

Scottish Widows Services Limited

Annual Report and Accounts
2021

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COMPANY INFORMATION

Board of Directors

S W Lowther
D MacKechnie

Company Secretary

K J Mckay

Independent Auditor

Deloitte LLP
3 Rivergate
Temple Quay
Bristol
BS16GD

Registered Office

69 Morrison Street
Edinburgh
EH3 8YF
Scotland

Company Number

SC189975

STRATEGIC REPORT

The Directors present their Strategic Report on Scottish Widows Services Limited (the 'Company') for the year ended 31 December 2021.

The Company forms part of Lloyds Banking Group plc. (the "Group")

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

Result for the year

The result of the Company for the year ended 31 December 2021 is a profit before tax of £26.2m (2020: profit before tax of £12.5m). The total net assets of the Company at 31 December 2021 are £505.7m (2020: £434.9m).

The prior year balances have been restated to correct a prior year error with regards to the recognition of a £284.0m payment made to the Company in 2018. Further details are set out within note 22.

Key performance indicators*Employee numbers and costs*

The average monthly number of employees is 1,922 (2020: 2,285), and staff costs and other employee related costs have decreased by £13.7m to £125.1m (2020: £138.8m). Employees predominantly contribute to the service provided to the IP&I Division companies.

Pension scheme asset

The defined benefit scheme has been recognised in the Company's balance sheet as a £362.5m retirement benefit asset (2020: £274.8m). This result is mainly driven by a favourable £84.2m remeasurement effect recognised within other comprehensive income during the year.

Liquidity

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

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

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 18 provides further details of the impact on market risk (note 18 (c) -iv), interest rate risk (note 18 (c) -v), credit risk (note 18(c) -i), capital risk (note 18 (c)-iii) and liquidity risk (note 18 (c)-ii).

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.

STRATEGIC REPORT (continued)**Climate Change**

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

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. In particular, ring-fencing regulations have placed an increased focus on governance and risk management. Lloyds Banking Group and the Company have taken steps to ensure the control environment and governance structure support compliance. The financial risk management objectives and policies of the Company and the exposure to risks including market, credit, capital, liquidity and operational risks are set out in note 18.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the 'Act'), the Directors of the Board of the Company provide this Statement describing how they have had regard to 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. Further details on key actions are also contained within the Directors' Report on pages 8 to 11 and the Corporate Governance Report on pages 9 to 10.

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 key stakeholders (this includes investors, colleagues, society and the environment, and suppliers), is central to the Company's strategy, crucial to the Company's success, and informs key aspects of Board decision-making as set out in this Statement.

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 of Lloyds Banking Group.

Stakeholder interests are central to the Board's delegation of the day-to-day operations of the Company's business to management, and also identified by management for consideration in proposals put to the Board. Given the importance of stakeholder interests, these are discussed where relevant throughout the Report.

Interaction has again mostly been undertaken virtually this year where necessary, in compliance with the government's COVID -19 requirements.

Investors

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

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

Colleagues

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

STRATEGIC REPORT (continued)
Colleagues (continued)

Following a review of its approach to workforce engagement in 2021, the Board of Lloyds Banking Group decided that the Responsible Business Committee should be the designated body for its engagement with the workforce. The Responsible Business Committee reports regularly to the Board of Lloyds Banking Group on all of its activities, including colleague engagement. During the year this included themes raised by colleagues, trends on people matters and updates on colleague sentiment. Consideration was also given to the outcomes of surveys completed by colleagues across Lloyds Banking Group, including annual ad hoc surveys, and review of progress in addressing the matters colleagues raised. Colleagues received communications detailing Lloyds Banking Group's performance, changes in the economic and regulatory environment and updates on key strategic initiatives.

Given Lloyds Banking Group's improved performance in 2021, the Remuneration Committee approved Group Performance Share awards for colleagues. Colleagues are eligible to participate in His Majesty's Revenue and Customs (HMRC) approved share plans which promote share ownership by giving employees an opportunity to invest in Lloyds Banking Group shares. Further information can be found in the Directors Remuneration Report within the Lloyds Banking Group Annual Report and Accounts for 2021, available on the Lloyds Banking Group website.

Ways of working and culture

Transforming Lloyds Banking Group's ways of working has been a key priority, as colleagues have continued to adjust to the changes necessitated by the COVID-19 pandemic. During the year a multiphase transition to new ways of working within Lloyds Banking Group was undertaken, acknowledging both external change and colleague sentiment. Activity continues under Lloyds Banking Group's Future Workplace programme to transform office workspace and deploy modern workplace technology to enable new ways of working.

In addition, Lloyds Banking Group 's continues to deliver initiatives to implement cultural change through its Culture Plan. The Plan covers areas including career progression, simplification of processes and ensuring colleagues are given the opportunity to continually develop their skills.

Inclusion and diversity

Lloyds Banking Group aims to create a fully inclusive environment that is representative of modern-day Britain and where everyone can reach their potential. Inclusion and diversity performance remains a critical focus area for Lloyds Banking Group across ethnic and gender diversity, sexual orientation and gender identity, and supporting disability.

Society and the Environment

Support on environmental matters relevant to the Company is provided by the Responsible Business Committee which considers stakeholder views on all matters relating to Lloyds Banking Group's goals to be a trusted, sustainable, inclusive, and responsible business. Further information can be found in the Responsible Business Committee's report within the Lloyds Banking Group Annual Report and Accounts for 2021, available on the Lloyds Banking Group website.

Climate Change

Lloyds Banking Group and its subsidiaries remain committed to the ambitious climate change goals it had set in 2020 - reducing the emissions Lloyds Banking Group finances by more than 50 per cent by 2030 and achieving net zero by 2050. During the year three new pledges were introduced specifically relevant to Lloyds Banking Group's own operations, ranging from further reducing its own carbon footprint with targets for reduced emissions and energy use in respect of its buildings and colleague travel, and related collaboration with key stakeholders including suppliers.

Suppliers

As part of Lloyds Banking Group, the Company relies on a number of partners for important aspects of its operations and customer service provision. As well as external partners, the Company relies on intra-group supplier arrangements for certain services.

Supplier Framework

Great importance is placed on having the right supplier framework to operate responsibly. 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 Policy has been designed to assist in managing the inherent risk in outsourcing services and dealing with third party suppliers.

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

STRATEGIC REPORT (continued)**Modern Slavery and human rights**

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 the Modern Slavery and Human Rights Working Group led by the Social Sustainability Manager, which meets bi-monthly to assess the embedding of human rights within the Lloyds Banking Group's operations

Lloyds Banking Group's Modern Slavery & Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies and sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains.

Approved by the Board of Directors and signed on behalf of the Board,



S W Lowther
Director
30 December 2022

DIRECTORS' REPORT**Principal activities**

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

Outlook

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

Results and dividend

The result of the Company for the year ended 31 December 2021 is a profit before tax of £26.2m (2020: profit before tax of £12.5m).

The prior year balances have been restated to correct a prior year error with regards to the recognition of a £284.0m payment made to the Company in 2018. Further details are set out within note 22.

During the year, no interim dividends (2020: £nil) were paid. Directors recommend no payment of a dividend in respect of the year ended 31 December 2021 (2020: £nil).

Directors

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

S W Lowther
D MacKechnie

Particulars of the Directors' emoluments are set out in note 19.

Directors' indemnities

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

Disclosure of information to 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 Auditor is 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 Auditor is aware of that information. This confirmation is given, and should be interpreted in accordance with, the provisions of the Companies Act 2006.

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.

Employees

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

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

DIRECTORS' REPORT (CONTINUED)**Employees (continued)**

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

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

Charitable and political contributions

During the year, the Company made contributions totalling £36.3k (2020: £89.8k) for charitable purposes. The Company made no political contributions during the year (2020: £nil).

Financial risk management

Disclosures relating to financial risk management are included in note 18 to the financial statements and are therefore incorporated into this report by reference.

Independent Auditor

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

Pursuant to section 487 of the Companies Act 2006, the Auditor 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.

Corporate GovernanceApproach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'), for the year ended 31 December 2021, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the 'Principles'). The following section explains the Company's approach to corporate governance, and its application of the Principles.

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

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

Principle One – Purpose and Leadership

The Board is collectively responsible for the long-term, sustainable success of the Company. It achieves this by agreeing the Company's strategy, within the wider strategy of Lloyds Banking Group, and overseeing delivery against it. The effective management of risk is central to the Company's strategy, supported by Lloyds Banking Group's Enterprise Risk Management Framework (ERMF).

Consideration of the needs of all stakeholders is key to achieving the strategy and long-term objectives of the Company, as is maintaining the highest standards of business conduct, which is a vital part of the corporate culture. The Company's approach is further influenced by the need to build a culture in which everyone feels included, empowered, and inspired to do the right thing for its stakeholders. The Company's corporate culture and values closely align to those of Lloyds Banking Group, which are discussed in more detail in the Lloyds Banking Group's annual report and accounts for 2021.

DIRECTORS' REPORT (CONTINUED)
Corporate Governance (continued)Principle Two – Board Composition

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

Principle Three – Director Responsibilities

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

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

Principle Four – Opportunity and Risk

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

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

Strong risk management is central to the strategy of the Company, along with a robust risk control framework to identify and escalate current and emerging risks, support sustainable growth within the Company's risk appetite and to drive and inform good risk reward decision making. The Company's risk appetite, principles, policies, procedures, controls, and reporting operate within the parameters of Lloyds Banking Group's ERMF which is regularly reviewed to ensure it reflects any changes in external regulations, law, corporate governance, and industry best practice. The Company's principal risks are discussed further in note 18.

Principle Five – Remuneration

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

Principle Six – Stakeholders

The Company operates under Lloyds Banking Group's wider Responsible Business approach, acknowledging its responsibility to help address the economic, social, and environmental challenges which the UK faces, whilst understanding the evolving needs of the Company's external stakeholders, including in the development and implementation of strategy. Central to this is Lloyds Banking Group's commitment to Helping Britain Prosper of which the Company participates in. This aims to create a more sustainable and inclusive future for people and businesses, shaping finance as a force for good, alongside the continued progress of Lloyds Banking Group's Helping Britain Recover Plan.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in the risk management section under principal risks and uncertainties. These include the liquidity and capital position in addition to considering projections (including stress testing) for the Company's capital and liquidity position. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS' REPORT (CONTINUED)**Information incorporated by reference**

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

Content	Section
Disclosures required under the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Statement of engagement with suppliers, employees and other stakeholders Strategic Report
Disclosures required by the Financial Conduct Authority's Disclosure and Transparency Rule 7.2.5R	Corporate Governance Statement - internal control and risk management systems Note 18 (Risk Management)

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

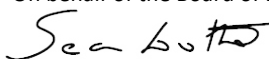
The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 8 to 11 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



S W Lowther

Director

30 December 2022

Independent auditor's report to the members of Scottish Widows Services Limited**Report on the audit of the financial statements****Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; 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;
- the accounting policies and related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards.

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.

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.

Independent auditor's report to the members of Scottish Widows Services Limited (continued)**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 the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

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 International Financial Reporting Standards, UK Stewardship Code, Companies Act 2006, UK Pension Legislation, UK tax legislation; 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 UK Bribery Act, General Data Protection Regulation, UK Employment Law.

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

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 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.

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.

Independent auditor's report to the members of Scottish Widows Services Limited (continued)**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

Date: 30 December 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £000	2020 Restated* £000
Revenue	3	881,609	823,998
Net Interest receivable in respect of defined benefit pension scheme	7	4,034	4,100
Staff costs and other employee related costs	4a	(125,136)	(138,774)
Operating expenses	5	(734,338)	(677,112)
Operating Profit		26,169	12,212
Investment income		55	304
Profit before tax		26,224	12,516
Taxation	8	(2,154)	(1,985)
Profit for the year		24,070	10,531
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefits obligations, net of tax	14c	46,703	60,831
Other comprehensive income		46,703	60,831
Total comprehensive income for the year		70,773	71,362

*note 22 sets out the impact of the restatement

The notes set out on pages 19 to 43 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2021

	Note	2021 £000	2020 Restated* £000	01-01-2020 Restated* £000
ASSETS				
Intangible assets	9	42,904	69,436	95,859
Retirement benefit asset	14	362,454	274,800	138,800
Deferred tax assets		-	-	197
Current tax assets	10	-	17,030	20,813
Financial assets:				
At amortised cost:				
Loans and other receivables	11	114,258	97,134	90,140
Cash and cash equivalents	12	234,738	159,203	161,481
Total assets		754,354	617,603	507,290
EQUITY AND LIABILITIES				
Capital and reserves attributable to Company's shareholder	13			
Share capital		81,000	81,000	81,000
Retained earnings		424,690	353,917	282,555
Total equity		505,690	434,917	363,555
LIABILITIES				
Current tax liabilities	10	11,423	-	-
Accruals	15	48,937	66,984	31,685
Financial liabilities:				
Trade and other payables	16	112,671	82,641	112,050
Deferred tax liabilities	10	75,633	33,061	-
Total liabilities		248,664	182,686	143,735
Total liabilities and equity		754,354	617,603	507,290

*note 22 sets out the impact of the restatement

The notes set out on pages 19 to 43 are an integral part of these financial statements.

The financial statements on pages 15 to 43 were approved by the Board of Directors on 30 December 2022, signed on its behalf and authorised for issue by



S W Lowther
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £000	2020 Restated* £000
Cash flows from operating activities			
Profit before tax *		26,224	12,516
Adjustments for:			
Amortisation of intangible assets	9	26,532	26,423
Investment income		(55)	(304)
Net movement in operating assets and liabilities	17	(92,795)	(137,105)
Remeasurement of net defined benefit obligations	14c	84,210	75,100
Taxation received		31,364	20,788
Net cash generated from /(used in) operating activities		75,480	(2,582)
Cash flows from investing activities			
Investment income		55	304
Net cash generated from investing activities		55	304
Net increase / (decrease) in cash and cash equivalents		75,535	(2,278)
Cash and cash equivalents at the beginning of the year		159,203	161,481
Cash and cash equivalents at the end of the year	12	234,738	159,203

*note 22 sets out the impact of the restatement

The notes set out on pages 19 to 43 are an integral part of these financial statements.

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

	Share Capital £000	Retained earnings Restated* £000	Total equity Restated* £000
Balance as at 1 January 2020 (as originally reported)	81,000	31,155	112,155
Restatement to opening retained earnings *	-	251,400	251,400
Restated Balance as at 1 January 2020 *	81,000	282,555	363,555
Profit for year *	-	10,531	10,531
Other comprehensive profit			
Remeasurements of retirement benefit obligations, net of tax (note 14c)	-	60,831	60,831
Total comprehensive profit for the year*	-	71,362	71,362
Balance as at 31 December 2020*	81,000	353,917	434,917
Profit for the year	-	24,070	24,070
Other comprehensive profit			
Remeasurements of retirement benefit obligations, net of tax (note 14c)	-	46,703	46,703
Total comprehensive profit for the year	-	70,773	70,773
Balance as at 31 December 2021	81,000	424,690	505,690

*note 22 sets out the impact of the restatement

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

The notes set out on pages 19 to 43 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:

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

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

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

(b) Financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

(i) Level 1

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

(ii) Level 2

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

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

(iii) Level 3

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

(d) Revenue recognition**Revenue**

Revenue is recognised as the related expenses are incurred. Revenue is generated, as per the shared service agreement, where the Company charges other Lloyds Banking Group companies for costs incurred as a result of the services provided including staff costs, service costs together with management charges which are on an arms-length basis and include a variable margin.

Revenue is recognised on a gross basis due to the Company being considered to be the Principal of the services supplied.

Investment income

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

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

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

Net interest on net defined benefit asset/ liability

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**1. Accounting policies (continued)****(e) Expense recognition (continued)****Operating expenses**

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

(f) Share-based payments

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

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

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

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

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

(h) Cash and cash equivalents

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

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

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

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

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

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

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

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

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

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

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

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

Non-financial assets

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

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

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

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

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

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

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

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

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

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

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

(k) Share capital

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

(l) Retirement benefit obligations

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**1. Accounting policies (continued)****(l) Retirement benefit obligations (continued)****(i) SWRBS**

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

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

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

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

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

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

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

(ii) Defined contribution schemes

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

(m) Accruals

Accruals relate to expenses incurred in the year but not yet paid and are recognised within operating expenses.

(n) Reimbursement Asset / Liability

On the transfer of ownership of the SWRBS, the Company entered into a tripartite agreement with Scottish Widows Limited and Lloyds Bank plc which required Scottish Widows Limited to make a one off £284m payment to the Company, in exchange for Lloyds Bank plc bearing the exposure to volatility risks on the SWRBS.

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

The Company's position is formally reviewed annually and fair valued. The expected volatility of future actuarial gains and losses, the time scale to the end of the Scheme, currently estimated in excess of 80 years, have resulted in the fair value liability being immaterial as at the current year end. The change in accounting basis and the restatements in these financial statements from inception of the Tripartite agreement are set out in note 22.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**2. Critical accounting judgements and key sources of estimation uncertainty**

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.

Critical accounting judgement**a) Treatment of the risk premium payment / capital receipt in 2018**

Judgement is applied in considering the appropriate accounting basis on which the £284m payment received by the Company in 2018 from SWL has been recorded in the financial statements. In addition the Directors exercise judgement in determining the ongoing accounting treatment of this transaction. During the 2021 year end an error in this treatment has been identified and as a result these financial statements have been restated as set out in note 22.

b) Recoverability/potential restrictions on pension surplus

Judgement is applied in considering the extent to which IFRIC 14 / IAS19 ceiling limits on defined benefit assets and minimum funding requirements are required.

Key sources of estimation uncertainty**c) Retirement benefit obligations**

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

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

d) Share based payments

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

e) Treatment of the risk premium payment / capital receipt in 2018

The ongoing valuation of the risk premium payment requires the Directors to estimate the fair value of any reimbursement asset or liability arising. The key inputs into this estimates are in relation the length of duration of the SWRBS pension scheme as well as the discount rate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

3. Revenue

	2021	2020
	£000	£000
Management charges	881,102	822,463
Pension management income retained by the Company	507	1,535
Total	881,609	823,998

4a. Staff costs and other employee related costs

	2021	2020
	£000	£000
Wages and salaries	96,694	103,533
Social security costs	12,478	14,441
Other pension costs	15,964	20,800
Total	125,136	138,774

Share based payments

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

	2021	2020
	£000	£000
Deferred bonus plan	13,450	14,895
Executive and SAYE plans	3,842	4,546
Share matching scheme	522	615
Total	17,814	20,056

During the year ended 31 December 2021, the Company received the above charges relating to share-based payment schemes. All share-based payment schemes are operated by Lloyds Banking Group and are equity settled.

Deferred bonus plans

Lloyds Banking Group operates a number of deferred bonus plans that are equity settled. Bonuses in respect of employee performance in 2021 have been recognised in the charge in line with the proportion of the deferral period completed.

Save-As-You-Earn schemes

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

Other share option plans**Lloyds Banking Group Executive Share Plan 2003**

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

Lloyds Banking Group Long-Term Incentive Plan

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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

Other share option plans (continued)

Lloyds Banking Group Long-Term Incentive Plan (continued)

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

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

	2021 Number of shares	2020 Number of shares
Outstanding at 1 January 2021	24,218,370	21,293,310
Granted	5,095,632	16,412,305
Vested	(3,486,791)	(5,387,077)
Forfeited	(4,935,850)	(8,417,074)
Dividend Award	65,486	316,906
Total	20,956,847	24,218,370

At the end of the performance period for the 2018 grant, the targets had not been fully met and therefore these awards vested in 2021 at a rate of 33.75 per cent.

Awards in respect of the 2019 grant are due to vest in 2022 at a rate of 41.80 per cent. In previous years participants were entitled to any dividends paid in the vesting period. However following a regulatory change prohibiting the payment of dividend on such awards, the number of shares awarded has been determined by applying a share price adjusted to exclude the value of estimated future dividends.

The weighted average fair value of awards granted in the year was £0.36 per share (2020: £0.28).

The fair value calculations as 31 December 2021 for grants made in the year, using Black-Scholes models and Monte-Carlo simulation, are based on the following assumptions:

	Save-as- you-earn	Executive Share Plan 2003	LTIP
Weighted average risk-free interest rate	0.49%	0.12%	0.16%
Weighted average expected life	3.3 years	1.3 years	3.4 years
Weighted average expected volatility	28%	30%	31%
Weighted average expected dividend yield	3.1%	3.2%	3.1%
Weighted average share price	£0.45	£0.47	£0.40
Weighted average exercise price	£0.39	nil	Nil

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

Matching shares

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

4b. Number of employees

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

	2021 No.	2020 No.
UK	1,922	2,285
Total	1,922	2,285

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

5. Operating expenses

	2021 £000	2020 £000
Sales and marketing	1,067	1,181
Computer costs	1,886	3,883
Professional fees	23,736	27,061
Outsourcing charges	47,733	43,900
Auditor's remuneration	1,729	1,574
Amortisation of intangible assets (note 9)	26,532	26,423
Group recharges from Lloyds Banking Group	611,165	535,756
Industry Levy	22,917	22,733
Other expenses	10,714	14,601
Release of brought forward accrued charges	(13,141)	-
Total	734,338	677,112

6. Auditor's remuneration

	2021 £000	2020 £000
Fees payable to the Company's Auditor for the audit of the Company's annual financial statements	39	37
Total	39	37

The Auditor's remuneration disclosed in operating expenses (note 5) includes amounts relating to and recharged to companies within the IP&I Division and disclosed in the financial statements of those companies.

During the year, the audit fee in respect of the audit of SWRBS was £49.8k (2020: £46.2k).

7. Net interest on net defined benefit asset/liability

	2021 £000	2020 £000
Expected return on defined benefit pension scheme assets	22,976	29,500
Interest cost on defined benefit pension scheme obligation	(18,942)	(25,400)
Total	4,034	4,100

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

8. Taxation

(a) Current year tax credit / (charge)

	2021	2020
	£000	* restated £000
Current tax:		
UK corporation tax	2,846	16,836
Adjustment in respect of prior years	64	168
Total current tax (charge) / credit	2,910	17,004
Deferred tax:		
Origination and reversal of timing differences	(8,193)	(18,671)
Adjustment in respect of prior years	440	(174)
Impact of deferred tax rate change	2,689	(144)
Total deferred tax (charge)	(5,064)	(18,989)
Total income tax credit / (charge)	(2,154)	(1,985)

Corporation tax is calculated at a rate of 19.00% (2020: 19.00 %) of the taxable profit for the year.

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

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

	2021	2020
	£000	£000
Profit before tax	26,225	12,516
Tax credit / (charge) thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	(4,983)	(2,378)
Factors affecting credit / (charge):		
Disallowed items		(14)
Non-taxable items	(365)	557
Adjustments in respect of prior years	505	(6)
Effect of increase in future tax rate and related impacts	2,689	(144)
Total	(2,154)	(1,985)
Effective rate	8.22%	15.86%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

9. Intangible assets

Software development costs

	2021	2020
	£000	£000
Cost		
At 1 January	174,905	195,036
Disposals	(15,867)	(20,131)
At 31 December	159,038	174,905
Accumulated amortisation		
At 1 January	105,469	99,177
Amortisation charge for the year	26,532	26,423
Amortisation on disposals	(15,867)	(20,131)
At 31 December	116,134	105,469
Carrying amount		
At 31 December	42,904	69,436

Of the above total for software development costs, £21.0m (2020: £45.7m) is expected to be amortised more than one year after the reporting date. Items fully amortised in the year have been written off as disposals. Following the annual impairment review, no items have been written down (impairment loss 2020: £nil). There were no additions in the year (2020: £nil), due to assets now being administered by Lloyds Banking Group and recharged to the Company through Group recharges from Lloyds Banking Group in operating expenses.

10. Tax assets and liabilities

	2021	2020
	£000	restated £000
Current tax (liabilities) / asset	(11,423)	17,030
Deferred tax (liabilities)	(75,633)	(33,061)
Total tax (liabilities)	(87,056)	(16,031)

Recognised deferred tax

	2021	2020
	£000	£000
Deferred tax (liabilities) / assets comprise:		
Pension and other post-retirement benefits	(90,373)	(47,232)
Accelerated capital allowances	12,474	12,196
Share based payments	2,266	1,975
Total deferred tax (liabilities) / assets	(75,633)	(33,061)

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

The Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

10. Tax assets and liabilities (continued)

Recognised deferred tax (continued)

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

2021	Total £000	Pension & other post retirement obligations £000	Accelerated capital allowances £000	Pension spreading £000	Share based payments £000
Opening balance as at 1 January 2021	(33,061)	(52,212)	12,196	4,980	1,975
(Charge) / credit to:		-			
- profit or loss	(5,065)	(654)	278	(4,980)	291
- other comprehensive income	(37,507)	(37,507)	-	-	-
Closing balance as at 31 December 2021	(75,633)	(90,373)	12,474	-	2,266

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

11. Loans and other receivables

	2021 £000	2020 £000
Amounts due from Group undertakings	100,336	88,551
Accrued income	8,680	4,109
Other receivables	5,242	4,474
Total	114,258	97,134

None of the above balances are interest-bearing (2020: £nil). Of the above total £nil (2020: £nil) is expected to be recovered more than one year after the reporting date.

Information in respect of credit risk is given in note 18.

Further information relating to amounts due from Group undertakings is set out in note 19.

12. 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 held through a liquidity fund	234,738	159,203
Total	234,738	159,203

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

13. Capital and Reserves attributable to Company's shareholder

	2021	2020
	£'000	£'000
Share Capital		
Issued and fully paid share capital:		
81,000,000 (2020: 81,000,000) shares of £1 each	81,000	81,000
Total	81,000	81,000
Retained earnings	424,690	353,917

The capital reserves created as result of the 2018 risk premium payment and subsequent restatement , as set out in note 22, are included within retained earnings.

14. Retirement benefit asset

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

(a) SWRBS

(i) Characteristics of the SWRBS

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

The Company paid contributions of approximately £12.0m to the SWRBS in 2021 (2020: £70.4m). Employee contributions made during the year were £nil (2020: £nil).

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

14. Retirement benefit asset/(liability) (continued)
 (a) SWRBS (continued)
 (ii) Amounts recognised in the Financial Statements

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

	2021	2020
	£000	£000
Fair value of scheme assets	1,657,002	1,603,100
Present value of defined benefit obligations	(1,294,548)	(1,328,300)
Surplus recognised in the balance sheet	362,454	274,800

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

	2021	2020
	£000	£000
Net amount recognised in the balance sheet		
At 1 January	274,800	138,800
Service cost	(10,805)	(11,700)
Net interest on net defined benefit asset/liability	4,034	4,100
Remeasurement effects recognised in other comprehensive income	84,121	75,100
Employer contributions	12,003	70,400
Administration costs incurred during the year	(1,788)	(1,900)
Exchange and other adjustments	89	-
At 31 December	362,454	274,800

	2021	2020
	£000	£000
Movements in the defined benefit obligation		
At 1 January	(1,328,300)	(1,254,000)
Current service cost	(10,606)	(10,800)
Interest expense	(18,942)	(25,400)
Remeasurements:		
Actuarial losses / (gains) – experience	(13,714)	9,900
Actuarial losses/ (gains) – demographic assumptions	(2,149)	39,800
Actuarial losses/ (gains) – financial assumptions	32,007	(142,500)
Benefits paid	47,304	55,600
Past service cost - plan amendments	(199)	(900)
Exchange and other adjustments	(50)	-
At 31 December	(1,294,649)	(1,328,300)

In July 2018, a decision was sought from the High Court in respect of the requirement to equalise the Guaranteed Minimum Pension ("GMP") benefits accrued between 1990 and 1997 from contracting out of the State Earnings Related Pension Scheme. In its judgement handed down on 26 October 2018 the High Court confirmed the requirement to treat men and women equally with respect to these benefits and a range of methods that the Trustee is entitled to adopt to achieve equalisation. The Group recognised a past service cost of £3.4 million for the SWRBS in respect of equalisation in 2018 and a further £1.2m was recognised in 2019. Following further assessment of the costs of equalisation, an additional £0.9m for the SWRBS was recognised in 2020 and then a further £0.2m in 2021. This is based on a number of assumptions and the actual impact may be different.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

14. Retirement benefit asset/(liability) (continued)
 (a) SWRBS (continued)
 (ii) Amounts recognised in the Financial Statements of the SWRBS (continued)

The following tables provide an analysis of the SWRBS assets:

	2021 £000	2020 £000
Changes in the fair value of scheme assets		
At 1 January	1,603,100	1,392,800
Return on plan assets greater/(less) than discount rate	67,977	167,900
Interest income	22,976	29,500
Employer contributions	12,003	70,400
Benefits paid	(47,304)	(55,600)
Administrative costs paid	(1,788)	(1,900)
Exchange and other adjustments	38	-
At 31 December	1,657,002	1,603,100

	Fair value of assets with quoted prices £000	2021 Fair value of assets with unquoted prices £000	Total £000	Fair value of assets with quoted prices £000	2020 Fair value of assets with unquoted prices £000	Total £000
Debt instruments	1,860,015	-	1,860,015	1,709,300	-	1,709,300
Pooled investment vehicles	33,677	409,595	443,272	310,500	136,800	447,300
Money market instruments, derivatives, cash and other assets and liabilities	13,588	(659,873)	(646,285)	11,100	(564,600)	(553,500)
Total fair value of scheme assets	1,907,280	(250,278)	1,657,002	2,030,900	(427,800)	1,603,100

An analysis of the SWRBS debt securities is provided below:

	2021						
	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	BB or lower £000	Not rated £000
Government bonds	194,524	-	194,524	-	-	-	-
Index linked government bonds	1,119,737	-	1,119,737	-	-	-	-
Corporate and other debt securities	545,754	8,675	31,957	205,491	169,050	125,151	5,470
Total fair value of scheme assets	1,860,015	8,675	1,346,218	205,491	169,050	125,151	5,470

	2020						
	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	BB or lower £000	Not rated £000
Government bonds	170,100	-	170,100	-	-	-	-
Index linked government bonds	1,001,900	-	1,001,900	-	-	-	-
Corporate and other debt securities	537,300	5,376	47,301	164,351	112,790	191,859	15,623
Total fair value of scheme assets	1,709,300	5,376	1,219,301	164,351	112,790	191,859	15,623

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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

(a) SWRBS (continued)

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

The SWRBS pooled investment vehicles comprise:

	2021	2020
	£000	£000
Equity funds	182,958	184,300
Liquidity funds	125,742	98,000
Bonds and debt funds	73,641	112,600
Property Funds	60,931	52,400
At 31 December	443,272	447,300

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

	2021	2020
	£000	£000
Current service cost	10,606	10,800
Past service cost - plan amendments	199	900
Net interest amount	(4,034)	(4,100)
Plan administration costs incurred in the year	1,788	1,900
Net expense recognised	8,559	9,500

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

	2021	2020
	%	%
Discount rate	1.94%	1.44%
Rate of inflation:		
Retail Prices Index	3.21%	2.80%
Consumer Price Index	2.92%	2.41%
Weighted-average rate of increase for pensions in payment	3.05%	2.74%

	2021	2020
	Years	Years
Life expectancy for member aged 60, on the valuation date:		
Men	27.5	27.5
Women	28.3	28.2
Life expectancy for member aged 60, 15 years after the valuation date:		
Men	27.9	27.9
Women	29.4	29.3

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**14. Retirement benefit asset/(liability) (continued)****(a) SWRBS (continued)****(iii) Amount, timing and uncertainty of future cash flows****Risk exposure of the SWRBS**

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

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

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

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

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

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

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

Sensitivity analysis

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

14. Retirement benefit asset/(liability) (continued)
 (a) SWRBS (continued)
 (iii) Amount, timing and uncertainty of future cash flows (continued)
 Sensitivity analysis (continued)

	Effect of reasonably possible alternative assumptions			
	Increase (decrease) in the income statement charge		Increase (decrease) in the net defined benefit pension scheme asset	
	2021 £000	2020 £000	2021 £000	2020 £000
Central Basis	(3,883)	8,500	362,454	274,800
Inflation:				
Increase of 0.1 per cent	582	500	(21,724)	(23,100)
Decrease of 0.1 per cent	(566)	(500)	21,127	22,400
Discount rate:				
Increase of 0.1 per cent	(1,096)	(1,000)	24,859	27,500
Decrease of 0.1 per cent	1,067	900	(25,561)	(28,400)
Expected life expectancy of members:				
Increase of one year	1,450	1,200	(56,892)	(57,900)
Decrease of one year	(1,391)	(1,200)	54,500	55,500

Sensitivity analysis method and assumptions

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

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

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

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

Asset-liability matching strategies

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

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit pension obligation is 21 years (2020: 21 years).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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

(b) Defined contribution schemes

The SWRBS also includes a defined contribution section; most of the members have now transferred to the Your Tomorrow defined contribution section of the Lloyds Banking Group Pension Scheme No. 1. During the year ended 31 December 2021, the charge to the Company's statement of comprehensive income in respect of the defined contributions schemes was £7.9m (2020: £10.0m), representing the contributions payable by the Company in accordance with the scheme's rules. There were no outstanding or prepaid contributions at 31 December 2021.

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

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

	2021			2020		
	Before tax £000	Tax credit £000	After tax £000	Before tax £000	Tax expense £000	After tax £000
SWRBS	84,210	(37,507)	46,703	75,100	(14,269)	60,831
Total	84,210	(37,507)	46,703	75,100	(14,269)	60,831

Adjustments of £89k (2020 £nil) have been included with remeasurement effects of £84,121k in other comprehensive income.

15. Accruals

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

	2021 £000	2020 £000
Accruals	48,937	66,984
Total	48,937	66,984

None of the above balances (2020: £nil) are expected to be settled in more than one year after the reporting date.

16. Trade and other payables

	2021 £000	2020 £000
Amounts due to Group undertakings	110,488	76,176
Other payables	2,183	6,465
Total	112,671	82,641

None of the above balances are interest bearing (2020: £nil) nor expected to be settled in more than one year after the reporting date.

Further information relating to amounts due to group undertakings is set out in note 19.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

17. Net movement in operating assets and liabilities

	2021	2020
	£000	£000
Decrease/(increase) in operating assets:		
Retirement benefit asset	(87,654)	(136,000)
Loans and other receivables	(17,124)	(6,994)
Net movement in operating assets	(104,778)	(142,994)
Increase / (Decrease) in operating liabilities:		
Trade and other payables	30,030	(29,409)
Accruals	(18,047)	35,298
Net movement in operating liabilities	11,983	5,889
Net movement in operating assets and liabilities	(92,795)	(137,105)

18. Risk management

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

(a) Governance framework

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

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

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

(b) Risk appetite

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

(c) Financial risks

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

18. Risk management (continued)

(c) Financial risks (continued)

(i) Credit risk

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

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

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

The following table sets out details of financial assets:

	2021	2020
	£000	£000
Amounts due from Group undertakings	100,336	88,551
Other receivables	5,242	4,474
Cash and cash equivalents	234,738	159,203
Total assets bearing credit risk	340,316	252,228

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

As at 31 December 2021

	Total	AAA	AA	A	BBB or Lower	Not rated
	£000	£000	£000	£000	£000	£000
Stage 1 assets						
Other receivables	5,242	-	-	-	-	5,242
Exposure to credit risk	5,242	-	-	-	-	5,242
Simplified approach						
Amounts due from Group undertakings	100,336	-	-	85,741	-	14,595
Exposure to credit risk	100,336	-	-	85,741	-	14,595
Asset at FVTPL						
Cash and cash equivalents	234,738	234,738	-	-	-	-
Total	340,316	234,738	-	85,741	-	19,837

As at 31 December 2020

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

The fair value of instruments recognised at amortised cost is an appropriate approximation of their fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**18. Risk management (continued)****(c) Financial risks (continued)****ii) Liquidity risk**

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

Liquidity risk has been analysed as arising from the settlement of balances owed to other Group undertakings of £110.5m (2020: £76.2m) and other payables of £2.2m (2020: £6.5m). These amounts are all contractually due within one month from the reporting date.

iii) Capital risk

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

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

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

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

iv) Market risk

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

v) Interest rate risk

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

If interest rates were to increase or decrease by 25 basis points, the impact on profit or loss after tax would be an increase or decrease respectively of £473.9k (2020: increase or decrease respectively of £321.3k) in respect of interest-bearing financial assets and financial liabilities.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

19. Related party transactions (continued)

(b) Transactions and balances with related parties

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

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

Relationship	2021			
	Income during year	Expenses during year	Payable at year end	Receivable at year end
	£000	£000	£000	£000
Parent (Lloyds Bank plc)	-	605,291	108,356	10
Other related parties	881,609	-	2,132	100,326

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

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

Transactions between the Company and key management

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

The Directors consider that they receive no remuneration for their services to the Company (2020: nil).

20. Future accounting developments

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

21. 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.

Market volatility

The impact of recent volatility has had no material impact on the funding position of the pension scheme. The scheme had sufficient collateral to support their hedging activities and are well placed to withstand any further significant market stress.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)**22. Restatement of 2018 capital contribution**

The prior year balances have been adjusted to reflect a change in reporting treatment with regards to the recognition of a £284.0m risk premium payment made to the Company in 2018.

On 2 May 2018, the immediate parent of the Company changed from Scottish Widows Limited ("SWL") to Lloyds Bank plc. Prior to the change in ownership, an agreement was in place that SWL act as Guarantor for the Company's exposure to the Scottish Widows Retirement Benefits Scheme "SWRBS". Prior to the change in ownership, an agreement was also in place that SWL be recharged for annual actuarial gains and losses which arose from the SWRBS.

As part of the change in ownership the Company entered into a tripartite agreement with SWL and Lloyds Bank plc, which required SWL to make a one off £284.0m risk premium payment to the Company, in exchange for Lloyds Bank plc bearing the exposure to future volatility risks on the SWRBS and assuming the Principal Employer and Guarantor roles.

At the closure of the SWRBS, under the terms of the tripartite agreement any cumulative IAS 19 actuarial losses incurred post 2 May 2018 in excess of the risk premium payment will be reimbursed to the Company by Lloyds Bank plc. To the extent that post 2 May 2018 cumulative actuarial losses are less than the risk premium payment the difference will be paid by the Company to Lloyds Bank plc. Were cumulative actuarial movements post 2 May 2018 to be gains these would also be paid by the Company to Lloyds Bank plc in addition to the amount of the risk premium payment, being £284.0m, which would not attract interest.

The £284.0m risk premium payment was initially recognised as a provision under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The prior year balances have now been adjusted to correctly reflect the £284.0m risk premium payment as a capital contribution that was made in 2018. Opening retained earnings have been adjusted to not only reflect this capital contribution but also to reverse the provision remeasurements previously recorded in profit or loss prior to 1 January 2020. Accordingly retained earnings at 1 January 2020 have increased by £251.4m, whilst the remeasurement of the provision of £75.1m in the year ended 31 December 2020 has also been removed from profit or loss. The 31 December 2020 closing provision of £326.5m has also been removed. These adjustments are illustrated in the tables below.

The nature of the ongoing arrangement between the Company and Lloyds Bank plc is considered as a reimbursement arrangement under IAS 19 Employee Benefits, to be measured at fair value to confirm whether a reimbursement asset/ liability is required. At any given time, the directors make their best estimates of actuarial assumptions in order to measure the defined benefit obligation under IAS 19 and therefore do not expect future IAS 19 actuarial movements. As such, at any point in time, the best estimate of the undiscounted cash flows due upon scheme closure reflect the cumulative IAS 19 actuarial movements post 2 May 2018 adjusted for the risk premium payment of £284.0m. However, under the terms of the contract the amounts payable only arise on scheme closure, which is currently estimated to be in excess of 80 years in the future. As such it is considered that the fair value of the reimbursement asset/ liability was immaterial since 2018 and, following restatement, is therefore not reported within the financial statements.

The Company's position will continue to be formally reviewed annually, and fair valued in line with IAS19:116, with consideration to the materiality of the reimbursement asset/ liability.

The impact of this on the Company Balance Sheet at 1 January 2020 and 31 December 2020, and on the statement of comprehensive income for the year ended 31 December 2020 has been shown in the tables below.

	Restated £000	Adjustment £000	Previously reported £000
Statement of Comprehensive Income for the year ended 31 December 2020			
Remeasurement of contingent settlement provision	-	75,100	(75,100)
Taxation	(1,985)	(14,269)	12,284
Balance Sheet as at 1 January 2020			
Equity			
Retained earnings	282,555	251,400	31,155
Liabilities			
Contingent settlement provision	-	(251,400)	251,400
Balance Sheet as at 31 December 2020			
Assets			
Current Tax Assets	17,030	(14,269)	31,299
Equity			
Retained earnings	353,917	312,231	41,686
Liabilities			
Contingent settlement provision	-	(326,500)	326,500