Scottish Widows Administration Services Limited

Annual Report and Accounts
2020

Member of Lloyds Banking Group

CONTENTS **PAGE(S)**

COMPANY INFORMATION

Board of Directors

N E T Prettejohn (Chair)

J R A Bond
W L D Chalmers
K Cheetham
J E M Curtis
J C S Hillman*
A Lorenzo*
C J G Moulder
S J O'Connor
G E Schumacher

* denotes Executive Director

Company Secretary

J M Jolly

Independent Auditors

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

Registered Office

25 Gresham Street
London
EC2V 7HN

Company Registration Number

01132760

STRATEGIC REPORT

The Directors present their strategic report on Scottish Widows Administration Services Limited (the 'Company') for the year ended 31 December 2020. The Company is limited by share capital.

The Company contributes to the results of the Insurance and Wealth Division of Lloyds Banking Group.

Principal activities

The Company acts as platform operator and as a manager for Individual Savings Accounts (ISAs), Investment Accounts and Self Investment Personal Pensions (SIPPs) in the United Kingdom. The Company also acts as a service provider to Scottish Widows Limited (SWL) in respect of workplace pensions business migrated onto the Corporate Savings Platform and has a contractual basis for charging these services.

It also provides outsourcing and administration services as well as carrying out oversight of the securities lending programme for companies within the Insurance and Wealth Division.

The Company is authorised and regulated by the Financial Conduct Authority (FCA) and has obtained the necessary regulatory permissions to undertake its activities.

Result for the Year

The result for the year ended 31 December 2020 is a loss before tax £(10.0) million (2019: £(4.2) million).

The loss for the year has increased as a result of an increase in costs associated with the savings business. These costs relate to the Company's share of support function and overhead costs for 2020.

The total net assets of the Company at 31 December 2020 are £117.1 million (2019: £80.3 million). During 2020, the Company issued £45.0 million of ordinary share capital which increased the Company's cash holdings to ensure it could meet its regulatory capital requirement.

Review of the business

New contractual relationship with supplier of Corporate Savings Platform

During the year, the Company entered into a new contractual relationship with the supplier of the Corporate Savings Platform. This will result in additional systems build by FNZ and the Company over the next three years, allowing the Corporate Savings Platform capability to be expanded to administer workplace savings business written by the Company’s immediate parent undertaking SWL. This will allow the Company to provide platform administration services to SWL.

Agreement to migrate SWL legacy policies onto the Corporate Savings Platform

The Company has continued to deliver integration and configuration services to SWL in respect of workplace pensions business to be migrated from SWL systems onto the Corporate Savings Platform. It has agreed a revised contractual basis with SWL for charging for these services which has resulted in increased revenue and costs for the financial year compared with 2019.

Capital Injection from SWL

To maintain a surplus over its regulatory capital requirement, the Company issued ordinary share capital of £45.0 million to its parent, SWL, increasing the issued share capital of the Company to £143.5 million.

Director appointments made during the year

During the year, the Company made a number of a Director appointments. This decision was made to drive efficiencies of decision making across shared customers and due to increasing significance of the Company to the Insurance & Wealth Financial Planning and Retirement strategy following the Zurich workplace savings business acquisition in April 2018.

The United Kingdom leaving the European Union

The United Kingdom (UK) / European Union (EU) Trade and Cooperation Agreement (TCA) means a disorderly Brexit has been avoided. While the TCA contains limited, high-level provisions on financial services, further detail is expected to emerge during this year, and the Company will continue to monitor developments closely. There is no change for UK residents, who can continue to apply for our products and services. The Company did not mail any customers given they are based in the UK and there is a minimal impact.

Covid-19

Our business has primarily a UK focus and the outbreak of Covid-19, in line with its global impact, is expected to continue to adversely impact the UK economy as well as causing volatility in global financial markets. As the situation continues to evolve, so does our assessment of the risks and the degree to which they might crystallise. The Company’s resilience to such events is regularly reviewed through stress and scenario testing; plans to continue to operate critical business processes are in place and are being reviewed in light of the Covid-19 outbreak. The outbreak has impacted new business growth and revenue from the savings business due to heightened volatility as markets react to news flow.

STRATEGIC REPORT (continued)

Climate Change

As a subsidiary of Lloyds Banking Group, the Company is aligned with Lloyds Banking Group's approach to supporting the successful transition to a more sustainable, low carbon economy. Further details of this can be found in the Lloyds Banking Group Annual Report and Accounts via www.lloydsbankinggroup.com.

Key performance indicators

Assets Under Administration and associated income

The total value of assets under administration of the Company held on the Corporate Savings Platform at 31 December 2020 amounted to £24.4 billion (2019: £23.0 billion). Assets under the administration of the Company consist of safe custody assets, which the Company administers for its clients, and client money balances, for which the Company holds legal title on trust for its clients.

Associated revenue for the year was £20.9 million (2019: £17.8 million). This comprises fee income from the platform business.

Capital Resources

The Directors believe that the Company currently has adequate capital resources, £63.3 million (2019: £45.5 million) and will continue to do so in the foreseeable future. Further information on the capital position of the Company is given in note 19.

Liquidity

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

Return on Assets

Article 90 of the Capital Requirements Directive requires the disclosure of the Company's return on assets. The current year return on assets is (6.1) per cent (2019: (3.4) per cent). The decrease in return on assets is driven by an increase in costs associated with the savings business.

Other Sources where KPIs are presented

The Company also forms part of Lloyds Banking Group's Insurance and Wealth Division. The development, performance and position of the Insurance and Wealth Division are presented within Lloyds Banking Group's Annual Report, which does not form part of this report.

The Directors consider that the above are the key performance indicators which are appropriate to the principal activity of the Company. These, together with other metrics which cover customer, operational measures and capital, are included in the balanced scorecard which is used to measure all aspects of the performance of the business. In addition, the Directors are of the opinion that the information contained in the Company's FCA returns on capital resources and requirements, in conjunction with the information presented in the accounts as a whole, provide the management information necessary for the Directors to understand the development, performance and position of the business of the Company.

Outlook

On completion of the migration of workplace pension business to the Corporate Savings Platform, the Directors expect the increase in assets under administration to result in increasing revenue and costs.

Principal risks and uncertainties

During the year, the management of the business and the execution of the Company's strategy were subject to a number of risks. The principal risks include market, operational, and counter party default risk due to the Company's savings business and administration of the Corporate Savings Platform. Further detail on the financial risk management objectives and policies of the Company and the exposure to risks including market, credit, capital, liquidity, and non-financial risks are set out in note 19.

Section 172(1) Statement

The Board is collectively responsible for the long-term success of the Company. Understanding the interests of key stakeholders (this includes customers, shareholders, communities and environment, regulators and suppliers), is central to the Company's strategy, crucial to the Company's success, and informs key aspects of Board decision-making as set out in this Statement.

Stakeholder engagement is embedded in all aspects of the Board's decision-making and can be seen in the range of tailored activities across key stakeholder groups. It is also embedded in the Board's delegation of the management of the Company's business to the Chief Executive Scottish Widows and Group Director Insurance and Wealth, with examples of related actions taken included within the Report.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

Management provide the Board with details of material stakeholder interaction and feedback, through regular business updates. Stakeholder interests are also identified by management in the wider proposals put to the Board.

During 2020, interaction with stakeholders was adapted in response to the government's provisions on Covid-19 and has been undertaken virtually as necessary.

This section (pages 5 to 9) acts as our Section 172(1) Statement, however given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) the Directors provide this Statement describing the ways in which they have had regard to the matters set out in section 172(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 10 to 12.

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), this Statement also provides examples of how the Directors have engaged with and had regard to the interest of key stakeholders. The Company is a subsidiary of Lloyds Banking Group, and as such follows many of the processes and practices of Lloyds Banking Group, which are further referred to in this statement where relevant.

Customers

The Board's understanding of customer's needs is vital in setting and achieving the Company's goals. Customer needs and a customer-centric approach remain therefore a key consideration in Board decisions.

Covid-19 Response

The Company's response to the Covid-19 pandemic has been a central focus for the Board since the start of the outbreak. The Board has sought to take all possible steps to support customers through these challenging times.

Board reporting from management included enhanced monitoring of customer service performance, emerging market and economic impacts, which informed the Company's approach in response to the crisis.

Additional meetings of the Board were convened early in the pandemic to oversight the Company's operations as customer servicing transitioned to the remote operating model that was needed to meet UK Government expectations and to keep colleagues safe. The Board held colleague engagement sessions during 2020 which considered, among other things, changes made to support customers through the Covid-19 pandemic. Alongside operational matters, the Board considered emerging impacts to customers from markets and the economic environment including changes in customer behaviour as a result of Covid-19 impacts. Outwith its formal meetings the Board also received executive briefings in respect of these matters at a heightened frequency during the first wave of the Covid-19 pandemic.

Customer Trust

Customer trust is always a priority for the Board. The Board ensures that the Company as part of Lloyds Banking Group works toward achieving its customer ambitions, to treat all customers fairly, and makes it easy for customers to find, understand and access products that are right for them. Regular reporting from management allows the Board to monitor performance. The Board's Risk Oversight Committee (ROC) reviews customer-related risk matters and scrutinises risk performance data (including Complaints and Conduct Risk Appetite Metrics) to identify areas where improvements can be made. Every opportunity is taken by the Board to consider customer feedback and related management information, including as part of the Directors' strategic decision-making process. A key priority for the Board in its early response to the Covid-19 crisis was the oversight of management actions taken to protect critical customer processes and stabilise the Company's operations.

Delivering Value for Customers

The Board routinely reviews the performance of its customer propositions at its meetings and discusses matters particular to each within a cycle of in-depth reviews. During 2020 the Board reviewed the effectiveness of the various channels open to customers to do business with the Company, customer investment fund choices and their performance, alongside the impacts of the Covid-19 pandemic on the UK economy and how the Company's propositions might adapt to support customers as a result.

The Company has engaged proactively with its regulator to drive forward good business conduct in its core markets. The Company has also given consideration to vulnerability characteristics in customers and how these should be identified and support given to customers.

The Board receives updates to ensure the adequacy of the Company's Client Money Management arrangements.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

Company and Fund Performance

The Company's business model of outsourcing fund management means asset managers who specialise in specific areas of the market are selected to deliver the investment performance expected by customers. This approach also allows the Company to keep the performance of its appointed asset manager under constant review.

The Board of the Company recognises the importance of understanding its performance in supporting customers, including how the Company performs in this regard relative to its peers. Regular Board updates from management cover a range of relevant internal and external sources. Together these provide important insight that informs Board decision-making.

Technology Transformation

The Board has taken steps to make sure the Company continues to build on its responses to customer demand for technology. Whilst Digital transformation has remained a key focus in improving the customer experience, the Board acknowledges that many customers still value being able to get in touch with customer service staff over the phone, via letter or through email. The importance of the Company continuing to offer and improve these services in parallel is recognised by the Board.

Helping Britain Recover and Society of the Future

The Board ensures it continues to participate and play an appropriate role in all Lloyds Banking Group related initiatives. The needs of customers as the Covid-19 pandemic abates has been a focus of Lloyds Banking Group and underpins the development of its Helping Britain Recover Plan, building on its Helping Britain Prosper ambitions. The development of Lloyds Banking Group's Society of the Future initiative aims to make sure its purpose remains aligned to a changing society and including the changing expectations of all its customers. Further information on these initiatives can be found in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2020, available on the Lloyds Banking Group website.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group, forming part of its Insurance and Wealth Division. As a wholly owned subsidiary the Board ensures that the strategy, priorities, processes and practices of the Company are aligned where appropriate to those of Lloyds Banking Group, ensuring that its interests as the Company's shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group with its shareholders is included within the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2020, available on the Lloyds Banking Group website.

Two senior leaders of Lloyds Banking Group serve as Directors on the Company's Board and the Chair of the Company's Board serves also on the Board of Lloyds Banking Group. The Company's Board arranged for a special briefing from the Lloyds Banking Group Chief Executive early on in the Covid-19 pandemic to discuss the Group's response to government advice and initiatives to support customers and colleagues. The Company's Board also met with the Board of Lloyds Banking Group on one occasion during 2020 for a discussion of business strategy including digital interconnectivity between the Insurance franchise and its parent.

Communities and the Environment

The Company is part of Lloyds Banking Group, one of the largest financial services providers in the UK whose goals are to be a trusted, sustainable, and responsible business.

The Responsible Business Committee of the Board of Lloyds Banking Group is responsible for overseeing its performance, including that of the Company, as a Responsible Business, and has given much focus to overseeing the development of the Lloyds Banking Group's Helping Britain Recover Plan. This plan continues its strategy of Helping Britain Prosper ambitions, designed to play a part in the UK's recovery from the Covid-19 pandemic. The views of stakeholders have also informed the Responsible Business Committee's role in the development of Lloyds Banking Group's Society of the Future ambitions, which aim to fully integrate its societal objectives, with its business objectives, and will be key in the next phase of its strategy, including that of the Company's strategy where appropriate.

Environmental Ambitions

The Company's strategy in relation to Environmental Ambitions is covered in the Climate Change section commencing on page 5 of this report.

Board Diversity

The Board considers its current size and composition is appropriate to the Company's circumstances and places great emphasis on ensuring its membership reflects the diversity of modern Britain and is inclusive for everyone. On gender diversity, the Board has a specific objective to maintain membership of at least 30 per cent female Board members. At 31 December 2020, the Board's membership consisted of 36 per cent female members. The Board will aim to meet the objectives of the Parker review for at least one Black, Asian and Minority Ethnic Board member by, or as soon as possible after, the target date of 2021. The Company also supports the Lloyds Banking Group's high-level approach to diversity in senior management roles which is governed in greater detail through Lloyds Banking Group policies.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

Regulators

The Board and the Company continue to maintain strong, open and transparent relationships with relevant regulators and government authorities. Liaison with regulators and the government, both directly and as part of Lloyds Banking Group, is an ongoing priority at all levels of the organisation, ensuring Lloyds Banking Group, and the Company's strategic aims align with the requirement of these important stakeholders.

Covid-19 Response

Senior leaders worked closely with the FCA in the initial response to the Covid-19 crisis keeping the Board apprised of all developments. This helped ensure the Company's response could best support customers alongside the maintenance of day to day business operations.

As the year progressed the Board remained close to the developing priorities of the Government and engaged with the FCA to support the stability of the wider UK economy and regulatory initiatives that reflect the changing demands of wider society.

Regulatory Agenda

Individual Directors have had in the ordinary course of business continuing discussions with the FCA on several aspects of the regulatory agenda and, during 2020, this included a heightened level of engagement in respect of managing impacts from the Covid-19 pandemic. The Board, in turn receives regular updates on this and wider Lloyds Banking Group interaction. This provided a view of key areas of FCA focus, alongside progress made on addressing FCA actions.

During 2020, the Board has routinely addressed regulatory feedback provided both through its periodic summary meetings and through other engagement channels.

Suppliers

As part of Lloyds Banking Group, the Company relies on a number of partners for important aspects of its operations and customer service provision. As well as external partners, the Company relies on intra-group supplier arrangements for certain services. The Board recognises the importance of its role in overseeing these relationships which are integral to the Company's future success.

Supplier Experience

Recognising the role of suppliers in the Company's day to day operations, and its future ambitions, the Board undertakes regular reviews of its key suppliers, this includes asset managers and its outsourced service providers, and takes into consideration supplier feedback on the Company's processes for potential improvement.

Supplier Framework

Importance is placed on having the right supplier framework to operate responsibly. Lloyds Banking Group's Sourcing and Supply Chain Management Policy applies to all its businesses, divisions, and subsidiaries, including the Company, with the Directors assuming ultimate responsibility for its application as relevant to the Company. This ensures the most significant supplier contracts receive the approval of the Board, including those which are key in progressing strategic priorities. The framework also ensures appropriate management oversight of supplier spending not considered by the Board, allowing challenge to be made where appropriate, and minimising risks and unnecessary cost.

Suppliers are required to adhere to relevant Lloyds Banking Group policies and comply with its Code of Supplier Responsibility which can be found on the Lloyds Banking Group website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and Lloyds Banking Group to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

Modern Slavery

The Responsible Business Committee of the Board of Lloyds Banking Group as part of its oversight of its performance, including that of the Company, as a Responsible Business, governs Lloyds Banking Group's approach to human rights.

On a day to day basis, management of and engagement on modern slavery and human rights is guided by a cross-divisional working group led by the Responsible Business team, which meets regularly to assess the embedding of human rights within Lloyds Banking Group's operations.

Lloyds Banking Group continues to have a zero-tolerance attitude towards modern slavery in its supply chains.

Lloyds Banking Group's Modern Slavery and Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies, including the Company which is required to publish an annual statement, and sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains. The Board undertakes a regular review of these Statements.

On behalf of the Board of Directors

J C S Hillman

Director

15 April 2021

DIRECTORS' REPORT

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

The Company is a wholly owned subsidiary of Scottish Widows Limited. The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group.

Results and dividend

The result for the year ended 31 December 2020 is a loss before tax of £(10.0) million (2019: £(4.2) million).

The loss for the year has increased as a result of an increase in costs associated with the savings business. These costs relate to the Company's share of support function and overhead costs for 2020.

The total net assets of the Company at 31 December 2020 are £117.1 million (2019: £80.3 million). During 2020, the Company issued £45.0 million of ordinary share capital which increased the Company's cash holdings to ensure it could meet its regulatory capital requirement.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2020 (2019: £nil).

Post balance sheet events

Further information on post balance sheet events is set out in note 23.

Directors

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

A M Blance	Resigned 14 August 2020
S W Lowther	Resigned 21 April 2020
D MacKechnie	Resigned 21 April 2020
J F Hylands	Resigned 31 March 2021
N E T Prettejohn	Appointed 6 February 2020
A Lorenzo	Appointed 5 March 2020
J C S Hillman	Appointed 19 March 2020
G E Schumacher	Appointed 21 April 2020
J R A Bond	Appointed 21 April 2020
W L D Chalmers	Appointed 21 April 2020
K Cheetham	Appointed 21 April 2020
J E M Curtis	Appointed 21 April 2020
J F Hylands	Appointed 21 April 2020
C J G Moulder	Appointed 21 April 2020
S J O'Connor	Appointed 21 April 2020

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

Directors' indemnities

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

The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Company has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditors

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

Future developments

Details of future developments are provided in the Strategic Report and also in note 21.

DIRECTORS' REPORT (continued)

Employees

Lloyds Banking Group 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, Lloyds Banking Group belongs to the major employer groups campaigning for equality for all staff, including Employers' Forum on Disability, Employers' Forum on Age and Stonewall. Lloyds Banking Group is also represented on the Board of Race for Opportunity and the Equal Opportunities Commission. Involvement with these organisations enables Lloyds Banking Group to identify and implement best practice for staff.

Lloyds Banking Group 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. Lloyds Banking Group 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.

Lloyds Banking Group 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 Lloyds Banking Group.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered the implications of the Covid-19 pandemic upon the Company's performance and capital positions as well as a number of key dependencies which are set out in note 19 under principal risks and uncertainties: liquidity in note 19(c)(4) and capital position in note 19(c)(3). Accordingly, the Directors conclude that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of the approval of the financial statements and therefore it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Financial risk management

Disclosures relating to financial risk management are included in note 19 to the accounts 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 for the current year. Deloitte LLP are due to be appointed as auditors for the year ending 31 December 2021.

DIRECTORS' REPORT (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts 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 Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgments and accounting estimates that are reasonable and prudent
- 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 international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company
- the Strategic Report on pages 4 to 9, and the Directors' Report on pages 10 to 12 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

J C S Hillman

Director

15 April 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SCOTTISH WIDOWS ADMINISTRATION SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SCOTTISH WIDOWS ADMINISTRATION 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 2020 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial performance, management bias in accounting estimates to support the carrying value of intangible assets and misappropriation of funds under management. Audit procedures performed included:

- Discussions with management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes of the Board;
- Reviewing data regarding customer complaints and the company's register of litigation and claims, in so far as they related to non-compliance with laws and regulations and fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SCOTTISH WIDOWS ADMINISTRATION SERVICES LIMITED (continued)

Use of this report

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

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

We have no exceptions to report arising from this responsibility.

Neil Riches

Neil Riches (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

15 April 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
Revenue	3	72,303	22,485
Operating expenses	4	(82,370)	(27,131)
Operating Loss		(10,067)	(4,646)
Investment income	6	95	421
Loss before tax		(9,972)	(4,225)
Taxation credit	7	1,793	1,261
Loss for the financial year		(8,179)	(2,964)

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

The notes set out on pages 20 to 45 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Intangible assets	8	54,687	35,676
Investment in subsidiaries	9	—	—
Financial assets:			
Trade and other receivables	10	52,530	12,585
Accrued Income and prepayments	11	846	966
Current tax recoverable	15	1,841	745
Cash and cash equivalents	12	24,370	38,578
Total assets		134,274	88,550
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	13	143,500	98,500
Other reserves	14	44,000	44,000
Accumulated losses		(70,415)	(62,236)
Total equity		117,085	80,264
Liabilities			
Deferred tax liabilities	15	923	875
Financial liabilities:			
Trade and other payables	16	15,494	6,549
Accruals and deferred income	17	772	862
Total liabilities		17,189	8,286
Total equity and liabilities		134,274	88,550

Retained earnings for the Company includes a loss for the year of £8,179k (2019: £2,964k).

The notes set out on pages 20 to 45 are an integral part of these financial statements.

The financial statements on pages 16 to 45 were approved by the Board on 13 April 2021, and signed on behalf of the Board:

J C S Hillman,

Director

15 April 2021

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Loss before tax		(9,972)	(4,225)
Adjusted for:			
Amortisation of intangible assets	8	4,567	3,853
Investment Income	6	(95)	(421)
Net increase in operating assets and liabilities	18	(30,970)	(11,341)
Taxation received		745	1,052
Net cash flows used in operating activities		(35,725)	(11,082)
Cash flows from investing activities			
Cash outflow from business combination, net of cash acquired	24	—	(4,603)
Addition of intangible assets	8	(23,578)	(3,223)
Investment Income	6	95	421
Net cash flows used in investing activities		(23,483)	(7,405)
Cash flows from financing activities			
Issue of new share capital	13	45,000	—
Net cash flows generated from financing activities		45,000	—
Net decrease in cash and cash equivalents		(14,208)	(18,487)
Cash and cash equivalents at the beginning of the year		38,578	57,065
Net cash and cash equivalents at the end of the year	12	24,370	38,578

The notes set out on pages 20 to 45 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share capital £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
Balance as at 1 January 2019		98,500	44,000	(59,272)	83,228
Loss for the year and total comprehensive loss		—	—	(2,964)	(2,964)
Balance as at 31 December 2019 and 1 January 2020		98,500	44,000	(62,236)	80,264
Issue of share capital	13	45,000	—	—	45,000
Loss for the year and total comprehensive loss		—	—	(8,179)	(8,179)
Balance as at 31 December 2020		143,500	44,000	(70,415)	117,085

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 19.

The notes set out on pages 20 to 45 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

(1) in accordance with the International Accounting Standards (IASs) and in conformity with the requirements of the Companies Act 2006 (IFRSs)

(2) 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 have adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

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

As the Company is a wholly owned subsidiary undertaking of Lloyds Banking Group, registered in the United Kingdom, the Company has taken advantage of the exemption under Section 400 of the Companies Act 2006 and has not produced consolidated financial statements.

Standards and interpretations effective in 2020

The Company has not adopted any new standards, amendments to standards or interpretations of published standards which became effective for financial years beginning on or after 1 January 2020 which have had a material impact on the Company.

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

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

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

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 2020

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 in active markets for identical assets and liabilities to those being valued. An active market is one in which similar arm’s length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis.

(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.

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

Further information of the Company’s assets and liabilities held at fair value is set out in note 19.

(d) Revenue recognition

Revenue

Revenue, which arose wholly in the United Kingdom, represents the following.

Pension contract administration

Pension contract administration includes both insurance related services provided by the Company, acting as an intermediary between the insurer and the insured and administration costs charged to external customers of final salary pension schemes. This revenue is recognised in the statement of comprehensive income as these services are provided.

Oversight of stock lending

Revenue made from stock lending operations is recognised in the statement of comprehensive income as these services are provided.

Savings business administration

Savings business administration revenue includes fund based charges to policyholders and related parties for business administered on the Corporate Savings Platform. Revenue is recognised in the statement of comprehensive income when they become payable by the policyholder.

Revenue from parent undertaking

Revenue from Corporate Savings Platform build services provided to the Company’s immediate parent undertaking, SWL is recognised in the statement of comprehensive income when the Company has an enforceable right to payment for the build completed.

Investment income

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies (continued)

(e) Expense recognition

Operating expenses

Administration costs are recognised in the statement of comprehensive income as accrued, within operating expenses.

Also included within operating expenses are amortisation on intangible assets and implementation costs incurred in acquiring and developing the Corporate Savings Platform.

(f) Intangible assets

(i) Corporate Savings Platform

The Corporate Savings Platform intangible asset arising on the acquisition of the UK saving business of Zurich was initially measured at fair value at the time of acquisition and is subsequently held at that fair value less accumulated amortisation. The initial fair value was determined using the replacement cost method at the time of acquisition. Any additional enhancements to the system are capitalised under software development costs, as set out at policy (f) (iii). Once brought into use, any additional enhancements to the system are amortised using the straight-line method over the remaining expected useful life of the system.

The asset is amortised using the straight-line method over its expected useful life (7 years). The amortisation charge for the year is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the asset is tested for impairment at each reporting date. Further information on the Company's impairment policy is set out at policy (k).

(ii) Acquired value of in-force business

Investment contracts acquired in business combinations are initially measured at fair value at the time of acquisition and subsequently held at amortised cost. The initial fair value includes the recognition of an acquired value of in-force (acquired VIF) asset which reflects the present value of future cash flows expected from the business acquired. The asset is shown gross of attributable tax and a corresponding deferred tax liability has been established.

Amortisation of the acquired VIF balance is performed using the straight-line method over the estimated life of the contracts (20 years). The amortisation charge for the year is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the acquired VIF balance is tested for impairment at each reporting date. Further information on the Company's impairment policy is set out at policy (k).

(iii) Software development costs

Costs that are directly associated with the development of platform software controlled by the Company, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development team's employee costs, other relevant resource costs required to develop the platform software and bring the platform into use, and an appropriate portion of relevant overheads. All other costs associated with software maintenance are recognised through the statement of comprehensive income as the expense is incurred, within operating expenses.

Software development costs recognised as assets are valued at cost. Once brought into use, the assets are amortised using the straight-line method over their expected useful lives (7 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 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 (k).

(iv) Goodwill

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is recognised as an asset at cost and is tested at least annually for impairment. If an impairment is identified the carrying value of the goodwill is written down immediately through the statement of comprehensive income and is not subsequently reversed. At the date of disposal of a subsidiary, the carrying value of attributable goodwill is included in the calculation of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies (continued)

(g) Investment in subsidiaries

The Company owns a subsidiary as set out in note 9. This subsidiary provides custody services for non-insured platform investments. This subsidiary is held initially at cost, being the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company’s impairment policy is set out at policy (k).

(h) Trade and other receivables

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

Trade and other receivables at amortised cost are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment. Further information on the Company's impairment policy is set out at policy (k).

(i) Accrued income and prepayments

Income receivable for services provided which have yet to be invoiced is accrued and recognised in the statement of comprehensive income as the service is provided.

Where income has been deferred in respect of services to be provided in future periods, associated expenses are prepaid and subsequently recognised in the statement of comprehensive income as the service is provided.

(j) Cash and cash equivalents

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

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

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.

(k) Impairment

Financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses for financial assets held at amortised cost and certain lease receivables. 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. The credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies (continued)

(k) Impairment (continued)

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.

The loss allowance for trade receivables without a significant financing component is measured at an amount equal to lifetime expected credit losses, in accordance with the simplified approach in IFRS 9.

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

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

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

(l) Taxes

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

Current tax

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 other relevant 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Accounting policies (continued)

(l) Taxes (continued)

Deferred tax

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 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.

(m) 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.

(n) Trade and other payables

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

(o) Accruals and deferred income

Income received for services to be provided in future periods is deferred and recognised in the statement of comprehensive income as the performance obligation is met.

2. Critical accounting judgments and estimates

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) Intangible assets

Corporate Savings Platform

The initial fair value of the acquired Corporate Savings Platform was determined using the replacement cost method at the time of acquisition. The replacement cost was based on recent actual experience and industry benchmarking. The key assumptions in estimating the fair value were expected future benefits and cost savings and development required to make the platform fit for purpose. Any additional enhancements to the Corporate Savings Platform are capitalised under software development costs. Enhancements capitalised under software development costs include expenditure on migrating existing data to the Corporate Saving Platform when inclusion of the data on the Corporate Saving Platform provides enhanced functionality. The value of the acquired Corporate Savings Platform increased during the year due to transfers from software development costs. Any additional enhancements to the Corporate Savings Platform are amortised using the straight-line method over the remaining expected useful life of the system. The carrying value of the assets is tested for impairment at each reporting date as set out in note 1(k).

Management need to estimate future benefits, development costs and potential cost savings. Management also need to estimate future economic benefits of assets in assessing criteria for recognition and impairment. Further information on these assets is given in note 8.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Critical accounting judgments and estimates (continued)

(a) Intangible assets (continued)

Software development costs

Software development costs recognised as assets are valued at cost and amortised using the straight-line method over their expected useful lives (7 years). Subsequent expenditure is only capitalised when it increases the expected future economic benefits of the specific asset to which it relates. The carrying value of the assets is tested for impairment at each reporting date as set out in note 1(k).

Acquired value of in-force business

The fair value of the acquired VIF was calculated by projecting the future surpluses and other cash flows attributable arising from business written, excluding the value of future investment risk margins, discounted at an appropriate rate. The key assumptions used in estimating future surpluses related to lapse rates, expenses, future market movements and increments to existing business. The assumptions were determined on a best-estimate basis and, as above, were based on recent actual experience and industry information where appropriate. Amortisation of this balance and the related deferred tax is carried out on a best estimate basis over the estimated life of the contracts. The amortisation charge for the year is recognised through the statement of comprehensive income, within operating expenses. The carrying value of this asset is tested for impairment at each reporting date. Further information on this asset is given in note 8.

3. Revenue

	2020 £'000	2019 £'000
Pension contract administration	4,183	4,233
Oversight of stock lending	23	440
Savings business administration	20,924	17,812
Revenue from parent undertaking	47,173	—
Total	**72,303**	**22,485**

4. Operating expenses

	2020 £'000	2019 £'000
Pension contract administration	4,116	4,161
Oversight of stock lending	—	252
Savings business administration	43,744	11,396
Amortisation of intangible assets	4,567	3,853
Implementation costs	29,863	7,347
Other	80	122
Total	**82,370**	**27,131**

5. Auditors' remuneration

	2020 £'000	2019 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	23	23
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	151	151
Total	**174**	**174**

Audit fees are borne by another Lloyds Banking Group entity and recharged to the Company.

6. Investment Income

	2020 £'000	2019 £'000
Interest income on investments held through liquidity funds	95	421
Total	**95**	**421**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

7. Taxation credit

(a) Current year tax credit

	2020 £'000	2019 £'000
Current tax:		
UK corporation tax	1,841	745
Adjustment in respect of prior years	—	461
Total current tax	**1,841**	**1,206**
Deferred tax:		
Reversal of temporary differences	53	54
Adjustment in respect of prior years	—	1
Impact of deferred tax rate change	(101)	—
Total deferred tax	**(48)**	**55**
Total income tax credit	**1,793**	**1,261**

Corporation Tax is calculated at a rate of 19.0 per cent (2019: 19.0 per cent) of the taxable loss for the year.

(b) Reconciliation of tax credit

	2020 £'000	2019 £'000
Loss before tax	(9,972)	(4,225)
Tax at 19% (2019: 19%)	**1,894**	**803**
Effects of:		
Adjustment in respect of prior years	—	462
Disallowable expenses	—	(4)
Effect of change in tax rate and related impacts	(101)	—
Total	**1,793**	**1,261**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Intangible assets

	2020 £'000	2019 £'000
Acquired VIF	4,865	5,147
Goodwill	5,417	5,417
Corporate Savings Platform	19,927	24,212
Software development costs	24,478	900
Total	**54,687**	**35,676**

	Acquired VIF £'000	Goodwill £'000	Corporate Savings Platform £'000	Software development costs £'000	Total £'000
Cost					
At 1 January 2019	**5,640**	**5,417**	**20,631**	**7,039**	**38,727**
Additions	—	—	—	3,223	3,223
Transfers to capitalised software	—	—	9,362	(9,362)	—
At 31 December 2019 and 1 January 2020	**5,640**	**5,417**	**29,993**	**900**	**41,950**
Additions	—	—	—	23,578	23,578
At 31 December 2020	**5,640**	**5,417**	**29,993**	**24,478**	**65,528**
Accumulated amortisation					
At 1 January 2019	**211**	**—**	**2,210**	**—**	**2,421**
Amortisation during the year	282	—	3,571	—	3,853
At 31 December 2019 and 1 January 2020	**493**	**—**	**5,781**	**—**	**6,274**
Amortisation during the year	282	—	4,285	—	4,567
At 31 December 2020	**775**	**—**	**10,066**	**—**	**10,841**
Carrying amount					
At 31 December 2020	**4,865**	**5,417**	**19,927**	**24,478**	**54,687**
At 31 December 2019	5,147	5,417	24,212	900	35,676

The additions to software development costs during the year include £23.6 million of additional enhancement to the Corporate Savings Platform.

Of the above total for Corporate Savings Platform, an estimated £15.6 million (2019: £19.9 million) is expected to be amortised more than one year after the reporting date. The remaining amortisation period is 5.25 years.

Of the above total for acquired VIF, an estimated £4.6 million (2019: £4.9 million) is expected to be amortised more than one year after the reporting date. The remaining amortisation period is 17 years.

As detailed below, £24.5 million (2019: £0.9 million) of software development costs are related to software in the course of completion and therefore these assets not yet subject to amortisation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. Intangible assets (continued)

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

	2020 £'000	2019 £'000
At 1 January	900	7,039
Additions	23,578	3,223
Transfers to capitalised software	—	(9,362)
Total	**24,478**	**900**

Significant Estimate: Key assumptions used for value-in-use calculations

A review of the carrying value of the intangible assets (including goodwill) to assess indications of impairment is performed on an annual basis. The recoverable amounts for 2019 and 2020 have both been calculated on a value in use basis.

The value in use calculations require estimates in relation to uncertain items, including management's expectation of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate. Future cash flows used in the value in use calculations are based on our latest Insurance Board approved four-year financial plans. Expectations about future growth reflect the expectations of growth in the markets to which the intangible asset relates. A discount factor has been applied to underlying cash flows with an indefinite useful life, which aligns with the long term nature of the business in order to establish a net present value.

Management have projected cash flows using perpetuity growth rates, which aligns with the long term nature of business. The key assumptions used in the value in use calculation are as follows:

- Discount factor 9.88 per cent (2019: 8.43 per cent), based on Lloyds Banking Group weighted average cost of capital.
- Assets under administration increase by an average compound growth rate of 9.30 per cent each year over the 22 year forecast period. The growth rates have been benchmarked against external data for the relevant markets.
- Expenses increase by an average compound growth rate of 1.70 per cent each year over the 22 year forecast period, in line with management's 4 year financial plan and long term expected inflation rates.
- Beyond the 22 year forecast period a long term cash flow growth rate of 2.03 per cent has been applied, which is in line with long term expected pension market growth.

Significant Estimate: Impact of possible changes in key assumptions

The value in use exceeds the carrying value by approximately £103.1 million. Any of the following changes in assumptions in isolation would cause the recoverable amount to equal its carrying amount:

- a reduction in the asset under administration compound growth rate in the 22 year forecast period from our 9.30 per cent assumption to a revised assumption of a compound growth rate of 8.00 per cent.
- an increase in the discount rate from our 9.88 per cent assumption to a revised assumption of 13.57 per cent; or
- shortfalls in trading performance against forecast resulting in operating cash flows decreasing by 49.90 per cent each year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

9. Investment in subsidiaries

Name	Class of stock	Percentage held	Country of incorporation	Nature of business
Scottish Widows Administration Services (Nominees) Limited	Ordinary	100	England and Wales	Service Company

The registered address of the subsidiary is 15 Dalkeith Road, Edinburgh, EH16 5BU.

Scottish Widows Administration Services (Nominees) Limited (SWASNL) acts as a nominee company to hold legal title to assets beneficially owned by customers of the Company.

10. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	2,931	2,326
Amounts due from related parties	47,249	6,867
Other receivables	2,350	3,392
Total	**52,530**	**12,585**

Amounts due from related parties includes a receivable of £47.2 million from the Company's immediate parent undertaking, SWL of which £39.6m was settled in March 2021.

All of the above balances are expected to be recovered within one year from the reporting date. None of the above balances are interest-bearing. Further information in respect of credit risk is given in note 19.

11. Accrued income and prepayments

	2020 £'000	2019 £'000
Accrued Income	318	268
Prepayments	528	698
Total	**846**	**966**

All of the above amounts are expected to be recovered within one year after the reporting date.

12. Cash and cash equivalents

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

	2020 £'000	2019 £'000
Cash at bank	9,607	8,065
Investments held through liquidity funds	14,763	30,513
Total	**24,370**	**38,578**

Investments held through liquidity funds are used to optimise returns on surplus funds held by the Company. Further information in respect of credit risk in relation to cash and cash equivalents is given in note 19.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

13. Share capital

	2020 £'000	2019 £'000
Issued and fully paid share capital:		
143,500,000 (2019: 98,500,000) ordinary shares of £1 each	143,500	98,500
Total	**143,500**	**98,500**

On 15 December 2020, the Company issued ordinary share capital of £45.0m to its parent, SWL. The issued share capital of the Company has increased to £143.5m.

14. Other reserves

	2020 £'000	2019 £'000
Other reserves	44,000	44,000
Total	**44,000**	**44,000**

Prior to 2000, when the Company was trading as Lloyds TSB Life Assurance Company Limited, the Company received a capital injection from a related company.

15. Tax assets and liabilities

	2020 £'000	2019 £'000
Current tax recoverable	1,841	745
Total tax assets	**1,841**	**745**
Deferred tax liabilities	923	875
Total tax liabilities	**923**	**875**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

15. Tax assets and liabilities (continued)

(a) Recognised deferred tax

Deferred tax assets and liabilities have been offset in the balance sheet where there is a legally enforceable right of offset. The tables below splits the individual deferred tax assets and liabilities by type, before such netting.

The movement in the deferred tax liability is as follows:

	2020 £'000	2019 £'000
Deferred tax liabilities comprise:		
Brought forward	875	930
Charge/(credit) for the year	48	(55)
Total deferred tax liabilities	**923**	**875**

The deferred tax credit/(charge) in the year comprises the following temporary differences:

	2020 £'000	2019 £'000
Other temporary differences	(48)	55
Total	**(48)**	**55**

The deferred tax liability comprises:

	2020 £'000	2019 £'000
Acquired VIF	923	875
Total	**923**	**875**

On 3 March 2021, the UK Government announced its intention to increase the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023.

The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

16. Trade and other payables

	2020 £'000	2019 £'000
Amounts due to group undertakings	14,416	4,651
Other payables	1,078	1,898
Total	**15,494**	**6,549**

All of the above amounts are expected to be settled within one year after the reporting date. None of the above balances are interest-bearing (2019: none). Further information in respect of liquidity risk is given in note 19.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

17. Accruals and deferred income

	2020 £'000	2019 £'000
Accrued expenses	244	164
Deferred income	528	698
Total	**772**	**862**

All of the above amounts are expected to be settled within one year after the reporting date.

18. Net increase in operating assets and liabilities

	2020 £'000	2019 £'000
Net increase in operating assets		
Financial assets:		
Trade and other receivables	(39,945)	(3,620)
Accrued income and prepayments	120	1,109
Net increase in operating assets	**(39,825)**	**(2,511)**
Net decrease/(increase) in operating liabilities		
Financial liabilities:		
Trade and other payables	8,945	(7,787)
Accruals and deferred income	(90)	(1,043)
Net decrease/(increase) in operating liabilities	**8,855**	**(8,830)**
Net increase in operating assets and liabilities	**(30,970)**	**(11,341)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management

The Company is a part of Lloyds Banking Group. The principal activity is to act as a platform operator and as a manager for ISAs, Investment Accounts and SIPPs in the United Kingdom. The Company also acts as a service provider to SWL in respect of workplace pensions business on the Corporate Savings Platform and has a contractual basis for charging these services.

It also provides outsourcing and administration services as well as carrying out oversight of the securities lending programme for companies within the Insurance and Wealth Division.

This note summarises the risks associated with the activities of the Company and the way in which they are managed.

(a) Governance framework

The Insurance and Wealth Division has established a Risk function with responsibility for implementing the Lloyds Banking Group risk management framework within the Company.

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

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 Lloyds Banking Group risk language. This covers the principal risks faced by the Company, including the exposures to market, credit, capital, liquidity, regulatory and legal, conduct, governance and operational risks. The Company assesses the relative costs and concentrations of each type of risk and material issues are escalated to the appropriate Insurance executive committees and onto the Board if required. The performance of the Company, its continuing ability to administer business and the strategic management of the business depend on its ability to manage these risks.

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

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

In response to the contingency planning requirements for Covid-19, daily Risk Surgeries were put in place establishing a control amendment process to support colleagues to continue to serve customers and to maintain the operation of business processes. A key aim of the Risk Surgery and control amendment process is to take reasonable steps to ensure that all changes to current ways of working (including operational home working), operational processes or customer treatment is robustly risk assessed and reviewed by the appropriate risk SMEs across the three lines of defence. Following the success of the Risk Surgeries, these will continue beyond Covid-19 and are part of our ongoing governance activity. In addition, through the Insurance and Wealth Division’s incident management process, we managed key business continuity factors such as absence levels, productivity, IT stability, strategic change activity, regulatory focus, supplier performance and health and safety measures.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management (continued)

(b) Risk appetite

The Board has approved a risk appetite framework that covers Customer Risk, Strategy and Brand Risk and Financial Risks.

Risk appetite is the amount and type of risk that the Board prefers, accepts or wishes to avoid and is aligned to Lloyds Banking Groups strategy. The risk appetite statements set limits for exposures to the key risks faced by the business.

Risk appetite is reviewed at least annually by the Board. Executive owned Tier 2 and Tier 3 limits sit beneath Board owned risk appetite (Tier 1) and are managed and governed within the Insurance and Wealth Division.

Experience against Risk Appetite is reported monthly (by exception) to each meeting of IWRC and ROC. Copies are also supplied regularly to the Company's regulators as part of the close and continuous relationship. Reporting focuses on ensuring, and demonstrating to the Board, and their delegate the ROC that the Company is run in line with approved risk appetite. Any breaches of risk appetite require clear plans and timescales for resolution.

(c) Financial risks

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

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

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

The timing of the unwind of the deferred tax assets and liabilities 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 analyses given throughout this note are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated, for example changes in interest rates and changes in market values. The sensitivity analysis presented also represents management's assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management (continued)

(c) Financial risks (continued)

(1) Market risk

Market risk is defined as the risk that our capital or earnings profile is affected by adverse market rates, in particular the impact on intangible assets and fund based charges.

Market risk is managed in line with the Lloyds Banking Group Market Risk Policy which sets out the principles of the market risk control framework.

All of the financial assets of the Company which are measured at fair value, which relate to investments in liquidity funds of £14.8 million (2019: £30.5 million), are classified in Level 1 of the fair value hierarchy (as defined in note 1 (c)).

In addition to market risk on directly held assets and liabilities the Company has an exposure to indirect market risk. This arises from the fact that the fund based charges collected and associated costs for the management of the funds fluctuate with the market movements impacting the value of customer funds. For example if the underlying market value of customer funds fell by 10.0 per cent, fund based charges are estimated to fall by £2.1 million (2019: £1.8 million) based on year end values. These are classified as indirect market risks.

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. A fall in market interest rates will result in a reduction to revenue due to a decrease in the value of underlying customer investments which the Company receives a fund based charge on. An increase in market interest rates would have the opposite effect. The sensitivity analysis illustrates how the fair value of future cash flows in respect of interest-bearing financial assets held by customers will fluctuate because of changes in market interest rates at the reporting date.

	Impact on loss after tax and equity for the year	
	2020	2019
	£'000	£'000
25 basis points (2019: 25 basis points) increase in yield curves	(165)	(128)
25 basis points (2019: 25 basis points) decrease in yield curves	165	128

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management (continued)

(c) Financial risks (continued)

(2) Credit risk

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 Insurance Credit Risk Policy and the wider Lloyds Banking Group Credit Risk Policy which set out the principles of the credit control framework.

Credit risk to the Company arises primarily from exposure to trade recievables and cash equivalents. Exposure to trade receivables is assessed on a case by case basis, using a credit rating agency where appropriate.

Expected credit losses are calculated using three key input parameters: the probability of default (PD) (except for lifetime expected credit losses), the expected loss given default (LGD) and the exposure at default (EAD). The probability of default and expected loss given default are determined using internally generated credit ratings.

Expected credit losses are measured on a collective basis for certain groups of financial assets, such as trade receivables due from external parties which are considered to be homogenous in terms of their risk of default.

The following table sets out details of the credit quality of financial assets that are not impaired:

	2020	2019
	£'000	£'000
Trade and other receivables	52,530	12,585
Cash and cash equivalents	24,370	38,578
Total assets bearing credit risk	**76,900**	**51,163**

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

As at 31 December 2020

	Total	AAA	AA	A	Not rated
	£'000	£'000	£'000	£'000	£'000
Stage 1 assets					
Cash and cash equivalents	9,607	—	—	9,607	—
Loss allowance	(42)	—	—	—	(42)
Trade and other receivables	51,870	—	—	47,249	4,621
Exposure to credit risk	**61,435**	**—**	**—**	**56,856**	**4,579**
Stage 2 assets					
Loss allowance	(32)	—	—	—	(32)
Trade and other receivables	734	—	—	—	734
Exposure to credit risk	**702**	**—**	**—**	**—**	**702**
Assets at fair value through profit and loss					
Cash and cash equivalents	14,763	14,763	—	—	—
Total	**76,900**	**14,763**	**—**	**56,856**	**5,281**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management (continued)

(c) Financial risks (continued)

(2) Credit risk (continued)

As at 31 December 2019

	Total	AAA	AA	A	Not rated
	£'000	£'000	£'000	£'000	£'000
Stage 1 assets					
Cash and cash equivalents	8,065	—	—	8,065	—
Loss allowance	(76)	—	—	—	(76)
Trade and other receivables	12,661	—	—	6,867	5,794
Exposure to credit risk	**20,650**	**—**	**—**	**14,932**	**5,718**
Assets at fair value through profit and loss					
Cash and cash equivalents	30,513	30,513	—	—	—
Total	**51,163**	**30,513**	**—**	**14,932**	**5,718**

Amounts classified as "not rated" in the above table are due from counterparties which are not rated by Standard & Poor's or an equivalent rating agency.

(i) Concentration risk

Credit concentration risk

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

At 31 December 2020 and 31 December 2019, the Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties where limits applied.

The largest single counterparty is with the Company's immediate parent undertaking, SWL. This was settled with the Company in March 2021.

	2020	2019
	Total	Total
	£'000	£'000
Trade and other receivables:		
Amounts due from HMRC	2,335	2,095
Amounts due from group undertakings	47,249	6,867
Other receivables	2,946	3,623
Cash and cash equivalents:		
Amounts due from group undertakings	—	505
Other cash and cash equivalents	24,370	38,073
Total	**76,900**	**51,163**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management (continued)

(c) Financial risks (continued)

(3) Capital Risk

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

- the Company has insufficient capital to meet its regulatory capital requirements
- the Company has insufficient capital to provide a stable resource to absorb all losses up to a confidence level defined in the risk appetite
- the Company loses reputational status by having capital that is regarded as inappropriate, either in quantity, type or distribution

The business of the Company is regulated by the FCA. The FCA specifies the minimum amount of capital that must be held by the Company in addition to its liabilities.

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

The minimum required capital must be maintained at all times throughout the year. These capital requirements and the capital available to meet them are regularly estimated in order to ensure that capital maintenance requirements are being met.

The Company's objectives when managing capital are:

- to have sufficient capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders
- to comply with the regulatory capital requirements set out by the FCA in the UK
- when capital is needed, to require an adequate return to the shareholder by pricing contracts according to the level of risk associated with the business written

Capital support arrangements are in place for the Company, which are provided by SWL in order to mitigate risks. This arrangement will come into effect on the occurrence of a material fund default event or material operational risk event impacting the Company's capital position.

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

The table below sets out the regulatory capital held at 31 December in each year for the Company. The current year information is an estimate of the final result:

	2020	**2019**
	£'000	**£'000**
Regulatory Capital held	63,321	45,463
Regulatory Capital required	11,997	4,940

All minimum regulatory requirements were met during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management (continued)

(c) Financial risks (continued)

(4) Liquidity risk

Liquidity risk is defined as the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost.

Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from the inability to generate cash inflows as anticipated.

Liquidity risk is managed in line with the Insurance Liquidity Risk Policy and the wider Lloyds Banking Group Funding and Liquidity Policy.

The following tables indicate the timing of the contractual cash flows arising from the Company's financial liabilities:

As at 31 December 2020	**Contractual cash flows (undiscounted)**		
Liabilities	**Carrying amount**	**No stated maturity**	**Less than 1 month**
	£'000	**£'000**	**£'000**
Trade and other payables	15,494	—	15,494
Accruals	244	—	244
Total	**15,738**	**—**	**15,738**

As at 31 December 2019	**Contractual cash flows (undiscounted)**		
Liabilities	**Carrying amount**	**No stated maturity**	**Less than 1 month**
	£'000	**£'000**	**£'000**
Trade and other payables	6,549	—	6,549
Accruals	164	—	164
Total	**6,713**	**—**	**6,713**

(d) Non-financial risks

The Company faces a variety of non-financial risks through its operations and service provision. The Company manages these risks by following the embedded Risk Management Framework, which uses methodologies and systems consistent with those implemented across Lloyds Banking Group. The various stages of the framework are:

Identification

- Risks identified in products, processes, channels, customers and people
- Emerging risks
- Changes to the risk profile through on-going tracking, pricing reviews and monitoring of external factors
- Change Management at project, programme or portfolio level
- Implement Risk and Control Framework and standards, including loss estimation and provisioning

Measurement

- Evaluate risk exposure vs appetite
- Actual vs expected losses
- Scenario analysis

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management (continued)

(d) Non-financial risks (continued)

Management

- Identify and operate controls
- Perform day-to-day control activities
- Ensure appropriate segregation of duties
- Control assessment and estimation of residual risk
- Controls testing activities
- Effectiveness reviews

Monitoring

- Performance vs risk appetite
- Risk metrics on for example products, processes, customer experience, service, retention
- Change portfolio
- Regulatory and external environment
- Quality checking
- Action management

Reporting

- Monthly Executive Risk Reporting presented through the corporate governance structure leads to top down review and challenge evidenced via the Insurance Consolidated Risk Report
- Material Events escalation, including related actions

The primary non-financial risk categories are:

Conduct risk

Conduct risk is defined as 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.

Governance risk

Governance risk is defined as the risk that Lloyds Banking Group's organisational infrastructure fails to provide robust oversight of decision-making and the control mechanisms to ensure strategies and management instructions are implemented effectively.

Model risk

The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and on-going operation of Models and Ratings systems.

Operational risk

Operational risk is defined as the risk of loss from inadequate or failed internal processes, people and systems or from external events. As operational risk covers such a range of elements, there are secondary risk-types within this area, including:

- **Change risk**

  Change risk is defined as the risk that, in delivering its change agenda, the Company fails to ensure compliance with laws and regulation, maintain effective customer service and availability, and/or operate within the Company's risk appetite. The Company is currently implementing changes to the Corporate Savings Platform to increase its capability and has mitigated the associated risk through agreements with its immediate parent undertaking, SWL.

- **Cyber and information security**

  The risk of financial loss, disruption or damage to the reputation of Lloyds Banking Group from a malicious attack that impacts the confidentiality and/or integrity of electronic data or the availability of systems. The risk also to the security of information and data.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management (continued)

(d) Non-financial risks (continued)

- **Data management**

  The risk that the Company fails to effectively govern, manage and protect its data (or the data shared with Third-Party Suppliers) impacting the Company's agility, accuracy, access and availability of data, ultimately leading to poor customer outcomes, loss of value to the Company and mistrust from regulators.

- **Financial crime**

  Financial crime is the risk of acts intended to bribe, corrupt, launder money, fund terrorist activity or circumvent sanctions intended for personal gain or to cause loss to another party, by customers/clients, suppliers, third parties or colleagues.

- **Financial reporting risk**

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

- **Fraud**

  The risk of acts of deception or omission intended for personal gain or to cause loss to another party, by customers/clients, third parties or colleagues,

- **Internal service provision**

  The risk associated with the management of internal service arrangements.

- **IT systems**

  The risk of failure in technology governance and the development, delivery and maintenance of effective IT solutions.

- **Operational resilience risk**

  Operational resilience risk covers the risk that the Company fails to design resilience into business operations, underlying infrastructure and controls (people, process, technical) 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 stakeholder expectations and needs when the continuity of operations is compromised.

- **Physical security risk**

  The risk to the security of people and property (including damage (malicious or non-malicious) to Lloyds Banking Group branches and buildings managed through Group Property).

- **Sourcing**

  Sourcing risk covers the risk associated with the activity related to the agreement and management of services provided by third parties including outsourcing (excludes internal service arrangements).

People risk

People risk is defined as the risk that the Company fails to provide an appropriate colleague and customer-centric culture, supported by robust regard 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

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. Risk management (continued)

(e) UK political uncertainties including EU exit

The UK / EU Trade and Cooperation Agreement (TCA) means a disorderly Brexit has been avoided. While the TCA contains limited, high-level provisions on financial services, further detail is expected to emerge during this year, and the Company will continue to monitor developments closely. The Company continues to monitor the wider post-Brexit environment, including for market volatility. There is no change for UK residents, who can continue to apply for our products and services. The Company did not mail any customers given they are based in the UK and there is a minimal impact.

(f) Economic Risk

UK economic growth is muted due to impacts from the Covid-19 pandemic and political uncertainty. 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. The impact to the Company of this potentially includes a reduction in new business driven by economic uncertainty which could lead to a negative impact on assets under administration and decline on expected future growth. The Company's response is:

- The Company 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 on-going focused monitoring, we conduct portfolio deep dives and larger exposure reviews. We have enhanced our use of early warning indicators including sector specific indicators
- Capital and liquidity are reviewed regularly through committees, ensuring compliance with risk appetite and regulatory requirements
- Internal contingency plans recalibrated and regularly reviewed for potential strategic, operational and reputational impacts
- Wide array of risks considered in setting strategic plans

20. Related party transactions

Ultimate parent and shareholding

The Company's immediate parent undertaking is Scottish Widows Limited, a Company registered in the United Kingdom.

The parent undertaking which is the parent undertaking of the smallest group to consolidate these financial statements is Scottish Widows Limited. Copies of the consolidated Annual Report and Accounts of Scottish Widows Limited may be obtained from Insurance Secretariat, 69 Morrison Street, Edinburgh EH3 8YF.

The ultimate parent undertaking and controlling party is Lloyds Banking Group, which is the parent undertaking of the only group to consolidate these financial statements. Once approved, copies of the consolidated Annual Report and Accounts of Lloyds Banking Group 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 2020

20. Related party transactions (continued)

Transactions between the Company and other Lloyds Banking Group companies

The Company has entered into transactions with related parties in the normal course of business during the year.

	2020			
	Income during year	**Expenses during year**	**Payable at year end**	**Receivable at year end**
	£'000	**£'000**	**£'000**	**£'000**
Relationship				
Parent	52,882	—	331	47,249
Other related parties	—	72,532	14,085	—

	2019			
	Income during year	**Expenses during year**	**Payable at year end**	**Receivable at year end**
	£'000	**£'000**	**£'000**	**£'000**
Relationship				
Parent	3,095	—	—	5,792
Other related parties	—	22,738	4,651	1,580

Transactions between the Company and key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are all Directors and Insurance and Wealth Executive Committee (IWEC) members. Key management personnel, as defined by IAS 24, are employed by a management entity, transactions with this entity are as follows:

Key management compensation:

	2020	**2019**
	£'000	**£'000**
Short-term employee benefits	347	—
Post-employment benefits	1	—
Share-based payments	46	—
Total	**394**	**—**

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £162k (2019: £0).

There were no retirement benefits accruing to Directors (2019: nil) under defined benefit pension schemes. Two Directors (2019: no Directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2019: nil).

Certain members of key management in the Company, including the highest paid Director, provide services to other companies within Lloyds Banking Group. In such cases, for the purposes of this note, figures have been included based on an apportionment to the Company of the total compensation earned.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

20. Related party transactions (continued)

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £32k (2019: £0). During the year, two Directors exercised share options (2019: no Directors) and two Directors received qualifying service shares under long term incentive schemes (2019: no Directors). Movements in share options are as follows:

	2020 £'000 Options	2019 £'000 Options
Outstanding at 1 January	**—**	**—**
Granted	1,660	—
Exercised	(239)	—
Forfeited	(406)	—
Dividends awarded	14	—
Outstanding at 31 December	**1,029**	**—**

Detail regarding the highest paid Director is as follows:

	2020 £'000	2019 £'000
Apportioned aggregate emoluments	89	—
Apportioned share-based payments	27	—

The highest paid Director did exercise share options during the year (2019: no Directors).

21. Future accounting developments

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

22. Contingent liabilities and capital commitments

The outsourcing contract signed with Jardine Lloyd Thompson (JLT) on 30 November 2017 provides for certain future payments which are contingent on contractual milestones being achieved. £6k (2019: £25k) of these future payments may be expensed by the Company as incurred in future periods. This expense will be recharged to SWL in line with the contractual arrangements.

23. Post balance sheet events

There are no events after the reporting date.

24. Business combination

(a) Summary of acquisition

On 3 April 2018, the Company acquired the UK savings business from Zurich, taking on £6.0 billion of assets under administration held on the Corporate Savings Platform.

Details of the purchase consideration are as follows:

	2020 £000	2019 £000
Contingent consideration paid	—	4,603
Total purchase consideration	**—**	**4,603**