

Scottish Widows Services Limited

Annual Report and Accounts
2020

Member of Lloyds Banking Group

CONTENTS	PAGE(S)
Company Information	3
Strategic Report	4-7
Directors' Report	8-11
Independent Auditors' Report to the members of Scottish Widows Services Limited	12-14
Statement of Comprehensive Income for the year ended 31 December 2020	15
Balance Sheet as at 31 December 2020	16
Statement of Cash Flows for the year ended 31 December 2020	17
Statement of Changes in Equity for the year ended 31 December 2020	18
Notes to the Financial Statements for the year ended 31 December 2020	19-44

COMPANY INFORMATION

Board of Directors

S W Lowther
D MacKechnie

Company Secretary

K J McKay

Independent Auditors

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

Registered Office

69 Morrison Street
Edinburgh
EH3 8YF

Company Number

SC189975

STRATEGIC REPORT

The Directors present their Strategic Report on Scottish Widows Services Limited (the 'Company') for the year ended 31 December 2020.

The Company forms part of Lloyds Banking Group plc.

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

Result for the year

The result of the Company for the year ended 31 December 2020 is a loss before tax of £62.6m (2019: profit before tax of £45.8m). The variance is driven by the remeasurement of the contingent settlement provision which led to a £75.1m charge in 2020, whereas in 2019 remeasurement of retirement benefit obligations resulted in a credit of £32.6m. The total net assets of the Company at 31 December 2020 are £122.7m (2019: £112.2m).

Key performance indicators

Employee numbers and costs

The average monthly number of employees is 2,285 (2019: 2,970), and staff costs and other employee related costs have decreased by £51.3m to £138.8m (2019: £190.1m). This variance reflects a reduction in payments to staff in the year primarily relating to discretionary bonuses.

Pension scheme asset

The defined benefit scheme has been recognised in the Company's balance sheet as a £274.8m retirement benefit asset (2019: £138.8m). This result is mainly driven by a favourable £75.1m remeasurement effect recognised in other comprehensive income together with £70.4m of employer contributions during the year.

Liquidity

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

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

The United Kingdom leaving the European Union

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 Lloyds Banking Group will continue to monitor developments closely. Activity to respond to potential risks include customer communications, market volatility scenario exercises, contingency planning and monitoring of emerging European Economic Area (EEA) regulatory requirements. The Directors believe that there will be limited impact on the Company.

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 Directors believe that there will be limited impact on the Company.

In respect of the Scottish Widows Retirement Benefits Scheme, the full impact of Covid-19 is not expected to be known for some time. Whilst asset values were initially impacted by market turbulence, they have since somewhat reverted and the scheme remains well hedged against its material risks. There is no indication that Covid-19 will alter existing contribution schedules in advance of the next actuarial valuation, expected to be available by 2023.

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. There is expected to be minimal impact upon the Company.

Principal risks and uncertainties

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

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

The Board is responsible for the long-term success of the Company. Understanding the interests of key stakeholders (this includes shareholders, colleagues, communities and environment, 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.

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 7) 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 8 to 11 and the Corporate Governance Report on pages 9 to 10.

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 interests of key stakeholders. The Company is a subsidiary of Lloyds Banking Group plc (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.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group which has the largest shareholder base in the UK, with around 2.3 million shareholders including most employees.

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 in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2020, available on the Lloyds Banking Group website.

Colleagues

The Company's approach in respect of colleagues, including their engagement, is part of that of Lloyds Banking Group. Colleagues are vital to the delivery of the Company and Lloyds Banking Group's strategy and ambitions.

The approach to workforce engagement agreed in 2019 by the Board of Lloyds Banking Group, had remained unchanged during the year. The agreed definition of workforce is permanent colleagues, contingent workers and third-party suppliers that work on Lloyds Banking Group premises delivering services to its customers and supporting key business operations.

During the year Workforce Engagement reports covered all matters of colleague engagement, in particular key and emerging issues for colleagues, including Lloyds Banking Group's culture and its response to the Covid-19 pandemic. In addition, several surveys were completed by colleagues across Lloyds Banking Group. These included the annual colleague survey, ad hoc 'Pulse' surveys, and participation by colleagues in the survey of the Banking Standards Board. Lloyds Banking Group also communicated directly with colleagues detailing its performance, changes in the economic and regulatory environment and updates on key strategic initiatives.

Lloyds Banking Group offers a competitive and fair reward package. Colleagues are eligible to participate in Her Majesty's Revenue and Customs (HMRC) approved share plans which promote share ownership by giving employees an opportunity to invest in Lloyds Banking Group shares. Further information can be found in the Directors Remuneration Report within the Lloyds Banking Group Annual Report and Accounts for 2020, available on the Lloyds Banking Group website.

STRATEGIC REPORT (continued)**Section 172(1) Statement and Statement of Engagement with Employees and Other Stakeholders (continued)***Culture Acceleration*

Following engagement, cultural acceleration initiatives have been a focus for Lloyds Banking Group as it looks to accelerate the cultural change started in 2019. Plans were reviewed to further improve ways of working, encourage greater collaboration, and continue the reduction in bureaucracy. Opportunities were encouraged to promote simplicity in process and practice wherever possible and retain a more agile approach to decision-making which had been necessary during the pandemic.

Diversity

A diverse workforce is vital to the Company and Lloyds Banking Group's success and the differences each colleague brings to their role is valued. The Board of Lloyds Banking Group approved in July 2020 the introduction of its Race Action plan, designed to drive race related cultural change, recruitment, and progression across Lloyds Banking Group, and approved a target to increase Black representation in senior roles to at least 3 per cent by 2025. This complemented Lloyds Banking Group's broader 2018 Black, Asian and Minority Ethnic representation targets of 10 per cent overall, and 8 per cent at senior management levels.

Covid-19 response

The Board of Lloyds Banking Group agreed various measures of support for colleagues in response to the Covid-19 crisis. These included the temporary suspension of staff reductions, enhancements to working environment safety, flexible holiday entitlement and a commitment to pay colleagues in full, regardless of how their work had been impacted. Colleague wellbeing was prioritised. Resources were made available to help colleagues in adjusting to the changing circumstances, including support in areas such as work life balance, health and financial management. Priority continued to be given to supporting colleague mental health. A number of related steps were taken, including support via Lloyds Banking Group's 'Your Resilience' portal, with new content to address the challenges colleagues faced as a result of the Covid-19 pandemic. Lloyds Banking Group's partnership with Headspace was also extended, offering all colleagues a free subscription to an app providing access to modules covering a range of mental health related topics. A faster roll-out of the Lloyds Banking Group's Digital Workplace programme, which on completion allowed the majority of colleagues to work from home during the year. The Board of Lloyds Banking Group has considered how colleague working practices will develop beyond the Covid-19 crisis, in particular how more flexible and efficient ways of working seen during 2020 could be retained.

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. Further information in respect of Lloyds Banking Group's key role in the country's plan to rebuild the economy is included in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2020, available on the Lloyds Banking Group website.

Environmental Ambitions

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

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.

Supplier Framework

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

STRATEGIC REPORT (continued)**Section 172(1) Statement and Statement of Engagement with Employees and Other Stakeholders (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 & Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies and sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains.

On behalf of the Board of Directors



S W Lowther
Director
29 July 2021

DIRECTORS' REPORT**Principal activities**

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

Outlook

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

Results and dividend

The result of the Company for the year ended 31 December 2020 is a loss before tax of £62.6m (2019: profit before tax of £45.8m). The variance is driven by the remeasurement of the contingent settlement provision which led to a £75.1m charge in 2020, whereas in 2019 remeasurement of retirement benefit obligations resulted in a credit of £32.6m.

During the year, no interim dividends (2019: £nil) were paid. Directors recommend no payment of a dividend in respect of the year ended 31 December 2020 (2019: £nil).

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were;

S W Lowther	
J Gomez-Reino	Resigned 1 October 2020
D MacKechie	Appointed 1 October 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 or from the date of appointment in respect of directors who join the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the Directors' periods of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group. In addition, Lloyds Banking Group 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.

Employees

Lloyds Banking Group, of which the Company is a part, is committed to providing employment practices and policies which recognise the diversity of the workforce and ensure equality for employees regardless of sex, race, disability, age, sexual orientation or religious belief. In the UK, 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.

DIRECTORS' REPORT (CONTINUED)**Charitable and political contributions**

During the year, the Company made contributions totalling £89.8k (2019: £116.8k) for charitable purposes. The Company made no political contributions during the year (2019: £nil).

Financial risk management

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

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed 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.

Corporate GovernanceApproach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'), for the year ended 31 December 2020, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the 'Principles'). The following section explains the Company's approach to corporate governance, and its application of the Principles.

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

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

Principle One – Purpose and Leadership

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

Consideration of the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which is a vital part of the corporate culture. The Company's approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for its stakeholders. The Company's corporate culture and values closely align to those of Lloyds Banking Group, which are discussed in more detail in the Lloyds Banking Group's annual report and accounts for 2020.

Principle Two – Board Composition

The Company is led by a Board comprising Executive Directors, further details of the directors can be found on page 3. The Board is committed to ensuring it has the right balance of skills and experience and considers its current size and composition is appropriate to the Company's circumstances. New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring overall. There are a range of initiatives to help provide mentoring and development opportunities for female and Black, Asian and Minority Ethnic (BAME) executives within Lloyds Banking Group, and to ensure unbiased career progression opportunities.

Principle Three – Director Responsibilities

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

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

DIRECTORS' REPORT (CONTINUED)**Principle Four – Opportunity and Risk**

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

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

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

Principle Five – Remuneration

The Remuneration Committee of Lloyds Banking Group (the 'Remuneration Committee') assumes responsibility for the Company's approach to remuneration. This includes reviewing and making recommendations on remuneration policy as relevant to the Company, ranging from the remuneration of directors and members of the Executive to that of all other colleagues employed by the Company. The activities of the Remuneration Committee extend to matters of remuneration relevant to subsidiaries of Lloyds Banking Group, where such subsidiary does not have its own remuneration committee.

Principle Six – Stakeholders

The Company as part of Lloyds Banking Group operates under Lloyds Banking Group's wider Responsible Business approach, which acknowledges that the Company has a responsibility to help address the economic, social and environmental challenges which the UK faces, and as part of this understands the needs of the Company's external stakeholders, including in the development and implementation of strategy. Central to this is Lloyds Banking Group's strategy of Helping Britain Prosper, in which the Company participates in, and the development of Lloyds Banking Group's Helping Britain Recover Plan, and Society of the Future ambitions.

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 a number of key dependencies which are set out in the risk management section under principal risks and uncertainties. These include the liquidity and capital position in addition to considering projections (including stress testing) for the Company's capital and liquidity position. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Information incorporated by reference

The following additional information forms part of the Directors' Report, and is incorporated by reference.

Content	Section
Disclosures required under the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Statement of engagement with suppliers, employees and other stakeholders Strategic Report
Disclosures required by the Financial Conduct Authority's Disclosure and Transparency Rule 7.2.5R	Corporate Governance Statement - internal control and risk management systems Note 16 (Risk Management)

DIRECTORS' REPORT (CONTINUED)**Statement of Directors' responsibilities in respect of the financial statements**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with international 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, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have 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.

On behalf of the Board of Directors



S W Lowther
Director
29 July 2021

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 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 financial statements (the "Annual Report"), which comprise: Balance Sheet as at 31 December 2020; Statement of Comprehensive Income, Statement of Cash Flows and 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.

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

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.

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 in respect of the financial statements, 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 failure to comply with UK tax regulations, 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 and misappropriation of assets. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing relevant meeting minutes of the Board;
- Challenging assumptions and judgements made by management in their significant accounting estimates, especially assumptions related to defined benefit obligations; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

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

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.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not 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.



Sundash Jassi (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
29 July 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Revenue	3	823,998	842,339
Interest receivable	7	29,500	36,400
Remeasurement of contingent settlement provision	15	(75,100)	32,600
Staff costs and other employee related costs	4a	(138,774)	(190,107)
Operating expenses	5	(677,112)	(645,241)
Interest payable	7	(25,400)	(31,800)
Operating (Loss) / Profit		(62,888)	44,191
Investment income		304	1,590
(Loss) / Profit before tax		(62,584)	45,781
Taxation	8	12,284	(7,724)
(Loss) / Profit for the year		(50,300)	38,057
Other comprehensive (loss) / income			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefits obligations, net of tax	14c	60,831	(61,317)
Other comprehensive income / (loss)		60,831	(61,317)
Total comprehensive income / (loss) for the year		10,531	(23,260)

The notes set out on pages 19 to 44 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2020

	Note	2020 £000	2019 £000
ASSETS			
Intangible assets	9	69,436	95,859
Deferred tax assets	10	-	197
Retirement benefit asset	14	274,800	138,800
Current tax assets	10	31,299	20,813
Financial assets:			
At amortised cost:			
Loans and other receivables	11	97,134	90,140
Cash and cash equivalents	12	159,203	161,481
Total assets		631,872	507,290
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's shareholder			
Share capital	13	81,000	81,000
Retained earnings		41,686	31,155
Total equity		122,686	112,155
LIABILITIES			
Contingent settlement provision	15	326,500	251,400
Accruals	16	66,984	31,685
Financial liabilities:			
Trade and other payables	17	82,641	112,050
Deferred tax liabilities	10	33,061	-
Total liabilities		509,186	395,135
Total liabilities and equity		631,872	507,290

The notes set out on pages 19 to 44 are an integral part of these financial statements.

The financial statements on pages 15 to 44 were approved by the Board of Directors on 29 July 2021 and signed on its behalf by



S W Lowther
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
	Note	£000	£000
Cash flows from operating activities			
(Loss) / Profit before tax		(62,584)	45,781
Adjustments for:			
Amortisation of intangible assets	9	26,423	32,362
Transfers to group companies	9	-	3,123
Investment income		(304)	(1,590)
Net movement in operating assets and liabilities	18	(137,105)	28,353
Remeasurement of net defined benefit obligations	14c	75,100	(75,700)
Risk Premium	15	75,100	(32,600)
Taxation received		20,788	10,248
Net cash (used) in / generated from operating activities		(2,582)	9,977
Cash flows from investing activities			
Investment income		304	1,590
Net cash generated from investing activities		304	1,590
Net (decrease) / increase in cash and cash equivalents		(2,278)	11,567
Cash and cash equivalents at the beginning of the year		161,481	149,914
Cash and cash equivalents at the end of the year	12	159,203	161,481

The notes set out on pages 19 to 44 are an integral part of these financial statements.

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

	Share capital £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2019	81,000	54,414	135,414
Profit for year	-	38,058	38,058
Other comprehensive loss			
Remeasurements of retirement benefit obligations, net of tax (note 14c)	-	(61,317)	(61,317)
Total comprehensive loss for the year	-	(23,259)	(23,259)
Balance as at 31 December 2019	81,000	31,155	112,155
Loss for year	-	(50,300)	(50,300)
Other comprehensive income			
Remeasurements of retirement benefit obligations, net of tax (note 14c)	-	60,831	60,831
Total comprehensive profit for the year	-	10,531	10,531
Balance as at 31 December 2020	81,000	41,686	122,686

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

The notes set out on pages 19 to 44 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:

- in accordance with the International Accounting Standards (“IASs”) and in conformity with the requirements of the Companies Act 2006 (IFRSs)
- under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies.

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

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

(b) Financial assets and financial liabilities

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**1. Accounting policies (continued)****(c) Fair value methodology**

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

(i) Level 1

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

(ii) Level 2

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

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

(iii) Level 3

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

(d) Revenue recognition**Revenue**

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

Investment income

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

(e) Expense recognition**Staff costs and other employee related costs**

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

Net interest on net defined benefit asset/ liability

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**1. Accounting policies (continued)****(e) Expense recognition (continued)****Operating expenses**

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

(f) Share-based payments

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

(g) Intangible assets**Software development costs**

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

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

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

(h) Cash and cash equivalents

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

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

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

Holdings in liquidity funds are categorised as level 1 in the fair value hierarchy. These assets are valued using quoted prices in active markets for identical assets to those being valued. An active market is one in which similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**1. Accounting policies (continued)****(i) Impairment****Financial assets**

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

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

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

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

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

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

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

Non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**1. Accounting policies (continued)****(j) Taxes**

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

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

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

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

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

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

(k) Share capital

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

(l) Retirement benefit obligations

Individuals employed by the Company may be members of the Scottish Widows Retirement Benefits Scheme or of other pension schemes administered by Lloyds Banking Group. All schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

1. Accounting policies (continued)**(l) Retirement benefit obligations (continued)****(i) *Scottish Widows Retirement Benefit Scheme***

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

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

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

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

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

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

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

(ii) *Defined contribution schemes*

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

(m) *Contingent settlement provision*

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that the obligation will result in an outflow of resources to settle the obligation and when a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The value of amounts utilised is determined annually in line with the actuarial valuations of the retirement benefit obligation, as outlined in note (l).

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

(n) *Accruals*

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**2. Critical accounting estimates and judgments in applying accounting policies**

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

a) Retirement benefit obligations

The majority of the Company's employees who were a member of a defined benefit scheme were members of the Scottish Widows Retirement Benefits Scheme. Most of these members have now transferred to the Your Tomorrow defined contribution section of the Lloyds Banking Group Pension Scheme No. 1.

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

b) Deferred tax

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

c) Intangible assets

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

d) Share based payments

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

e) Contingent settlement provision

On the transfer of ownership of the Scottish Widows Retirement Benefits Scheme, the Company entered into a tripartite agreement with Scottish Widows Limited and Lloyds Bank plc which required Scottish Widows Limited to make a £284.0m risk premium payment to the Company, in exchange for Lloyds Bank plc bearing the exposure to volatility risks on the Scottish Widows Retirement Benefits Scheme.

The risk premium is held on the balance sheet of the Company as a contingent settlement provision. Any cumulative remeasurement losses or gains charged or credited to other comprehensive income since the transfer of ownership result in a remeasurement of the provision through the statement of comprehensive income. Any cumulative remeasurement gains since the transfer of ownership will continue to be retained as a benefit to the Company.

At the closure of the scheme, any actuarial losses incurred in excess of the risk premium payment will be reimbursed by Lloyds Bank plc and any actuarial gains generated in excess of the cumulative actuarial losses covered by the risk premium will be passed on to Lloyds Bank plc, in line with the Tripartite agreement between Scottish Widows Limited and Lloyds Bank plc dated 2nd May 2018.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

3. Revenue

	2020 £000	2019 £000
Management charges	822,463	841,238
Pension management income retained by the Company	1,535	1,101
Total	823,998	842,339

4a. Staff costs and other employee related costs

	2020 £000	2019 £000
Wages and salaries	103,533	143,518
Social security costs	14,441	20,189
Other pension costs	20,800	26,400
Total	138,774	190,107

Share based payments

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

	2020 £000	2019 £000
Deferred bonus plan	14,895	21,582
Executive and SAYE plans	4,546	7,535
Share matching scheme	615	836
Total	20,056	29,953

During the year ended 31 December 2020, the Company received the above charges relating to share-based payment schemes. All share-based payment schemes are operated by Lloyds Banking Group and are equity settled.

Deferred bonus plans

Lloyds Banking Group operates a number of deferred bonus plans that are equity settled. Bonuses in respect of employee performance in 2020 have been recognised in the charge in line with the proportion of the deferral period completed.

Save-As-You-Earn schemes

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

Other share option plans

Lloyds Banking Group Executive Share Plan 2003

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

Lloyds Banking Group Long-Term Incentive Plan

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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

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

	2020 Number of shares	2019 Number of shares
Outstanding at 1 January 2020	21,293,310	22,078,874
Granted	16,412,305	11,479,363
Vested	(5,387,077)	(7,152,622)
Forfeited	(8,417,074)	(5,466,332)
Dividend Award	316,906	354,027
Total	24,218,370	21,293,310

At the end of the performance period for the 2017 grant, the targets had not been fully met and therefore these awards vested in 2020 at a rate of 49.7 per cent.

The weighted average fair value of awards granted in the year was £0.28 (2019: £0.45).

The fair value calculations as 31 December 2020 for grants made in the year, using Black-Scholes models and Monte-Carlo simulation, are based on the following assumptions:

	Save-as-you-earn	Executive Share Plan 2003	LTIP
Weighted average risk-free interest rate	-0.03%	-0.01%	0.18%
Weighted average expected life	3.2 years	1.2 years	3.76 years
Weighted average expected volatility	32%	42%	23%
Weighted average expected dividend yield	5.3%	5.3%	5.3%
Weighted average share price	£0.28	£0.35	£0.47
Weighted average exercise price	£0.24	nil	Nil

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

Matching shares

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

4b. Number of employees

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

	2020 No.	2019 No.
UK	2,285	2,970
Total	2,285	2,970

The costs of employees in the above table are recharged to Scottish Widows Group companies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. Operating expenses

	2020	2019
	£000	£000
Sales and marketing	1,181	1,082
Computer costs	3,883	1,625
Professional fees	27,061	15,966
Outsourcing charges	43,900	46,401
Auditors' remuneration	1,574	1,742
Amortisation of intangible assets (note 9)	26,423	32,362
Group recharges from Lloyds Banking Group	535,756	509,547
Industry Levy	22,733	23,268
Other expenses	14,601	13,248
Total	677,112	645,241

6. Auditors' remuneration

	2020	2019
	£000	£000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	37	42
Total	37	42

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

During the year, the audit fee in respect of pension schemes was £46.2k (2019: £46.2k).

7. Net interest on net defined benefit asset/liability

	2020	2019
	£000	£000
Expected return on defined benefit pension scheme assets	29,500	36,400
Interest cost on defined benefit pension scheme obligation	(25,400)	(31,800)
Total	4,100	4,600

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

8. Taxation

(a) Current year tax credit / (charge)

	2020 £000	2019 £000
Current tax:		
UK corporation tax	31,105	6,430
Adjustment in respect of prior years	168	(2,464)
Total current tax (charge) / credit	31,273	3,966
Deferred tax:		
Origination and reversal of timing differences	(18,671)	(15,150)
Adjustment in respect of prior years	(174)	2,292
Impact of deferred tax rate change	(144)	1,168
Total deferred tax (charge)	(18,989)	(11,690)
Total income tax credit / (charge)	12,284	(7,724)

Corporation tax is calculated at a rate of 19.00% (2019: 19.00 %) of the taxable profit for the year.

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

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

	2020 £000	2019 £000
(Loss) / Profit before tax	(62,584)	45,781
Tax credit / (charge) thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	11,891	(8,698)
Factors affecting credit / (charge):		
Disallowed items	(14)	(22)
Non-taxable items	557	-
Adjustments in respect of prior years	(6)	(172)
Effect of reduction in tax rate and related impacts	(144)	1,168
Total	12,284	(7,724)
Effective rate	19.6%	16.9%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

9. Intangible assets

Software development costs

	2020	2019
	£000	£000
<i>Cost</i>		
At 1 January	195,036	246,914
Disposals	(20,131)	(48,755)
Transfers to Group Companies	-	(3,123)
At 31 December	174,905	195,036
<i>Accumulated amortisation</i>		
At 1 January	99,177	115,570
Amortisation charge for the year	26,423	32,362
Amortisation on disposals	(20,131)	(48,755)
At 31 December	105,469	99,177
<i>Carrying amount</i>		
At 31 December	69,436	95,859

Of the above total for software development costs, £45.7m (2019: £72.6m) is expected to be amortised more than one year after the reporting date. Items fully amortised in the year have been written off as disposals. Following the annual impairment review, no items have been written down (impairment loss 2019: £nil). There were no additions in the year (2019: £nil), due to assets now being administered by Lloyds Banking Group and recharged to the Company through Group recharges from Lloyds Banking Group in operating expenses, rather than being held at a legal entity level.

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

	2020	2019
	£000	£000
At 1 January	-	3,123
Transfers to group companies	-	(3,123)
At 31 December	-	-

10. Tax assets and liabilities

	2020	2019
	£000	£000
Current tax assets	31,299	20,813
Deferred tax (liabilities) / assets	(33,061)	197
Total tax (liabilities) / assets	(1,762)	21,010

Recognised deferred tax

	2020	2019
	£000	£000
Deferred tax (liabilities) / assets comprise:		
Pension and other post-retirement benefits	(47,232)	(14,553)
Accelerated capital allowances	12,196	13,308
Share based payments	1,975	1,442
Total deferred tax (liabilities) / assets	(33,061)	197

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

10. Tax assets and liabilities (continued)

Recognised deferred tax (continued)

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by The Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020.

The Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023. Had this change in corporation tax been enacted on 31 December 2020, the effect would have been to increase net deferred tax liabilities by £22,128k

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

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

	Total £000	Income taxable in future periods £000	Pension & other post retirement obligations £000	Accelerated capital allowances £000	Pension spreading £000	Share based payments £000
Opening balance as at 1 January 2020	197	-	(23,596)	13,308	9,043	1,442
(Charge) / credit to:						
- profit or loss	(18,989)	-	(14,347)	(1,112)	(4,063)	533
- other comprehensive income	(14,269)		(14,269)			
Closing balance as at 31 December 2020	(33,061)	-	(52,212)	12,196	4,980	1,975

As at 31 December 2019:

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

11. Loans and other receivables

	2020 £000	2019 £000
Amounts due from Group undertakings	88,551	83,271
Accrued income	4,109	2,278
Other receivables	4,474	4,591
Total	97,134	90,140

None of the above balances are interest-bearing (2019: £nil). Of the above total £nil (2019: £nil) is expected to be recovered more than one year after the reporting date.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

12. Cash and cash equivalents

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

	2020	2019
	£000	£000
Cash at bank	2	82
Investment held through a liquidity fund	159,201	161,399
Total	159,203	161,481

13. Share capital

	2020	2019
	£000	£000
Issued and fully paid share capital:		
81,000,000 (2019: 81,000,000) shares of £1 each	81,000	81,000
Total	81,000	81,000

14. Retirement benefit asset/(liability)

The Company's employees may be members of the Scottish Widows Retirement Benefits Scheme, which provides defined benefits, or members of Lloyds Banking Group Schemes, which provide defined benefits and/or defined contribution benefits to the members of those schemes.

(a) Scottish Widows Retirement Benefits Scheme**(i) Characteristics of the Scottish Widows Retirement Benefits Scheme**

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

The Company paid contributions of approximately £70.4m to the Scottish Widows Retirement Benefits Scheme in 2020 (2019: £125.3m). Employee contributions made during the year were £nil (2019: £nil).

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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

(a) Scottish Widows Retirement Benefits Scheme (continued)

(ii) Amounts recognised in the Financial Statements

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

	2020	2019
	£000	£000
Fair value of scheme assets	1,603,100	1,392,800
Present value of defined benefit obligations	(1,328,300)	(1,254,000)
Surplus/(deficit) recognised in the balance sheet	274,800	138,800

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

	2020	2019
	£000	£000
Net amount recognised in the balance sheet		
At 1 January	138,800	97,700
Service cost	(11,700)	(9,900)
Net interest on net defined benefit asset/liability	4,100	4,600
Remeasurement effects recognised in other comprehensive income	75,100	(75,700)
Employer contributions	70,400	125,300
Administration costs incurred during the year	(1,900)	(3,000)
Exchange and other adjustments	-	(200)
At 31 December	274,800	138,800

	2020	2019
	£000	£000
Movements in the defined benefit obligation		
At 1 January	(1,254,000)	(1,107,900)
Current service cost	(10,800)	(8,700)
Interest expense	(25,400)	(31,800)
Remeasurements:		
Actuarial losses / (gains) – experience	9,900	(16,200)
Actuarial losses – demographic assumptions	39,800	11,200
Actuarial (gains) – financial assumptions	(142,500)	(155,000)
Benefits paid	55,600	55,700
Past service cost - plan amendments	(900)	(1,200)
Exchange and other adjustments	-	(100)
At 31 December	(1,328,300)	(1,254,000)

In July 2018, a decision was sought from the High Court in respect of the requirement to equalise the Guaranteed Minimum Pension (“GMP”) benefits accrued between 1990 and 1997 from contracting out of the State Earnings Related Pension Scheme. In its judgment handed down on 26 October 2018 the High Court confirmed the requirement to treat men and women equally with respect to these benefits and a range of methods that the Trustee is entitled to adopt to achieve equalisation. The Group recognised a past service cost of £3.4million for the Scottish Widows Retirement Benefits Scheme in respect of equalisation in 2018 and a further £1.2m was recognised in 2019. Following further assessment of the costs of equalisation, an additional £0.9m for the Scottish Widows Retirement Benefits Scheme was recognised in 2020. This is based on a number of assumptions and the actual impact may be different.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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

(ii) Amounts recognised in the Financial Statements of the Scottish Widows Retirement Benefits Scheme (continued)

The following tables provide an analysis of the Scottish Widows Retirement Benefits Scheme assets:

	2020 £000	2019 £000
Changes in the fair value of scheme assets		
At 1 January	1,392,800	1,205,600
Return on plan assets greater/(less) than discount rate	167,900	84,300
Interest income	29,500	36,400
Employer contributions	70,400	125,300
Benefits paid	(55,600)	(55,700)
Administrative costs paid	(1,900)	(3,000)
Exchange and other adjustments	-	(100)
At 31 December	1,603,100	1,392,800

	2020			2019		
	Fair value of assets with quoted prices £000	Fair value of assets with unquoted prices £000	Total £000	Fair value of assets with quoted prices £000	Fair value of assets with unquoted prices £000	Total £000
Debt instruments	1,709,300	-	1,709,300	1,119,900	-	1,119,900
Pooled investment vehicles	310,500	136,800	447,300	208,100	317,300	525,400
Money market instruments, derivatives, cash and other assets and liabilities	11,100	(564,600)	(553,500)	20,500	(273,000)	(252,500)
Total fair value of scheme assets	2,030,900	(427,800)	1,603,100	1,348,500	44,300	1,392,800

An analysis of the Scottish Widows Retirement Benefits Scheme debt securities is provided below:

2020							
	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	BB or lower £000	Not rated £000
Government bonds	170,100	-	170,100	-	-	-	-
Index linked government bonds	1,001,900	-	1,001,900	-	-	-	-
Corporate and other debt securities	537,300	5,376	47,301	164,351	112,790	191,859	15,623
Total fair value of scheme assets	1,709,300	5,376	1,219,301	164,351	112,790	191,859	15,623
2019							
	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	BB or lower £000	Not rated £000
Government bonds	64,200	-	64,200	-	-	-	-
Index linked government bonds	759,100	-	759,100	-	-	-	-
Corporate and other debt securities	296,600	5,200	33,800	127,300	108,500	-	21,800
Total fair value of scheme assets	1,119,900	5,200	857,100	127,300	108,500	-	21,800

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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

(a) Scottish Widows Retirement Benefits Scheme (continued)

(ii) Amounts recognised in the Financial Statements of the Scottish Widows Retirement Benefits Scheme (continued)

The Scottish Widows Retirement Benefits Scheme pooled investment vehicles comprise:

	2020 £000	2019 £000
Equity funds	184,300	120,600
Liquidity funds	98,000	26,300
Bonds and debt funds	112,600	103,400
Other	52,400	275,100
At 31 December	447,300	525,400

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

	2020 £000	2019 £000
Current service cost	10,800	8,700
Past service cost - plan amendments	900	1,200
Net interest amount	(4,100)	(4,600)
Plan administration costs incurred in the year	1,900	3,000
Net expense recognised	9,500	8,300

The principal actuarial and financial assumptions used in valuations of the Scottish Widows Retirement Benefits Scheme were as follows:

	2020 %	2019 %
Discount rate	1.44%	2.05%
Rate of inflation:		
Retail Prices Index	2.80%	2.94%
Consumer Price Index	2.41%	1.99%
Weighted-average rate of increase for pensions in payment	2.74%	2.96%

	2020 Years	2019 Years
Life expectancy for member aged 60, on the valuation date:		
Men	27.5	27.0
Women	28.2	29.2
Life expectancy for member aged 60, 15 years after the valuation date:		
Men	27.9	28.1
Women	29.3	30.4

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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

(a) Scottish Widows Retirement Benefits Scheme (continued)

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

Risk exposure of the Scottish Widows Retirement Benefits Scheme

The Scottish Widows Retirement Benefits Scheme is exposed to a number of risks, detailed below. Lloyds Banking Group has two specialist pension committees that govern and monitor the risk exposed to the Scottish Widows Retirement Benefits Scheme.

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

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

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

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

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

Details of the guarantee to the trustees of the Scottish Widows Retirement Benefits Scheme are provided below which clarify the Company's exposure to entity specific or scheme specific risks in relation to the Scottish Widows Retirement Benefits Scheme.

Sensitivity analysis

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

	Effect of reasonably possible alternative assumptions			
	Increase (decrease) in the income statement charge		Increase (decrease) in the net defined benefit pension scheme asset	
	2020	2019	2020	2019
	£000	£000	£000	£000
Central Basis	8,500	9,700	274,800	138,800
Inflation:				
Increase of 0.1 per cent	500	700	(23,100)	(22,500)
Decrease of 0.1 per cent	(500)	(600)	22,400	20,200
Discount rate:				
Increase of 0.1 per cent	(1,000)	(1,000)	27,500	25,100
Decrease of 0.1 per cent	900	1,000	(28,400)	(25,900)
Expected life expectancy of members:				
Increase of one year	1,200	1,400	(57,900)	(50,400)
Decrease of one year	(1,200)	(1,400)	55,500	48,500

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

14. Retirement benefit asset/(liability) (continued)**(a) Scottish Widows Retirement Benefits Scheme (continued)****(iii) Amount, timing and uncertainty of future cash flows (continued)****Sensitivity analysis method and assumptions**

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

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

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

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

Asset-liability matching strategies

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

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit pension obligation is 21 years (2019: 21 years).

(b) Defined contribution schemes

The Scottish Widows Retirement Benefits Scheme also includes a defined contribution section; most of the members have now transferred to the Your Tomorrow defined contribution section of the Lloyds Banking Group Pension Scheme No. 1. During the year ended 31 December 2020, the charge to the Company's statement of comprehensive income in respect of the defined contributions schemes was £10.0m (2019: £16.5m), representing the contributions payable by the Company in accordance with the scheme's rules. There were no outstanding or prepaid contributions at 31 December 2020.

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

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

	2020			2019		
	Before tax	Tax credit	After tax	Before tax	Tax expense	After tax
	£000	£000	£000	£000	£000	£000
Scottish Widows Retirement Benefits Scheme	75,100	(14,269)	60,831	(75,700)	14,383	(61,317)
Total	75,100	(14,269)	60,831	(75,700)	14,383	(61,317)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

15. Contingent settlement provision

	2020 £000	2019 £000
At 1 January	251,400	284,000
Movement on contingent settlement provision	75,100	(32,600)
At 31 December	326,500	251,400

On the transfer of ownership, the Company entered into a tripartite agreement with Scottish Widows Limited and Lloyds Bank plc which required Scottish Widows Limited to make a £284.0m risk premium payment to the Company, in exchange for Lloyds Bank plc bearing the exposure to volatility risks on the Scottish Widows Retirement Benefits Scheme.

The risk premium is initially held on the balance sheet of the Company as a contingent settlement provision. Any cumulative remeasurement losses charged to other comprehensive income since the transfer of ownership result in a remeasurement of the provision through the statement of comprehensive income. Any cumulative remeasurement gains since the transfer of ownership will continue to be retained as a benefit to the Company.

At the closure of the scheme, any actuarial losses incurred in excess of the risk premium payment will be reimbursed by Lloyds Bank plc and any actuarial gains generated in excess of the cumulative actuarial losses covered by the risk premium will be passed on to Lloyds Bank plc, in line with the Tripartite agreement between Scottish Widows Limited and Lloyds Bank plc dated 2nd May 2018.

Scottish Widows Retirement Benefits Scheme remeasurements since the transfer of ownership were a gain of £43.1m in 2018, a loss of £75.7m in 2019 and a gain of £75.1m in 2020, resulting in a cumulative gain of £42.5m for 2020 (cumulative loss of £32.6m in 2019). The cumulative gain in 2020 results in a remeasurement of the provision through revenue in the statement of comprehensive income in the current year (the cumulative loss in 2019 also resulted in a remeasurement of the provision).

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

16. Accruals

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

	2020 £000	2019 £000
Accruals	66,984	31,685
Total	66,984	31,685

None of the above balances (2019: £nil) are expected to be settled in more than one year after the reporting date.

17. Trade and other payables

	2020 £000	2019 £000
Amounts due to Group undertakings	76,176	103,742
Other payables	6,465	8,308
Total	82,641	112,050

None of the above balances are interest bearing (2019: £nil) nor expected to be settled in more than one year after the reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

18. Net movement in operating assets and liabilities

	2020	2019
	£000	£000
Decrease/(increase) in operating assets:		
Retirement benefit asset	(136,000)	(41,100)
Loans and other receivables	(6,994)	115,151
Net movement in operating assets	(142,994)	74,051
Increase / (Decrease) in operating liabilities:		
Trade and other payables	(29,409)	(7,084)
Accruals	35,298	(38,614)
Net movement in operating liabilities	5,889	(45,698)
Net movement in operating assets and liabilities	(137,105)	28,353

19. Risk management

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

(a) Governance framework

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

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

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

(b) Risk appetite

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

(c) Financial risks

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

19. Risk management (continued)

(c) Financial risks (continued)

(i) Credit risk

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

Credit risk is managed in line with the 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 debtors and financial assets at fair value through profit or loss. Exposure to trade debtors is assessed on a case by case basis, using a credit rating agency where appropriate.

The following table sets out details of financial assets:

	2020 £000	2019 £000
Amounts due from Group undertakings	88,551	83,271
Other receivables	4,474	4,591
Cash and cash equivalents	159,203	161,481
Total assets bearing credit risk	252,228	249,343

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

As at 31 December 2020

	Total £000	AAA £000	AA £000	A £000	BBB or Lower £000	Not rated £000
Stage 1 assets						
Other receivables	4,474	-	-	-	-	4,474
Cash and cash equivalents	2	-	-	2	-	-
Exposure to credit risk	4,476	-	-	2	-	4,474
Simplified approach						
Amounts due from Group undertakings	88,551	-	-	59,927	-	28,624
Exposure to credit risk	88,551	-	-	59,927	-	28,624
Asset at FVTPL						
Cash and cash equivalents	159,201	159,201	-	-	-	-
Total	252,228	159,201	-	59,929	-	33,098

As at 31 December 2019

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Other receivables	4,591	-	-	-	-	4,591
Cash and cash equivalents	82	-	-	82	-	-
Exposure to credit risk	4,673	-	-	82	-	4,591
Simplified approach						
Amounts due from Group undertakings	83,271	-	-	61,957	-	21,314
Exposure to credit risk	83,271	-	-	61,957	-	21,314
Asset at FVTPL						
Cash and cash equivalents	161,399	161,399	-	-	-	-
Total	249,343	161,399	-	62,039	-	25,905

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**19. Risk management (continued)****(c) Financial risks (continued)**

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

Liquidity risk has been analysed as arising from the settlement of balances owed to other Group undertakings of £76.2m (2019: £103.7m) and other payables of £6.5m (2019: £8.3m). These amounts are all contractually due within one month from the reporting date.

(ii) Capital risk

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

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

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

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

(iii) Market risk

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

(iv) Interest rate risk

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

If interest rates were to increase or decrease by 25 basis points, the impact on profit or loss after tax would be an increase or decrease respectively of £321.3k (2019: increase or decrease respectively of £325.8k) in respect of interest-bearing financial assets and financial liabilities.

(d) Operational risk

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

Financial crime and fraud risk

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

Information security and physical security risk

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

Operational resilience risk

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

19. Risk management (continued)**(d) Operational risk (continued)****Change risk**

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

Sourcing and service provision risk

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

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

IT Systems risk

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

People risk

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

Regulatory and Legal risk

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

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

Financial reporting risk

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

Governance risk

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

(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 Lloyds Banking Group will continue to monitor developments closely.

In advance of the UK leaving the EU, a European subsidiary (SWE) was created to ensure continuity of certain insurance business for EEA customers. As a result of Brexit, some customers' bank accounts have had to be closed, meaning these customers will need to set up alternative payment arrangements to continue other Group products and services, including savings, investments and insurance cover. Measures have been put in place to support affected customers, although to date customer responses remain low. Lloyds Banking Group continues to monitor the wider post-Brexit environment, including for market volatility. Scenario planning exercises are performed as part of business as usual, while contingency plans have been recalibrated and are regularly reviewed for potential strategic, operational and reputational impacts. The impact on the Company is expected to be minimal.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**19. Risk management (continued)****(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 underpricing of risk and heightened risk of a market correction. 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

(g) Strategic Risk

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

(h) Data Risk

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

(i) Conduct Risk

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

(j) Model Risk

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

20. Related party transactions**(a) Ultimate parent and shareholding**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

20. Related party transactions (continued)

(b) Transactions and balances with related parties

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

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

Relationship	2020			
	Income during year	Expenses during year	Payable at year end	Receivable at year end
	£000	£000	£000	£000
Parent (Lloyds Bank plc)	-	544,713	46,006	10
Other related parties	823,027	-	30,171	85,979

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

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

Transactions between the Company and key management

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

The Directors consider that they receive no remuneration for their services to the Company (2019: nil).

21. Future accounting developments

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

22. Post balance sheet events

In respect of the Scottish Widows Retirement Benefits Scheme, the full impact of Covid-19 is not expected to be known for some time. Whilst asset values were initially impacted by market turbulence, they have since somewhat reverted and the scheme remains well hedged against its material risks. The pension balance sheet retains an exposure to a tightening of AA rated credit spreads, which widened significantly during March 2020 and led to an increase in the pension asset, this has since partially reverted. In addition, Covid-19 may have caused excess deaths amongst the scheme members, which would result in an increase to the defined benefit surplus recognised in the balance sheet. The impact of any excess deaths will be recognised following the next actuarial valuation, expected to be available by 2023 and there is no indication that Covid-19 will alter existing contribution schedules in advance of that date. Any future impact to life expectancy from Covid-19 is an area of uncertainty which is currently under investigation by the actuarial community, it is not possible at this stage for the Directors to estimate this effect.