

Scottish Widows Financial Services Holdings

Annual Report and Accounts
2021

Member of Lloyds Banking Group

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COMPANY INFORMATION**Board of Directors**

S J O'Connor (Chair)

W L D Chalmers

J E M Curtis

D L Davis

J C S Hillman*

A Lorenzo*

C J G Moulder

A J Reizenstein

G E Schumacher

* denotes Executive Director

Company Secretary

J M Jolly

Independent Auditors

Deloitte LLP

Hill House

1 Little New Street

London

EH4A 3TR

Registered Office

69 Morrison Street

Edinburgh

Midlothian

EH3 8YF

Company Registration Number

SC199548

STRATEGIC REPORT

The Directors present their strategic report on Scottish Widows Financial Services Holdings (the "Company") for the year ended 31 December 2021. The Company is registered in Scotland and is a private unlimited company.

The Company contributes to the results of the Insurance and Wealth Division of Lloyds Banking Group (LBG) plc.

Principal activities

The Company's principal activity is that of an intermediate holding company. Its three subsidiaries are SW Funding plc (SWF) (formerly Scottish Widows plc), HBOS Financial Services Limited (HBOS FS), and HBOS International Financial Services Holdings Limited (HBOS IFS).

Result for the Year

The result for the year ended 31 December 2021 is a loss after tax of £48.2 million (2020 loss: £62.7 million). The result for the year reflects dividends from subsidiaries, income from investments and impairment of the investment in a subsidiary company.

The effect of the loss for the year and dividend to its parent is that total net assets of the Company as at 31 December 2021 have decreased by £98.2 million to £192.4 million (2020: total net assets £290.6 million).

Long term impact of the UK's exit from the EU

Uncertainties in respect of the medium to long-term implications of the UK's exit from the EU on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. The Directors believe that there will be limited impact on the Company.

Covid-19

The outbreak of COVID-19 continues to significantly impact the principal risks faced by the Company. Note 14 provides further details of the impact on market risk (note 14 (a)), interest rate risk (note 14 (b)), credit risk (note 14 (c)), capital risk (note 14 (d)) and liquidity risk (note 14 (e)).

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Group's results of operations, financial condition or prospects. The Group will monitor the situation and risks to the business.

Climate Change

As a subsidiary of Scottish Widows Group (SWG), the Company is aligned with SWG's approach to supporting the successful transition to a more sustainable, low carbon economy. Further details of this can be found in the Scottish Widows TCFD Report via www.scottishwidows.co.uk. There is expected to be minimal impact upon the Company.

Key performance indicators

The Company's principal business during the year was the holding of investments in subsidiaries. Its principal income is the receipt of dividends from these subsidiaries. In 2021, £75m of dividends were received from subsidiary undertakings (2020: £nil).

The Directors are of the opinion that the above is the key performance indicator which is appropriate to the principal activity of the Company. The development, performance and position of the Insurance and Wealth Division are presented within LBG's annual report, which does not form part of this report.

Outlook

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

Principal risks and uncertainties

The Company through its investment in subsidiaries is also exposed to financial risk, in particular the risk of reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting, financial reporting fraud and impairment of subsidiary companies. Further details on the current year impairment are included in note 8.

The following table describes the principal risks faced by the Company. Further details on financial risks and how the Company mitigates them can be found in note 14, as shown by the note reference.

STRATEGIC REPORT (continued)**Principal risks and uncertainties (continued)***Financial risks*

Principal Risk	Note reference	Description
Capital risk	14(d)	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 Company's objectives when managing capital are to ensure that sufficient capital is available to safeguard the Company's ability to continue as a going concern so that it can continue to provide a return to the shareholder. Capital risk is managed via the Capital Risk policy, which includes tools and governance to monitor and allocate capital accordingly.
Liquidity risk	14(e)	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 mitigated by applying the Liquidity Risk Policy, which includes controls to maintain liquidity at necessary levels.

Non-financial risks

The Company faces a variety of non-financial risks through its operations. The Company manages these risks by following the embedded Risk Management Framework (RMF) which uses methodologies and systems consistent with those implemented across Lloyds Banking Group. The various stages of the framework cover the identification, measurement, management, monitoring and reporting of risks.

Principal Risk	Description
Operational risk	Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. This includes risks around cyber and information security, provision of external and internal services, financial crimes, financial reporting risk, fraud, IT systems, and security. Operational risk is managed through an operational risk framework, including a Risk and Control Self-Assessment (RCSA) process, and operational risk policies. The Company maintains a formal approach to operational risk event escalation, whereby material events are identified, captured and escalated. Root causes of events are determined, and action plans put in place to ensure an optimum level of control to keep customers and the business safe, reduce costs, and improve efficiency.
Long term impact of the UK's exit from the EU	Risks arising from uncertainties in respect of the medium to long-term implications of the UK's exit from the EU on trade, regulation and employment. The Company continues to monitor the wider environment post EU exit, including for market volatility. Scenario planning exercises are performed as part of the business as usual, while contingency plans are regularly reviewed for potential strategic, operational and reputational impacts.
Climate risk	The Company is exposed to climate risk through transition and physical risks. The Company considers the impact of climate risk as a risk driver on other risks types, such as credit risk, market risk, and operational risk. Climate risk is mitigated via the application of the Climate Risk Policy, and actions taken to address other risk types.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors of the Board provide this Statement, which describes the ways in which they have had regard to the following matters set out in Section 172(1) of the Act when fulfilling their key duty to promote the success of the Company, under Section 172:

- The likely consequences of any decision in the long term
- The need to act fairly as between the Company's shareholders
- The impact of the Company's operations on the community and the environment; and
- Maintaining a reputation for high standards of business conduct for the Company

This Statement also provides examples of how the Directors have engaged with and had regard to the interests of key stakeholders in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018). The 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.

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

STRATEGIC REPORT (continued)

Section 172(1) Statement (continued)

Stakeholder engagement is embedded in all aspects of the Board's decision-making and can be seen in the range of activities across key stakeholder groups

How the Board has discharged its Section 172 duties

The Directors, as part of their appointment and induction to the Board are provided with a briefing on their statutory director duties and the standards required to be met by subsidiary boards within Lloyds Banking Group. The Board undertakes an annual review of its governance arrangements, in particular of the matters it has reserved for its own determination and those for which it has delegated authority to management. This arrangement is designed to enable the Board to provide effective, sound, and entrepreneurial leadership of the Company within Lloyds Banking Group's strategic aims and prudent and effective controls.

Stakeholder engagement is embedded in the Board's delegation to the *Chief Executive Scottish Widows & Group Director Insurance* ("Chief Executive") for the delivery of the Company's strategy and overall management of the Company's business within its defined risk appetite. Examples of related actions taken during the year are included within this Report. The Chief Executive discharges his responsibility for the day-to-day management of the Company's business by delegating key areas of his authority to members of management and with the assistance of the Executive Committee (the Insurance & Wealth Executive Committee ("IWECC")) which enables him to make informed decisions about the operations of the Company's business.

The Chief Executive and management both provide the Board with details of material stakeholder interaction and feedback, through a programme of business updates. Stakeholder interests are routinely identified by management in the wider proposals put to the Board. During 2021 (as in 2020) interaction with stakeholders evolved in response to the UK Governments' ongoing provisions on the COVID-19 global pandemic and the Company has made use of tools that enable virtual engagement.

The Company is a intermediate holding company and therefore as such does not address customers as part of this statement.

Further details of how the Board considers each of the specific matters set out in Section 172, along with specific examples of how these considerations have influenced decisions taken by the Board, are set out in pages 5 to 7 which serves as the Company's Section 172(1) Statement.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group, forming part of its Insurance and Wealth Division. As a wholly owned subsidiary the Board ensures that the strategy, priorities, processes and practices of the Company are aligned where appropriate to those of Lloyds Banking Group, ensuring that its interests as the Company's shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group with its shareholders is included in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2021, available on the Lloyds Banking Group website.

Two senior leaders of Lloyds Banking Group serve as directors on the Company's Board and the chair of the Company's Board serves also on the Board of Lloyds Banking Group. The Company's Board arranged for a special briefing from the Lloyds Banking Group chief executive at the start of the COVID-19 pandemic to discuss the Company's response to Government advice and initiatives to support customers and colleagues. The Company's Board also met with the board of Lloyds Banking Group on one occasion during 2020 for a discussion of business strategy including digital interconnectivity between the Insurance franchise and its parent.

Communities and the environment

The Company is part of Lloyds Banking Group, one of the largest financial services providers in the UK and 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 oversight of the Group's performance as a Responsible Business and has given much focus to overseeing the development of Lloyds Banking Group's Helping Britain Recover and Prosper Plan. This plan continues its strategy of Helping Britain Prosper while also playing a part in the UK's recovery from the COVID-19 pandemic. The views of stakeholders have informed the Responsible Business Committee's role in the development of Lloyds Banking Group's Society of the Future ambitions, which aim to fully integrate its societal objectives with its business objectives.

In September 2021, the Board of the Company established its own Insurance Sustainability Committee ("ISCo"), with membership drawn primarily from Independent Non-executive Directors. The primary purpose of the Insurance Sustainability Committee is to review the ESG Strategy of the Insurance business, and its alignment to Lloyds Banking Group's overarching purpose of Helping Britain Recover and Prosper in the future. Alongside the Insurance Sustainability Committee, the

Company's established Insurance People Committee continues to consider, amongst other things, matters related to culture and in 2021 has debated various Inclusion & Diversity matters. The Chairs of the Insurance People Committee and the Insurance Sustainability Committee work together to ensure that there is appropriate coverage of all environment and community matters between them.

STRATEGIC REPORT (continued)**Section 172(1) Statement (continued)**

The Board as a whole is engaged on a regular basis on the Insurance business and Company's sustainability agenda, receiving regular briefings to build understanding and capability. Directors also attend relevant external briefings. In July 2021, the Board undertook climate risk training supported by the Cambridge Institute of Sustainability Leadership.

Environmental ambitions

The Company's Board has supported some ambitious Lloyds Banking Group targets in relation to ESG and climate change. The Company's aim is to increase investment in companies adapting their businesses to be less carbon-intensive and to invest in climate awareness strategies (funds that have a materially lower carbon intensity than their benchmark) by 2025; to achieve a 50 per cent reduction in the carbon emissions of the Company's overall funds under management by 2030; and get to net zero emissions by 2050. The Board of the Company believes that the ESG commitments that Lloyds Banking Group and Scottish Widows has made will not negatively impact investment returns for customers and is monitoring closely. The Board intends to provide more detail of how it is going to hit these targets in future years.

The Board is regularly updated on the work undertaken by the Scottish Widows' Responsible Investment Team with key stakeholders including the UK government, regulators, and the pensions industry to unlock opportunities to invest in the infrastructure required to successfully transition to a lower carbon economy.

Further detail on the Company's strategy in relation to Environmental Ambitions is covered in the Climate Change section commencing on page 4 of this report.

Board diversity

The Board considers its current size and composition to be appropriate to the Company's circumstances. The Board places great emphasis on ensuring its membership reflects the diversity of modern Britain and is inclusive for everyone. On gender diversity, the Board has a specific objective to maintain membership of at least 33 per cent female Board members. At 31 December 2021, the Board's membership consisted of 38 per cent female members. With effect from 18 March 2022 the Board has met the objectives of the Parker review for at least one Black, Asian and Minority Ethnic Board member. The Company also supports the Lloyds Banking Group high-level approach to diversity in senior management roles, which is governed in greater detail through Lloyds Banking Group policies.

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. The Insurance People Committee, on behalf of the Company, considers matters at a Company level.

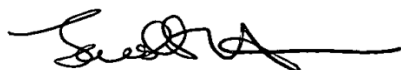
On a day-to-day basis, management of and engagement on modern slavery and human rights is guided by a cross-divisional working group led by the Responsible Business team, which meets regularly to assess the embedding of human rights within the Lloyds Banking Group's operations.

Lloyds Banking Group, and the Company, 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. This statement sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains. On an annual basis, the Insurance Sustainability Committee reviews these statements ahead of Board approval.

Maintaining a Reputation for High Standards of Business Conduct

The Board supports the Company's Chief Executive to ensure a culture of customer focus (including treating customers fairly), risk awareness and ethical behaviours. As part of the Board's oversight of this, the Board where necessary will seek assurance that management corrective action has been taken to ensure that policy and behaviours are aligned to the purpose, value, and strategy of the wider Insurance business.

On behalf of the Board of Directors



J C S Hillman

Director

1 April 2022

DIRECTORS' REPORT

The Directors present the audited financial statements of the Company, an unlimited liability Company domiciled and incorporated in the United Kingdom, whose principal activity is that of an intermediate holding company. The Company is a wholly owned subsidiary of Scottish Widows Group Limited.

Results and dividend

The result of the Company for the year ended 31 December 2021 is a loss after tax of £48.2 million (2020: loss after tax of £62.7 million) and this has been transferred to reserves. The result for the year reflects dividends from subsidiaries, income from investments and an impairment of the investment in a subsidiary company. The Directors consider the result for the current year to be satisfactory in light of the activities of the Company and its subsidiaries and the prevailing economic climate. The total net assets of the Company at 31 December 2021 are £192.4 million (2020: total net assets £290.6 million).

During the year, £50m of dividends were paid (2020: £nil). No final dividend is proposed in respect of the year ended 31 December 2021 (2020: £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:

A J Reizenstein	(Appointed 23 April 2021)
J R A Bond	(Resigned 14 May 2021)
K Cheetham	(Resigned 09 September 2021)
N E T Prettejohn	(Resigned 30 September 2021)
D L Davis	(Appointed 18 March 2022)

Particulars of the Directors' emoluments are set out in note 15.

Directors' indemnities

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

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

Future developments are detailed within the Strategic Report.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company have adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in the risk management section (note 14). Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Financial risk management

Disclosures relating to financial risk management are included in note 14 of the accounts and are therefore incorporated into this report by reference.

Independent auditors

Following the resignation of PricewaterhouseCoopers LLP on 13 May 2021, Deloitte LLP were appointed as auditors of the Company by resolution of the members dated 20 May 2021.

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and Deloitte LLP will therefore continue in office.

DIRECTORS' REPORT (continued)**Statement of Directors' responsibilities**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

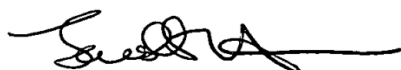
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

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

- the Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company
- the Strategic Report on pages 4 to 7, and the Directors' Report on pages 7 to 9 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

The Directors have also separately reviewed and approved the Strategic Report.

On behalf of the Board of Directors



J C S Hillman

Director

1 April 2022

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH WIDOWS FINANCIAL SERVICES HOLDINGS

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Scottish Widows Financial Services Holdings (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of cash flows;
- the statement of changes in equity; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of directors

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH WIDOWS FINANCIAL SERVICES HOLDINGS (continued)

Responsibilities of directors (continued)

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.

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and those charged with governance about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and HMRC Corporate tax manual; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included FCA regulatory permissions, GDPR, Bribery Act and FSMA 2000.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

A significant risk was identified surrounding the valuation of investment in subsidiaries balance. This involves a number of estimates and judgements. Specifically, the significant risk has been pinpointed to the key inputs and assumptions such as market growth rates and discount rates used within the model. We have obtained an understanding of the key controls within the reporting process for this account balance and assessed the design and implementation of these. We have worked with our valuations specialists to assess the appropriateness of the model inputs and assumptions used.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the FCA.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH WIDOWS FINANCIAL SERVICES HOLDINGS (continued)**Report on other legal and regulatory requirements****Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Tom Noble, FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

1 April 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Revenue			
Investment income	3	1	16
Income from shares in subsidiary undertakings		75,000	—
Total revenue		75,001	16
Expenses			
Impairment of subsidiary undertakings	8	(123,205)	(62,638)
Other operating expenses	4	—	(30)
Total expenses		(123,205)	(62,668)
Loss before tax		(48,204)	(62,652)
Taxation charge	6	—	(4)
Loss for the year		(48,204)	(62,656)

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

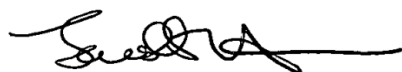
The notes set out on pages 17 to 25 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Investment in subsidiaries	8	188,149	311,354
Cash and cash equivalents	9	4,269	6,671
Total assets		192,418	318,025
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity shareholder			
Share capital	10	1,000	1,000
Share premium	10	375	375
Other Reserves	11	1,032,213	1,082,213
Accumulated losses		(841,170)	(792,966)
Total equity		192,418	290,622
LIABILITIES			
Current tax liabilities	7	—	3
Amounts owed to Lloyds Banking Group undertakings	15	—	27,400
Total liabilities		—	27,403
Total equity and liabilities		192,418	318,025

The notes set out on pages 17 to 25 are an integral part of these financial statements.

The financial statements on pages 13 to 25 were approved by the Board on 31 March 2022 and signed on behalf of the Board:



J C S Hillman

Director

1 April 2022

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit/(loss) before tax		(48,204)	(62,652)
Adjusted for:			
Investment income	3	(1)	(16)
Income from shares in subsidiary undertakings		(75,000)	—
Impairment in investment in subsidiary	8	123,205	62,638
Net decrease in operating assets	12	(27,400)	29
Corporate income taxes received/(paid)		(3)	52
Net cash flows generated/(used in) from operating		(27,403)	51
Cash flows from investing activities			
Investment income received		1	16
Dividends received		75,000	—
Net cash flows generated from investing activities		75,001	16
Cash flows from financing activities			
Dividends paid		(50,000)	—
Net cash flows used in financing activities		(50,000)	—
Net increase in cash and cash equivalents		(2,402)	67
Cash and cash equivalents at the beginning of the year		6,671	6,604
Net cash and cash equivalents at the end of the year	9	4,269	6,671

The notes set out on pages 17 to 25 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Share capital £'000	Share premium £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
Balance as at 1 January 2020		1,000	375	1,082,213	(730,310)	353,278
Loss and total comprehensive loss for the year		—	—	—	(62,656)	(62,656)
Balance as at 31 December 2020		1,000	375	1,082,213	(792,966)	290,622
Profit and total comprehensive income for the year		—	—	—	(48,204)	(48,204)
Dividend	13	—	—	(50,000)	—	(50,000)
Balance as at 31 December 2021		1,000	375	1,032,213	(841,170)	192,418

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

The above amounts are further referred to in Note 10 (Share capital and premium) and Note 11 (Other reserves).

The notes set out on pages 17 to 25 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**1. Accounting policies**

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

(a) Basis of preparation

The financial statements of the Company have been prepared:

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

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

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

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

Standards and interpretations effective in 2021

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 2021 which have had a material impact on the Company.

Future accounting developments

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

(b) Revenue recognition**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) Investments in subsidiaries

The Company owns a number of subsidiaries as set out in note 8. These subsidiaries are held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company's impairment policy is set out at policy (e).

(d) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and 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 on-going basis.

(e) Impairment**Financial assets**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**1. Accounting policies (continued)****(a) Impairment (continued)****Financial assets (continued)**

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. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since 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. Typically financial instruments with an external credit rating of investment grade are considered to have low credit risk.

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

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

Non-financial assets

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

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

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

(b) 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 other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**1. Accounting policies (continued)****(c) 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.

2. Critical accounting judgements or key sources of estimation uncertainty

The Company's management makes estimates 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.

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.

a. Key sources of estimation uncertainty*Investment in subsidiaries*

The Company uses estimates in the assessment of investment in subsidiaries for possible impairment. These include estimates used for value in use calculations relating to discount factors and growth assumptions. Further details of estimates used appear in note 9.

b. Critical judgements*Investment in subsidiaries*

The recoverable amount of investments in subsidiaries requires judgement with regard to future cash flows and risks associated with those cash flows, together with the discount rate applied. In the year the Company developed a new tool to allow the Directors to assess impairment more easily in line with IAS36.

3. Investment income

	2021	2020
	£'000	£'000
Interest receivable on investments in a liquidity fund	1	16
Total	1	16

4. Operating expenses

	2021	2020
	£'000	£'000
Other operating expenses	—	30
Total	—	30

The Company had no direct employees during the year (2020: nil)

5. Auditors' remuneration

	2021	2020
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	5	5
Total fees payable	5	5

Audit fees for 2021 and 2020 were paid by another Company within Lloyds Banking Group and were not recharged to the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

6. Taxation charge

(a) Current year tax (charge)/credit

	2021 £'000	2020 £'000
Current tax:		
UK corporation tax	—	(4)
Total current tax	—	(4)

(b) Reconciliation of tax (charge)/credit

	2021 £'000	2020 £'000
Loss before tax	(48,204)	(62,652)
Tax at 19 per cent (2020: 19 per cent)	9,159	11,904
Effects of:		
Disallowable expenses	—	(6)
Income from shares in subsidiary undertakings	14,250	—
Impairment of investment in subsidiary undertaking	(23,409)	(11,901)
Other	—	(1)
Total	—	(4)

7. Tax liabilities

	2021 £'000	2020 £'000
Current tax liabilities	—	3
Total tax liabilities	—	3

8. Investment in subsidiaries

	2021 £'000	2020 £'000
At 1 January	311,354	373,992
Impairment of investment in subsidiaries	(123,205)	(62,638)
At 31 December	188,149	311,354

An impairment of £123.2 million (2020: £62.6 million) has been recognised during 2021 in respect of the investment in HBOS Financial Services Limited (HBOS FS), leaving a carrying value of £167.9 million (2020: £291.1 million).

The impairment in HBOS FS arose following an impairment of its investment in the carrying value of subsidiary Halifax Financial Services (Holdings) Limited, which itself recognised an impairment of its investment in the carrying value of its subsidiary, HBOS Investment Fund Managers Limited (HIFML). Primarily, this occurred as a result of changes in the underlying forecast assumptions in relation to HIFML's value in use, principally caused by a dividend paid in the year and reductions in the forecast profitability of subsequent periods.

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

A review of the carrying value of the subsidiary investments to assess indications of impairment is performed on an annual basis. The recoverable amount for 2021 and 2020 have both been calculated on a value in use basis, using the dividend discount method of valuation. The applicable pre tax discount factor used for 2021 is 8.64 per cent (2020: 8.74 per cent). This has been applied to distributable profits and forecast dividends in line with the approved business plan. Growth assumptions and forecasts are also key assumptions utilised in production of these estimates of distributable profits and forecast dividends. Future capacity of HBOS Investment Fund Managers Limited (HIFML) to pay dividends has been determined based on its anticipated profitability as assets under management run off.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

8. Investment in subsidiaries (continued)

Significant Estimate: Impact of possible changes in key assumptions

If the discount rate applied to the cash flow projections had been 1 per cent higher (9.64 per cent instead of 8.64 per cent), the impairment charge would have been £134.9 million, an increase of £11.7 million. If the discount rate had been 1 per cent lower (7.64 per cent instead of 8.64 per cent), the impairment charge would have been £109.8 million, a decrease of £13.4 million. Under these scenarios no other impairments in subsidiaries would be required.

Subsidiaries and Associates

All entities are wholly-owned, directly or indirectly, and transact investment management activities or services in connection therewith, unless otherwise stated. Following are particulars of the Company's subsidiaries and associates:

SW Funding plc	(1)	Legacy Renewal Company Limited	(5)
HBOS Financial Services Limited	(2)	HBOS International Financial Services Holdings Limited	(2)
Halifax Financial Services (Holdings) Limited	(3)	Clerical Medical Finance plc	(2)
HBOS Investment Fund Managers Limited	(3)	Clerical Medical Financial Services Limited	(2)
Halifax Financial Brokers Limited	(3)	Pensions Management (S.W.F.) Limited	(1)
Clerical Medical Investment Fund Managers Limited	(3)	Scottish Widows Unit Funds Limited	(1)
Halifax Financial Services Limited	(3)	Clerical Medical International Holdings B.V.	(4)
Halifax Investment Services Limited*	(6)		

* In liquidation

The investments in subsidiaries included above are generally recoverable more than one year after the reporting date.

Subsidiaries and Associates

Registered office addresses

- (1) 69 Morrison Street, Edinburgh, Midlothian, EH3 8YF
- (2) 33 Old Broad Street, London, EC2N 1HZ
- (3) Trinity Road, Halifax, West Yorkshire, HX1 2RG
- (4) Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands
- (5) Bank of Scotland, The Mound, Edinburgh, EH1 1YZ
- (6) 1 More London Place, London, SE1 2AF

9. Cash and cash equivalents

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

	2021 £'000	2020 £'000
Investment in a liquidity fund	4,269	6,671
Total	4,269	6,671

10. Share capital and premium

	2021 £'000	2020 £'000
Issued and fully paid share capital:		
100,000,000 (2019: 100,000,000) ordinary shares of £0.01 each	1,000	1,000
Share Premium	375	375
Total	1,375	1,375

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

11. Other reserves

During the year ended 31 December 2004, the Company was re-registered as a private unlimited company and subsequently altered its capital structure. The share capital of the Company was reduced by £5,846,000,000 through the cancellation of 584,600,000,000 issued redeemable ordinary shares of 1p each. An amount of £4,763,787,000 was transferred from share capital to the profit and loss reserves of the Company and the remaining £1,082,213,000 was transferred from share capital to other reserves.

Subsequent to the year ended 31 December 2015, the Board approved a Resolution to make other reserves distributable. This reserve is therefore available for future distributions.

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

	2021 £'000	2020 £'000
Net decrease in operating assets		
Financial assets:		
Loans and receivables at amortised cost	—	29
Net decrease in operating assets	—	29
Net decrease in operating liabilities		
Financial liabilities:		
Amounts owed to Lloyds Banking Group undertakings	27,400	—
Net decrease in operating liabilities	27,400	—

13. Dividends paid

	2021 £'000	2020 £'000
Total dividends paid on equity shares	50,000	—

The Company paid a dividend of £50m in July 2021 (2020: £nil). The dividend paid in the year amounted to £0.50 per share (2020: £nil per share).

14. Risk management

The Company acts as an intermediate holding company.

This note summarises the financial risks and the way in which they are managed.

The Company is exposed to a range of financial risks through financial assets and financial liabilities.

(a) Market risk

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

The main investments of the Company are the holdings in subsidiary companies, which are set out in note 8. Holdings of individual assets are essentially interest bearing, and are covered further below.

Investments in liquidity funds are categorised as level 1 in the fair value hierarchy.

(b) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk arises in respect of cash balances which are invested in a cash fund.

As set out in note 8 a review of the carrying value of the subsidiary investments is performed on an annual basis. The recoverable amount for 2020 and 2021 have both been calculated on a value in use basis, using the dividend discount method of valuation. The applicable pre-tax discount factor used for 2021 is 8.64 per cent (2020: 8.74 per cent).

(c) Credit risk

The risk that parties with whom we have contracted fail to meet their financial obligations. The Company holds investments in a liquidity fund of £4.3 million (2020: £6.7 million), with a credit rating of AAA using Standard & Poor's

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

14. Risk management (continued)

(c) Credit risk (continued)

rating or equivalent. Credit risk in respect of these balances is not considered to be significant. There were no past due or impaired financial assets at 31 December 2021 (2020: none). No terms in respect of financial assets had been renegotiated at 31 December 2021 (2020: none).

(d) 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 Company's objectives when managing capital are to ensure that sufficient capital is available to safeguard the Company's ability to continue as a going concern so that it can continue to provide a return to the shareholder.

The Company manages the capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets.

The Company's capital comprises all components of equity £192.4 million (2020: £290.6 million), movements in which are set out in the statement of changes in equity.

(e) 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 Risk Policy.

In order to measure liquidity risk exposure the Company's liquidity is assessed in a stress scenario. Liquidity risk is actively managed and monitored to ensure that, even under stress conditions, the Company has sufficient liquidity to meet its obligations and remains within approved risk appetite. Liquidity risk appetite considers two time periods; three month stressed outflows are required to be covered by primary liquid assets; and one year stressed outflows are required to be covered by primary and secondary liquid assets. The Company holds primary liquid assets in the form of cash.

The following table analyses the maturity of the company's contractual cashflows for financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company is obliged to pay. The table includes both interest and principal cash flows.

As at 31 December 2021

Contractual cash flows

	Carrying amount	No stated maturity	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amounts owed to Lloyds Banking Group undertakings - current	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	—

As at 31 December 2020

Contractual cash flows

	Carrying amount	No stated maturity	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
Liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowings	27,400	—	27,400	—	—	—	—
Total	27,400	—	27,400	—	—	—	—

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**15. Related party transactions****(a) Ultimate parent and shareholding**

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

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the only group to consolidate these financial statements. Once approved, copies of the consolidated Annual Report and Accounts of Lloyds Banking Group 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 has entered into transactions with related parties in the normal course of business during the year

Relationship	2021			
	Income during year	Expenses during year	Payable at year end	Receivable at year end
	£'000	£'000	£'000	£'000
Parent	—	50,000	—	—
Subsidiary	75,000	—	—	—
Other related parties	—	—	—	—

Relationship	2020			
	Income during year	Expenses during year	Payable at year end	Receivable at year end
	£'000	£'000	£'000	£'000
Parent	—	—	—	—
Subsidiary	—	—	—	—
Other related parties	—	—	27,400	—

Transactions between the Company and entity employing key management

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

	2021 £	2020 £
Short-term employee benefits	149,790	173,476
Post-employment benefits	768	709
Share-based payments	34,206	23,080
Total	184,764	197,265

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £72,088 (2020: £81,080).

There were no retirement benefits accruing to directors (2020: no directors) under defined benefit pension schemes. Two Directors (2020: two directors) are paying into a defined contribution scheme. There were no contributions paid to a pension scheme for qualifying services (2020: nil).

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**15. Related party transactions (continued)****Transactions and balances with related parties (continued)****Transactions between the Company and entity employing key management (continued)**

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £19,376 (2020: £16,221). During the year, one director exercised share options (2020: two directors) and one director received qualifying service shares under long term incentive schemes (2020: two directors). Movements in share options are as follows:

	2021 Options	2020 Options
Outstanding at 1 January	514,009	455,277
Granted	107,003	374,516
Exercised	(65,442)	(119,666)
Forfeited	(115,666)	(202,933)
Dividends awarded	1,554	6,815
Outstanding at 31 December	441,458	514,009

Detail regarding the highest paid Director is as follows:

	2021 £	2020 £
Apportioned aggregate emoluments	41,042	44,646
Apportioned share-based payments	16,337	13,670

The highest paid Director did exercise share options during the year. (2020: The highest paid Director did exercise share options during the year).

16. Contingent Liability

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 its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. Lloyds Banking Group interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £178,000 (including interest) (2020: £174,000). Lloyds Banking Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

17. Post balance sheet events*Russian invasion of Ukraine*

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Group's results of operations, financial condition or prospects. The Group will monitor the situation and risks to the business