Scottish Widows Services Limited

Annual Report and Accounts
2019

Member of Lloyds Banking Group

CONTENTS **PAGE(S)**

COMPANY INFORMATION

Board of Directors

J Gomez-Reino
S W Lowther

Company Secretary

K J Mckay

Independent Auditors

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

Registered Office

69 Morrison Street
Edinburgh
EH3 8YF

Company Number

SC189975

STRATEGIC REPORT

The Directors present their Strategic Report on Scottish Widows Services Limited (the 'Company') for the year ended 31 December 2019.

The Company forms part of Lloyds Banking Group plc ('LBG' or the 'Group').

The Company continues to act as a service provider to the LBG Insurance Division's subsidiary undertakings of Scottish Widows Group Limited ('SWG'). Additionally the Company acts as the employer for the Scottish Widows Retirement Benefits Scheme ('SWRBS'). As part of this arrangement all associated service costs occurring from the SWRBS are recharged to Insurance Division companies.

Result for the year

The result of the Company for the year ended 31 December 2019 is a profit before tax of £45.8m (2018: loss before tax of £27.5m). The variance is driven by the mark up applied to certain costs recharged to the insurance entities, as well as the remeasurement of the contingent settlement provision, leading to a £32.6m impact on the Profit and Loss for 2019 (2018: £nil). In addition, remeasurement of retirement benefit obligations resulted in a loss of £61.3m (2018: £61.5m gain). The total net assets of the Company at 31 December 2019 are £112.2m (2018: £135.4m).

Key performance indicators

Employee numbers and costs

The average monthly number of employees is 2,970 (2018: 2,520), and staff costs and other employee related costs have increased by £8.2m to £190.1m (2018: £181.9m). This variance reflects a team restructure in 2019, with a number of employees moving into the Company from other group companies.

Pension scheme asset

The defined benefit scheme has been recognised in the Company's balance sheet as a £138.8m retirement benefit asset (2018: £97.7m). This result is mainly driven by an adverse £75.7m remeasurement effect recognised in other comprehensive income offset by £125.3m employer contributions during the year.

Liquidity

The Company regularly monitors its liquidity position to ensure that it has sufficient liquidity to meets its obligations.

The Directors are of the opinion that the information presented in the financial statements as a whole provides the management information necessary for the Directors to understand the development, performance and position of the business of the Company.

The United Kingdom leaving the European Union

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including the financial services sector. The continued lack of clarity over the UK's eventual relationship with the EU and other foreign countries, and ongoing challenges in the Eurozone, including weak growth raise~~s~~ additional uncertainty for the UK economic outlook. The Company's response to these risks and uncertainty includes contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts. Also a no deal EU exit outcome has been analysed to identify impacts and assess robustness of contingency plans.

Coronavirus

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The potential adverse impact on the value and trading of stocks, bond yields, credit spreads and commodities can also be seen in significant market falls, reduced liquidity and rises in volatility. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the retail or corporate customers of the Lloyds Banking Group and as a result have a material adverse effect on the Lloyds Banking Group's results of operations, financial condition or prospects. The impact of this however on the Company is not expected to be significant.

In respect of the SWRBS, the full impact of Coronavirus is not expected to be known for some time. Whilst asset values were initially impacted by market turbulence, they have since somewhat reverted and the scheme remains well hedged against its material risks. There is no indication that coronavirus will alter existing contribution schedules in advance of next actuarial valuation, expected to be available by 2023

STRATEGIC REPORT (continued)

Climate Change

As part of LBG, the Company is committed to supporting the UK to successfully engage with the opportunities and challenges created by climate change and the need to transition to a low carbon economy. LBG has set ambitions anchored to the goals laid out in the UK Government's Clean Growth Strategy, which align closely to LBG's business priorities. The ambition that is relevant to the Company is: be part of a leading UK bank in reducing our own carbon footprint and challenging our suppliers to ensure our own consumption of resources, goods and services is sustainable.

Further details of the LBG approach of transitioning to a low carbon economy can be found in the Lloyds Banking Group Annual Report and Accounts, which can be downloaded via www.lloydsbankinggroup.com.

Outlook

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

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. In particular, ring-fencing regulations have placed an increased focus on governance and risk management. LBG and the Company have taken steps to ensure the control environment and governance structure support compliance. The financial risk management objectives and policies of the Company and the exposure to risks including market, credit, capital, liquidity and operational risks are set out in note 19.

Section 172(1) Statement and Statement of Engagement with Employees and Other Stakeholders

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide the following statement describing how they have had regard to the matters set out in section172 (1) of the Act, when performing their duty to promote the success of the Company under section 172. Further details on key actions in this regard are also contained within the Directors' Report on pages 7 to 10 and the Corporate Governance Statement on pages 8 to 9.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the following statement also provides details of how the Directors have engaged with and had regard to the interests of key stakeholders. The Company is a subsidiary of LBG, and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant.

The Directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of LBG, achieves long-term success and generates sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct. This approach has during the course of the year been central to the activities of the Directors, as discussed below.

Shareholders

The Company is a wholly owned subsidiary of LBG. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where appropriate to those of LBG, ensuring that the interests of LBG as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic Report within the LBG Annual Report and Accounts for 2019, available on the LBG website.

STRATEGIC REPORT (continued)

Colleagues

The Company's approach in respect of employees, including their engagement, is part of that of LBG, where colleagues take pride in working for an inclusive and diverse organisation which continues to work towards building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. In 2019, the LBG Board agreed how LBG, including the Company, would engage with the workforce. The definition of 'workforce', as agreed by the Board is permanent employees, contingent workers and third-party suppliers that work on LBG premises delivering services to customers and supporting key business operations. In addition the LBG CEO and the Chair of the LBG Remuneration Committee meet with recognised unions on at least an annual basis.

In June 2019, the LBG Group People and Productivity director presented to the LBG Board on people & transforming ways of working, providing them with an update on the LBG people strategy, including that of the Company, which along with the wider LBG approach to organisational culture is discussed further on pages 19 to 22 of the LBG annual report and accounts for 2019. As well as its own engagement survey, of which the Company is part, LBG takes part in the Banking Standards Board assessment on a yearly basis, which provides member firms with the evidence, support and challenge to help them achieve and maintain high standards of behaviour and competence both individually and collectively. There are five parts to the assessment; an online employee survey, a set of Board questions, interviews with executive and non-executive directors and employee focus groups.

Communities and the Environment

The Directors acknowledge that the Company, as part of one of the largest retail and commercial financial services providers in the UK, has responsibilities to invest in the communities in which it operates, to help them prosper economically and build social cohesion by tackling disadvantage. The Company therefore participates in all related LBG initiatives, with the Directors' ensuring the Company plays an appropriate role in LBG's related Helping Britain Prosper Plan. Further information in respect of the LBG approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the LBG Annual Report and Accounts for 2019. Additional information on LBG's Helping Britain Prosper Plan is available on the LBG website.

The Responsible Business Committee of the Board of LBG is responsible for overseeing LBG's performance, including that of the Company, as a Responsible Business, by providing oversight of and support for LBG's strategy and plans for embedding responsible business as part of both LBG's and the Company's purpose to Help Britain Prosper. Priorities during the year have included ongoing focus on three key areas aligned to LBG's Bank of the Future strategy. These included consideration of the progress of the Lloyds Bank Academy and the external initiative 'future.now', both designed to boost digital skills in the UK. Progress against agreed sustainability strategy was considered, where consistent progress was made in achieving targets such as providing support for the EV1000 electric vehicles initiative. Consideration was also given to the relationship between LBG and its charitable foundations, in particular the work they do in the communities in which LBG and the Company operate. Further information in respect of LBG's and the Company's Responsible Business activities is included on pages 26 to 35 of the LBG Annual Report and Accounts for 2019, available on the LBG website, along with further discussion of the work of LBG's Responsible Business Committee.

Suppliers

The Company's approach to supplier management is part of that of LBG, which works with around 3,100 active suppliers of varying sizes, most in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communication. The Company and LBG seek to improve the experience of suppliers, with feedback regularly sought on related assurance processes to ensure continual improvement in the process. Suppliers are also encouraged to express their satisfaction or otherwise, and have access to LBG and the Company's whistleblowing service.

In 2019 LBG's supplier expenditure was £5.9 billion, with 95.5 per cent of third party suppliers being located in the UK. Great importance is placed on having the right supplier framework to operate responsibly. LBG's Sourcing & Supply Chain Management Policy applies to all businesses, divisions, and subsidiaries of LBG, including the Company, with the Directors assuming ultimate responsibility for its application as relevant to the Company. This Policy has been designed to assist in managing the inherent risk in outsourcing services, and dealing with third party suppliers. Suppliers are required to adhere to relevant LBG policies and comply with LBG's Code of Supplier Responsibility which can be found on the LBG website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and LBG to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

On behalf of the Board of Directors

S W Lowther
Director
28th September 2020

DIRECTORS' REPORT

Principal activities

The Directors present the audited financial statements of the Company, a private company limited by shares, domiciled and incorporated in the United Kingdom whose principal activity is to act as a service provider to subsidiary undertakings of SWG. The Company is a wholly owned subsidiary of Lloyds Bank plc ('LB plc').

Results and dividend

The result of the Company for the year ended 31 December 2019 is a profit before tax of £45.8m (2018: loss before tax of £27.5m). The variance is driven by the mark up applied to certain costs recharged to the insurance entities, as well as the remeasurement of the contingent settlement provision, leading to a £32.6m impact on the Profit and Loss for 2019, as explained in the Strategic Report. In addition, remeasurement of retirement benefit obligations resulted in a loss of £61.3m (2018: £61.5m). The total net assets of the Company at 31 December 2019 are £112.2m (2018: £135.4m).

During the year, £nil interim dividends (2018: £nil) were paid. Directors recommend no payment of a dividend in respect of the year ended 31 December 2019 (2018: £nil).

Directors

There have been no changes to Directorship during the year.

Particulars of the Directors' emoluments are set out in note 20.

Directors' indemnities

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

Disclosure of information to auditors

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

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

Employees

LBG, of which the Company is a part, is committed to providing employment practices and policies which recognise the diversity of the workforce and ensure equality for employees regardless of sex, race, disability, age, sexual orientation or religious belief. In the UK, LBG belongs to the major employer groups campaigning for equality for all staff, including Employers' Forum on Disability, Employers' Forum on Age and Stonewall. LBG is also represented on the Board of Race for Opportunity and the Equal Opportunities Commission. Involvement with these organisations enables LBG to identify and implement best practice for staff.

LBG encourages and gives full and fair consideration to job applications from people with a disability and are unbiased in the way it assesses, selects, appoints, trains and promotes people. LBG encourages job applications from those with a disability and continues to run a work experience programme with Remploy to support people with disabilities wanting to enter the workplace.

LBG is committed to continuing the employment of, and for arranging appropriate training for, employees of the Company who have become disabled persons during the period when they were employed by the Company.

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys. These meetings, briefings and internal communications also serve to achieve a common awareness of the financial and economic factors that affect the performance of the Company. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions. Schemes offering share options or the acquisition of shares are available for most staff, to encourage their financial involvement in LBG.

DIRECTORS' REPORT (CONTINUED)

Engagement with suppliers, employees and others

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), for the year ended 31 December 2019, the Directors provide details describing how they have had regard to the matters set out in section172 (1) of the Act, when performing their duty under section 172. Details of key actions in this regard are contained within the Strategic Report on pages 4 to 6.

Charitable and political contributions

During the year, the Company made contributions totalling £116.8k (2018: £88.0k) for charitable purposes. The Company made no political contributions during the year (2018: £nil).

Financial risk management

Disclosures relating to financial risk management are included in note 19 to the financial statements and are therefore incorporated into this report by reference.

Independent auditors

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

Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'), for the year ended 31 December 2019, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the 'Principles'). The following section explains the Company's approach to corporate governance, and its application of the Principles.

Fundamental to the Company's strategy are high standards of corporate governance. A Corporate Governance Framework is in place for Lloyds Banking Group of companies, of which the Company is a part. The framework is designed to meet the specific needs of each company, setting the wider approach and applicable standards in respect of the Company's corporate governance practices, including addressing the matters set out in the Principles and the governance requirements of the operation of the Company as part of Lloyds Banking Group's Ring Fenced Bank.

This includes the matters reserved to the Board, and the matters the Board has chosen to delegate to management, including decision making on operational matters such as those relating to credit, liquidity and the day to day management of risk. Governance arrangements, including the Corporate Governance Framework, are reviewed at least annually to ensure they remain fit for purpose. The Corporate Governance Framework of the Company further addresses the requirements of the Principles as follows.

<u>Principle One – Purpose and Leadership</u>

The Board is collectively responsible for the long term success of the Company. It achieves this by agreeing the Company's strategy, within the wider strategy of LBG, and overseeing delivery against it.

Consideration of the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers is a vital part of the corporate culture. The Company's corporate culture and values closely align to those of LBG, which are discussed in more detail in the LBG annual report and accounts for 2019.

<u>Principle Two – Board Composition</u>

The Company is led by a Board comprising Executive Directors, further details of the directors can be found on page 3. The Board considers its composition, and is committed to ensuring it has the right balance of skills and experience. The Board considers its current size and composition is appropriate to the Company's circumstances. New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring overall.

DIRECTORS' REPORT (CONTINUED)

Principle Three – Director Responsibilities

The Directors assume ultimate responsibility for all matters, and along with senior management are committed to maintaining a robust control framework as the foundation for the delivery of good governance, including the effective management of delegation though the Corporate Governance Framework. Policies are also in place in relation to potential conflicts of interest which may arise.

The Board is managed, with open debate, and adequate time for members to consider proposals which are put forward. The Board assumes responsibility with support from the Company Secretary for the provision to each meeting of accurate and timely information.

Principle Four – Opportunity and Risk

The Board oversees the development and implementation of the Company's strategy, within the context of the wider strategy of LBG, which includes consideration of all strategic opportunities when required.

The Board is also responsible for the long term sustainable success of the Company, generating value for its shareholders and ensuring a positive contribution to society. Further specific aims and objectives of the Board are formalised within the Corporate Governance Framework.

Strong risk management is central to the strategy of the Company, which along with a robust risk control framework acts as the foundation for the delivery of effective management of risk. The Company's risk appetite, principles, policies, procedures, controls and reporting are managed in conjunction with those of LBG, and as such are regularly reviewed to ensure they remain fully in line with regulations, law, corporate governance and industry best practice. The Company's principle risks are discussed further on pages 37 – 41 in note 19.

Principle Five – Remuneration

The Remuneration Committee of LBG (the 'Remuneration Committee'), assumes responsibility for the Company's approach to remuneration. This includes reviewing and making recommendations on remuneration policy as relevant to the Company, ranging from the remuneration of directors and members of the Executive to that of all other colleagues employed by the Company. This includes colleagues where the regulators require the Company to implement a specific approach to their remuneration, such as Senior Managers and other material risk takers. The activities of the Remuneration Committees extend to matters of remuneration relevant to subsidiaries of the Company, where such subsidiary does not have its own remuneration committee.

Principle Six – Stakeholders

The Company as part of LBG operates under LBG's wider Responsible Business approach, which acknowledges that the Company has a responsibility to help address the economic, social and environmental challenges which the UK faces, and as part of this understand the needs of the Company's external stakeholders, including in the development and implementation of strategy. Central to this is LBG's Helping Britain Prosper plan, in which the Company participates, which seeks to gather stakeholder views through a dedicated materiality study, as overseen by LBG's Responsible Business Committee.

In 2019, the Responsible Business Committee determined that the Company and LBG continued to demonstrate responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers. The approach of the Board in respect of its non colleague stakeholders is described in the separate statement made in compliance with the Regulations, on pages 5 and 6.

DIRECTORS' REPORT (CONTINUED)

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

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

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

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors whose names are listed on page 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 European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report on pages 4 to 6, and the Directors' Report on pages 7 to 10, include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board of Directors

S W Lowther
Director
28th September 2020

Independent auditors' report to the members of Scottish Widows Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, Scottish Widows Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

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

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

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

Independent Auditors' Report to the members of Scottish Widows Services Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Neil Riches (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
28 September 2020

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Revenue	3	842,339	819,949
Remeasurement of contingent settlement provision	15	32,600	-
Staff costs and other employee related costs	4a	(190,107)	(181,934)
Operating expenses	5	(645,241)	(666,966)
Net interest on net defined benefit asset/liability	7	4,600	(400)
Operating Profit / (Loss)		**44,191**	**(29,351)**
Investment income		1,590	1,808
Profit / (Loss) before tax		**45,781**	**(27,543)**
Taxation	8	(7,724)	6,021
Profit / (Loss) for the year		**38,057**	**(21,522)**
Other comprehensive (loss) / income			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefits obligations, net of tax	14c	(61,317)	61,504
Other comprehensive (loss)/income		**(61,317)**	**61,504**
Total comprehensive (loss)/income for the year		**(23,260)**	**39,982**

The notes set out on pages 17 to 42 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
ASSETS			
Intangible assets	9	95,859	131,344
Deferred tax assets	10	197	11,887
Retirement benefit asset	14	138,800	97,700
Current tax assets	10	20,813	12,712
Financial assets:			
At amortised cost:			
Loans and other receivables	11	90,140	205,291
Cash and cash equivalents	12	161,481	149,914
Total assets		**507,290**	**608,848**
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's shareholder			
Share capital	13	81,000	81,000
Retained earnings		31,155	54,415
Total equity		**112, 155**	**135,415**
LIABILITIES			
Contingent settlement provision	15	251,400	284,000
Accruals	16	31,685	70,299
Financial liabilities:			
Trade and other payables	17	112,050	119,134
Total liabilities		**395,135**	**473,433**
Total liabilities and equity		**507,290**	**608,848**

The notes set out on pages 17 to 42 are an integral part of these financial statements.

The financial statements on pages 13 to 42 were approved by the Board of Directors on 25th September 2020 and signed on its behalf by

S W Lowther
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Profit/(Loss) before tax		45,781	(27,543)
Adjustments for:			
Amortisation of intangible assets	9	32,362	36,890
Transfers to group companies	9	3,123	-
Intangible assets impairment loss	9	-	71
Investment income		(1,590)	(1,808)
Net movement in operating assets and liabilities	18	28,353	(330,506)
Remeasurement of net defined benefit obligations	14c	(75,700)	74,100
Taxation received		10,248	13,989
Net cash generated from / (used) in operating activities		**42,577**	**(234,807)**
Cash flows from investing activities			
Investment income		1,590	1,808
Net cash generated from investing activities		**1,590**	**1,808**
Cash flows from financing activities			
Risk premium	15	(32,600)	284,000
Net cash (used in) / generated from financing activities		**(32,600)**	**284,000**
Net increase in cash and cash equivalents		11,567	51,001
Cash and cash equivalents at the beginning of the year		149,914	98,913
Cash and cash equivalents at the end of the year	12	**161,481**	**149,914**

The notes set out on pages 17 to 42 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2018	**81,000**	**14,433**	**95,433**
Profit/(Loss) for year	-	(21,522)	(21,522)
Other comprehensive income			
Remeasurements of retirement benefit obligations, net of tax (note 14c)	-	61,504	61,504
Total comprehensive income for the year	**-**	**39,982**	**39,982**
Balance as at 31 December 2018	**81,000**	**54,415**	**135,415**
Profit/(Loss) for year	-	38,057	38,057
Other comprehensive loss			
Remeasurements of retirement benefit obligations, net of tax (note 14c)	-	(61,317)	(61,317)
Total comprehensive loss for the year	**-**	**(23,260)**	**(23,260)**
Balance as at 31 December 2019	**81,000**	**31,155**	**112,155**

All of the above amounts are attributable to the equity holder of the Company.

The notes set out on pages 17 to 42 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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:

- in accordance with the International Accounting Standards ("IASs") and 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;

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

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

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

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

(b) Financial assets and financial liabilities

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

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

The Company initially recognises loans and other receivables when the Company becomes a party to the contractual provisions of the instrument.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(c) 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.

(ii) Level 2

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

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

(iii) Level 3

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

(d) Revenue recognition

Revenue

Revenue includes management charges levied to other LBG companies. Revenue is recognised as the related expenses are incurred.

Investment income

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

(e) Expense recognition

Staff costs and other employee related costs

Staff costs and other employee related costs are recognised in the statement of comprehensive income as incurred, within staff costs and other employee related costs.

Net interest on net defined benefit asset/ liability

This reflects the extent to which interest income on plan assets is greater than the interest cost on defined benefit pension scheme obligations. Policy (l) sets out further information on the accounting for retirement benefit obligations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(e) Expense recognition (continued)

Operating expenses

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

(f) Share-based payments

LBG operates a number of equity-settled, share-based compensation plans in respect of services received from certain of the Company's employees. The value of the employee services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments. This expense is determined by LBG by reference to the fair value of the number of equity instruments that are expected to vest, and the appropriate proportion is recharged to, and recognised as an expense by the Company.

(g) Intangible assets

Software development costs

Costs that are directly associated with the acquisition of software licences and the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets, subject to de minimis limits. Direct costs include the software development team's employee costs and an appropriate portion of relevant overheads. All other costs associated with developing or maintaining computer software programmes are recognised through the statement of comprehensive income as an expense as incurred, within operating expenses.

Computer software development costs recognised as assets are valued at cost and amortised using the straight-line method over their expected useful lives, not exceeding a period of seven years. Subsequent expenditure is only capitalised when it increases the expected future economic benefits of the specific asset to which it relates.

The amortisation charge for the year in respect of software licences and software development costs is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the assets is tested for impairment at each reporting date. Further information on the Company's impairment policy is set out at policy (i).

(h) Cash and cash equivalents

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

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

The fair value of holdings in liquidity funds is determined as the last published price applicable to the vehicle at the reporting date.

Holdings in liquidity funds are categorised as level 1 in the fair value hierarchy. These assets are valued using quoted prices in active markets for identical assets 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(i) Impairment

Financial assets

Where an impairment charge arises in the statement of comprehensive income it includes the change in expected credit losses for financial assets held at amortised cost. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

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

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due.

Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

For financial instruments that are considered to have low credit risk, the credit risk is assumed to not have increased significantly since initial recognition. Financial instruments are considered to have low credit risk when the borrower is considered to have a low risk of default from a market perspective. Typically financial instruments with an external credit rating of investment grade are considered to have low credit risk.

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

A loan or receivable is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income.

Non-financial assets

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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(j) Taxes

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

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

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

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet 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 asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

(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) Retirement benefit obligations

Individuals employed by the Company may be members of the SWRBS or of other pension schemes administered by LBG. All schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

The Company contributes to both defined benefit and defined contribution elements of the pension schemes in question. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a pension plan under which the Company pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

1. Accounting policies (continued)

(l) Retirement benefit obligations (continued)

(i) Scottish Widows Retirement Benefit Scheme

A full actuarial valuation of this defined benefit scheme is carried out at least every three years with interim reviews in the intervening years; the valuation is updated to 31 December each year by a qualified actuary. For the purposes of these annual updates, scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method by an independent, qualified actuary appointed by LBG.

The amount recognised in the balance sheet in respect of the defined benefit element of the pension scheme is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates equivalent to the market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that are approximate to the terms of the related pension asset/liability.

A surplus is only recognised to the extent that it is recoverable through a right to make reduced contributions in the future or to receive a refund from the scheme. The Company recognises any change in the effect of the surplus that can be recognised in other comprehensive income within remeasurements of the retirement benefit asset.

The Company recognises in profit or loss the current service cost of providing pension benefits and the net interest on the net defined benefit obligation. The current service cost is recognised within operating expenses.

The net interest on the net defined benefit obligation is recognised within finance costs, and is determined by applying the discount rate used to measure the net defined benefit obligation at the beginning of the period to the net defined benefit obligation at that date, taking account of changes in the net defined benefit obligation during the period as a result of contributions and benefit payments.

Past service costs are changes in the defined benefit obligation arising from plan amendments or curtailments and are recognised immediately in profit or loss, within operating expenses, when the plan amendment or curtailment occurs. The Company recognises the gain or loss on a settlement of the defined benefit obligation immediately in profit or loss when the settlement occurs.

The Company recognises in other comprehensive income, within remeasurements of the retirement benefit obligations, actuarial gains and losses arising from experience adjustments and changes in the actuarial assumptions, and the return on plan assets excluding the net interest on the net defined benefit obligation that is recognised in profit or loss.

(ii) Defined contribution schemes

Contributions made by the Company to defined contribution arrangements, including Your Tomorrow, are recognised in the statement of comprehensive income as an employee benefit expense when they are due, within staff costs and other employee related costs.

(m) Contingent settlement provision

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 assessments of the time value of money and, where appropriate, the risks specific to the liability. The value of amounts utilised is determined annually in line with the actuarial valuations of the retirement benefit obligation, as outlined in note (l).

The contingent settlement provision relates to the transfer of ownership of the SWRBS (see note 15). Any cumulative remeasurement losses on the SWRBS charged to other comprehensive income since the transfer of ownership result in a remeasurement of the provision. Where the cumulative remeasurements charged to other comprehensive income since the transfer of ownership are a gain, there is no remeasurement of the provision.

(n) Accruals

Accruals relate to expenses incurred in the year but not yet paid. A corresponding amount has been recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. Critical accounting estimates and judgments in applying accounting policies

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

a) Retirement benefit obligations

The majority of the Company's employees who were a member of a defined benefit scheme were members of the SWRBS. Most of these members have now transferred to the Your Tomorrow defined contribution section of the LBG Pension Scheme No. 1.

The risks associated with the LBG Schemes are shared among various entities under common control of LBG. The Company's defined benefit obligation represents 100% of the SWRBS pension scheme due to the Company being principal employer and scheme guarantor. The accounting valuation of the Group's defined benefit pension schemes' liabilities requires management to make a number of assumptions. The key areas of estimation uncertainty are inflation, the discount rate applied to future cash flows and the expected lifetime of the schemes' members. The Group considers latest market practice and actual experience in determining the appropriate assumptions for both current mortality expectations and the rate of future mortality improvement. It is uncertain whether this rate of improvement will be sustained going forward and, as a result, actual experience may differ from current expectations. Further information on these liabilities is given in note 14.

b) Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

c) Intangible assets

Intangible assets represent computer software development costs recognised as assets are valued at cost and amortised using the straight-line method over their expected useful lives, not exceeding a period of seven years. Management apply judgement in performing the annual impairment review as set out in note 1(i). Further information on these assets is given in note 9.

d) Share based payments

The value of the employee services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments. This expense is determined by LBG by reference to the fair value of the number of equity instruments that are expected to vest, and the appropriate proportion is recharged to, and recognised as an expense by, the Company. Management make estimates and apply judgement in determining the relevant expense using assumptions outlined in note 4.

3. Revenue

	2019 **£000**	**2018** **£000**
Management charges	841,238	817,615
Pension management income retained by the Company	1,101	2,334
Total	**842,339**	**819,949**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4a. Staff costs and other employee related costs

	2019 £000	2018 £000
Wages and salaries	113,565	103,131
Share based payments	29,953	28,597
Social security costs	20,189	18,843
Service costs - defined benefit pension scheme (note 14a)	9,900	15,600
Other pension costs - defined contribution (note 14b)	16,500	15,763
Total	**190,107**	**181,934**

Share based payments

The charge to the statement of comprehensive income is as follows:

	2019 £000	2018 £000
Deferred bonus plan	21,582	20,615
Executive and SAYE plans	7,535	7,259
Share matching scheme	836	723
Total	**29,953**	**28,597**

During the year ended 31 December 2019, the Company received the above charges relating to share-based payment schemes. All share-based payment schemes are operated by LBG and are equity settled.

Deferred bonus plans

LBG operates a number of deferred bonus plans that are equity settled. Bonuses in respect of employee performance in 2019 have been recognised in the charge in line with the proportion of the deferral period completed.

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn schemes to save up to £500 per month and, at the expiry of a fixed term of three or five years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in LBG at a discounted price of no less than 80 per cent of the market price at the start of the invitation.

Other share option plans

Lloyds Banking Group Executive Share Plan 2003

The Plan was adopted in December 2003 and under the Plan share options may be granted to senior employees. Options under this plan have been granted specifically to facilitate recruitment and as such were not subject to any performance conditions. The Plan is used not only to compensate new recruits for any lost share awards but also to make grants to key individuals for retention purposes with, in some instances, the grant being made subject to individual performance conditions.

Lloyds Banking Group Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) introduced in 2006 is aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of LBG over a three year period. Awards are made within limits set by the rules of the LTIP, with the limits determining the maximum number of shares that can be awarded equating to three times annual salary. In exceptional circumstances this may increase to four times annual salary.

Participants may be entitled to any dividends paid during the vesting period if the performance conditions are met. An amount equal in value to any dividends paid between the award date and the date the Remuneration Committee determine that the performance conditions were met may be paid, based on the number of shares that vest. The Remuneration Committee will determine if any dividends are to be paid in cash or in shares.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4a. Staff costs and other employee related costs (continued)

Set out below is a summary of options granted under the plan:

	2019 Number of shares	2018 Number of shares
Outstanding at 1 January 2018	22,078,874	19,385,588
Granted	11,479,363	10,007,139
Vested	(7,152,622)	(5,411,927)
Forfeited	(5,466,332)	(2,100,643)
Dividend Award	354,027	198,717
Total	**21,293,310**	**22,078,874**

At the end of the performance period for the 2016 grant, the targets had not been fully met and therefore these awards vested in 2019 at a rate of 68.7 per cent.

The weighted average fair value of awards granted in the year was £0.45 (2018: £0.48).

The fair value calculations as 31 December 2019 for grants made in the year, using Black-Scholes models and Monte-Carlo simulation, are based on the following assumptions:

	Save-as-you-earn	Executive Share Plan 2003	LTIP
Weighted average risk-free interest rate	0.36%	0.62%	0.83%
Weighted average expected life	3.2 years	1.3 years	3.7 years
Weighted average expected volatility	20%	23%	27%
Weighted average expected dividend yield	4.0%	4.0%	4.0%
Weighted average share price	£0.53	£0.62	£0.63
Weighted average exercise price	£0.40	nil	nil

Expected volatility is a measure of the amount by which LBG's shares are expected to fluctuate during the life of an option. The expected volatility is estimated based on the historical volatility of the closing daily share price over the most recent period that is commensurate with the expected life of the option. The historical volatility is compared to the implied volatility generated from market traded options in LBG's shares to assess the reasonableness of the historical volatility and adjustments made where appropriate.

Matching shares

LBG undertakes to match shares purchased by employees up to the value of £45 per month; these matching shares are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market based condition: if an employee leaves within this three year period for other than a 'good' reason, 100 per cent of the matching shares are forfeited. Similarly if the employees sell their purchased shares within three years, their matching shares are forfeited.

4b. Number of employees

The average monthly number of employees directly employed by the Company is as follows:

	2019 No.	2018 No.
UK	2,970	2,520
Total	**2,970**	**2,520**

The costs of employees in the above table are recharged to SWG companies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

5. Operating expenses

	2019 £000	2018 £000
Sales and marketing	1,082	1,386
Computer costs	1,625	738
Professional fees	15,966	15,290
Outsourcing charges	46,401	53,273
Auditors' remuneration	1,742	5,990
Amortisation of intangible assets (note 9)	32,362	36,890
Intangible assets impairment loss (note 9)-	-	71
Group recharges from LBG	509,547	501,253
Industry Levy	23,268	23,482
Rectification expense	-	25,928
Other expenses	13,248	2,665
Total	**645,241**	**666,966**

6. Auditors' remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	42	37
Total	**42**	**37**

The auditors' remuneration disclosed in operating expenses includes amounts relating to and recharged to companies within the Insurance Division and disclosed in the financial statements of those companies.

During the year, the audit fee in respect of pension schemes was £46.2k (2018: £44.0k).

7. Net interest on net defined benefit asset/liability

	2019 £000	2018 £000
Expected return on defined benefit pension scheme assets	36,400	31,600
Interest cost on defined benefit pension scheme obligation	(31,800)	(32,000)
Total	**4,600**	**(400)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

8. Taxation

(a) Current year tax (charge) / credit

	2019 £000	2018 £000
Current tax:		
UK corporation tax	6,430	12,778
Adjustment in respect of prior years	(2,464)	99
Total current tax (charge) / credit	**3,966**	**12,877**
Deferred tax:		
Temporary differences	(13,982)	(7,254)
Adjustment in respect of prior years	2,292	398
Total deferred tax (charge)	**(11,690)**	**(6,856)**
Total income tax (charge) /credit	**(7,724)**	**6,021**

Corporation tax is calculated at a rate of 19.00% (2018: 19.00 %) of the taxable profit for the year.

(b) Factors affecting the tax (charge) / credit for the year

A reconciliation of the charge that would result from applying the standard United Kingdom corporation taxation rate to the profit before tax to the actual tax charge for the year is given below:

	2019 £000	2018 £000
Profit /(Loss) before tax	45,781	(27,543)
Tax (charge) / credit thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	(8,698)	5,233
Factors affecting (credit) / charge:		
Disallowed items	(22)	(56)
Non-taxable items	-	1,159
Adjustments in respect of prior years	(172)	496
Effect of reduction in tax rate and related impacts	1,168	(811)
Total	**(7,724)**	**6,021**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

9. Intangible assets

Software development costs

	2019 £000	2018 £000
Cost		
At 1 January	246,914	275,952
Disposals	(48,755)	(28,746)
Transfers to Group Companies	(3,123)	-
Write-downs of impaired assets	-	(292)
At 31 December	**195,036**	**246,914**
Accumulated amortisation		
At 1 January	115,570	107,647
Amortisation charge for the year	32,362	36,890
Amortisation on disposals	(48,755)	(28,746)
Amortisation on impaired assets	-	(221)
At 31 December	**99,177**	**115,570**
Carrying amount		
At 31 December	**95,859**	**131,344**

Of the above total for software development costs, £72.6m (2018: £99.0m) is expected to be amortised more than one year after the reporting date. Items fully amortised in the year have been written off as disposals. Following the annual impairment review, no items have been written down (impairment loss 2018: £0.1m). There were no additions in the year (2018: £nil), due to assets now being administered by LBG and recharged to the Company through Group recharges from LBG in operating expenses, rather than being held at a legal entity level.

The movement during the financial year on assets in the course of construction, included in software development costs was as follows:

	2019 £000	2018 £000
At 1 January	3,123	39,007
Transfers to group companies	(3,123)	-
Transfers to capitalised software	-	(35,884)
At 31 December	**-**	**3,123**

10. Tax assets and liabilities

	2019 £000	2018 £000
Current tax assets	20,813	12,712
Deferred tax assets	197	11,887
Total tax assets	**21,010**	**24,599**

Recognised deferred tax

	2019 £000	2018 £000
Deferred tax assets comprise:		
Pension and other post-retirement benefits	(23,596)	(16,609)
Accelerated capital allowances	13,308	13,290
Share based payments	1,442	1,186
Pension spreading	9,043	14,020
Total deferred tax assets	**197**	**11,887**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

10. Tax assets and liabilities (continued)

Recognised deferred tax (continued)

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by The Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020. The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

Of the above total £0.2m (2018: £11.9m) is expected to be recovered more than one year after the reporting date.

As LBG is tax-paying the tax losses incurred by the Company will all be utilised by way of group relief surrender.

The movement in the deferred tax asset for the year ended 31 December is as follows:

	Total	Income taxable in future periods	Pension & other post retirement obligations	Accelerated capital allowances	Pension spreading	Share based payments
	£000	£000	£000	£000	£000	£000
Opening balance as at 1 January 2019	11,887	-	(16,609)	13,290	14,020	1,186
Prior year adjustment	2,292	-	-	2,036	-	256
(Charge) / credit to:						
- profit or loss	(13,982)	-	(6,987)	(2,018)	(4,977)	-
- other comprehensive income	-		-	-	-	-
Closing balance as at 31 December 2019	**197**	**-**	**(23,596)**	**13,308**	**9,043**	**1,442**

As at 31 December 2018:

	Total	Expenses deductible in future periods	Pension & other post retirement obligations	Accelerated capital allowances	Pension spreading	Share based payments
	£000	£000	£000	£000	£000	£000
Opening balance as at 1 January 2018	31,339	(66)	13,142	18,521	-	(258)
Prior year adjustment	398	66	-	(1,112)	-	1,444
(Charge) / credit to:						
- profit or loss	(7,254)	-	(17,155)	(4,119)	14,020	-
- other comprehensive income	(12,596)	-	(12,596)	-	-	-
Closing balance as at 31 December 2018	**11,887**	**-**	**(16,609)**	**13,290**	**14,020**	**1,186**

11. Loans and other receivables

	2019	2018
	£000	£000
Amounts due from Group undertakings	83,271	193,767
Accrued income	2,278	5,692
Other receivables	4,591	5,832
Total	**90,140**	**205,291**

None of the above balances are interest-bearing (2018: £nil). Of the above total £nil (2018: £nil) is expected to be recovered more than one year after the reporting date.

Information in respect of credit risk is given in note 19.

Further information relating to amounts due from Group undertakings is set out in note 20.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

12. Cash and cash equivalents

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

	2019 £000	2018 £000
Cash at bank	82	149
Investment held through a liquidity fund	161,399	149,765
Total	**161,481**	**149,914**

13. Share capital

	2019 £000	2018 £000
Issued and fully paid share capital:		
81,000,000 (2018: 81,000,000) shares of £1 each	81,000	81,000
Total	**81,000**	**81,000**

14. Retirement benefit asset/(liability)

The Company's employees may be members of the SWRBS, which provides defined benefits, or members of LBG Schemes, which provide defined benefits and/or defined contribution benefits to the members of those schemes.

(a) Scottish Widows Retirement Benefits Scheme

(i) Characteristics of the SWRBS

The SWRBS is a funded scheme in the UK, operated as a separate legal entity under trust law by Scottish Widows Pension Trustees Limited until 31 December 2018 in compliance with the Pensions Act 2004. As at 1 January 2019, Scottish Widows Pension Trustees Limited was replaced by Lloyds Banking Group Pension Trustee Limited ("the Trustee"). A valuation exercise is carried out for the scheme at least every three years, whereby scheme assets are measured at market value and liabilities (technical provisions) are measured using prudent assumptions. If a deficit is identified a recovery plan is agreed between the Company and the Trustee and sent to the Pensions Regulator for review. The Company has not provided for these deficit contributions as the future economic benefits arising from these contributions are expected to be available to the Company.

The latest full valuation of the SWRBS was carried out as at 1 July 2016 and showed a deficit of £388.0m when comparing assets with technical provisions liabilities. The recovery plan provides for the Company to pay deficit contributions of £9.2m each month from January 2018 to June 2021. Contributions in the later years will be subject to review and renegotiation at subsequent funding valuations. The next funding valuation is due to be completed by September 2020 with an effective date of 1 July 2019. These deficit contributions are in addition to the regular contributions to meet the cost of benefits accruing over each year and the administration expenses of running the scheme.

The Company paid contributions of approximately £125.3m to the SWRBS in 2019 (2018: £118.7m). Employee contributions made during the year were £nil (2018: £nil).

The Company currently expects to pay contributions totalling £124.3m in 2020.

The technical provisions liabilities differ from the liabilities assessed under IAS19, with technical provisions typically being more prudent. The IAS19 liabilities in these financial statements have been calculated by an independent, qualified actuary appointed by LBG.

The responsibility for the governance of the SWRBS lies with the Trustee, whose role is to ensure that the SWRBS is administered in accordance with the SWRBS rules and relevant legislation, and to safeguard the assets in the best interests of all members and beneficiaries. The Trustee are solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the SWRBS's regulations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. Retirement benefit asset/(liability) (continued)

(a) Scottish Widows Retirement Benefits Scheme (continued)

(ii) Amounts recognised in the Financial Statements

The amounts recognised in the Company's balance sheet are as follows:

	2019 £000	2018 £000
Fair value of scheme assets	1,392,800	1,205,600
Present value of defined benefit obligations	(1,254,000)	(1,107,900)
Surplus/(deficit) recognised in the balance sheet	**138,800**	**97,700**

The following tables present a further analysis of the amounts recognised in the Company's balance sheet:

	2019 £000	2018 £000
Net amount recognised in the balance sheet		
At 1 January	97,700	(77,300)
Service cost	(9,900)	(15,600)
Net interest on net defined benefit asset/liability	4,600	(400)
Remeasurement effects recognised in other comprehensive income	(75,700)	74,100
Employer contributions	125,300	118,700
Administration costs incurred during the year	(3,000)	(1,800)
Exchange and other adjustments	(200)	-
At 31 December	**138,800**	**97,700**

	2019 £000	2018 £000
Movements in the defined benefit obligation		
At 1 January	(1,107,900)	(1,248,200)
Current service cost	(8,700)	(12,100)
Interest expense	(31,800)	(32,000)
Remeasurements:		
Actuarial gains – experience	(16,200)	(9,800)
Actuarial losses – demographic assumptions	11,200	5,700
Actuarial (gains)/losses – financial assumptions	(155,000)	94,500
Benefits paid	55,700	97,500
Past service cost - plan amendments	(1,200)	(3,500)
Exchange and other adjustments	(100)	-
At 31 December	**(1,254,000)**	**(1,107,900)**

In July 2018, a decision was sought from the High Court in respect of the requirement to equalise the Guaranteed Minimum Pension ("GMP") benefits accrued between 1990 and 1997 from contracting out of the State Earnings Related Pension Scheme. In its judgment handed down on 26 October 2018 the High Court confirmed the requirement to treat men and women equally with respect to these benefits and a range of methods that the Trustee is entitled to adopt to achieve equalisation. The Group recognised a past service cost of £3.4million for SWRBS in respect of equalisation in 2018 and, following further assessment of the costs of equalisation, a further £1.2m for SWRBS has been recognised in 2019. This is based on a number of assumptions and the actual impact may be different.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. Retirement benefit asset/(liability) (continued)

(ii) Amounts recognised in the Financial Statements of SWRBS (continued)

The following tables provide an analysis of the SWRBS assets:

	2019 £000	2018 £000
Changes in the fair value of scheme assets		
At 1 January	1,205,600	1,170,900
Return on plan assets greater/(less) than discount rate	84,300	(16,300)
Interest income	36,400	31,600
Employer contributions	125,300	118,700
Benefits paid	(55,700)	(97,500)
Administrative costs paid	(3,000)	(1,800)
Exchange and other adjustments	(100)	-
	1,392,800	**1,205,600**

	2019			2018		
	Fair value of assets with quoted prices £000	**Fair value of assets with unquoted prices £000**	**Total £000**	**Fair value of assets with quoted prices £000**	**Fair value of assets with unquoted prices £000**	**Total £000**
Debt instruments	1,119,900	-	1,119,900	589,500	-	589,500
Pooled investment vehicles	208,100	317,300	525,400	259,900	339,600	599,500
Money market instruments, derivatives, cash and other assets and liabilities	20,500	(273,000)	(252,500)	4,000	12,600	16,600
Total fair value of scheme assets	**1,348,500**	**44,300**	**1,392,800**	**853,400**	**352,200**	**1,205,600**

An analysis of the SWRBS' debt securities is provided below:

2019	**Total £000**	**AAA £000**	**AA £000**	**A £000**	**BBB or lower £000**	**BB or lower £000**	**Not rated £000**
Government bonds	64,200	-	64,200	-	-	-	-
Index linked government bonds	759,100	-	759,100	-	-	-	-
Corporate and other debt securities	296,600	5,200	33,800	127,300	108,500	-	21,800
Total fair value of scheme assets	**1,119,900**	**5,200**	**857,100**	**127,300**	**108,500**	**-**	**21,800**

2018	**Total £000**	**AAA £000**	**AA £000**	**A £000**	**BB or lower £000**	**BBB or lower £000**	**Not rated £000**
Government bonds	190,200	-	190,200	-	-	-	-
Index linked government bonds	399,300	-	399,300	-	-	-	-
Corporate and other debt securities	-	-	-	-	-	-	-
Total fair value of scheme assets	**589,500**	**-**	**589,500**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. Retirement benefit asset/(liability) (continued)

(a) Scottish Widows Retirement Benefits Scheme (continued)

(ii) Amounts recognised in the Financial Statements of SWRBS (continued)

The SWRBS' pooled investment vehicles comprise:

	2019 £000	2018 £000
Equity funds	120,600	133,700
Liquidity funds	26,300	83,000
Bonds and debt funds	103,400	117,600
Other	275,100	265,200
At 31 December	**525,400**	**599,500**

The expense recognised in the statement of comprehensive income for the year ended 31 December comprises:

	2019 £000	2018 £000
Current service cost	8,700	12,100
Past service cost - plan amendments	1,200	3,500
Net interest amount	(4,600)	400
Plan administration costs incurred in the year	3,000	1,800
Net expense recognised	**8,300**	**17,800**

The principal actuarial and financial assumptions used in valuations of the SWRBS were as follows:

	2019 %	2018 %
Discount rate	2.05%	2.90%
Rate of inflation:		
Retail Prices Index	2.94%	3.20%
Consumer Price Index	1.99%	2.15%
Rate of salary increases	0.00%	0.00%

	2019 Years	2018 Years
Life expectancy for member aged 60, on the valuation date:		
Men	27.0	27.2
Women	29.2	29.4
Life expectancy for member aged 60, 15 years after the valuation date:		
Men	28.1	28.3
Women	30.4	30.6

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. Retirement benefit asset/(liability) (continued)

(a) Scottish Widows Retirement Benefits Scheme (continued)

(iii) Amount, timing and uncertainty of future cash flows

Risk exposure of SWRBS

SWRBS is exposed to a number of risks, detailed below. LBG has two specialist pension committees that govern and monitor the risk exposed to SWRBS.

Inflation rate risk: the SWRBS's benefit obligations are linked to inflation both in deferment and once in payment. Higher inflation will lead to higher liabilities although this will be partially offset by holdings of inflation-linked gilts and inflation swaps.

Interest rate risk: The defined benefit obligation is determined using a discount rate derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities although this will be partially offset by an increase in the value of bond holdings and derivatives.

Longevity risk: The SWRBS obligations are to provide benefits for the life of the members so increases in life expectancy, for example as a result of increasing improvements to life expectancy from current estimates, will result in an increase in the scheme's liabilities.

Investment risk: SWRBS assets are invested in a diversified portfolio of debt securities, equities and other return-seeking assets. If the assets underperform the discount rate used to calculate the defined benefit obligation, it will reduce the surplus or increase the deficit. Volatility in asset values and the discount rate will lead to volatility in the net pension liability on the Company's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the IAS 19 pension expense in the Company's statement of comprehensive income.

The ultimate cost of the defined benefit obligations will depend upon actual future events rather than the assumptions made. The assumptions made are unlikely to be borne out in practice and as such the cost may be higher or lower than expected.

Details of the guarantee to the trustees of the SWRBS are provided below which clarify the Company's exposure to entity specific or scheme specific risks in relation to the SWRBS.

Sensitivity analysis

The effect of reasonably possible changes in key assumptions on the value of SWRBS liabilities and the resulting pension charge in the Company's statement of comprehensive income and on the net defined benefit pension scheme asset is set out below. The sensitivities provided assume that all other assumptions and the value of the SWRBS' assets remaining unchanged, and are not intended to represent changes that are at the extremes of possibility. The calculations are approximate in nature and full detailed calculations could lead to a different result. It is unlikely that isolated changes to individual assumptions will be experienced in practice. Due to the correlation of assumptions, aggregating the effects of these isolated changes may not be a reasonable estimate of the actual effect of simultaneous changes in multiple assumptions.

	Effect of reasonably possible alternative assumptions			
	Increase (decrease) in the income statement charge		Increase (decrease) in the net defined benefit pension scheme asset	
	2019	**2018**	**2019**	**2018**
	£000	**£000**	**£000**	**£000**
Central Basis	9,700	6,400	138,800	97,700
Inflation:				
Increase of 0.1 per cent	700	700	(22,500)	(20,500)
Decrease of 0.1 per cent	(600)	(800)	20,200	20,000
Discount rate:				
Increase of 0.1 per cent	(1,000)	(1,200)	25,100	24,200
Decrease of 0.1 per cent	1,000	1,100	(25,900)	(24,900)
Expected life expectancy of members:				
Increase of one year	1,400	1,900	(50,400)	(52,000)
Decrease of one year	(1,400)	(1,800)	48,500	49,400

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. Retirement benefit asset/(liability) (continued)

(a) Scottish Widows Retirement Benefits Scheme (continued)

(iii) Amount, timing and uncertainty of future cash flows (continued)

Sensitivity analysis method and assumptions

The inflation assumption sensitivity applies to both the assumed rate of increase in the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). The assumed pension increases before and after retirement are linked to inflation (either CPI or RPI) subject to certain minimum and maximum limits. The inflation assumption sensitivity allows for a corresponding impact of changing the inflation assumption as the assumed pension increases both before and after retirement.

The sensitivity analysis does not include the impact of any possible change in the rate of salary increases as pensionable salaries have been frozen since 2 April 2014.

The life expectancy assumption has been applied by allowing for an increase/decrease in life expectation from age 60 of one year, based upon the approximate weighted average age. Whilst this is an approximate approach and will not give the same result as a one year increase in life expectancy at every age, it provides an appropriate indication of the potential impact on the schemes from changes in life expectancy.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from the prior year.

Asset-liability matching strategies

The SWRBS investment strategy is determined by the Trustee in consultation with Lloyds Bank as the principal employer. It is regularly reviewed and developed. The objective is to reduce the volatility of the SWRBS funding position caused by changes in market expectations of interest rates and inflation and the assets are structured to take into account the profile of the SWRBS liabilities through holdings of debt securities and use of derivatives. The remaining assets are invested in diversified return-seeking assets including equities (both listed and private) and property.

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit pension obligation is 21 years (2018: 25 years).

(b) Defined contribution schemes

The SWRBS also includes a defined contribution section; most of the members have now transferred to the Your Tomorrow defined contribution section of the LBG Pension Scheme No. 1. During the year ended 31 December 2019, the charge to the Company's statement of comprehensive income in respect of the defined contributions schemes was £16.5m (2018: £15.8m), representing the contributions payable by the Company in accordance with the scheme's rules. There were no outstanding or prepaid contributions at 31 December 2019.

(c) Amounts recognised in other comprehensive income for total defined benefit schemes

Remeasurement effects recognised in other comprehensive income for the year ended 31 December are reconciled to the analyses of amounts recognised in the Company balance sheet as follows:

	2019			2018		
	Before tax	Tax credit	After tax	Before tax	Tax expense	After tax
	£000	£000	£000	£000	£000	£000
SWRBS	(75,700)	14,383	(61,317)	74,100	(12,596)	61,504
Total	**(75,700)**	**14,383**	**(61,317)**	**74,100**	**(12,596)**	**61,504**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

15. Contingent settlement provision

	2019 £000	2018 £000
At 1 January	**284,000**	**-**
Contingent settlement provision	-	284,000
Movement on contingent settlement provision	(32,600)	-
At 31 December	**251,400**	**284,000**

On the transfer of ownership, the Company entered into a tripartite agreement with Scottish Widows Ltd ('SWL') and LB plc which required SWL to make a £284.0m risk premium payment to the Company, in exchange for LB plc bearing the exposure to volatility risks on the SWRBS.

The risk premium is initially held on the balance sheet of the Company as a contingent settlement provision. Any cumulative remeasurement losses charged to other comprehensive income since the transfer of ownership result in a remeasurement of the provision through the statement of comprehensive income. Any cumulative remeasurement gains since the transfer of ownership will continue to be retained as a benefit to the Company. Any balance remaining on the provision at the end of the life of the SWRBS pension scheme will be repaid to LB plc, capped at £284.0m. In the event that the cumulative remeasurement losses exceed £284.0m, the excess is indemnified by, and will be reimbursed by, LB plc.

SWRBS remeasurements since the transfer of ownership were a gain of £43.1m in 2018 and a loss of £75.7m in 2019, resulting in a cumulative loss of £32.6m for 2019 (cumulative gain of £43.1m in 2018). The cumulative loss in 2019 results in a remeasurement of the provision through revenue in the statement of comprehensive income in the current year (the cumulative gain in 2018 resulted in no remeasurement of the provision).

Due to the long term nature of the defined benefit obligation and the inherent uncertainty of future actuarial movements it is not possible to determine the date that the provision will ultimately be utilised. The weighted average duration of the defined benefit obligation is 21 years.

16. Accruals

Accruals at the year-end comprise liabilities in respect of various operational activities.

	2019 £000	2018 £000
Accruals	31,685	70,299
Total	**31,685**	**70,299**

None of the above balances (2018: £nil) are expected to be settled in more than one year after the reporting date.

17. Trade and other payables

	2019 £000	2018 £000
Amounts due to Group undertakings	103,742	111,268
Other payables	8,308	7,866
Total	**112,050**	**119,134**

None of the above balances are interest bearing (2018: £nil) nor expected to be settled in more than one year after the reporting date.

Further information relating to amounts due to group undertakings is set out in note 20.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

18. Net movement in operating assets and liabilities

	2019 £000	2018 £000
Decrease/(increase) in operating assets:		
Retirement benefit asset	(41,100)	(97,700)
Loans and other receivables	115,151	184,203
Net movement in operating assets	**74,051**	**86,503**
Decrease in operating liabilities:		
Retirement benefit liability	-	(77,300)
Trade and other payables	(7,084)	(317,382)
Accruals	(38,614)	(22,327)
Net movement in operating liabilities	**(45,698)**	**(417,009)**
Net movement in operating assets and liabilities	**28,353**	**(330,506)**

19. Risk management

The Company is a service provider to subsidiary undertakings of Scottish Widows Group Limited. This note summarises the risks associated with the activities of the Company and the way in which the Company manages them.

(a) Governance framework

The Company is part of Lloyds Banking Group plc, which has established a risk management function with responsibility for implementing the Ring Fenced Bank risk management framework within the Company.

This enterprise-wide risk management framework for the identification, assessment, measurement and management of risk covers the full spectrum of risks that the Company is exposed to, with risks categorised according to an approved LBG risk language. This covers the principal risks faced by the Company.

The performance of the Company depends on its ability to manage these risks.

(b) Risk appetite

Risk appetite is the amount and type of risk that the Company Board is prepared to seek, accept or tolerate and is fully aligned to the Ring Fenced Bank strategy. Principal risks and uncertainties are reviewed and reported regularly.

(c) Financial risks

The Company is exposed to a range of financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that there are insufficient assets to meet pension scheme obligations as these fall due. The most important components of financial risk are credit, market, liquidity and capital risk.

The financial risk that the Company primarily faces due to the nature of its financial assets is market risk. The Company manages these risks in a number of ways, including monitoring of cash flow requirements and the use of financial instruments. The Company also has indirect exposure to fluctuations in value of the SWRBS defined benefit obligation. There are two specialist pension committees that govern and monitor the risks that SWRBS is exposed to. Further information is available in note 14.

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

The timing of the unwind of the deferred tax assets is dependent on the timing of the unwind of the temporary timing differences, arising between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes, to which these balances relate.

The sensitivity analysis given in this note in respect of interest rate risk is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in assumptions may be correlated. The sensitivity analysis presented also represents, in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosures", management's assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk management (continued)

(c) Financial risks (continued)

(1) Credit risk

Credit risk is the risk that parties with whom we have contracted, fail to meet their financial obligations (both on and off balance sheet).

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

Credit risk to the Company arises primarily from exposure to trade debtors and financial assets at fair value through profit or loss. Exposure to trade debtors is assessed on a case by case basis, using a credit rating agency where appropriate.

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

	2019 £000	2018 £000
Amounts due from Group undertakings	83,271	193,767
Other receivables	4,591	5,832
Cash and cash equivalents	161,481	149,914
Total assets bearing credit risk	**249,343**	**349,513**

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

As at 31 December 2019

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Other receivables	4,591	-	-	-	-	4,591
Cash and cash equivalents	82	-	-	82	-	-
Exposure to credit risk	4,673	-	-	82	-	4,591
Simplified approach						
Amounts due from Group undertakings	83,271	-	-	61,957	-	21,314
Exposure to credit risk	83,271	-	-	61,957	-	21,314
Asset at FVTPL						
Cash and cash equivalents	161,399	161,399	-	-	-	-
Total	**249,343**	**161,399**	**-**	**62,040**	**-**	**25,905**

As at 31 December 2018

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Other receivables	5,832	-	-	-	-	5,832
Cash and cash equivalents	149	-	-	149	-	-
Exposure to credit risk	5,981	-	-	149	-	5,832
Simplified approach						
Amounts due from Group undertakings	193,767	-	-	177,946	-	15,821
Exposure to credit risk	193,767	-	-	177,946	-	15,821
Asset at FVTPL						
Cash and cash equivalents	149,765	149,765	-	-	-	-
Total	**349,513**	**149,765**	**-**	**178,095**	**-**	**21,653**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk management (continued)

(c) Financial risks (continued)

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

Liquidity risk has been analysed as arising from the settlement of balances owed to other Group undertakings of £103.7m (2018: £111.3m) and other payables of £8.3m (2018: £7.9m). These amounts are all contractually due within one month from the reporting date.

(2) Capital risk

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

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

The Company manages the capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company returns capital to the shareholder, issues new shares or sells assets.

The Company's capital comprises all components of equity, movements in which are set out in the statement of changes in equity. The Company receives most of its funding from its parent and does not raise funding externally.

(3) Market risk

Market risk is the risk that our capital or earnings profile is affected by adverse market rates, in particular interest rates and credit spreads in the SWRBS defined benefit pension schemes.

(4) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk arises in respect of cash balances which are either held on deposit or invested in a liquidity fund. None of the other financial assets or financial liabilities of the Company are interest-bearing.

If interest rates were to increase or decrease by 25 basis points, the impact on profit or loss after tax would be an increase or decrease respectively of £325.8k (2018: increase or decrease respectively of £302.3k) in respect of interest-bearing financial assets and financial liabilities.

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. There are a number of secondary categories of operational risk including the undernoted:

Financial crime and fraud risk

Financial crime concerns activity related to money laundering, sanctions, terrorist financing and bribery. Fraud covers acts intended to defraud, misappropriate property or circumvent the law. These activities could give rise to risk of reduction in earnings and/or value, through financial or reputational loss. Losses may include censure, fines or the cost of litigation.

Information security and physical security risk

Information security risk relates to the risk of reductions in earnings and/or value, through financial or reputational loss, resulting from theft of or damage to the security of the Company's information and data. Physical security risk relates to the risk to the security of people and property.

Operational resilience risk

Operational resilience risk is the risk that we fail to design resilience into business operations, underlying infrastructure and controls (people, process, technology) so that it is able to withstand external or internal events which could impact the continuation of operations, and fails to respond in a way which meets customer and stakeholder expectations and needs when the continuity of operations is compromised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk management (continued)

(d) Operational risk (continued)

Change risk

Change risk is related to the management of change - designing and implementing key projects or programme. Potential loss could arise from failure to manage requirements, budget or timescales; failure to implement change effectively; or failure to realise desired benefits.

Sourcing and service provision risk

Sourcing risk covers the risk of reductions in earnings and/or value through financial or reputational loss from risks associated with activity related to the agreement and management of services provided by third parties including outsourcing.

Service provision risk covers the risks associated with provision of services to a third party and with the management of internal intra-group service arrangements.

IT Systems risk

The risk of reductions in earnings and/or value through financial or reputational loss resulting from the failure to develop, deliver or maintain a resilient IT solution or protect against cyber-attack and other system disruption. A risk framework has been embedded and this is monitored to ensure its effective operation across LBG.

People risk

People Risk is the risk that we fail to provide an appropriate colleague and customer-centric culture, supported by robust reward and wellbeing policies and processes; effective leadership to manage colleague resources; effective talent and succession management; and robust control to ensure all colleague-related requirements are met.

Regulatory and Legal risk

Regulatory and Legal risk is the risk of financial penalties, regulatory censure, criminal or civil enforcement action or customer detriment as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.

Regulators aim to protect the rights of customers, ensuring firms satisfactorily manage their affairs for the benefit of customers and that they retain sufficient capital and liquidity. The Company has embedded a risk framework to closely monitor and manage its legal and regulatory risks, and maintains regular interaction with its regulators.

Financial reporting risk

Financial reporting risk is defined as the risk that the Company suffers reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial and regulatory reporting, failure to manage the associated risks of changes in taxation rates, law, ownership or corporate structure and the failure to disclose accurate and timely information.

Governance risk

The risk that the Company's organisational infrastructure fails to provide robust oversight of decision making and the control mechanisms to ensure strategies and management instructions are implemented effectively. Against a background of increased focus on governance and risk management, LBG and the Company have taken steps to ring-fence core UK financial services and activities within LBG from other activities, establishing an appropriate control environment and governance structure to ensure compliance.

(e) UK political uncertainties including EU exit

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including the financial services sector. The continued lack of clarity over the UK's eventual relationship with the EU and other foreign countries, and ongoing challenges in the Eurozone, including weak growth raise~~s~~ additional uncertainty for the UK economic outlook. The Group's response to these risks and uncertainty is as follows:

- Internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts.
- As part of LBG, engagement with politicians, officials, media, trade and other bodies to reassure our commitment to Helping Britain Prosper.
- Committed investments for our entity in the EU to ensure continuity of certain business activities, and contingency planning in relation to wider areas of impact.
- No deal EU exit outcome analysed to identify impacts and assess robustness of contingency plans.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

19. Risk management (continued)

(f) Economic risk

UK economic growth remains muted and there are signs of pressure in business investment and consumer related sectors. High levels of credit market liquidity have reduced spreads and weakened terms in some sectors, creating a potential under-pricing of risk and heightened risk of a market correction. LBG's response to these risks is as follows:

- Internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts, with a plan specifically for working through the potential impacts of the EU exit on LBG;
- Wide array of risks considered in setting strategic plans;
- Capital and liquidity is reviewed regularly through committees, ensuring compliance with risk appetite and regulatory requirements;
- LBG has a robust through-the-cycle credit risk appetite, including individual limit guidelines, specific sector appetite statements and policies, and affordability and indebtedness controls at origination. In addition to ongoing focused monitoring, we conduct portfolio deep dives and larger exposure reviews. We have enhanced our use of early warning indicators including sector specific indicators.

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK.

(g) Strategic Risk

The risks which result from strategic plans which do not adequately reflect trends in external factors, ineffective business strategy execution, or failure to respond in a timely manner to external environments or changes in stakeholder behaviours and expectations.

(h) Data Risk

The risk that we fail to effectively govern, manage, and control our data (including data processed by third party suppliers) leading to unethical decisions, poor customer outcomes, loss of value to us and mistrust.

(i) Conduct Risk

The risk of customer detriment across the customer lifecycle including: failures in product management, distribution and servicing activities; from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss.

(j) Model Risk

The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of models and rating systems.

20. Related party transactions

(a) Ultimate parent and shareholding

On 2 May 2018, the immediate parent of the Company changed from Scottish Widows Limited to Lloyds Bank plc.

The parent undertaking which is the parent undertaking of the smallest group to consolidate these financial statements is Lloyds Bank plc. Copies of the consolidated Annual Report and Accounts of Lloyds Bank plc may be obtained from Group Secretariat, 25 Gresham Street, London EC2V 7HN.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

20. Related party transactions (continued)

(b) Transactions and balances with related parties

Transactions between the Company and other companies in the Lloyds Banking Group

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

	2019			
	Income during year	**Expenses during year**	**Payable at year end**	**Receivable at year end**
	£000	**£000**	**£000**	**£000**
Relationship				
Parent (LB plc)	-	507,094	48,035	3,152
Other related parties	874,799	11,440	55,707	79,979

	2018			
	Income during year	**Expenses during year**	**Payable at year end**	**Receivable at year end**
	£000	**£000**	**£000**	**£000**
Relationship				
Parent (SWL for first 4 months of the year)	163,160	-	-	-
Parent (LB plc for remaining months)	-	309,250	56,747	76,078
Other related parties	656,789	192,003	54,521	117,689

The above balances are unsecured in nature and are expected to be settled in cash.

Transactions between the Company and key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's Directors.

The Directors consider that they receive no remuneration for their services to the Company (2018: nil).

21. Future accounting developments

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

22. Post balance sheet events

In respect of the SWRBS, the full impact of Coronavirus is not expected to be known for some time. Whilst asset values were initially impacted by market turbulence, they have since somewhat reverted and the scheme remains well hedged against its material risks. The pension balance sheet retains an exposure to a tightening of AA rated credit spreads, which widened significantly during March and lead to an increase in the pension asset, this has since partially reverted. In addition, Coronavirus may have caused excess deaths amongst the scheme members, which would result in an increase to the defined benefit surplus recognised in the balance sheet. The impact of any excess deaths will be recognised following the next actuarial valuation, expected to be available by 2023 and there is no indication that coronavirus will alter existing contribution schedules in advance of that date. Any future impact to life expectancy from Coronavirus is an area of uncertainty which is currently under investigation by the actuarial community, it is not possible at this stage for the Directors to estimate this effect.