SW FUNDING PLC

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2016

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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

69 Morrison Street
Edinburgh
EH3 8YF

Company Registration Number

SC199549

STRATEGIC REPORT

The directors present their strategic report on SW Funding Plc ("the Company") for the year ended 31 December 2016. The company is limited by share capital and changed its name from Scottish Widows Plc to SW Funding Plc on 31 December 2015.

Principal Activities

At 31 December 2015, the business of the Company was transferred to Scottish Widows Limited 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 other LBG undertakings.

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 Scottish Widows Unit Funds Limited, Scottish Widows Annuities Limited and Pensions Management (SWF) Limited did not transfer. The Company's name was also changed from Scottish Widows Plc to SW Funding Plc on 31 December 2015. Further details can be found in note 20.

Following the Insurance Business Transfer Scheme the Company no longer holds listed debt and is no longer required to prepare consolidated financial statements.

Key performance indicator

Result for the year

The result of the Company for the year ended 31 December 2016, is a profit after tax of £14k (2015: loss after tax £4,011,000k, including the following items of note: loss on transfer out of Insurance Business Transfer assets £4,661,000k; loss on impairment of subsidiaries following the Insurance Business Transfer £194,000k, see note 20; loss on bulk annuities deals of £44,000k; loss on reorganisation of funds of £105,000k).

Capital Resources

Following de-authorisation there is no minimum capital requirement (2015: Pillar 1 £7,000k 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 are key performance indicator 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.

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 18.

On behalf of the Board of Directors

R J McIntyre
Director
3 May 2017

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 principle activities are holding investments and subsidiaries. Details of the principal subsidiary undertaking is given in note 13.

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 £4,011,000k. The result prior to Insurance Business Transfer Scheme was a profit before tax, excluding impairment, of £496,000k, offset by a loss of £4,661,000k on the transfer, see note 20).

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: £nil) were paid. The Directors recommend no payment of a 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 J McIntyre	(appointed 09 December 2016)
S Lowther	(appointed 09 December 2016)
J C S Hillman	(appointed 09 December 2016)
A M Parsons	(resigned 01 September 2016)
C J Thornton	(resigned 07 November 2016)
N E T Prettejohn	(resigned 09 December 2016)
V Maru	(resigned 09 December 2016)
J E M Curtis	(resigned 09 December 2016)
M G Culmer	(resigned 09 December 2016)
R L M Wohanka	(resigned 09 December 2016)
M Christophers	(resigned 09 December 2016)
J Hylands	(resigned 09 December 2016)
A Blance	(resigned 09 December 2016)
K Cook	(resigned 09 December 2016)
A Lorenzo	(appointed 2 March 2016, resigned 09 December 2016)
M Harris	(appointed 01 September 2016, resigned 09 December 2016)

Particulars of the Directors' emoluments are set out in note 19.

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.

DIRECTORS' REPORT (continued)

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 financial statements.

Financial risk management

Disclosures relating to financial risk management are included in note 18 to the accounts and are therefore incorporated into this report by reference.

Political contributions

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and 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 for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 and, as regards the financial statements, Article 4 of the IAS Regulation. 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.

The Directors are responsible for the maintenance and integrity of the Company's website www.scottishwidows.co.uk. 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, include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board of Directors

R J McIntyre
Director
3 May 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SW FUNDING PLC

Report on the financial statements

Our opinion

In our opinion, SW Funding Plc'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:

- the Balance Sheet as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the 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 applicable law and IFRSs as adopted by the European Union.

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.

Opinion on other matter 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SW FUNDING PLC (continued)

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.

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

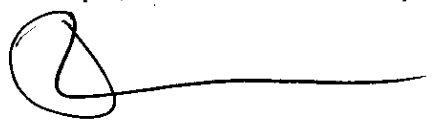
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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 ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Revenue			
Gross earned premiums	3	-	5,510,000
Premiums ceded to reinsurers		-	(240,000)
Premiums net of reinsurance		-	5,270,000
Fee and commission income	4	-	111,000
Investment income	5	17	1,639,000
Net losses on assets and liabilities at fair value through profit or loss	6	-	(936,000)
Other income	7	-	278,000
Total revenue		17	6,362,000
Expenses			
Gross claims and benefits paid		-	4,944,000
Claims recoveries from reinsurers		-	(129,000)
		-	4,815,000
Change in liabilities arising from insurance contracts and participating investment contracts		-	1,225,000
Change in liabilities arising from non-participating investment contracts		-	277,000
Change in assets arising from reinsurance contracts held		-	(1,316,000)
Change in unallocated surplus		-	(3,000)
		-	183,000
Operating expenses	8	-	700,000
Expenses for asset management services received		-	43,000
Finance costs	11	-	125,000
		-	868,000
Loss on transfer of business	20	-	4,661,000
Impairment on transfer of business	20	-	194,000
		-	4,855,000
Total expenses		-	10,721,000
Profit/(loss) before tax		17	(4,359,000)
Taxation (charge)/credit	12	(3)	348,000
Profit/(loss) for the year		14	(4,011,000)
Other comprehensive income/(loss), net of tax		-	-
Total comprehensive income/(loss) for the year attributable to the equity holder of the Company		14	(4,011,000)
Total comprehensive income/(loss) for the year		14	(4,011,000)

The notes set out on pages 14 to 31 are an integral part of these financial statements.

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.

BALANCE SHEET AS AT 31 DECEMBER 2016

	Notes	31 December 2016 £000	31 December 2015 £000
ASSETS			
Non-Current Assets			
Investment in subsidiaries	13	7,065	7,065
Current Assets			
Investments at fair value through profit or loss	14	3,173	3,157
Cash at bank		1	-
Total assets		10,239	10,222
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's equity shareholder			
Share capital	15	1,470,093	1,470,093
Accumulated losses		(1,459,857)	(1,459,871)
Total equity		10,236	10,222
Current Liabilities			
Current tax liabilities	16	3	-
Total liabilities		3	-
Total equity and liabilities		10,239	10,222

The notes set out on pages 14 to 31 are an integral part of these financial statements.

The financial statements on pages 10 to 31 were approved by the Board on 3 May 2016.

R J McIntyre
Director
3 May 2017

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Cash flows from operating activities			
Profit/(Loss) before tax		17	(4,359,000)
Adjusted for:			
Finance costs	11	-	125,000
Impairment of subsidiary		-	194,000
Subsidiary transfer to fellow group undertakings	20	-	417,000
Net movements in operating assets and liabilities	17	(16)	1,921,000
Cash and cash equivalents transferred to fellow group undertaking		-	198,000
Taxation paid		-	(95,000)
Net cash flows generated from/(used in) operating activities		1	(1,599,000)
Cash flows from investing activities			
Disposal of tangible assets		-	18,000
Disposal of investment in subsidiary		-	1,858,000
Cash and cash equivalents transferred to fellow group undertaking		-	*(198,000)*
Net cash flows from investing activities		-	1,678,000
Cash flows from financing activities			
Finance costs paid	11	-	(125,000)
Net cash flows used in financing activities		-	(125,000)
Net increase/(decrease) in cash and cash equivalents		1	(46,000)
Cash and cash equivalents at the beginning of the year		-	46,000
Net cash and cash equivalents at the end of the year		1	-

The notes set out on pages 14 to 31 are an integral part of these financial statements.

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

	Share capital £000	Retained Earnings/ Accumulated losses £000	Total equity £000
Balance at 1 January 2015	1,470,093	2,551,129	4,021,222
Loss for the year and total comprehensive expense	-	(4,011,000)	(4,011,000)
Balance as at 31 December 2015	1,470,093	(1,459,871)	10,222
Profit for the year and total comprehensive income	-	14	14
Balance as at 31 December 2016	1,470,093	(1,459,857)	10,236

The notes set out on pages 14 to 31 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.

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 were presented in £millions in prior period financial statements.

The Directors are satisfied that the Company have 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.

1. Accounting policies (continued)

(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.

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.

Other income

Other income recognised in the statement of comprehensive income comprises recharges of costs incurred in respect of several LBG subsidiaries which are not consolidated in these financial statements. Income is recognised as the related expenses are incurred.

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

(ii) Level 2

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

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

Further analysis of the Company's instruments held at fair value is set out at note 18.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies (continued)

(e) Expense recognition

Operating expenses

Commission paid in respect of the 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.

Finance costs

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

(f) Investment in subsidiaries

The Company owns a number of subsidiaries as set out in note 13. The risks and rewards of owning these subsidiaries primarily rest with the equity shareholder of the Company. These subsidiaries are 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 at 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 cost, being the fair value of the consideration given, and are subsequently re-measured 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies (continued)

(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 the present value of estimated future cash flows discounted at the asset's original effective interest rate.

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 flow from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be identified with the individual assets of the Company, including:
  - adverse changes in the payment status of issuers or 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies (continued)

(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 and legislation 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.

Allocation of tax charge between shareholder and policyholders

The tax expense in the statement of comprehensive income is analysed between policyholder and shareholder tax. This allocation is based on the definition of policyholders' share and shareholders' share of taxable profit under current UK tax rules.

(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.

Dividends payable

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

(l) Other provisions

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies (continued)

(m) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in pounds sterling, rounded to the nearest £000, which is the Company's presentation and functional 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 average rates of exchange (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenue transactions are translated at the dates of the transactions). Any exchange differences are dealt with in that part of the statement of comprehensive income in which the underlying transaction is reported.

(n) 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 are transferred at fair value and insurance and investment contract liabilities are transferred at a value consistent with IFRS 4. Non financial assets and liabilities are 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Critical accounting estimates and judgments in applying accounting policies

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 18.

3. Segmental analysis

In the opinion of the Directors, the Company operated in a single business segment, being the provision of long-term insurance and investment contracts, and therefore there are no specific disclosure requirements under IFRS 8 "Operating Segments".

The table below provides a summary of the gross premiums written within the single business segment:

	2016 £000	2015 £000
Regular premiums	-	3,220,000
Single premiums	-	2,290,000
Total	-	5,510,000

4. Fee and commission income

	2016 £000	2015 £000
Fund management and policy administration fees	-	*106,000*
Change in deferred income	-	5,000
Total	-	111,000

5. Investment income

	2016 £000	2015 £000
Net income on investments designated at fair value through profit or loss	17	1,111,000
Interest income on swap	-	24,000
Derivative fee income	-	46,000
Interest income on deposits	-	1,000
Interest income on LBG group loans	-	50,000
Dividend income from subsidiary undertakings	-	340,000
Interest income on recapture loan	-	1,000
Rental income on investment properties	-	36,000
Service charge income	-	3,000
Stocklending income	-	20,000
Other	-	7,000
Total	17	1,639,000

6. Net (losses) / gains on assets and liabilities at fair value through profit or loss

	2016 £000	2015 £000
Derivative financial instruments at fair value through profit or loss	-	(121,000)
Investments designated at fair value through profit or loss	-	(936,000)
Investment properties at fair value through profit or loss	-	87,000
Foreign exchange	-	31,000
Fair value hedge adjustment in respect of swap	-	(13,000)
Fair value hedge adjustment for change in value of subordinated liabilities	-	16,000
Total	-	(936,000)

The fair value hedge was transferred out of the Company at the end of 2015, see note 20.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7. Other income

	2016 £000	2015 £000
Other income	-	278,000
Total	-	278,000

8. Operating expenses

	2016 £000	2015 £000
Acquisition and origination costs in respect of insurance and investment contracts	-	89,000
Expenses for administration	-	628,000
Service charge expense	-	4,000
Change in deferred costs	-	(21,000)
Total	-	700,000

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.

9. Staff costs and other employee related costs

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

10. Auditors' remuneration

	2016 £000	2015 £000
Audit fees		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	2	600
Total	2	600

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

11. Finance costs

	2016 £000	2015 £000
Interest on borrowings	-	1,000
Interest on repos	-	10,000
Interest on subordinated liabilities	-	113,000
Other interest	-	1,000
Total	-	125,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

12. Taxation (charge)/credit

(a) Current year tax (charge) / credit

	2016 £000	2015 £000
Current tax:		
UK Corporation Tax	(3)	(5,000)
Adjustment in respect of prior years	-	65,000
Transfer of tax assets & liabilities at nil consideration (note 20)	-	(15,000)
Total current tax	(3)	45,000
Deferred tax:		
Origination/(reversal) of temporary differences	-	(18,000)
Change in tax rate	-	25,000
Adjustment in respect of prior years	-	(49,000)
Transfer of tax assets & liabilities at nil consideration (note 20)	-	345,000
Total deferred tax	-	303,000
Total income tax (charge) / credit	(3)	348,000

At the year end 2015, all current tax and deferred tax balances were transferred to fellow group undertakings, valued at £330m.

(b) Reconciliation of tax (charge) / credit

	2016 £000	2015 £000
Profit/(loss) before tax	17	(4,359,000)
Tax at 20% (2015: 20.25%)	(3)	883,000
Effects of:		
Non-tax dividends	-	17,000
Disallowable expenses	-	(40,000)
Adjustment in respect of prior years	-	16,000
Intercompany dividend	-	65,000
Change in tax rate	-	25,000
Other	-	(4,000)
Loss on transfer of assets not deductible	-	(944,000)
Transfer of tax assets & liabilities at nil consideration (note 20)	-	330,000
Total tax (charge) / credit	(3)	348,000

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

In addition, Finance (No. 2) Act 2015 reduced the rate of Corporation Tax from 20% to 19% with effect from 1 April 2017 and Finance Act 2016 reduced the rate of Corporation Tax from 19% to 17% with effect from 1 April 2020. The impact of these reductions in tax rate, which are applicable to the calculation of deferred tax assets and liabilities at the reporting date, is reflected in the above table.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13. Investment in subsidiaries

	2016 £000	2015 £000
At 1 January	7,065	2,476,065
Disposals	-	(1,858,000)
Impairment on transfer of business (note 20)	-	(194,000)
Transferred to fellow group undertakings (note 20)	-	(417,000)
At 31 December	7,065	7,065

On 31 December 2015 the Company's shareholding in Clerical Medical Investment Group Limited was transferred to Scottish Widows Group Limited for consideration of £1.8bn, which represented the book value of the investment at the time of transfer. Consequently, the Company realised no gain or loss on the transfer.

Prior to this, on 1 April 2015 the Company's shareholding in Scottish Widows International ("SWI") was sold to a third party.

Companies, Partnerships and Groups (Accounts and Reports) Regulations 2016 (SI 2016/980)

UK company law no longer provides the option to include reduced disclosures in relation to company's related undertakings in the notes to their annual financial statements. Therefore information on all related undertakings is required by section 409 Companies act 2006, including subsidiaries, joint ventures, associated undertakings and undertakings in which they have a significant influence. Following are particulars of the Company's subsidiaries and associates as at 31 December 2016:

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
Scottish Widows Unit Funds Limited	Ordinary	100	Scotland	Financing
Scottish Windows Annuities Limited	Ordinary	100	Scotland	Financing
Pensions Management (SWF) Limited	Ordinary	100	Scotland	Financing

14. Investments at fair value through profit or loss

	2016 £000	2015 £000
Interest bearing and other variable yield securities	3,173	3,157
Total investments at fair value	3,173	3,157

At the year end 2015, investments at fair value through profit or loss with a value of £36,790m were transferred to fellow group undertakings, see note 20. This included all interests in consolidated and unconsolidated structured entities as well as non-controlling interest.

15. Share capital

	2016 £000	2015 £000
Issued and fully paid share capital:		
1,470,092,670 (2015: 1,470,092,670) ordinary shares of £1 each	1,470,093	1,470,093
Total	1,470,093	1,470,093

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

16. Tax liabilities

	2016 £000	2015 £000
Current tax liabilities	3	-
Total tax liabilities	3	-

17. Change in operating assets and liabilities

	2016 £000	2015 £000
(Increase)/decrease in operating assets:		
Deferred costs	-	1,299,000
Investment properties	-	1,236,000
Assets arising from reinsurance contracts held	-	41,673,000
Prepayments	-	29,000
Financial assets:		
Derivative financial instruments	-	1,230,000
Loans and receivables	-	3,236,000
Investments at fair value through profit or loss	(16)	30,304,000
Net (increase)/decrease in operating assets	(16)	79,007,000
Decrease in operating liabilities:		
Liabilities arising from insurance contracts and participating investment contracts		- (57,136,000)
Unallocated surplus	-	(243,000)
Future profits on non-participating business in the With Profit Fund	-	228,000
Other provisions	-	(7,000)
Accruals and deferred income	-	(33,000)
Financial liabilities:		
Subordinated liabilities	-	(2,221,000)
Liabilities arising from non-participating investment contracts		- (14,605,000)
Derivative financial instruments	-	(1,200000)
Other financial liabilities	-	(1,869,000)
Net decrease in operating liabilities		- (77,086,000)
Net (increase)/decrease in operating assets and liabilities	(16)	1,921,000

18. Risk management

The principal activity of the Company is the holding of investments and subsidiaries.

This note summarises these risks and the way in which the Company managed them during the year.

(a) Governance framework

The Company is part of LBG, which has an established 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 of each LBG company. The Board manages risks in line with LBG and Insurance Division risk policies. The Board has delegated certain risk matters to the Insurance Risk Oversight Committee with the operational implementation of these being assigned 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

18. Risk management (continued)

(a) Governance framework (continued)

have direct accountability for risk decisions. The Risk function provides oversight and challenge and forms 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.

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 are 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 risks faced by the Company, including the exposures to market, insurance, credit, financial soundness and operational risk. The performance of the Company, its continuing ability to write business and the strategic management of the business depend on its ability to manage these risks.

During the year, policy owners, identified from appropriate areas across the business, are responsible for drafting the Insurance Division risk policies where LBG policies do not capture Insurance-specific regulations or requirements, for ensuring that they remain up-to-date, and for facilitating any changes. These policies have been 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 each company can take decisions. Line management are required to follow prescribed reporting procedures to the bodies responsible for monitoring compliance with policy and controlling the risks.

(b) Risk appetite

Risk appetite is the amount and type of risk that the Board is prepared to seek, accept or tolerate and is fully aligned to Insurance Division and LBG strategy. The Board has defined a framework for the management of risk 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 prices (equity and property risk), market interest rates (interest rate 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 have been 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			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equity securities	3,173	-	-	3,173

18. Risk management (continued)

(c) Financial risks (continued)

As at 31 December 2015

	Fair value hierarchy			
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Equity securities	3,157	-	-	3,156

(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 and properties.

(ii) 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.

(iii) 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.

(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.

Exposure to other trade receivables is assessed on a case by case basis, using a credit rating agency where appropriate.

There are no assets subject to credit risk as at 31 December 2016, therefore no table for 2016 has been presented.

(i) Concentration risk

Credit concentration risk

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

The Company requires strict control on the use of derivatives by each fund as set out in the Insurance Derivatives Risk Policy ("DRP").

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. *This policy supports the approach mandated by the Prudential Regulation Authority for regulatory reporting.*

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

18. Risk management (continued)

(c) Financial risks (continued)

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 delegated authorities that permit the preparation and disclosure of financial statements (including consolidated 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 so that it can continue to provide returns for the shareholder.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

19. Related party transactions

(a) Ultimate parent and shareholding

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

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 financial statements are drawn up and of which the Company is a member. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings for which group financial statements 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.

(b) Transactions and balances with related parties

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 with related parties are shown in the table below:

	2015			
	Income during year £000	Expenses during year £000	Payable at year end £000	Receivable at year end £000
Relationship				
Subsidiary	490,000	85,000	-	-
Parent	(612,000)	1,735,000	-	-
Other related parties	(21,000)	112,000	-	-

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 plc 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: £13,386k) 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: £493m).

(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 Executive Directors.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

19. Related party transactions (continued)

Key management compensation:

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

	2016 £000	2015 £000
Short-term employee benefits	-	400
Share-based payments	-	200
Total	-	600

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 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 two Directors and key management personnel under defined benefit pension schemes and seventeen Directors and key management personnel paid into a defined contribution scheme.

During 2015 the aggregate value of contributions paid to a pension scheme for qualifying services was £9k.

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 eighteen Directors' received qualifying services shares under long term incentive schemes.

Detail regarding the highest paid Director is as follows:

	2016 £000	2015 £000
Apportioned aggregate emoluments	-	100

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

During 2015 £50k became payable to the highest paid Director in relation to his retirement from office.

20. 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, a fellow group undertaking, pursuant to an insurance business transfer scheme, under Part VII of the Financial Services and Markets Act 2000. As a result of the transfer, ownership of all Company's immediate subsidiaries and Special Purpose Vehicles transferred into Scottish Widows Limited, with the exception of Scottish Widows Unit Funds Limited, Scottish Widows Annuities Limited and Pensions Management (SWF) Limited. The Company's name was also changed from Scottish Widows Plc to SW Funding Plc on 31 December 2015.

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.

As part of the transfers, all outstanding rights and obligations were also transferred. Deferred tax balances were extinguished and recognised in the receiving company.

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

	2016 £000	2015 £000
Loss on transfer of business to fellow group undertaking	-	4,661,000
Transfer of tax assets & liabilities at nil consideration	-	(330,000)
Total	-	4,331,000

Impairment of subsidiaries

The transfer has reduced the net assets of the subsidiaries, resulting in the following impairments in their carrying value in the Company:

Subsidiary	2016 £000	2015 £000
Scottish Widows Annuities Limited (SWA)	-	90,000
Scottish Widows Unit Funding Limited (SWUF)	-	104,000
Total	-	194,000

20. Insurance Business Transfer Scheme (continued)

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

	2016 £000	2015 £000
Assets		
Deferred costs	-	1,320,000
Deferred tax assets	-	73,000
Current tax receivables	-	15,000
Investment in subsidiaries	-	417,000
Investment properties	-	129,000
Assets arising from reinsurance contracts held	-	35,366,000
Prepayments and accrued income	-	31,000
Derivative financial instruments	-	1,157,000
Loans and receivables	-	4,972,000
Investments at fair value through profit or loss	-	36,790,000
Cash and cash equivalents	-	202,000
Total assets	-	80,472,000
Liabilities		
Liabilities arising from insurance contracts and participating investment contracts	-	58,211,000
Unallocated surplus	-	240,000
Future profits on non-participating business in the with-profits funds	-	(79,000)
Deferred tax liabilities	-	418,000
Other provisions	-	28,000
Accruals and deferred income	-	28,000
Subordinated debt liabilities	-	1,637,000
Liabilities from non-participating investment contracts	-	11,917,000
Derivative financial liabilities	-	1,223,000
Other financial liabilities	-	2,514,000
Borrowings	-	4,000
Total Liabilities	-	76,141,000
Net asset transferred under the Insurance Business Transfer Scheme	-	4,331,000

Financial assets and liabilities were transferred at fair value and insurance / 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. The transfer was for £nil consideration and in accordance with the Insurance Business Transfer Scheme.