Classification**

A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if designated as such.

**Recognition**

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

**Measurement**

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

For equity investments that are quoted and actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the final pricing point on the reporting date. Prices are provided by vendors such as Reuters or Bloomberg or by direct reference to the Stock Exchange.

The fair value of holdings in OEICs and Unit Trusts is determined as the last published price applicable to the OEIC sub-fund or the Unit Trust at the reporting date.

**(h) 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 purposes rather than for the purposes of meeting short-term cash commitments) and bank overdrafts where a legal right of set-off exists.

**(i) Impairment****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 its value in use.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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

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

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

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

**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 flows 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 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.

**(j) Taxes**

Tax on the profit or loss for the year is recognised in the statement of comprehensive income within taxation and comprises current and deferred tax.

**Current tax**

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, together with adjustments to estimates made in prior years.

**Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

**1. Accounting policies (continued)****(k) 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.

**(l) Dividends payable**

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

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

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

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

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

**(n) Foreign currency translation**

Each of the Company's operations measures items included in the financial statements using the currency of the primary economic environment in which it operates (the 'functional currency'). The functional currency of the majority of the Company's operations is pounds sterling. The financial statements are presented in pounds sterling, rounded to the nearest £000, which is the Company's presentation currency.

Monetary items denominated in foreign currencies are translated into sterling at the exchange rates ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated at the exchange rates ruling at the date when the current fair value is determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the exchange rates ruling at the date of the transaction. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions. Any exchange differences are dealt with in that part of the statement of comprehensive income in which the underlying transaction is reported.

**(o) Transfer of insurance business under Part VII of Financial Services and Markets Act 2000**

For insurance business transferred to other LBG undertakings under the Insurance Business Transfer Scheme, the following accounting policy is adopted. Financial assets and liabilities were transferred at fair value and insurance and investment contract liabilities were transferred at a value consistent with IFRS 4. Non-financial assets and liabilities were transferred at carrying value, in accordance with the predecessor accounting policy. Resultant gains or losses on transfer are recognised in the statement of comprehensive income.

**2. Critical accounting estimates and judgments in applying accounting policies****(a) Fair value of financial instruments**

In accordance with IFRS 7, the Company categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. Further details of these valuations are described in note 16.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 3. Recapture of a Portfolio of Unit-linked policies - The Equitable Life Assurance Society

On the 8 March 2015, the Equitable Life Assurance Society recaptured a portfolio of unit-linked and protection business that was reinsured to the Company. The portfolio is subject to a number of risks as set out in note 16.

On recapture, the Company derecognised £1,961m of insurance contract liabilities, this being reflected as a change in liabilities arising from insurance contracts. The Company transferred £1,961m of assets equal to the value of the unit-linked reserves transferred. On recapture the Company also derecognised £22m of additional protection and sterling reserves, this being reflected as a change in liabilities arising from insurance contracts.

The Company received £49m consideration from ELAS for the recaptured business which was recognised as fee and commission income. The consideration was settled as £27m cash and £22m of assets were retained by the Company.

The non-recurring impact of the recapture of this business on the Company's Statement of Comprehensive Income at 31 December 2015 is set out below:

	2016	Business Transferred	Other Business <sup>1</sup>	2015
	£000	£000	£000	£000
Gross earned premiums	-	(1,983,000)	51,000	(1,932,000)
Fee and commission income	-	49,000	-	49,000
Change in actuarial liabilities	-	1,983,000	(97,000)	1,886,000
Other expenses	-	(1,000)	(18,000)	(19,000)
Taxation	-	(10,000)	20,000	10,000
<b>Total</b>	-	38,000	(44,000)	(6,000)

<sup>1</sup>Other Business includes the trading results of the business up to 31 December 2015 excluding items related to the transferred business.

## 4. Fee and commission income

	2016	2015
	£000	£000
Fund management and policy administration fees	-	22,000
Other income	-	27,000
<b>Total</b>	-	49,000

Other income includes £nil (2015: £27m) as a result of the recapture during the year by the Equitable Life Assurance Society of its reassured business. Further information on the impact of this recapture on the Company's 2015 results is set out in note 3.

## 5. Investment income

	2016	2015
	£000	£000
Dividend income from subsidiary undertaking	-	330,000
Investments at fair value through profit or loss		
Interest income on investments	17	18,000
Other dividend income	-	89,000
<b>Total</b>	17	437,000

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 6. Net gains on assets and liabilities at fair value through profit or loss

	2016 £000	2015 £000
Investments at fair value through profit or loss	-	47,000
<b>Total</b>	-	47,000

## 7. Operating expenses

	2016 £000	2015 £000
Expenses for administration	-	11,000
	-	11,000
Change in deferred costs	-	8,000
<b>Total</b>	-	19,000

The administration of the Company was undertaken by other group companies. A recharge was levied from these undertakings to the Company in respect of those costs incurred on behalf of the Company.

The Company had no direct employees during the year (2015: nil). Following the Insurance Business Transfer, staff costs are no longer recharged.

## 8. Auditors' remuneration

	2016 £000	2015 £000
Fees payable to the Company's auditors for the audit of the company's annual financial statements	2	35
Fees payable to the Company's auditors and their associates for other services:		
Audit-related assurance services	11	16
<b>Total</b>	13	51

Audit fees for 2016 and 2015 were borne by another company within the group.

## 9. Taxation (charge)/credit

## (a) Current year tax (charge)/credit

	2016 £000	2015 £000
<b>Current tax:</b>		
UK Corporation Tax	(3)	(10,000)
Transfer of tax assets and liabilities at nil consideration (note 18)	-	10,000
<b>Total current tax</b>	(3)	-
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	-	2,000
Transfer of tax assets and liabilities at nil consideration (note 18)	-	8,000
<b>Total deferred tax</b>	-	10,000
<b>Total income tax (charge)/credit</b>	(3)	10,000

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 9. Taxation (charge)/credit (continued)

## (b) Reconciliation of tax (charge)/credit

	2016 £000	2015 £000
Profit/(Loss) before tax	17	(301,000)
Tax at 20% (2015: 20.25%)	(3)	61,000
Effects of:		
Impairment of subsidiaries	-	(108,000)
Intercompany dividend received	-	67,000
Loss on transfer of assets not deductible	-	(28,000)
Transfer of tax assets and liabilities at nil consideration (note 18)	-	18,000
<b>Total</b>	<b>(3)</b>	<b>10,000</b>

The Finance Act 2013 reduced the standard rate of Corporation Tax from 21% to 20% with effect from 1 April 2015.

## 10. Investment in subsidiaries

	2016 £000	2015 £000
<b>At 1 January 2015</b>		
Investment in subsidiaries	3,157	536,157
Impairment in investment in subsidiary on transfer of business (note 18)	-	(533,000)
<b>At 31 December 2016</b>	<b>3,157</b>	<b>3,157</b>

At year end 2015, investments in subsidiaries of a value of £536m, were impaired on transfer of business (see note 18) by £533m. The impairment leaves an amount equal to the net asset value of St Andrew's Life Assurance Plc which is equal to the minimum capital requirement of this subsidiary.

Prior to the transfer, investments in subsidiaries held at cost included above were generally recoverable more than one year after the reporting date.

The following are particulars of the Company's principal subsidiaries:

Name	Class of Share or Stock	Percentage held	Country of Registration or Incorporation	Nature of Business
St Andrew's Life Assurance Plc	Ordinary	100	England	Financing

The ability of non-regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by Companies Act distributable reserves requirements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

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

	2016 £000	2015 £000
<b>At fair value:</b>		
Interest bearing and other variable yield securities	3,173	3,157
<b>Total investments at fair value.</b>	<b>3,173</b>	<b>3,157</b>

At the year end 2015 the majority of all investments at fair value through profit or loss with a value of £3,311m, were transferred to fellow group undertakings, see note 18.

Due to the nature of interest bearing securities and investments in pooled investment funds, there is no fixed term associated with these securities.

## 12. Share capital

	2016 £000	2015 £000
<b>Allotted, called up and fully paid share capital:</b>		
460,000,000 (2015: 460,000,000) ordinary shares of £1 each	460,000	460,000

## 13. Current tax liabilities

	2016 £000	2015 £000
Current tax liabilities	3	-
<b>Total tax liabilities</b>	<b>3</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 14. Change in operating assets and liabilities

	2016 £000	2015 £000
<b>(Increase)/decrease in operating assets:</b>		
Deferred costs	-	44,000
Investment properties	-	34,000
Assets arising from reinsurance contracts held	-	12,000
Derivative financial instruments	-	47,000
Financial Assets:		
Loans and receivables	-	21,000
Investments at fair value through profit or loss	(16)	5,486,000
<b>Net (increase)/decrease in operating assets</b>	<b>(16)</b>	<b>5,644,000</b>
<b>Decrease in operating liabilities:</b>		
Liabilities arising from insurance contracts and participating investment contracts	-	(2,527,000)
Liabilities arising from non-participating investment contracts	-	(2,902,000)
Accruals and deferred income	-	(1,000)
Financial Liabilities:		
Derivative financial instruments	-	(50,000)
Other financial liabilities	-	(32,000)
<b>Decrease in operating liabilities</b>	<b>-</b>	<b>(5,512,000)</b>
<b>Net (increase)/decrease in operating assets and liabilities</b>	<b>(16)</b>	<b>132,000</b>

## 15. Dividends paid

	2016 £000	2015 £000
Total dividends paid on equity shares	-	425,000

The dividend paid in the year amounted to nil. (2015: 92.39 pence per share)

## 16. Risk management

The principal activity of the Company is the holding of investments and a subsidiary.

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

## (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.

The Company is part of the Insurance Division. LBG's Insurance Division comprises all legal entities involved in the sale or management of insurance, pension and investment products as well as the related holding and service companies. As part of the Insurance Division, the Company is overseen by the Insurance Board and Insurance Audit Committee. Use of the terms "the Board" and "the Audit Committee" throughout this note refers to the responsibilities and actions carried by the Insurance Division Board and Audit Committee with involvement of the Company Board where required.

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 Committee.

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 16. Risk management (continued)

## (a) Governance framework (continued)

An enterprise-wide risk management framework for the identification, assessment, measurement and management of risk is in place. The framework is in line with LBG's risk management principles and covers the full spectrum of risks that the Company is exposed to. Under this framework, risks are categorised according to an approved LBG risk language which has been adopted across the Company. This covers the principal financial risks faced by the Company, including the exposures to market, insurance, credit financial soundness risk and operational risk.

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.

## (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.

## (c) Financial risks

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, as set out below.

## 1) Market risk

Market risk is the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements. This risk typically arises from fluctuations in market interest rates (interest rate risk), market prices (equity and property risk), and foreign exchange rates (foreign exchange risk), whether such changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

At 31 December 2016 investment holdings were limited to an investment in a diversified fund. Investment holdings within the Company are diversified across markets and, within markets, across sectors. Holdings of individual assets are diversified to minimise specific risk and large individual exposures are monitored closely.

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

## As at 31 December 2016

	Fair value hierarchy			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Investments at fair value through profit or loss:				
Equity securities	3,173	-	-	3,173
<b>Total assets</b>	<b>3,173</b>	<b>-</b>	<b>-</b>	<b>3,173</b>

At the year end 2015 the majority of all investments and financial assets less financial liabilities were transferred to fellow group undertakings (see note 18).

## As at 31 December 2015

	Fair value hierarchy			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Investments at fair value through profit or loss:				
Equity securities	3,157	-	-	3,157
<b>Total assets</b>	<b>3,157</b>	<b>-</b>	<b>-</b>	<b>3,157</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 16. Risk management (continued)

## (c) Financial risks (continued)

## (i) Equity risk

The exposure of the Company's business to equity risk relates to financial assets whose values will fluctuate as a result of changes in market prices other than from interest and foreign exchange fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Company monitors exposure limits both to any one counterparty and any one market.

There is no material sensitivity due to fluctuations in market prices at the reporting date to the fair value of future cash flows in respect of equities.

## (ii) Foreign exchange risk

Foreign exchange risk relates to the effects of movements in exchange markets including changes in exchange rates. The overall risk to the Company is minimal due to the Company's principal transactions being carried out in pounds sterling.

## (iii) Interest rate risk

The Company is exposed to interest rate risk to the extent that investments in investment funds are subsequently reinvested in interest bearing investments.

## 2) Credit risk

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

Investment counterparty default risk arises primarily from holding invested assets.

## (i) Concentration risk

*Credit concentration risk*

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

Credit risk is managed through the setting and regular review of counterparty credit and concentration limits on asset types which are considered more likely to lead to a concentration of credit risk. For other asset types, such as UK government securities or investments in funds falling under the Undertakings for Collective Investment in Transferable Securities "UCITS" Directive, no limits are prescribed as the risk of credit concentration is deemed to be immaterial.

At 31 December 2016 investment holdings were limited to an investment in a diversified fund. The Company had no credit risk with a single counterparty or group of counterparties where limits apply.

*Liquidity concentration risk*

Liquidity concentration risk arises where the Company is unable to meet its obligations as they fall due or do so only at an excessive cost, due to over-concentration of investments in particular financial assets or classes of financial asset. However, the Company does not have any financial liabilities and so has no exposure to liquidity concentration risk.

## 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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 16. Risk management (continued)

## (c) Financial risks (continued)

delegated authorities that permit the preparation and disclosure of financial statements, regulatory reporting 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. However, the Company does not have any financial liabilities and so has no exposure to liquidity concentration risk.

## (iii) Capital risk

Capital risk is defined as the risk that:

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

Within the Insurance Division, capital risk is actively monitored by the Insurance Finance Capital Committee. The Company was deauthorised on 7th September. Up until that date, the Company complied with all capital requirements.

The Company's objectives when managing capital are to have sufficient further capital to safeguard the Company's ability to continue as a going concern.

## 17. Related party transactions

## (a) Ultimate parent and shareholding

The immediate parent undertaking is Scottish Widows Limited.

The parent undertaking which is the parent undertaking of the smallest group to consolidate these financial statements is Scottish Widows Limited. Copies of the consolidated annual report and accounts of Scottish Widows Limited 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. Scottish Widows Limited 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 LBG 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](http://www.lloydsbankinggroup.com).

## (b) Transactions and balances between the Company and other companies in the LBG

The Company has not entered into transactions with related parties during the year other than items disclosed below and there are no outstanding amounts due from or to related parties as at year end. In 2015 transactions and balances with related parties are shown in the table below:

Relationship	2015			
	Income during year £000	Expenses during year £000	Payable at year end £000	Receivable at year end £000
Parent	-	(425,000)	-	-
Subsidiary	330,000	-	-	-
Other related parties	2,000	(9,000)	-	-

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 17. Related party transactions (continued)

**Other transactions**

During 2015, the Aberdeen Global Liquidity Fund plc ("GLF") was a managed investment fund (Collective Investment Scheme) investing in short term highly liquid investments and was managed by Aberdeen Asset Management plc. LBG held a controlling interest in the fund at 31 December 2015, and consolidated it as a subsidiary under IFRS 10. As a fellow group undertaking, the GLF was therefore a related party of the Company.

On the 15 July 2016 the GLF was transferred into the Aberdeen Liquidity Fund (Lux) ("ALF"). At 31 December 2016 the Company's ultimate parent company held a controlling interest in the ALF. Under IFRS 10, the ALF is a fellow group undertaking and therefore a related party of the Company.

At 31 December 2016 the Company held investment in the liquidity fund of £3,173k (2015: £3,157k). Investment income of £15k (2015: £1,719k) received from the liquidity fund is included in investment income.

**Key Management Personnel**

A management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity must disclose as related party transaction the amounts incurred for the service paid or payable to the management entity that provides the key management personnel services.

As at 31 December 2016, the value of such services was £nil (2015: £9m).

**(c) 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.

Key management personnel, as defined by IAS 24, are employed by a management entity, transactions with this entity are as follows:

**Key management compensation:**

The Directors consider that they received no remuneration in 2016 for their services to the Company.

	2016	2015
	£000	£000
Salaries and other short-term benefits	-	5
Share-based payments	-	3
<b>Total</b>	<b>-</b>	<b>8</b>

During 2016 no services were provided by members of key management of the Company to other companies within the LBG, no Directors accrued retirement benefits under defined contribution pension schemes, no money or assets accrued to Directors and key management under long term incentive schemes and no Directors exercised share options or received qualifying services shares under long term incentive schemes.

During 2015, certain members of key management in the Company, including the highest paid Director, provided services to other companies within the LBG. In such cases, for the purposes of this note, figures have been included based on an apportionment to the Company of the total compensation earned.

During 2015, retirement benefits accrued to one Director under defined benefit pension schemes and three Directors under defined contribution pension schemes.

During 2015, the aggregate amount of money receivable by Directors and key management, and the net value of assets received/receivable by directors and key management, under long term incentive schemes in respect of qualifying services was nil.

During 2015, two Directors exercised share options and four Directors' received qualifying services shares under long term incentive schemes.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 17. Related party transactions (continued)

Detail regarding the highest paid Director is as follows:

	2016 £000	2015 £000
Apportioned aggregate emoluments	-	2

During 2015 the highest paid Director did not exercise share options, however he was granted shares in respect of qualifying service.

## 18. Insurance Business Transfer Scheme

On 26 November 2015, the High Court of Justice approved the transfer of the long-term insurance business of the Company to Scottish Widows Limited, the Company's immediate parent, pursuant to an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000.

All of the assets, liabilities and reserves of the Company were transferred; save for a minimum of assets which were held back to cover the regulatory minimum capital requirements.

The overall impact on IFRS retained profits of the Company was as follows:

	2016 £000	2015 £000
Loss on transfer of business to fellow group undertaking (gross of tax)	-	138,000
Transfer of tax assets and liabilities at nil consideration	-	(18,000)
Impairment in investment in subsidiary on transfer of business	-	533,000
<b>Total loss</b>	-	<b>653,000</b>

## Subsidiary

	2016 £000	2015 £000
St Andrew's Life Assurance plc	3,157	3,157

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

## 18. Insurance Business Transfer Scheme.(continued)

The effect of this Transfer In on the Company's statement of financial position is as follows:

	2016 £000	2015 £000
<b>Assets</b>		
Deferred costs	-	36,000
Assets arising from reinsurance contracts held	-	11,000
Derivative financial instruments	-	50,000
Loans and receivables	-	21,000
Investments at fair value through profit / loss	-	3,311,000
Cash and cash equivalents	-	60,000
<b>Total Assets</b>	-	3,489,000
<b>Liabilities</b>		
Liabilities arising from insurance contracts and participating investment contracts	-	596,000
Deferred tax liabilities	-	8,000
Current tax liabilities	-	10,000
Liabilities from non-participating investment contracts	-	2,664,000
Derivative financial liabilities	-	53,000
Other financial liabilities	-	38,000
<b>Total Liabilities</b>	-	3,369,000
<b>Net asset transferred under the Insurance Business Transfer Scheme</b>	-	120,000

Financial assets and liabilities were transferred at fair value, and insurance / investment contract liabilities were transferred at a value consistent with IFRS4. Non-financial assets and liabilities were transferred at carrying value in accordance with the predecessor accounting policy. The transfer was for £nil consideration and in accordance with the Insurance Business Transfer Scheme.