# Scottish Widows Unit Trust Managers Limited

## Annual Report and Accounts
**2020**

Member of Lloyds Banking Group

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# COMPANY INFORMATION

## Board of Directors

C M Herd
P R Grant
J C S Hillman
J R A Bond*
S J O'Connor*
G E Schumacher*

* denotes Independent Non-Executive Director

## Company Secretary

D A Beaumont

## Independent Auditors

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

## Registered Office

Charlton Place
Andover
Hampshire
SP10 1RE

## Company Registration Number

01629925

## STRATEGIC REPORT

The Directors present their strategic report on Scottish Widows Unit Trust Managers Limited (the 'Company') for the year ended 31 December 2020.

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

### Principal activities

The Company is part of the Insurance business within Lloyds Banking Group. The principal activity of the Company is to act as the Authorised Corporate Director for the management of Individual Savings Accounts (ISAs) and Open Ended Investment Company (OEIC) sub-funds.

### Result for the Year

The result of the Company for the year ended 31 December 2020 is a profit after tax of £17.4 million (2019 : £206.6 million). The prior year result benefited from a £192.1 million consideration received for the transfer of Wealth business to Schroders Personal Wealth (SPW). The current year result is reflective of market conditions during the year following Covid-19 impacts, but also reduced costs compared to 2019.

There was a £44.1 million (33.1 per cent) fall in revenue from annual management charges during the year which is largely driven by net outflows, the transfer of Wealth assets to Scottish Widows Schroders Personal Wealth (ACD) Limited (SPW ACD) in December 2019, and impacts of market performance linked to the Covid-19 pandemic.

Funds under management (FUM) managed by the Company on behalf of customers was £46.3 billion (2019 : £50.0 billion) at the balance sheet date. The average FUM balance over the year was £45.7 billion (2019: £60.2 billion). Prior year average FUM included Wealth funds that transferred to SPW in December 2019.

Administrative expenses reduced by £54.3 million (47.5) per cent. The two key drivers for this were a £23.8 million reduction in investment expenses in 2020 and the absence of a one-off £23.0 million arbitration cost the Company settled to Standard Life Aberdeen plc in 2019. The investment expenses reduction was also linked to the absence of Wealth sub-funds and a reduction in FUM during the year.

Total equity for the Company reduced by £(176.6) million, primarily as a result of a £194.0 million dividend paid in February 2020, offset by current year profit retained in cash equivalents.

### The United Kingdom leaving the European Union

The United Kingdom (UK) left the European Union (EU) on 31 January 2020. Under transitional arrangements, EU laws continued to apply to the UK until 31 December 2020. Ahead of that date, the UK and EU concluded a Trade and Cooperation Agreement. We have continued to closely monitor the position to understand any potential impact on the range of products and services we offer. There is no change for UK residents, who can continue to apply for our products and services. Persons resident outside the UK are ineligible to apply for our products and services, while certain restrictions may apply in respect of any existing products and services.

### Coronavirus

Our sub-funds experienced heightened price volatility in line with wider investment markets following the outbreak of Covid-19 when globally, significant lockdown restrictions were introduced. Over that period, most investment markets continued to operate without significant disruption, with the notable exception of real estate. Here funds were suspended in response to material uncertainty in the value of underlying properties. More details on this are referenced in the *Section 172(1) Statement - Covid-19 Response*, on page 8.

We anticipate heightened volatility as markets react to news flow and we remain alert to further disruption to property funds and potentially other asset classes. 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 Covid-19 response framework will be triggered if there any strains in the operational environment, which may relate to market conditions. Risk Surgeries continue to play an important role in governing requests for temporary process or control amendments, to ensure that these are risk assessed, approved, and where appropriate, rolled out in a controlled manner with continued necessity revisited. A key focus of the Risk Surgery is to ensure that customers receive fair treatment, including in relation to vulnerabilities.

### Climate Change

*Strategy*

The UK Government has announced a commitment to the vision of a sustainable, low carbon future. Lloyds Banking Group's unique position within the UK economy means that the successful transition to a more sustainable, low carbon economy is of strategic importance to the Company, as part of Lloyds Banking Group. Lloyds Banking Group supports the aims of the 2015 Paris Agreement, the UK Government's Net Zero target and 10-Point Plan for a Green Industrial Revolution; and the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD).

**STRATEGIC REPORT (continued)**

**Climate Change (continued)**

*Our ambition*

Lloyds Banking Group have set seven leadership ambitions to support the UK's transition to a sustainable future, those that apply to the Company are:

- *Pensions and investments**: be a leading UK pension provider that offers our customers and colleagues sustainable investment choices, and challenges the companies we invest in to behave more sustainably and responsibly.

  *Here only the investments references are relevant to the Company.

- *Our own footprint*: be part of a leading UK bank in reducing our own carbon footprint and challenging our suppliers to ensure our own consumption of resources, goods and services is sustainable.

*Investments*

The Insurance Division has focussed on building robust foundations for future Responsible Investment (RI) activity, launching our RI Framework in March 2020 and developing Stewardship and Exclusions Policies later in the year. These have a consistent central objective: using our scale to offer our customers sustainable investment opportunities and challenge the companies we invest in to become the sustainable businesses of the future. Lloyds Banking Group's RI Framework, Stewardship Policy, and Exclusions Policy are available to view online.

The Insurance Division has also established an RI team which is made up of professionals with diverse backgrounds in RI, policy, research, advocacy, data, and climate science. The team is set to develop in line with our developing ambition in stewardship and RI.

As an asset owner, we work with the largest of our investee companies to engender positive change and enhance their approach to climate and board diversity issues. We delegate broader engagement activity to our asset managers, who we oversee to ensure they live up to their promises. We ask that our fund managers comply with the UK Stewardship Code or an equivalent in their jurisdiction.

A core principle of our Stewardship activity is our intention to influence investee companies and engender positive change, focussing on climate change and Board diversity.

Lloyds Banking Group has worked collaboratively with the wider investment industry, signing two open letters to the UK Government over the course of the year encouraging the development of carbon-aware economic recovery plans ('build back better'); this activity saw fruition in the publication both of the Chancellor's suite of green finance plans and the Prime Minister's '10-Point plan' for a green industrial revolution.

Our Exclusions Policy focuses on companies that have failed to meet our Environmental, Social and Corporate Governance (ESG) standards, namely manufacturers of controversial weapons, UN Global Compact (UNGC) violators and those deriving more than 10 per cent revenue from thermal coal and tar sands extraction. We are currently divesting from these companies.

*Initiatives and collaboration*

Climate change requires global collaboration and Lloyds Banking Group participated in several industry initiatives and signed up to key principles that drive action on climate change, including:

- United Nations Principles for Responsible Investment (PRI)
- Climate Financial Risk Forum– Risk Management Working Group
- Institutional Investors Group on Climate Change (IIGCC), where we took a leading role in the development of the Net Zero Investment Framework.

*Governance*

Given the strategic importance of our sustainability ambitions and commitment to managing the impacts arising from climate change, our governance structure provides clear oversight and ownership of the management of climate-related risk.

The Company's climate-related risk is discussed on a regular basis at the Risk Oversight Committee (ROC), a subcommittee of the Insurance Board, which also considers the impacts of climate change on the Company. The ROC considers the key risks, and our approach to mitigation and management. In 2020 we reviewed and updated the Terms of Reference of the relevant Insurance Board sub-committees and Insurance Executive Committees to include the requirement for these subcommittees/committees to consider Climate Risk.

Executive oversight of our responsible investment and stewardship activity is provided by a Responsible Investment Committee. This committee, with strong Board support, plays a pivotal role in setting Scottish Widows' sustainability agenda and provides strategic direction to our Responsible Investment activity.

**STRATEGIC REPORT (continued)**

**Climate Change (continued)**

*Risk management*

As its own primary risk, Climate Risk captures the risk that the Lloyds Banking Group, and subsidiaries including the Company, experiences losses and/or reputational damage as a result of climate change, either directly or through its customers. We also consider climate risk to be a cross cutting risk. These climate-related risks will be appropriately aggregated together to provide senior management with a consolidated view of the climate risk to which Lloyds Banking Group and also the Company is exposed.

As the understanding and importance of climate risk progresses, climate scenario analysis is becoming an increasingly essential capability and risk management tool. Scenario analysis assists the identification, measurement and ongoing assessment of climate risks over the longer term. In 2020, Lloyds Banking Group has developed its climate scenario analysis framework and will see outputs from this in 2021.

Lloyds Banking Group has engaged with third party consultants to support the development of Lloyds Banking Group's climate risk management framework, extending our modelling and assessment capabilities for quantifying climate risk. This work is applicable across all entities, including the Company.

*Climate metrics*

Policyholder and Shareholder investments are governed by the Insurance Division's Responsible Investment and Stewardship Framework, Stewardship Policy and Exclusions Policy, while the direct lending part of Shareholder investments is also covered by Lloyds Banking Group External Sector Statements. We continue to further develop our approach to reporting appropriate climate metrics and will consider targets for policyholder / customer investments during 2021.

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

**Key performance indicators**

The Company is focused on ensuring it maximises capital efficiency and returns for its shareholder and the Lloyds Banking Group Insurance Division. To support this, the Company is focused on the following financial key performance indicators (KPIs).

*Funds under management*

Funds under management (FUM) managed by the Company on behalf of customers was £46.3 billion (2019: £50.0 billion) at the balance sheet date. The majority of the £3.7 billion reduction was a result of net customer outflows. The average FUM balance over the year was £45.7 billion (2019: £60.2 billion). Prior year average FUM included Wealth funds transferred to SPW in December 2019.

Revenue from annual management charges (charged as a percentage of customer funds under management) was £89.0 million (2019: £133.2 million).

*Capital Resources*

The Directors believe that the Company currently has adequate capital resources, £129.8 million (2019: £297.4 million); and will continue to do so in the foreseeable future. Further information on the capital position of the Company is given in note 23 c) 4).

*Liquidity*

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

*Other Sources*

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

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

**Review of the business**

In addition to the progress made against the strategic initiatives summarised earlier there are other areas that are worthy of note and these are described below. Decisions taken in the areas described below and in pursuit of our strategy are brought to the Company's Board for due consideration and approval.

**STRATEGIC REPORT (continued)**

**Review of the business (continued)**

*Asset Management Market Study*

As required by the FCA the Company has carried out an annual value assessment of all funds and share classes in each Investment Company with Variable Capital (ICVC), to consider overall value delivered to customers. To avoid duplication and for ease of communication the Company has published a separate value assessment report explaining to customers, what the Company has found and what the Company is doing in a combined statement across all of the funds managed by Scottish Widows Unit Trust Managers Limited. The value assessment report is available for customers to read on the Scottish Widows website and a brief summary of changes are referenced in the *Section 172(1) Statement - Delivering Value for Customers* on page 8. These changes will lead to a reduction in annual revenue for the Company.

*Mass Advice and Fixed Interest*

Following a review with Schroder Investment Management Limited of the funds that had transitioned to their management, it was identified that the investment permissions of the five Mass Advice funds limited their opportunity to generate outperformance. The Prospectus previously reflected the 2004 FSA regulatory regime, which restricted the funds to investing in Undertakings for the Collective Investment in Transferable Securities (UCITS) equity and bond funds, where derivatives could be used only for efficient portfolio management (EPM), and cash funds. It also restricted the underlying funds to those which were, or had been, managed or operated within Lloyds Banking Group. In response to this, the investment permissions for the Mass Advice funds have been expanded, to include for example the use of absolute return funds, direct property funds, non-Lloyds Banking Group funds and the ability to invest in fixed interest funds using more complex derivatives strategies. This is expected to bring benefits in terms of diversification and return generation.

**Outlook**

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

**Principal risks and uncertainties**

Details of key risks are set out in note 23. Key risks include economic and political uncertainty as a result of coronavirus and Brexit, alongside operational risk which is heightened by the current level of change being undertaken to execute our strategy. Risks and uncertainties to our strategic plan, both positive and negative, are considered by product through the planning process. Further details on the key risks can be found in note 23.

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

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

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

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

This year interaction with stakeholders was adapted to comply with the Government's provisions on Covid-19 and has been undertaken virtually as necessary.

This section (pages 7 to 10) 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 11 to 12.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this  Statement also provides examples of how the Directors have engaged with and had regard to the 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.

**Customers**

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

**STRATEGIC REPORT (continued)**

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

***Covid-19 Response***

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

Regular Board updates from the Executive included enhanced monitoring of customer service performance, emerging market and economic impacts, which informed the Company's approach in response to the crisis. A review of the adequacy of the Company's Client Money management arrangements in place was also undertaken by the Board during this time.

The Company's decision to temporarily suspend all dealing in its property funds, that is the buying, selling, transfer or exchange of shares or units in these funds, with effect from 12 noon on 17 March 2020 was due to the valuation uncertainty related to the impact of the Covid-19 pandemic. This action reflected the exceptional circumstances in the UK property market and the need to protect customer interests by suspending trading, due to surveyors not being able to accurately value properties held in these funds. The suspension was underpinned by requirements set out by the FCA and was supported by customer communications. The Board approved the lifting of these suspensions from 23 September 2020 once it was satisfied there was greater certainty regarding property valuations and having taken into consideration the fair treatment of customers.

***Customer Trust***

Customer Trust is always a priority for the Board. The Board ensures the Company, as part of Lloyds Banking Group, works toward achieving its customer ambitions; to treat all customers fairly, and make it easy for customers to find, understand and access products that are right for them. Regular Board updates from the Executive, give insight into the Company's performance in delivering on its customer-related objectives and the Board regularly reviews customer complaints to understand areas where improvements can be made. Every opportunity is taken by the Board to consider customer feedback and related management information, including as part of the Board's strategic decision-making process. A key priority for the Board in its early response to the Covid-19 crisis was the oversight of management actions taken to protect critical customer processes and stabilise the Company's operations.

***Delivering Value for Customers***

Following a comprehensive annual review of the Company's funds and share classes to assess overall value delivered to customers in response to the final rules introduced in the FCA's Asset Management Market Study (PS18/8) - the Board concluded that the Company provides good value overall to customers invested in its funds.

The Board acknowledges the importance of continually challenging itself to identify areas where value for customers can be improved and in doing so approved several changes which are being implemented. This includes the reduction of charges paid by more than 300,000 customers in older share classes (97 per cent of customers), including the simplification of the pricing structure across all the Company's funds, ensuring greater alignment and consistency between charges and the investment style of each fund; and the halving of the cost of registration fees as a result of efficiency savings that can now pass directly to customers.

***Company and Fund Performance***

The Company's business model of outsourcing fund management means asset managers who specialise in specific areas of the market are selected to deliver the investment performance expected by customers. This approach also allows the Company to keep the performance of its appointed asset manager under constant review. The transfer of the management of most of the Company's active funds to Schroder Investment Management Limited provides access to leading investment management expertise and will help to drive improved potential for increased investment returns for customers.

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

***Technology Transformation***

The Board has taken steps to make sure the Company continues to build on its responses to customer demand for technology. Whilst Digital transformation has remained a key focus in improving the customer experience, the Board acknowledges that many customers still value being able to get in touch with customer service staff over the phone, via letter or through email. The importance of the Company continuing to offer and improve these services in parallel is recognised by the Board. As part of the Company's drive towards continuously improving the service provided to customers, the appointment of Diligenta, a leading provider of business process services will, over time, offer customers new ways of managing their investments online, allowing them to access the information they need quickly and easily.

**STRATEGIC REPORT (continued)**

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

***Helping Britain Recover and Society of the Future***

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

**Shareholders**

The Company is a wholly owned subsidiary of Lloyds Banking Group, forming part of its Insurance Division. As a wholly owned subsidiary, the Board ensures that the strategy, priorities, processes and practices of the Company are fully aligned where required, to those of Lloyds Banking Group, ensuring that its interests as the Company's sole 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.

**Communities and 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 Committee's role in the development of Lloyds Banking Group's Society of the Future ambitions, which aim to fully integrate its societal objectives, with its business objectives, and will be key in the next phase of its strategy, including that of the Company's strategy where appropriate.

***Environmental Ambitions***

The Company's strategy in relation to Environmental Ambitions are covered in the Climate change section commencing on page 4 of this report.

**Regulators**

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

***Covid-19 Response***

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

As the year progressed the Board remained close to the developing priorities of the Government for supporting the stability of the wider UK economy, and regulatory initiatives that reflect the changing demands of wider society.

***Regulatory Agenda***

Individual Directors have had in the ordinary course of business continuing discussions with the FCA on several aspects of the regulatory agenda. The Board, in turn receives regular updates on this and wider Lloyds Banking Group interaction. This provided a view of key areas of FCA focus, alongside progress made on addressing FCA actions.

During 2020, key areas of focus for the Board has been adapting to changes in regulatory requirements, embedding the prescribed FCA criteria in the development of the annual fund value assessment process and reporting, and ensuring the fair treatment of customers in action plans. Following a review of the assessment outcomes of the Company's Liquidity Management arrangements alongside the FCA's expectations of 'good practice' when managing funds and recommendations made by the International Organisation of Securities Commissions (IOSCO) covering liquidity risk management, the Board concluded that the liquidity monitoring arrangements in place for the Company were well established and controlled.

The Board continues to monitor the status of the Company's relationship with the FCA, prioritising engagement in key areas of regulatory change.

**STRATEGIC REPORT (continued)**

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

**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. The Board recognises the importance of its role in overseeing these relationships which are integral to the Company's future success.

***Supplier Experience***

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

***Supplier Framework***

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

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

***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 the 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, including the Company which is required to publish an annual statement, and sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains. The Board undertakes a regular review of these Statements.

On behalf of the Board of Directors

J C S Hillman

Director

29 January 2021

## DIRECTORS' REPORT

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

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

### Results and dividend

The result of the Company for the year ended 31 December 2020 is a profit after tax of £17.4 million (2019 : £206.6 million). The prior year result benefited from £192.1 million consideration received for the transfer of Wealth business to Schroders Personal Wealth. The result is reflective of market conditions during the year following Covid-19 impacts, but is also reflective of reduced costs compared to 2019.

There was a £44.1 million (33.1 per cent) fall in revenue from annual management charges during the year, as a result of lower FUM which is driven by net outflows, the transfer of Wealth assets to SPW ACD in December 2019, and impacts of market performance linked to the Covid-19 pandemic.

Total assets reduced by £218.0 million, primarily as a result of the £194.0m dividend paid in February.

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

An interim dividend of £194.0 million was paid during the year (2019: nil). The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2020 (2019: £nil).

### Directors

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

| | |
|---|---|
| G M Stewart | (appointed 13 January 2020) |
| G M Stewart | (resigned 14 January 2021) |
| S W Lowther | (resigned 31 December 2020) |
| J E Sayers | (resigned 31 December 2020) |

Particulars of the Directors' emoluments are set out in note 24.

### Directors' indemnities

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

The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. 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.

### Future developments

Details of any future developments are provided in the Company Strategic Report.

### Financial risk management

Disclosures relating to financial risk management are included in note 23 of the accounts and are therefore incorporated into this report by reference.

### Engagement with suppliers, customers and others

Disclosures relating to engagement with suppliers, customers and others are included in the Strategic Report and are therefore incorporated into this report by reference.

### Independent auditors

PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006 for the current year. Deloitte LLP have been appointed as auditors for the year ending 31 December 2021.

**DIRECTORS' REPORT (CONTINUED)**

**Statement of Directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the 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 judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Each of the Directors whose names are listed on page 3 confirms that, to the best of their knowledge:

– the Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company; and

– the strategic report on pages 4 to 10, and the Directors' Report on pages 11 to 12 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board of Directors

J C S Hillman

Director

29 January 2021

# Independent auditors' report to the members of Scottish Widows Unit Trust Managers Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Scottish Widows Unit Trust Managers 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 profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the " Annual Report "), which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

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

*Independence*

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

### Conclusions relating to going concern

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

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

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

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

### Reporting on other information

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

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

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

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

*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.

## Independent auditors' report to the members of Scottish Widows Unit Trust Managers Limited (continued)

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

**Responsibilities for the financial statements and the audit**

*Responsibilities of the directors for the financial statements*

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

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

*Auditors' responsibilities for the audit of the financial statements*

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

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

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

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

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

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

*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.

# Independent auditors' report to the members of Scottish Widows Unit Trust Managers Limited (continued)

## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Neil Riches (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

29 January 2021

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

| | Note | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|---|
| Revenue | 3 | 102,097 | 158,754 |
| Distribution and selling costs | 4 | (17,717) | (21,254) |
| **Gross profit** | | **84,380** | **137,500** |
| Proceeds from transfer of investment management agreements | | — | 192,122 |
| Net loss on financial assets at fair value through profit or loss | 5 | (170) | (1,094) |
| Administrative expenses* | 6 | (60,070) | (114,401) |
| Finance costs | 8 | (3,259) | (3,576) |
| **Profit before tax*** | | **20,881** | **210,551** |
| Taxation charge* | 9 | (3,500) | (3,956) |
| **Profit and total comprehensive income for the year*** | | **17,381** | **206,595** |

* Prior year Administrative expenses have been reduced by £0.953 million as a result of a prior year restatement of investment management fees paid. More details are included in note 28.

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

The notes set out on pages 20 to 41 are an integral part of these financial statements.

## BALANCE SHEET AS AT 31 DECEMBER 2020

| | Note | 2020<br>£'000 | Restated*<br>2019<br>£'000 | Restated*<br>1 January 2019<br>£'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deferred origination costs | 10 | 7,003 | 10,126 | 15,009 |
| Deferred tax assets | 11 | 129 | 133 | 151 |
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | 12 | 2,584 | 2,751 | 3,850 |
| Trade and other receivables* | 13 | 63,037 | 102,336 | 76,785 |
| Cash and Cash equivalents | 14 | 121,394 | 296,751 | 107,418 |
| **Total Assets** | | 194,147 | 412,097 | 203,213 |
| **EQUITY AND LIABILITIES** | | | | |
| Capital and reserves attributable to the Company's equity shareholder | | | | |
| Share capital | 15 | 50 | 50 | 50 |
| Retained profits* | | 136,579 | 313,198 | 106,603 |
| **Total equity** | | 136,629 | 313,248 | 106,653 |
| **Liabilities** | | | | |
| Deferred income | 16 | 4,867 | 7,347 | 12,537 |
| Current tax liabilities* | 17 | 5,260 | 5,068 | 21,594 |
| Provisions for other liabilities and charges | 18 | 490 | 549 | 592 |
| Financial liabilities: | | | | |
| Trade and other payables | 19 | 46,901 | 82,697 | 57,339 |
| Bank borrowings and other unpresented items | 20 | — | 3,188 | 4,498 |
| **Total liabilities** | | 57,518 | 98,849 | 96,560 |
| **Total equity and liabilities** | | 194,147 | 412,097 | 203,213 |

* See note 28 for details regarding the prior year restatement.

Retained earnings of the Company includes profit for the year of £17.4 million (2019: £206.6 million).

The notes set out on pages 20 to 41 are an integral part of these financial statements.

The financial statements on pages 16 to 41 were approved by the Board on 29 January 2021.

J C S Hillman, Director

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

| | Note | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax* | | 20,881 | 210,551 |
| Adjusted for: | | | |
| Proceeds from transfer of investment management agreements | | — | (192,122) |
| Finance costs | 8 | 3,259 | 3,576 |
| Net movement in operating assets and liabilities* | 21 | 3,611 | 863 |
| Decrease in deferred income | 16 | (2,480) | (5,190) |
| Decrease in deferred origination costs | 10 | 3,123 | 4,883 |
| Taxation paid | | (3,304) | (20,464) |
| **Net cash flows generated from operating activities** | | 25,090 | 2,097 |
| **Cash flows from investing activities** | | | |
| Proceeds from transfer of investment management agreements | | — | 192,122 |
| **Net cash flows generated from investing activities** | | — | 192,122 |
| **Cash flows from financing activities** | | | |
| Dividends paid | 22 | (194,000) | — |
| Finance costs | 8 | (3,259) | (3,576) |
| **Net cash flows used in financing activities** | | (197,259) | (3,576) |
| **Net increase in cash and cash equivalents** | | (172,169) | 190,643 |
| Cash and cash equivalents at the beginning of the year | | 293,563 | 102,920 |
| **Net cash and cash equivalents at the end of the year** | 14 | 121,394 | 293,563 |

* See note 28 for details regarding the prior year restatement.

The notes set out on pages 20 to 41 are an integral part of these financial statements.

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

| | Note | Share capital £'000 | Retained profits £'000 | Total equity £'000 |
|---|---|---|---|---|
| **Balance as at 1 January 2019 previously reported** | | 50 | 101,788 | 101,838 |
| Prior year adjustment (see note 28) | | — | 4,815 | 4,815 |
| **Balance as at 1 January 2019 (restated*)** | | 50 | 106,603 | 106,653 |
| Profit and total comprehensive income for the year as previously reported | | — | 205,823 | 205,823 |
| Prior year adjustment (see note 28) | | — | 772 | 772 |
| Dividends paid | 22 | — | — | — |
| **Balance as at 31 December 2019 and 1 January 2020 (restated*)** | | 50 | 313,198 | 313,248 |
| Profit and total comprehensive income for the year | | — | 17,381 | 17,381 |
| Dividends paid | 22 | — | (194,000) | (194,000) |
| **Balance as at 31 December 2020** | | 50 | 136,579 | 136,629 |

*See note 28 for details regarding the prior year restatement.

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 23.

The notes set out on pages 20 to 41 are an integral part of these financial statements.

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

**1. Accounting policies**

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

**(a) Basis of preparation**

The financial statements of the Company have been prepared:

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

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

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

The 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.

**Standards and interpretations effective in 2020**

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

**(b) Revenue recognition**

**Revenue**

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

- Net fee income from the sale of shares in OEIC sub funds and other similar fees;
- Net fee remuneration from the management of shares in OEIC sub funds; and
- Other income, which includes net registration fees and other similar fees.

The fees are recognised as revenue in the statement of comprehensive income in the year as the services are being provided. If the fees are for services to be provided in future years, these are deferred and recognised in the statement of comprehensive income as revenue as the service is provided.

**Other operating income**

The proceeds received for transfer of the investment management agreements were recognised in the statement of comprehensive income on the date the Company ceased to be entitled to the revenue arising from the investment management agreements.

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

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

**Investment income**

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

**(c) Expense recognition**

**Distribution and selling costs**

Distribution and selling costs consist of commission paid to acquire new business. Where certain criteria are met, commission and other acquisition costs may be deferred. The circumstances under which such costs are deferred are set out at policy (d).

**Administrative expenses**

These consist of recharges from group companies and fund management fees that are recognised in the statement of comprehensive income as they accrue.

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

**1. Accounting policies (continued)**

**(c) Expense recognition (continued)**

**Finance costs**

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

**Deferred origination costs**

The costs of commission paid to acquire new business incurred during a financial period but which relate to subsequent financial periods are deferred to the extent that they are recoverable out of future revenue margins. This asset is subsequently amortised over the remaining contractual lifetime of each holding on a straight-line basis. The amortisation charge for the year is recognised through the statement of comprehensive income, within distribution and selling costs. The carrying value of the asset is tested for impairment at each reporting date. Deferred origination costs are split between current and non-current. Current deferred costs run off within the next 12 months and non-current in more than 12 months. The deferred origination costs have a finite life and run off over varying periods based on the expectation of various products. Further information on the Company's impairment policy is set out at policy (i).

**(d) Financial assets and financial liabilities**

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

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

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

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

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

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

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

**(e) Fair value methodology**

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

**(i) Level 1**

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

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

**1. Accounting policies (continued)**

**(f) Fair value methodology (continued)**

**(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); and
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

Examples of these are securities measured using discounted cash flow models based on market observable swap yields such as Over the Counter interest rate swaps, listed debt and restricted equity securities.

**(iii) Level 3**

Valuations are based on mathematical models, market prices/data (where available) and subjective assumptions, including unobservable inputs. Unobservable inputs may have been used to measure fair value where observable inputs are not available. This approach allows for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability, for example private equity investments held by the and Company. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

Further analysis of the  Company’s instruments held at fair value is set out at note 23.

**(g) Trade and other receivables**

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

Trade and other receivables at amortised cost are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment. Further information on the Company's impairment policy is set out at policy (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 with original maturities of three months or less (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments).

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

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**

An impairment charge would be recognised in the statement of comprehensive income, and would include any change in expected credit losses for financial assets held at amortised cost. Expected credit losses are calculated by using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

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

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. The credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

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, such as external bank accounts.

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

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.

**Non-financial assets**

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.

**(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**

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.

**1. Accounting policies (continued)**

**(j) Taxes (continued)**

**Deferred tax**

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

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, 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.

**Dividends payable**

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

**(l) Trade and other payables**

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

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

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

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

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

**(n) Deferred income**

The Company receives investment management fees in the form of an initial adjustment, or charge, to the amount invested. These fees are in respect of services rendered in conjunction with the issue and management of investment contracts where the Company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the contract.

These services comprise an indeterminate number of acts over the estimated lives of the individual contracts and, therefore, the Company defers these fees and recognises them on a straight-line basis over the remaining lives of the contracts.

The income is recognised through the statement of comprehensive income, within revenue. The liability is recognised in the balance sheet within deferred income until recognised.

**(o) Bank borrowings and other unpresented items**

Borrowings are recognised initially at fair value, being the issue proceeds net of transaction costs incurred. In practice, due to the nature of these balances, being bank overdrafts and other unpresented items, the carrying value equates to the fair value of these liabilities as the borrowings are repayable on demand.

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

**1. Accounting policies (continued)**

**(p) Financial assets at fair value through profit or loss**

**Classification**

Financial asset investment balances comprise the manager's box holdings in Scottish Widows OEIC funds and investments held through liquidity funds.

**Recognition**

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

**Measurement**

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

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

The fair value of holdings in collective investment vehicles (including OEICs and unit trusts) is determined as the last published price applicable to the vehicle at the reporting date.

**2. Critical accounting estimates and judgements in applying accounting policies**

The Company's management makes estimates and judgements that affect the reported amount of assets and liabilities. Estimates and judgements 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) Estimates**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Deferred origination costs**

Origination costs in respect of the contracts managed by the Company, which are incurred during a financial period but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. The calculation of the deferred origination cost asset and its pattern of amortisation requires estimation of both the expected pattern of receipt of future revenue margins and the period of time that the business is expected to remain in force. Estimation is required of the period that the business is expected to remain in force. Further information on this asset is given in notes 1(c) and 10.

**Deferred income**

Income received for services to be provided in future periods is deferred and recognised in the statement of comprehensive income as the service is provided. As above, estimation is required of the period that the business is expected to remain in force. Further information on this liability is given in notes 1(n) and 16.

**(b) Judgements**

Following the adoption of IFRS 15, the Company's management considers that the following judgements have the most significant effect on the amounts recognised in the financial statements:

**Deferred origination costs**

As above, costs incurred during the financial period but which relate to subsequent financial periods are deferred to the extent that they are recoverable out of future revenue margins. These costs relate to an indeterminate number of acts over the estimated lives of the individual contracts and, the Company applies judgement in determining whether deferral is appropriate. Further information on this liability is given in notes 1(c) and 10.

**Deferred income**

As above, income received for services to be provided in future periods is deferred and recognised in the statement of comprehensive income as the service is provided. These services comprise an indeterminate number of acts over the estimated lives of the individual contracts and, therefore, the Company defers these fees and recognises them on a straight-line basis over the remaining lives of the contracts. Further information on this liability is given in notes 1(n) and 16.

## 3. Revenue

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Annual management charges | 89,033 | 133,178 |
| Income from unit dealing | 2,438 | 4,227 |
| Decrease in deferred income liability | 2,480 | 5,190 |
| Registration fees and other income | 7,643 | 15,322 |
| Interest and dividend income on financial assets at fair value through profit or loss | 503 | 837 |
| **Total** | **102,097** | **158,754** |

Included within the decrease in deferred income liability is an amount of £nil (2019: £1.6 million) in respect of funds that transferred to SPW ACD.

## 4. Distribution and selling costs

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Commissions payable and other selling costs | 14,594 | 16,371 |
| Decrease in deferred origination costs | 3,123 | 4,883 |
| **Total** | **17,717** | **21,254** |

Included within the decrease in deferred origination costs is an amount of £nil (2019: £0.8 million) in respect of funds that transferred to SPW ACD.

## 5. Net losses on financial assets at fair value through profit and loss

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Net loss on financial assets at fair value through profit or loss | 170 | 1,094 |
| **Total** | **170** | **1,094** |

Included in the net losses on financial assets at fair value through profit or loss are movements on OEIC fund holdings.

## 6. Administrative expenses

| | 2020<br>£'000 | Restated*<br>2019<br>£'000 |
|---|---|---|
| Recharges from other group companies | 35,157 | 39,977 |
| Investment expenses * | 18,810 | 42,655 |
| Custodian fees | 4,671 | 5,133 |
| Trustee fees | 67 | 176 |
| Other fees (including provisions for the year) | 1,365 | 26,460 |
| **Total** | **60,070** | **114,401** |

* Prior year investment expenses have been reduced by £0.953 million as a result of a prior year restatement of investment management fees paid. More details are included in note 28.

Administrative expenses relate to the costs incurred in the administration and investment management of ISAs and OEIC shares.

The Company had no direct employees during the year (2019: nil). The employee costs, including pension costs are included in the recharges from other group companies noted above.

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

## 7. Auditors' remuneration

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the Company's annual financial statements | 40 | 40 |
| Fees payable to the Company's auditors and their associates for other services: | | |
| Audit-related assurance services | 91 | 95 |
| **Total fees payable** | **131** | **135** |

Audit fees for 2019 and 2020 were borne by another Lloyds Banking Group entity and recharged to the Company.

## 8. Finance costs

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Finance costs | 3,259 | 3,576 |
| **Total** | **3,259** | **3,576** |

## 9. Taxation charge

### (a) Current year tax charge

| | 2020<br>£'000 | Restated*<br>2019<br>£'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax | 3,949 | 3,938 |
| Adjustment in respect of prior years | (453) | — |
| **Total current tax** | 3,496 | 3,938 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | 18 | 18 |
| Impact of deferred tax rate change | (14) | — |
| **Deferred tax charge** | 4 | 18 |
| **Tax charge** | **3,500** | **3,956** |

Corporation Tax is calculated at a rate of 19.00 per cent (2019: 19.00 per cent) of the taxable profit for the year.

### (b) Reconciliation of tax charge

| | 2020<br>£'000 | Restated*<br>2019<br>£'000 |
|---|---|---|
| **Profit before tax** | 20,881 | 210,552 |
| **Tax at 19% (2019: 19%)** | 3,967 | 40,005 |
| Effects of: | | |
| Adjustment in respect of prior years | (453) | — |
| Non-taxable items | — | (36,048) |
| Effect of change in tax rate and related impacts | (14) | — |
| Other | — | (1) |
| **Total** | **3,500** | **3,956** |

*Taxation charge for the prior year has been restated as a result of the prior year restatement of investment management fees paid. More details are included in note 28.

Finance Act 2016 reduced the main rate of corporation tax to 17 per cent with effect from 1 April 2020. Within the March 2020 Budget, the UK government stated its intention to maintain the corporation tax rate at 19% on 1 April 2020. That rate change was enacted under the Provisional Collection of Taxes Act 1968 on 17 March 2020

## 10. Deferred origination costs

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **At 1 January** | 10,126 | 15,009 |
| Amounts incurred during the year | — | 1,550 |
| Amortisation during the year | (3,123) | (6,433) |
| **At 31 December** | **7,003** | **10,126** |

Of the above total, £4.1 million (2019: £7.5 million) is expected to be recovered more than one year from the reporting date.

## 11. Deferred tax assets

The movement in the Deferred Tax Asset is as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Brought forward | 133 | 151 |
| Charge for the year | (4) | (18) |
| Adjustments in respect of prior years | — | — |
| Amount charged to equity: | | |
| Other | — | — |
| **Total** | **129** | **133** |

The deferred tax charge in the year comprises the following temporary differences:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Other temporary differences | (4) | (18) |
| **Total** | **(4)** | **(18)** |

Deferred Tax Asset comprises:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Other temporary differences | 129 | 133 |
| **Total** | **129** | **133** |

## 12. Financial assets at fair value through profit or loss

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| OEIC fund holdings | 2,584 | 2,751 |
| **Total investments at fair value** | **2,584** | **2,751** |

OEIC fund holdings comprise shares held in the OEIC funds that are managed by the Company which are classified at fair value through profit or loss as part of the manager's daily box holdings. Purchases and sales are recognised on the trade date, i.e. the date the Company commits to purchase the asset from, or deliver the asset to, the counterparty.

## 12. Financial assets at fair value through profit or loss (continued)

### Interests in unconsolidated structured entities

Included within financial assets at fair value through profit or loss £2.6 million (2019: £2.8 million) and cash and cash equivalents £110.6 million (2019: £261.6 million) in note 14 are investments in unconsolidated structured entities of £113.2 million (2019: £264.4 million) arising from investments in collective investment vehicles.

The investments are carried at fair value and the Company's maximum exposure to loss is equal to the carrying value of the investment. At 31 December 2020, the total net assets of unconsolidated collective investment vehicles in which the Company held a beneficial interest were £53.2 billion (2019: £79.4 billion). During the year the Company has not provided any non-contractual financial or other support to these unconsolidated collective investment vehicles

The Company sponsors a range of collective investment vehicles where it acts as the decision maker over the investment activities and markets the funds under one of Lloyds Banking Group's brands. The Company earns fees from managing the investments of these funds. The investment management fees that the Company earned from these sponsored unconsolidated collective investment vehicles and limited partnerships, including those in which the Company held no interest at 31 December 2020 was £89.0 million (2019: £133.2 million).

## 13. Trade and other receivables

| | 2020<br>£'000 | Restated*<br>2019<br>£'000 |
|---|---|---|
| Trade receivables | 41,342 | 63,765 |
| Amounts due from group undertakings (see note 23)* | 19,491 | 36,558 |
| Other receivables | 2,204 | 2,013 |
| **Total** | **63,037** | **102,336** |

*See note 28 for details regarding the prior year restatement.

None of the above balances are interest-bearing (2019: none).

Further information in respect of credit risk in relation to trade and other receivables is given in note 23.

Of the above total, £nil (2019: £nil) is expected to be settled more than one year after the reporting date.

## 14. Cash and cash equivalents

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

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Investments held through liquidity funds | 110,596 | 261,646 |
| Cash at bank | 10,798 | 35,105 |
| | **121,394** | **296,751** |
| Bank borrowings and other unpresented items (Note 20) | — | (3,188) |
| **Total** | **121,394** | **293,563** |

Cash and cash equivalents does not include client monies held on deposit of £36.1 million (2019: £64.5 million). These amounts are similarly excluded from current liabilities.

Investments held through liquidity funds are used to optimise returns on excess funds held by the Company. Further information in respect of credit risk in relation to cash and cash equivalents is given in note 23.

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

## 15. Share capital

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Issued and fully paid share capital:** | | |
| 50,000 (2019: 50,000) ordinary shares of £1 each | 50 | 50 |
| **Total** | **50** | **50** |

There were no changes in share capital during the year. All shares rank equally with regard to the Company's residual assets.

## 16. Deferred income

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **At 1 January** | 7,347 | 12,537 |
| Amounts deferred during the year | — | 1,471 |
| Amortisation during the year | (2,480) | (6,661) |
| **At 31 December** | **4,867** | **7,347** |

Of the above amount, £2.7 million (2019: £5.2 million) is expected to be recovered more than one year from the reporting date.

## 17. Current tax liabilities

| | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|
| Current tax liabilities* | 5,260 | 5,068 |
| **Total** | **5,260** | **5,068** |

*See note 28 for details regarding the prior year restatement.

## 18. Provisions for other liabilities and charges

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **At 1 January** | 549 | 592 |
| Amounts provided during the year | — | 2,700 |
| Amount utilised in the period | (59) | (2,743) |
| **At 31 December** | **490** | **549** |

Of the above total, £nil (2019: £nil) is expected to be settled more than one year after the reporting date.

Outstanding provisions relating to third party asset management transaction costs.

## 19. Trade and other payables

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Trade payables | 18,168 | 34,604 |
| Amounts due to group undertakings (see note 23) | 16,823 | 12,858 |
| Other payables | 11,910 | 35,235 |
| **Total** | **46,901** | **82,697** |

None of the above balances are interest-bearing or secured (2019: none). Further information in respect of liquidity risk in relation to trade and other payables is given in note 23.

## 20. Bank borrowings and other unpresented items

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Bank borrowings and other unpresented items | — | 3,188 |
| **Total** | **—** | **3,188** |

Further information in respect of liquidity risk in relation to bank borrowings and other unpresented items is given in note 23.

## 21. Net (increase)/decrease in operating assets and liabilities

| | 2020<br>£'000 | Restated*<br>2019<br>£'000 |
|---|---|---|
| **Net movement in operating assets** | | |
| Trade and other receivables | 39,299 | (25,551) |
| Financial assets at fair value through profit or loss | 167 | 1,099 |
| **Net movement in operating assets** | **39,466** | **(24,452)** |
| **Net (decrease)/increase in operating liabilities** | | |
| Trade and other payables and provisions | (35,855) | 25,315 |
| **Net (decrease)/increase in operating liabilities** | **(35,855)** | **25,315** |
| **Net decrease in operating assets and liabilities** | **3,611** | **863** |

*See note 28 for details regarding the restatement.

## 22. Dividends paid

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Dividends paid | (194,000) | — |
| **Total** | **(194,000)** | **—** |

During the year an interim dividend of £194.0 million was paid in respect of 2020 (2019: £nil). The dividend paid in the year amounted to £3,880 per share (2019: £nil per share).

No final dividend is proposed in respect of the year ended 31 December 2020 (2019: £nil).

## 23. Risk management

The Company is part of the Insurance division within Lloyds Banking Group. The principal activity of the Company is to act as the Authorised Corporate Director for the management of ISAs and OEIC sub-funds.

This note summarises the risks associated with the activities of the Company and the way in which the Company managed them during the year.

### (a) Governance framework

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

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

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

**23. Risk management (continued)**

**(a) Governance framework (continued)**

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. The performance of the Company and the strategic management of the business depend on its ability to manage these risks.

Policy owners, identified from appropriate areas of the Lloyds Banking Group and Insurance division, are responsible for drafting risk policies, for ensuring that they remain up-to-date and for facilitating any changes. Policies are subject to at least an annual review. Limits are prescribed within which those responsible for the day-to-day management of the Company can take decisions. Line management are required to follow prescribed reporting procedures to the bodies responsible for monitoring compliance with policy and controlling the risks. There is a specific policy for Risk Management within the Company, which is reviewed annually and reported against regularly to the Board.

**(b) Risk appetite**

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

Risk appetite is the amount and type of risk that the Board prefers, accepts or wishes to avoid and is fully aligned to Insurance and Lloyds Banking Group strategies. Responsibility for managing risk resides with the Board who manage it in line with Lloyds Banking Group and Insurance risk policies.

The operational implementation of risk appetite statements is assigned to Insurance Executive Committees, in particular Insurance and Wealth Risk Committee (IWRC) and Insurance and Wealth Asset and Liability Committee (IWALCO). The risk appetite statements set limits for exposures to the key risks faced by the business.

Risk appetite is approved by the Board at least annually with experience against it tracked monthly and reported to the Board quarterly.

**(c) Financial risks**

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

The market risks that the Company primarily faces due to the nature of its financial assets and financial liabilities are interest rate and equity risk.

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

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

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

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

**1) Market risk**

Market risk is defined as the risk that our capital or earnings profile is affected by adverse market rates.

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

Below is an analysis of financial assets and financial liabilities at fair value through profit or loss according to their fair value hierarchy (as defined in note 1 (f)):

**23. Risk management (continued)**

**(c) Financial risks (continued)**

**1) Market risk**

**As at 31 December 2020**

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Financial assets at fair value through profit or loss | 2,584 | — | — | 2,584 |
| Cash and cash equivalents | 110,596 | — | — | 110,596 |
| **Total assets** | **113,180** | **—** | **—** | **113,180** |

**As at 31 December 2019**

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Financial assets at fair value through profit or loss | 2,751 | — | — | 2,751 |
| Cash and cash equivalents | 261,646 | — | — | 261,646 |
| **Total assets** | **264,397** | **—** | **—** | **264,397** |

In addition to market risk on directly held assets and liabilities, the Company has an exposure to indirect market risk. This arises from the fact that the annual management charges collected and associated costs for the management of the funds fluctuate with the market movements impacting the value of customer funds. For example if the underlying market value of customer funds fell by 10 per cent, AMCs are estimated to fall by £6.6 million (2019: £7.7million) based on year end values. These are classified as indirect market risks.

**(i) 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. The sensitivity analysis below illustrates how the fair value of future cash flows in respect of interest-bearing financial assets held by customers will fluctuate because of changes in market interest rates at the reporting date.

| | Impact on profit after tax and equity for the year | |
|---|---|---|
| | 2020 £'000 | 2019 £'000 |
| 25 basis points (2019: 25 basis points) increase in yield curves | (617) | (656) |
| 25 basis points (2019: 25 basis points) decrease in yield curves | 617 | 656 |
| 50 basis points (2019: 50 basis points) increase in yield curves | (1,266) | (1,346) |
| 50 basis points (2019: 50 basis points) decrease in yield curves | 1,266 | 1,346 |

**(ii) Equity risk**

The Directors do not believe that the Company has a large exposure to direct equity risk, given the small amount of equity directly held in OEIC holdings. As such equity risk is not considered material.

**2) Credit risk**

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

Credit risk is managed in line with the Insurance Credit Risk Policy and the wider Lloyds Banking Group Credit Risk Policy which set out the principles of the credit control framework.

Credit risk to the Company arises primarily from exposure to trade 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.

**23. Risk management (continued)**

**(c) Financial risks (continued)**

**2) Credit risk (continued)**

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

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

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

| | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|
| Trade and other receivables* | 63,037 | 102,336 |
| Cash and cash equivalents | 121,394 | 296,751 |
| **Total assets bearing credit risk** | **184,431** | **399,087** |

*See note 28 for details regarding the restatement.

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 | Not rated £'000 |
|---|---|---|---|---|---|
| **Stage 1 assets** | | | | | |
| Cash and cash equivalents | 10,798 | — | — | 10,798 | — |
| Loans and receivables at amortised cost | 64,468 | — | — | 19,491 | 44,977 |
| Loss allowance | (1,431) | — | — | — | (1,431) |
| **Exposure to credit risk** | **73,835** | **—** | **—** | **30,289** | **43,546** |
| **Assets at fair value through profit and loss** | | | | | |
| Cash and cash equivalents | 110,596 | — | 110,596 | — | — |
| **Total** | **184,431** | **—** | **110,596** | **30,289** | **43,546** |

Of the unrated assets; approximately £22.7 million (2019: £46.6 million) relate to payments due from OEICs.

**As at 31 December 2019**

| | Total £'000 | AAA £'000 | AA £'000 | A £'000 | Not rated £'000 |
|---|---|---|---|---|---|
| **Stage 1 assets** | | | | | |
| Cash and cash equivalents | 35,105 | — | — | 35,105 | — |
| Loans and receivables at amortised cost | 102,783 | — | — | 29,478 | 73,305 |
| Loss allowance | (447) | — | — | — | (447) |
| **Exposure to credit risk** | **137,441** | **—** | **—** | **64,583** | **72,858** |
| **Assets at fair value through profit and loss** | | | | | |
| Cash and cash equivalents | 261,646 | 261,646 | — | — | — |
| **Total** | **399,087** | **261,646** | **—** | **64,583** | **72,858** |

Amounts classified as 'not rated' in the above tables are not rated by Standard and Poor’s or an equivalent rating agency.

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

**23. Risk management (continued)**

**(c) Financial risks (continued)**

**2) Credit risk (continued)**

Exposure to credit risk is concentrated across counterparties as follows:

| | 2020 Total £'000 | Restated* 2019 Total £'000 |
|---|---|---|
| Trade and other receivables: | | |
| Amounts due from policy holders | 23,956 | 39,430 |
| Amounts due from brokers | 19,750 | 17,579 |
| Amounts due from group undertakings | 19,491 | 36,558 |
| Other receivables | (160) | 8,769 |
| Cash and cash equivalents: | | |
| Amounts due from group undertakings | 10,798 | 35,105 |
| Other cash and cash equivalents | 110,596 | 261,646 |
| **Total** | **184,431** | **399,087** |

*See note 28 for details regarding the restatement.

**3) Liquidity risk**

Liquidity risk is defined as the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or from the inability to generate cash inflows as anticipated.

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

The following tables indicate the timing of the contractual cash flows arising from the Company's financial liabilities, as required by IFRS 7:

| As at 31 December 2020 | | Contractual cash flows (undiscounted) | | | | | |
|---|---|---|---|---|---|---|---|
| Liabilities | Carrying amount £'000 | No stated maturity £'000 | Less than 1 month £'000 | 1-3 months £'000 | 3-12 months £'000 | 1-5 years £'000 | More than 5 years £'000 |
| Bank borrowings and other unpresented items | — | — | — | — | — | — | — |
| Trade and other payables | 46,901 | — | 46,901 | — | — | — | — |
| **Total** | **46,901** | **—** | **46,901** | **—** | **—** | **—** | **—** |

| As at 31 December 2019 | | Contractual cash flows (undiscounted) | | | | | |
|---|---|---|---|---|---|---|---|
| Liabilities | Carrying amount £'000 | No stated maturity £'000 | Less than 1 month £'000 | 1-3 months £'000 | 3-12 months £'000 | 1-5 years £'000 | More than 5 years £'000 |
| Bank borrowings and other unpresented items | 3,188 | — | 3,188 | — | — | — | — |
| Trade and other payables | 82,697 | — | 82,697 | — | — | — | — |
| **Total** | **85,885** | **—** | **85,885** | **—** | **—** | **—** | **—** |

The contractual cash flow analysis set out above has been based on the earliest possible contractual date, regardless of the surrender penalties that might apply and has not been adjusted to take account of such penalties.

**23. Risk management (continued)**

**(c) Financial risks (continued)**

**4) Capital risk**

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

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

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

Within the Insurance Division, capital risk is actively monitored by IWALCO.

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

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

The Company's objectives when managing capital are:

- to have sufficient further capital to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders;
- to comply with the regulatory capital requirements set out by the FCA in the UK; and

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

The table below sets out the regulatory capital requirement and the required capital held at 31 December in each year. The current year information is confirmed on approval of the annual report and accounts.

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Regulatory capital held | 129,497 | 297,403 |
| Regulatory capital requirement | 19,834 | 34,757 |

All minimum regulatory requirements were met during the year.

**(d) Non-financial risks**

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

**Identification**

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

**Measurement**

- Evaluate risk exposure vs appetite
- Modelling and stress testing, including Internal Model outputs
- Actual vs expected losses
- Scenario analysis
- Reverse stress testing

**23. Risk management (continued)**

**(d) Non-financial risks (continued)**

**Management**

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

**Monitoring**

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

**Reporting**

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

The primary non-financial risk categories are:

**Conduct risk**

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

**Governance risk**

Governance risk is defined as the risk that 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.

**Model risk**

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

**Operational risk**

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

– **Change risk**

Change risk is defined as the risk that, in delivering its change agenda, the Company fails to ensure compliance with laws and regulation, maintain effective customer service and availability, and/or operate within the Company's risk appetite.

– **Cyber and information security**

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

– **Data management**

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

**23. Risk management (continued)**

**(d) Non-financial risks (continued)**

– **External service provision**

Failure in the provision of the formally agreed services (i.e. within the scope for the Group Service Provision Policy / supporting Procedures) which are required so Business Units meet their agreed deliverables.

– **Financial crime**

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

– **Financial reporting risk**

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

– **Fraud**

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

– **Internal service provision**

The risk associated with the management of internal service arrangements.

– **IT systems**

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

– **Operational resilience risk**

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

– **Physical security risk**

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

– **Sourcing**

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

**People risk**

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

**Regulatory and legal risk**

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

**(e) The United Kingdom leaving the European Union**

The United Kingdom (UK) left the European Union (EU) on 31 January 2020. Under transitional arrangements, EU laws continued to apply to the UK until 31 December 2020. Ahead of that date, the UK and EU concluded a Trade and Cooperation Agreement. We have continued to closely monitor the position to understand any potential impact on the range of products and services we offer. There is no change for UK residents, who can continue to apply for our products and services. Persons resident outside the UK are ineligible to apply for our products and services, while certain restrictions may apply in respect of any existing products and services.

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

**23. Risk management (continued)**

**(f) Economic Risk**

UK economic growth is muted due to impacts from Covid-19 pandemic and political uncertainty. High levels of credit market liquidity have reduced spreads and weakened terms in some sectors, creating a potential under-pricing of risk and heightened risk of a market correction. The 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 strategic, operational and reputational impacts.
- Wide array of risks considered in setting strategic plans
- Being expressed as percentage of fund values, charges and expenses have both reduced and the net impact is minimal.

**24. Related party transactions**

**(a) Ultimate parent and shareholding**

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

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

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these Financial Statements. Once approved, copies of the consolidated Annual Report and Financial Statements 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.

**(b) Transactions and balances with related parties**

**Transactions with other Lloyds Banking Group companies**

The Company acts as an Authorised Corporate Director for 70 authorised OEIC sub-funds (2019: 69).

Transactions and balances in respect of these sub-funds are as follows:

| | **2020** | **2019** |
|---|---|---|
| | **£'000** | **£'000** |
| **OEIC sub funds** | | |
| Aggregate total transactions for the year: | | |
| Creations | 4,453,895 | 2,526,816 |
| Cancellations | 8,410,372 | 7,876,790 |
| Aggregate amounts due to trustee and depositary: | | |
| Creations (payable) and cancellations receivable at the year-end | 5,104 | 6,144 |
| Amounts received by the Company | | |
| Gross annual investment management fees | 77,621 | 114,510 |
| Registrar fees | 18,896 | 23,689 |
| Amounts receivable at the year-end: | | |
| Investment management fees | 6,657 | 7,200 |
| Registrars fees | 1,714 | 1,786 |
| Managers' box | | |
| Managers' box held at year end | 2,584 | 2,751 |

**24. Related party transactions (continued)**

**(b) Transactions and balances with related parties (continued)**

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

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:

| | 2020 | | | |
|---|---|---|---|---|
| | Income during £'000 | Expenses during £'000 | Payable at period end £'000 | Receivable at period £'000 |
| **Relationship** | | | | |
| Parent | 22,041 | 21,512 | 12,109 | 18,557 |
| Other related parties | — | 44,973 | 4,714 | 934 |

| | 2019 Restated* | | | |
|---|---|---|---|---|
| | Income during £'000 | Expenses during £'000 | Payable at period end £'000 | Receivable at period £'000 |
| **Relationship** | | | | |
| Parent | 76,633 | 31,735 | 10,818 | 22,725 |
| Other related parties | 7,414 | 53,257 | 2,040 | 13,833 |

*See note 28 for details regarding the 2019 restatement to amounts receivable from Parent company. Income from other related parties and expenses from Parent have been restated to capture the impacts of ex-gratia transactions.

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, for the Company, are the Directors.

The Executive Directors consider that they receive no remuneration for their services to the Company. The Non-Executive Directors received short-term employee benefits and remuneration in respect of qualifying services since totalling £65,200 (2019 – £16,900). None of the Non-Executive Directors are entitled to receive share options, retirement benefits or amounts under long-term incentive schemes.

**25. Contingent liabilities and capital commitments**

There were no contracted capital commitments at the balance sheet date (2019: £nil).

Lloyds Banking Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed Lloyds Banking Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £21.3 million (including interest). Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

**Outsourcing of long-standing customer administration platform**

The outsourcing contract signed with Diligenta on 25 September 2017 provides for certain future payments which are contingent on contractual milestones being achieved. £9.4 million relating to the share of these future payments may be expensed to the Company as incurred in future periods.

**26. Future accounting developments**

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

**27. Events after the reporting date**

There are no events after the reporting date.

**28. Restatement of comparatives**

The comparative information reported has been restated as explained below:

| | Restated £'000 | Adjustment £'000 | Previously Reported £'000 |
|---|---|---|---|
| **Balance sheet as at 1 January 2019** | | | |
| **Equity** | | | |
| Retained profits | 106,603 | 4,815 | 101,788 |
| **Assets** | | | |
| Trade and other receivables | 76,785 | 5,945 | 70,840 |
| **Liabilities** | | | |
| Current tax liabilities | 21,594 | 1,130 | 20,464 |
| **Balance sheet as at 31 December 2019** | | | |
| **Equity** | | | |
| Retained profits | 313,198 | 5,587 | 307,611 |
| **Assets** | | | |
| Trade and other receivables | 102,336 | 6,898 | 95,438 |
| **Liabilities** | | | |
| Current tax liabilities | 5,068 | 1,311 | 3,757 |
| **Statement of comprehensive income at 31 December 2019** | | | |
| Administrative expenses | (114,401) | 953 | (115,354) |
| Profit before tax | 210,551 | 953 | 209,598 |
| Taxation charge | (3,956) | (181) | (3,775) |
| Profit and total comprehensive income for the year | 206,595 | 772 | 205,823 |

**Correction of error in accounting of trade and other receivables**

Amounts due from related parties have been restated to reflect amounts due to the Company from Scottish Widows Limited, as a result of historic investment management fees settled by the Company in error.

These amounts reflect the reimbursement to the Company for the amounts settled on behalf of Scottish Widows Limited.

Opening 2019 trade and other receivables have been adjusted by £5.9 million, relating to the proportion of the investment invoice which applies to dates up to the 2018 year end.

Opening 2019 current tax liabilities have been adjusted by £1.1m, relating to the additional tax liability as a result of the increase in trade and other receivables.

Closing 2019 trade and other receivables have been adjusted by £6.9 million, relating to the proportion of the investment invoice which applies to dates up to the 2019 year end.

Closing 2019 administrative expenses have been adjusted by £1.0 million, relating to the proportion of the investment invoice which applies to the 2019 financial year.

The impact of this on the balance sheet at 1 January 2019 and 31 December 2019, and the statement of comprehensive income for 2019 has been shown in the table above.

Net assets have increased by £5.9 million at 1 January 2019.

Net assets have increased by £5.6 million at 31 December 2019, which equates to £6.9 million less an increase of £1.3 million to current tax liabilities.